

Investment Dar Bank B.S.C. (c)

Condensed consolidated interim financial
information for the quarter and nine
months period ended 30 September 2018
(Reviewed)

Investment Dar Bank B.S.C. (c)
Condensed consolidated interim financial information for the quarter and nine months period
ended 30 September 2018
(Reviewed)

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Investment Dar Bank B.S.C. (c)
Administration and contact details as at 30 September 2018

| | | |
|--|--|--|
| Commercial registration no. | 66163 obtained on 8 August 2007 | |
| CBB Licence no. | WB/064 obtained on 17 July 2007 | |
| Board of Directors | Mubarak A M H A Al Quoud Abdullah M A M S ALHumaidhi Mohamed Abdulrahman Ahmed AlMutawa Ibrahim Abbas Athman Sukhi Issa Y E ALShamlan Moustafa Ismail Abdelrassoul Mohamed Ebrahim Hasan ALHammadi Yusuf Mohamed Yusuf ALThawadi | ⇒ Chairman ⇒ Deputy Chairman - Chief Executive Officer |
| Executive Committee | Abdullah M A M S ALHumaidhi Mohamed Abdulrahman Ahmed AlMutawa Ibrahim Abbas Athman Sukhi | - Chairman |
| Audit Committee | Mohamed Ebrahim Hasan ALHammadi Issa Y E ALShamlan Yusuf Mohamed Yusuf ALThawadi | - Chairman |
| Corporate Governance and Nomination Committee | Mubarak A M H A Al Quoud Mohamed Ebrahim Hasan ALHammadi Moustafa Ismail Abdelrassoul | ⇒ Chairman |
| Shari'a Supervisory Advisor | Isam Mohammed Ishaq Dr. Isam Khalf Alanzi Dr. Abdul aziz Alqassar | ⇒ Chairman |
| Registered office | Flat No. 131, Building No. 31 Block No. 305, Al-Zamil Towers Government Avenue PO Box 75751 Manama Kingdom of Bahrain | |
| Bankers | Bahrain Islamic Bank Ahli Bank of Kuwait EFG Bank Ltd Khaleeji Commercial Bank | |
| Auditors | BDO 17 th Floor Diplomat Commercial Office Tower PO Box 787 Manama Kingdom of Bahrain | |

Review report on the condensed consolidated interim financial information to the Board of Directors of Investment Dar Bank B.S.C. (c)

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Investment Dar Bank B.S.C. (c) (“the Bank”) and its subsidiaries (collectively referred to as “the Group”) as at 30 September 2018, the condensed consolidated interim statement of income, the condensed consolidated interim statement of changes in owners’ equity, the condensed consolidated interim statement of cash flows for the quarter and nine months period then ended, and selected explanatory notes. The Board of Directors is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari’a Rules and Principles as determined by the Shari’a Supervisory Advisor of the Group. 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 International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information does not present fairly, in all material respects, the financial position of the Group as at 30 September 2018, and of its financial performance and its cash flows for the quarter and nine months period then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Sharia’a Rules and Principles as determined by the Sharia’a Supervisory Advisor of the Group.

Emphasis of matter

(1) Going concern

As explained in Note 7, the Group has Wakala placements totalling US\$42,522,047 with The Investment Dar K.S.C. (“the Parent Company” or “TID”) which has been fully provided for as at 30 September 2018. Further, as explained in Note 12, the Group has acted as an agent in Wakala investments totalling US\$481,102,675 where various investors and financial institutions have placed funds with the Parent Company and others. The Parent Company and others have defaulted on repayments of these Wakala and restricted investment accounts. The repayments were rescheduled under a stipulated court judgment served on the Parent Company by the Kuwaiti Special Circuit Court of Appeal in June 2011.

**Review report on the condensed consolidated interim financial information
to the Board of Directors of Investment Dar Bank B.S.C. (c) (continued)**

(1) Going concern (continued)

After first repayment the Parent Company did not repay any subsequent tranches. The Parent Company proposed a revised restructuring plan which was approved by the majority of investors and creditors for settlement of debts. The Court accepted the revised plan, consequently all the litigation against the Parent Company were withheld until court passes a ruling on the revised plan. However, subsequent to current reporting period on 10 October 2018, the Special Circuit Court of Appeal in its hearing, rejected TID's revised restructuring plan ("Al Sharq Plan"). The Parent Company is studying alternative settlement plans including the preventive arrangement scheme to protect the rights of its creditors. The condensed consolidated interim financial information have been prepared using the going concern assumption given that the alternative settlement plan is being considered and the legal opinion received in the past from the Company's legal advisors confirming that the Bank has no obligation to sell directly any assets owned by the Group or liquidate the Group to settle the liabilities of the Parent Company. Management's view on the going concern assumption is explained in Note 11.

(2) Title of investment in real estate held-for-use

During the year ended 31 December 2012, an overdue Murabaha debt receivable of US\$50,986,836 as detailed in Note 9(a) was settled through a transfer of real estate assets to the Group. The Group had US\$15,705,723 impairment provision recognised against this debt receivable as at 31 December 2012. The assets were valued at US\$35,281,113, an amount equivalent to the value of outstanding Murabaha payables less of impairment provision. The assets comprise a majority shareholding in two companies whose principal assets are ownership rights over certain real estate. Absolute title to this real estate is held in trust by a third party, while the bank possess the original title deed along with waiver letter from third party declaring the absolute ownership to the Bank. The subsidiary companies holding the underlying real estate are consolidated in this condensed consolidated interim financial information as at 30 September 2018.

BDO

Manama, Kingdom of Bahrain
11 November 2018

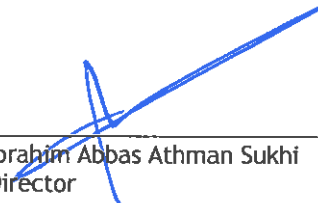



Investment Dar Bank B.S.C. (c)
Condensed consolidated interim statement of financial position as at 30 September 2018
(Reviewed)
(Expressed in US Dollars)

| | Notes | Reviewed 30 September 2018 | Audited 31 December 2017 |
|--|-------|---------------------------------------|---------------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | 4 | 3,692,401 | 10,217,274 |
| Prepayments and other assets | 5 | 110,949 | 84,147 |
| Investment securities | 6 | 13,031,396 | 12,929,491 |
| Short-term investments | 8 | 10,000,000 | 5,000,000 |
| Investment in real estate held-for-use | 9 | 46,129,891 | 46,654,123 |
| Property and equipment | | <u>17,218,939</u> | <u>17,235,491</u> |
| Total assets | | <u>90,183,576</u> | <u>92,120,526</u> |
| EQUITY AND LIABILITIES | | | |
| Liabilities | | | |
| Accruals and other payables | | <u>2,633,519</u> | <u>3,001,253</u> |
| Equity | | | |
| Share capital | 10 | 200,000,000 | 200,000,000 |
| Statutory reserve | | 1,686,626 | 1,686,626 |
| Property fair value reserve | | 1,487,699 | 1,487,699 |
| Investments fair value reserve | | 910,413 | 824,442 |
| Unrealised translation losses on net investment in foreign operations | | (576,033) | - |
| Foreign currency translation reserve | | (346,413) | (361,818) |
| Accumulated losses | | <u>(118,108,383)</u> | <u>(117,013,824)</u> |
| Non-controlling interest | | <u>85,053,909</u> <u>2,496,148</u> | <u>86,623,125</u> <u>2,496,148</u> |
| | | <u>87,550,057</u> | <u>89,119,273</u> |
| Total liabilities and equity | | <u>90,183,576</u> | <u>92,120,526</u> |
| Restricted investment accounts: | | | |
| - Others | 12 | <u>481,102,675</u> | <u>481,102,675</u> |
| - Financial institutions | | <u>-</u> | <u>-</u> |

These reviewed condensed consolidated interim financial information, set out on pages 5 to 18, was approved for issue by the Board of Directors on 11 November 2018 and signed on their behalf by:


Abdullah M A M S AlHumaidhi
Deputy Chairman


Ibrahim Abbas Athman Sukhi
Director



Mohamed Abdulrahman Ahmed
AlMutawa
Director and Chief Executive
Officer


Investment Dar Bank B.S.C. (c)
Condensed consolidated interim statement of income for the quarter and nine months period ended
30 September 2018
(Reviewed)
(Expressed in US Dollars)

| | Notes | Quarter ended 30 September 2018 (Reviewed) | Quarter ended 30 September 2017 (Reviewed) | Nine months period ended 30 September 2018 (Reviewed) | Nine months period ended 30 September 2017 (Reviewed) |
|---|-------|---|---|---|---|
| Income | | | | | |
| Other income | 13 | <u>378,096</u> | <u>106,916</u> | <u>620,220</u> | <u>300,515</u> |
| Expenses | | | | | |
| Staff costs | | (332,786) | (362,110) | (1,113,698) | (1,189,026) |
| Other operating expenses | | <u>(157,389)</u> | <u>(145,390)</u> | <u>(601,081)</u> | <u>(958,606)</u> |
| Total expenses | | <u>(490,175)</u> | <u>(507,500)</u> | <u>(1,714,779)</u> | <u>(2,147,632)</u> |
| Net loss for the period | | <u>(112,079)</u> | <u>(400,584)</u> | <u>(1,094,559)</u> | <u>(1,847,117)</u> |
| Basic and diluted loss per share (in US\$ cents) | 15 | <u>(0.06)</u> | <u>(0.20)</u> | <u>(0.55)</u> | <u>(0.92)</u> |

These reviewed condensed consolidated interim financial information, set out on pages 5 to 18, was approved for issue by the Board of Directors on 11 November 2018 and signed on their behalf by:


Abdullah M A M S AlHumaidhi
Deputy Chairman


Ibrahim Abbas Athman Sukhi
Director


Mohamed Abdulrahman Ahmed
AlMutawa
Director and Chief Executive
Officer

Investment Dar Bank B.S.C. (c)
Condensed consolidated interim statement of changes in owners' equity for the nine months ended 30 September 2018
(Reviewed)
(Expressed in US Dollars)

| | Share capital | Statutory reserve | Property fair value reserve | Investment fair value reserve | Unrealised translation losses | Foreign currency translation reserve | Accumulated losses | Total | Non-controlling interests | Total |
|--|---------------|-------------------|-----------------------------|-------------------------------|-------------------------------|--------------------------------------|--------------------|-------------|---------------------------|-------------|
| At 31 December 2016 (Audited) | 200,000,000 | 1,686,626 | 1,225,164 | 431,265 | - | (376,688) | (114,465,090) | 88,501,277 | 2,496,148 | 90,997,425 |
| Net loss for the period | - | - | - | - | - | - | (1,847,117) | (1,847,117) | - | (1,847,117) |
| Foreign currency translation gain on investment securities | - | - | - | - | - | 65,757 | - | 65,757 | - | 65,757 |
| Unrealised fair value gain on investment securities | - | - | - | 399,897 | - | - | - | 399,897 | - | 399,897 |
| At 30 September 2017 (Reviewed) | 200,000,000 | 1,686,626 | 1,225,164 | 831,162 | - | (310,931) | (116,312,207) | 87,119,814 | 2,496,148 | 89,615,962 |
| At 31 December 2017 (Audited) | 200,000,000 | 1,686,626 | 1,487,699 | 824,442 | - | (361,818) | (117,013,824) | 86,623,125 | 2,496,148 | 89,119,273 |
| Net loss for the period | - | - | - | - | - | - | (1,094,559) | (1,094,559) | - | (1,094,559) |
| Unrealised translation losses on net investment in foreign operation | - | - | - | - | (576,033) | - | - | (576,033) | - | (576,033) |
| Foreign currency translation gain on investment securities-net | - | - | - | - | - | 15,405 | - | 15,405 | - | 15,405 |
| Unrealised fair value gain on investment securities (Note 6) | - | - | - | 85,971 | - | - | - | 85,971 | - | 85,971 |
| At 30 September 2018 (Reviewed) | 200,000,000 | 1,686,626 | 1,487,699 | 910,413 | (576,033) | (346,413) | (118,108,383) | 85,053,909 | 2,496,148 | 87,550,057 |

Investment Dar Bank B.S.C. (c)
Condensed consolidated interim statement of cash flows for the nine months ended
30 September 2018
(Reviewed)
(Expressed in US Dollars)

| | Note | Nine months period ended 30 September 2018 <u>(Reviewed)</u> | Nine months period ended 30 September 2017 <u>(Reviewed)</u> |
|--|------|--|--|
| Operating activities | | | |
| Net loss for the period | | (1,094,559) | (1,847,117) |
| Adjustments for: | | | |
| Depreciation | | 16,552 | 17,408 |
| Foreign exchange movement | | (51,512) | - |
| Changes in operating assets and liabilities: | | | |
| Prepayments and other assets | | (27,683) | 9,949,984 |
| Accruals and other liabilities | | <u>(367,671)</u> | <u>169,599</u> |
| Net cash (used in)/provided by operating activities | | <u>(1,524,873)</u> | <u>8,289,874</u> |
| Investing activities | | | |
| Additions of Short-term investments | | (5,000,000) | (5,000,000) |
| Purchase of equipment | | <u>-</u> | <u>(1,175)</u> |
| Net cash used in investing activities | | <u>(5,000,000)</u> | <u>(5,001,175)</u> |
| Net (decrease)/increase in cash and cash equivalents | | (6,524,873) | 3,288,699 |
| Cash and cash equivalents, beginning of the period | | <u>10,217,274</u> | <u>7,383,548</u> |
| Cash and cash equivalents, end of the period | 4 | <u><u>3,692,401</u></u> | <u><u>10,672,247</u></u> |

Investment Dar Bank B.S.C. (c)

Selected explanatory notes to the condensed consolidated interim financial information for the quarter and nine months period ended 30 September 2018

(Reviewed)

(Expressed in US Dollars)

1 Organisation and activities

Investment Dar Bank B.S.C. (c) (“the Bank”) is a Bahraini closed shareholding company registered with the Ministry of Industry and Commerce in the Kingdom of Bahrain and operates under commercial registration number 66163 obtained on 8 August 2007. The “Parent Company” of the Bank is The Investment Dar Company K.S.C., a Kuwaiti incorporated Company listed on Kuwait Stock Exchange, which owns directly and indirectly more than 50% of the share capital of the Bank.

The Bank operates as an Islamic Wholesale Bank under a license granted by the Central Bank of Bahrain (“CBB”) and accordingly the Banks’s activities are regulated by the CBB and supervised by a Religious Supervisory Board (“the Shari’a Board”).

The principal activities of the Bank include investment banking services, which comply with the Islamic rules and principles according to the opinion of the Bank’s Shari’a Board.

As at 30 September 2018 and 31 December 2017, the Bank owned the following subsidiaries:

| Name | Country of incorporation | Proportion of ownership interest | | Non-controlling ownership interest | |
|---|--------------------------|----------------------------------|-----------------------|------------------------------------|---------|
| | | 2018 | 2017 | 2018 | 2017 |
| Darco Real Estate Investment Co. W.L.L. | Kingdom of Bahrain | 100% | 100% | - | - |
| Al Honaniya Real Estate Co. W.L.L. | Kuwait | 100%-Indirect holding | 100%-Indirect holding | - | - |
| North Victoria Limited * | Jersey,Channel Islands | 100% | 100% | - | - |
| Gibson North Limited * | Jersey,Channel Islands | 77.425% | 77.425% | 22.575% | 22.575% |

These consolidated interim financial information has been prepared on a consolidated basis and comprises the financial information of the Bank and its subsidiaries (collectively referred to as “the Group”).

(*)The Bank acquired the shares of North Victoria Limited and Gibson North Limited (“the Subsidiaries”) as part of a settlement of a Murabaha placement with a related party of the Parent Company during 2012 (Refer Note 9(a)). As per the settlement contract, the liabilities as on the date of settlement in the books of these companies were not transferred to the Bank. The main asset in the books of the Subsidiaries was the value of islands in “The World”, Dubai, UAE, which have been treated as investment properties on consolidation. The value of the investment properties was restricted to the value of the Murabaha carried in the books of the Bank prior to settlement.

2 Basis of preparation

The condensed consolidated interim financial information have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (‘AAOIFI’), the Shari’a Rules and Principles as determined by the Shari’a Supervisory Advisor of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain, Financial Institutions Law and the CBB Rule Book (Volume 2) and CBB directives, regulations and associated resolutions, rules and procedures of the Company’s memorandum and articles of association in accordance with the requirements of AAOIFI. For matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards (‘the IFRS’) issued by International Accounting Standards Board.

Investment Dar Bank B.S.C. (c)

Selected explanatory notes to the condensed consolidated interim financial information for the quarter and nine months period ended 30 September 2018

(Reviewed)

(Expressed in US Dollars)

2 Basis of preparation (continued)

Therefore, in absence of relevant standards in AAOIFI relating to interim financial statements, the guidance from International Accounting Standard 34 - "Interim Financial Reporting" is used in preparation of this interim condensed consolidated financial information for the quarter and nine months period ended 30 September 2018.

3 Accounting policies

The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the audited consolidated financial statements of the Group prepared as at, and for the year ended 31 December 2017, as described in those financial statements. The condensed consolidated interim financial information should therefore be read in conjunction with the audited consolidated financial statements prepared as at, and for the year ended 31 December 2017, which have been prepared in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and International Financial Reporting Standards.

Standards, amendments and interpretations not effective in 2018 but early adopted

The following new standard, amendment to existing standard or interpretation to published standard is mandatory for the first time for the financial year beginning 1 January 2018 and has been adopted in the preparation of this condensed consolidated interim financial information:

| <u>Standard or interpretation</u> | <u>Title</u> | <u>Effective for annual periods beginning on or after</u> |
|-----------------------------------|---|---|
| FAS 30 | Impairment, credit losses and onerous commitments | 1 January 2020 |

The standard will be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted. As mandated by the regulator all Islamic banks are required to early adopt FAS 30 from 1 January 2018.

The Bank has adopted the FAS 30 and transition amount will have no impact on the owners' equity as at 1 January 2018, as the Bank has already booked adequate provisions against its impaired investments.

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as at 30 September 2018.

| <u>Financial asset at amortised cost</u> | <u>Stage 1</u> | <u>Stage 2</u> | <u>Stage 3</u> | <u>Total</u> |
|--|-------------------|----------------|-------------------|-------------------|
| Wakala placements | - | - | 42,522,047 | 42,522,047 |
| Short-term Investments | 10,000,000 | - | - | 10,000,000 |
| Cash and cash equivalents | 3,692,401 | - | 733,625 | 4,426,026 |
| Prepayments and other assets | 110,949 | - | 2,748,076 | 2,859,025 |
| Total financial asset at gross amount | <u>13,803,350</u> | <u>-</u> | <u>46,003,748</u> | <u>59,807,098</u> |

Investment Dar Bank B.S.C. (c)

Selected explanatory notes to the condensed consolidated interim financial information for the quarter and nine months period ended 30 September 2018

(Reviewed)

(Expressed in US Dollars)

4 Cash and cash equivalents

| | 30 September 2018 <u>(Reviewed)</u> | 31 December 2017 <u>(Audited)</u> |
|---|---|---|
| Balances with banks | 4,424,731 | 9,926,564 |
| Mudharaba deposit | - | 1,023,040 |
| Cash on hand | 1,295 | 1,295 |
| Impairment of balance held with a financial institution | <u>(733,625)</u> | <u>(733,625)</u> |
| | <u>3,692,401</u> | <u>10,217,274</u> |

Impairment relates to balances held with a financial institution, which the management has significant doubts of recovery. However, the Group has filed a case against the financial institution to recover these balances.

5 Prepayments and other assets

| | 30 September 2018 <u>(Reviewed)</u> | 31 December 2017 <u>(Audited)</u> |
|--|---|---|
| Wakala fees receivable | 1,253,356 | 1,253,356 |
| Less: Allowance for doubtful wakala fees receivables | <u>(1,253,356)</u> | <u>(1,253,356)</u> |
| | - | - |
| Receivable due on Murabaha settlement | 1,494,720 | 1,750,000 |
| Less: Allowance on Murabaha settlement | <u>(1,494,720)</u> | <u>(1,750,000)</u> |
| | - | - |
| Accrued profit on Murabaha deposit | 30,158 | 3,173 |
| Staff Advances | - | 1,326 |
| Prepaid expenses and other receivables | <u>80,791</u> | <u>79,648</u> |
| | <u>110,949</u> | <u>84,147</u> |

During 2011, the Group settled a Murabaha balance with a related party. As part of the consideration, a sum of US\$3,000,000 was originally payable to the Group in tranches at a later date. The Group has made an allowance for the entire amount receivable of USD3,000,000 from the related party. The Group has received US\$1,505,280 since then.

6 Investment securities

| | 30 September 2018 <u>(Reviewed)</u> | 31 December 2017 <u>(Audited)</u> |
|--|---|---|
| Opening balance | 12,929,491 | 12,521,444 |
| Foreign currency translation gains for the period/year-net | 15,934 | 14,870 |
| Unrealised fair value gains for the period/year | <u>85,971</u> | <u>393,177</u> |
| Closing balance | <u>13,031,396</u> | <u>12,929,491</u> |

As at 30 September 2018, the investment securities include quoted and unquoted investments of five companies. These investments have been fair valued during the period based on the latest audited financial statements of the investee companies, indicative prices available through the secondary markets or the Kuwaiti Stock Exchange.

Investment Dar Bank B.S.C. (c)

Selected explanatory notes to the condensed consolidated interim financial information for the quarter and nine months period ended 30 September 2018

(Reviewed)

(Expressed in US Dollars)

6 Investment securities (continued)

| | 30 September 2018 <u>(Reviewed)</u> | 31 December 2017 <u>(Audited)</u> |
|--|---|---|
| Analysis of investments | | |
| Investment in equity-type instruments - Quoted | 5,420,354 | 5,010,946 |
| Investment in equity-type instruments - Unquoted | <u>7,611,042</u> | <u>7,918,545</u> |
| | <u>13,031,396</u> | <u>12,929,491</u> |

Investment securities geographical location and currency denomination are as follows:

| <u>Country</u> | <u>Currency</u> | 30 September 2018 <u>(Reviewed)</u> | 31 December 2017 <u>(Audited)</u> |
|--------------------|-----------------|---|---|
| Kuwait | Kuwaiti Dinars | 5,662,867 | 5,252,725 |
| Kingdom of Bahrain | Bahraini Dinars | <u>7,368,529</u> | <u>7,676,766</u> |
| | | <u>13,031,396</u> | <u>12,929,491</u> |

7 Wakala placements

| | 30 September 2018 <u>(Reviewed)</u> | 31 December 2017 <u>(Audited)</u> |
|--|---|---|
| Gross commodity Wakala | 42,522,047 | 42,522,047 |
| Less: Specific provision | <u>(42,522,047)</u> | <u>(42,522,047)</u> |
| | <u>-</u> | <u>-</u> |
| Movement in impairment loss provision is as follows: | | |
| Opening balance | 42,522,047 | 42,522,047 |
| Less: Wakala sold | <u>-</u> | <u>-</u> |
| | <u>42,522,047</u> | <u>42,522,047</u> |

There was no movement in impairment loss provision during the period.

The details of the amounts due on maturity of these Wakala placements are:

| | <u>Amount accrued</u> | <u>Specific provision</u> | <u>Net</u> | |
|------------------------------------|---------------------------|-------------------------------|------------|------------|
| Parent Company (Wakala placements) | 22,746,770 | 22,746,770 | - | Refer 7(a) |
| Parent Company (Wakala placements) | 9,963,743 | 9,963,743 | - | Refer 7(a) |
| Parent Company (Wakala placements) | <u>9,811,534</u> | <u>9,811,534</u> | - | Refer 7(a) |
| | <u>52,522,047</u> | <u>42,522,047</u> | <u>-</u> | |

Based on Shari'a principles, the Group has not accrued any profit on the matured Wakala with the Parent Company after the maturity date.

Investment Dar Bank B.S.C. (c)

Selected explanatory notes to the condensed consolidated interim financial information for the quarter and nine months period ended 30 September 2018

(Reviewed)

(Expressed in US Dollars)

7 Wakala placements (continued)

7(a) *Wakala and Murabaha placements with the Parent Company*

The Kuwaiti Special Circuit Court of Appeal approved the restructuring plan on 2 June 2011 under the protection of the Kuwait Financial Stability Law whereby the Parent Company will settle all liabilities to the Group in five tranches by 30 June 2017 together with profits. Under the stipulated court judgment, the Group is entitled to profit starting from 1 January 2009 on the overdue Wakala trades at a profit rate of 5% per annum. The Group has not accrued for this profit up to 30 June 2017 amounting to US\$15,266,034 (up to 31 December 2017: US\$15,266,034), and will conservatively account for the profit only when received in cash or in kind. The first tranche payment amounting to US\$2,518,205 was due from the Parent Company on 30 June 2013, which was not received until that date. However, the Group received an offer from the Parent Company to settle the first tranche in kind by offering a cash generating asset (right to use of a property in Kuwait) (Note 9(b)). The Group accepted the offer and recorded the property in its books as investment in real estate held-for-use after the rights and benefits were legally transferred to the Group. The second tranche payment amounting to US\$7,332,718 was due from the Parent Company on 30 June 2014 and was not received as of 30 September 2018.

7(b) *Wakala placements with a related party of the Parent Company*

The Kuwaiti Special Circuit Court of Appeal approved a restructuring plan on 27 December 2012 under the protection of the Kuwait Financial Stability Law whereby a related party of the Group will settle all liabilities to the Group by 2018 together with profits. However, no stipulated judgment has been received from the Kuwaiti Court as on date.

During the year 2016, Wakala placement which was carried in the books at US\$33,392,900, was sold for US\$9,963,032, resulting in a gain of US\$9,963,032 given that this was previously fully impaired in the books.

8 Short-term investments

| | 30 September 2018 (Reviewed) | 31 December 2017 (Audited) |
|--------------------------|------------------------------------|----------------------------------|
| Gross commodity Murabaha | <u>10,000,000</u> | <u>5,000,000</u> |

During the year 2017, a Murabaha placement with a financial institution amounted to US\$10,000,000. It bears profit rates ranging from 2.2081% to 2.2183% per year and has a maturity period of less than 90 days and the profit up to 30 September 2018 amounting to US\$30,158 has been accounted.

9 Investments in real estate held-for-use

| | | 30 September 2018 (Reviewed) | 31 December 2017 (Audited) |
|---|-----|------------------------------------|----------------------------------|
| North Victoria Limited, Dubai | (a) | 24,223,982 | 24,223,982 |
| Gibson North Limited, Dubai | (a) | 13,553,280 | 13,553,280 |
| Industrial mall in Shwaikh third Area, Kuwait | (b) | <u>8,352,629</u> | <u>8,876,861</u> |
| Investments in real estate held-for-use | | <u>46,129,891</u> | <u>46,654,123</u> |

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9 Investments in real estate held-for-use (continued)

The movement in Investments in real estate held-for-use during the year was as follows:

| | 30 September 2018 <u>(Reviewed)</u> | 31 December 2017 <u>(Audited)</u> |
|--|---|---|
| Opening balance | 46,654,123 | 46,391,588 |
| Unrealised translation losses during the period/year | (524,232) | - |
| Unrealised fair value gain during the period/year | <u>-</u> | <u>262,535</u> |
| Closing balance | <u>46,129,891</u> | <u>46,654,123</u> |

Investments in real estate held-for-use represent:

- (a) During 2012, two islands in “The World” project in Dubai were received as part of the settlement of the Murabaha placement with a related party of the Parent Company. The settlement was made by transferring the majority shareholding in two companies to the Group whose principal assets are ownership of real estate. As a result of that, the Group owns shares in the following companies:

| | <u>Ownership interest</u> |
|------------------------|---------------------------|
| North Victoria Limited | 100% |
| Gibson North Limited | 77.425% |

The average of two valuations of these islands amounted to US\$73,757,898 obtained by the counterparty as on 31 December 2012 which was higher than the value recorded on settlement. The value of the lands held by these subsidiaries were restricted to the net carrying value of the Murabaha (US\$35,281,114) prior to settlement i.e. debt carrying value of US\$50,986,836 less impairment provision of US\$15,705,722. The fair value of these assets as of 31 December 2017 is estimated to be US\$50,019,362 as per the external valuation report. Accordingly, the recorded carrying values were considered to be reasonable.

Embedded in the settlement contract is a put option which shall subsist and continue indefinitely in favour of the Group. This put option is eligible to be exercised resulting in the purchase of the settlement shares by the counterparty at price equivalent to settlement amount i.e. US\$73,757,898. Absolute title to this real estate is held in trust by a third party, while the bank possesses the original title deed along with waiver letter from third party declaring the absolute ownership to the Bank.

- (b) A cash generating asset (right to use of a property in Kuwait) was received from the Parent Company for the settlement of its overdue first tranche due on 30 June 2013 (Note 7(a)). The fair value of the asset at the date of settlement amounting to US\$7,389,163 has been recorded in the books. The management has classified this investment in real estate as held-for-use. The investment properties were valued by an independent property valuer as at 31 December 2017 at open market values, which reflected the total value amounting to US\$8,876,861. The carrying value of an asset as at 30 September 2018 is amounting to US\$8,352,629 (31 December 2017: US\$8,876,861).

10 Share capital

| | 30 September 2018 <u>(Reviewed)</u> | 31 December 2017 <u>(Audited)</u> |
|--|---|---|
| Authorised | | |
| 1 billion (2017: 1 billion) shares of US\$1 each | <u>1,000,000,000</u> | <u>1,000,000,000</u> |
| Issued and fully paid-up | | |
| 200 million (2017: 200 million) shares of US\$1 each | <u>200,000,000</u> | <u>200,000,000</u> |

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11 Going concern

a) Exposure to the Parent Company and related parties of the Group

The Group has significant exposures with its Parent Company, which has been fully provided as at 30 September 2018. The Kuwaiti Special Circuit Court of Appeal approved a restructuring plan on 2 June 2011 under the protection of the Kuwait Financial Stability Law whereby the Parent Company will settle all liabilities in 5 tranches by 30 June 2017, with profits. Investment Dar Bank B.S.C. (c) and its subsidiary have received a stipulated judgment letter from the Parent Company. The stipulated judgment letter has been authenticated by the notarisation office in the Ministry of Justice of Kuwait. The implementation of the restructuring plan has improved the ability of the Parent Company to repay its creditors including the Group. During the year 2013, the Parent Company had settled the first tranche by offering a right to use in a cash generating asset. However, the Group still has significant concentration risk associated to its exposure to the Parent Company, which may affect the going concern of the Group.

b) Legal cases relating to off statement of financial position - Restricted investment accounts

In previous years, the Group accepted from investors under a restricted Wakala (agency) investment contracts and has in turn placed these Wakala investments with its Parent Company and others. As at 30 September 2018, US\$481,102,675 (31 December 2017: US\$481,102,675) of the restricted investment accounts on Wakala contracts due to institutions was overdue. Under the terms of the Parent Company restructuring plan approved by the Kuwaiti Special Circuit Court of Appeal on 2 June 2011 under the protection of the Kuwait Financial Stability Law, all Wakala contracts relating to individuals and non-regulated companies have been paid by 31 December 2012 and the repayment of remaining Wakala contracts have been scheduled to be repaid over five tranches by 30 June 2017. The Parent Company settled debts amounting to US\$31,768,663 during the year 2013. Management has obtained more than one legal opinion which concludes that there is no legal obligation to sell directly any assets owned by the Bank in order to meet the Parent Company's commitment. The amount is already disclosed in the condensed consolidated interim financial information as an off-balance sheet due to the fact that the amounts are not yet settled by the Parent Company.

c) Conclusion

On 7 August 2017, the Parent Company proposed a revised restructuring plan which was approved by the majority of investors and creditors for settlement of debts. The Court accepted the revised plan for further hearing on 8 August 2017 under Article 17 of Law 2/2009 and Article 40 Clause 2 of Financial Stability Law in Kuwait, consequently all the litigation against the Parent Company were withheld until court passes a ruling on the revised plan. The Investment Dar Company K.S.C. ("TID") submitted its revised settlement plans to Central Bank of Kuwait ("CBK") for study and will report back to Financial stability law Court with recommendations. However, subsequent to current reporting period, on 10 October 2018, the Special Circuit Court of Appeal in its hearing, rejected TID's revised restructuring plan ("Al Sharq Plan"). TID is studying alternative settlement plans including the preventive arrangement scheme to protect the rights of its creditors.

In light of the aforementioned developments the Board of Directors are confident of realising the Wakala placements from the Parent Company above, at least in part and also given that the Bank has no obligation to sell directly any assets owned by the Bank or liquidate the Company in order to meet the Parent Company's liabilities. The Board of directors have no intention to liquidate the Bank and continue operate as a going concern business. Accordingly, the condensed consolidated interim financial information has been prepared on a going concern basis.

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12 Restricted investment accounts

| | 30 September 2018 (Reviewed) | Others 31 December 2017 (Audited) |
|--------------------|------------------------------------|--|
| Wakala investments | <u>481,102,675</u> | <u>481,102,675</u> |

Wakala investments represent amounts received from the investors under Wakala contracts where the Bank acts as a Wakil (agent) and are in turn placed investments with the Parent Company and other entities on a Wakala basis.

In prior years, the Group accepted money from investors under restricted Wakala (agency) investment contracts and has in turn placed these Wakala investments with its Parent Company and others. As at 30 September 2018, US\$481,102,675 (31 December 2017: US\$481,102,675) of the restricted investment accounts on Wakala contracts due to institutions were overdue. Under the terms of the Parent Company restructuring plan approved by the Kuwaiti Special Circuit Court of Appeal on 2 June 2011 under the protection of the Kuwait Financial Stability Law, all Wakala contracts relating to individuals and non-regulated companies have been paid by 31 December 2012 and the repayment of remaining Wakala contracts was scheduled to be repaid over five tranches by 30 June 2017. The Parent Company did not settle any debts relating to these restricted Wakala contracts during the period (2017: US\$Nil).

13 Other income

| | Quarter ended 30 September 2018 (Reviewed) | Quarter ended 30 September 2017 (Reviewed) | Nine months period ended 30 September 2018 (Reviewed) | Nine months period ended 30 September 2017 (Reviewed) |
|---|---|---|---|---|
| Rental income | 86,052 | 91,362 | 259,014 | 274,087 |
| Reversal of provision on Murabaha settlement (Note 5) | 255,280 | - | 255,280 | - |
| Profit on Short-term investments | 36,223 | 12,727 | 96,515 | 12,727 |
| Profit on Mudharaba deposit | <u>541</u> | <u>2,827</u> | <u>9,411</u> | <u>13,701</u> |
| | <u>378,096</u> | <u>106,916</u> | <u>620,220</u> | <u>300,515</u> |

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14 Related party transactions and balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the shareholder, key management personnel and their close family members and such other companies over which the Group or its shareholder, key management personnel and their close family members can exercise significant influence or can be significantly influenced by those parties. Transactions with the related parties are authorised by the management.

A significant portion of the Group's income is from Wakala and Murabaha placements, agency fees or wakala fees on providing restrictive investment services are from Parent Company and entities over which the Group exercises significant influence. Although these entities are considered related parties, these transactions are conducted on an arm's length basis at commercial terms and conditions.

A summary of the related party balances is as follows:

| | 30 September <u>2018</u> | 31 December <u>2017</u> |
|--|-----------------------------|----------------------------|
| <u>Prepayments and other assets (Note 5)</u> | | |
| Wakala fees receivable from Parent Company | 1,149,700 | 1,149,700 |
| Less: Allowance for doubtful Wakala fees receivables | <u>(1,149,700)</u> | <u>(1,149,700)</u> |
| | - | - |
| Receivable due on Murabaha settlement | 1,494,720 | 1,750,000 |
| Less: Allowance on Murabaha settlement | <u>(1,494,720)</u> | <u>(1,750,000)</u> |
| | - | - |
| <u>Wakala placements (Note 7)</u> | | |
| Wakala placements with the Parent Company | 42,522,047 | 42,522,047 |
| Impairment as specific provision | <u>(42,522,047)</u> | <u>(42,522,047)</u> |
| | - | - |
| Payable to the Parent Company | <u>2,125,772</u> | <u>2,125,772</u> |
| <u>Restricted investment accounts</u> | | |
| Wakala deposits with Parent and entities related to the Parent Company | <u>453,906,872</u> | <u>453,906,872</u> |

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation is as follows:

| | Nine months period ended 30 September <u>2018</u> | Nine months period ended 30 September <u>2017</u> |
|---|--|--|
| Board sittings and board committee sitting fees | <u>176,393</u> | <u>201,592</u> |
| Salaries and other short-term benefits | <u>282,367</u> | <u>272,826</u> |

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15 Earnings per share

| | Quarter ended 30 September 2018 <u>(Reviewed)</u> | Quarter ended 30 September 2017 <u>(Reviewed)</u> | Nine months period ended 30 September 2018 <u>(Reviewed)</u> | Nine months period ended 30 September 2017 <u>(Reviewed)</u> |
|--|--|--|--|--|
| Net loss for the period | <u>(112,079)</u> | <u>(400,584)</u> | <u>(1,094,559)</u> | <u>(1,847,117)</u> |
| Weighted average number of shares outstanding | <u>200,000,000</u> | <u>200,000,000</u> | <u>200,000,000</u> | <u>200,000,000</u> |
| Loss per share (in US cents) | <u>(0.06)</u> | <u>(0.20)</u> | <u>(0.55)</u> | <u>(0.92)</u> |

The Group does not have any potentially dilutive ordinary shares; hence the diluted earnings and basic earnings per share are identical.

16 Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

| | 30 September 2018 <u></u> | 31 December 2017 <u></u> |
|--|---------------------------------|--------------------------------|
| Not later than 1 year | 65,889 | 49,416 |
| More than 1 year but less than 3 years | <u>131,777</u> | <u>49,416</u> |
| | <u>197,666</u> | <u>49,416</u> |

17 Interim results

The interim net loss for the quarter and nine months period ended 30 September 2018 may not represent a proportionate share of the annual net profit or loss due to the variability in timing of the receipt of dividend and investment income.

18 Subsequent events

There were no significant events subsequent to 30 September 2018 and occurring before the date of signing of the condensed consolidated interim financial information that would have a significant impact on this condensed consolidated interim financial information.