

**GFH Financial Group BSC**  
(formerly Gulf Finance House BSC)

**CONDENSED CONSOLIDATED INTERIM  
FINANCIAL INFORMATION**

**30 September 2015**

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an Islamic wholesale investment Bank)
Registered Office	:	Bahrain Financial Harbour Office: 2901, 29 <sup>th</sup> Floor Building 1398, East Tower, Block: 346, Road: 4626 Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	:	Ahmed Al Mutawa, <i>Chairman</i> Mosabah Saif Al Mautairy, <i>Vice Chairman</i> Bashar Muhammad Al Mutawa Mohammed Ali Talib Sheikh Mohammed Bin Duajj Al Khalifa Khalid Alkhazraji Faisal Abdulla Fouad Yousif Ibrahim AlGhanim
Chief Executive Officer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**for the nine months ended 30 September 2015**

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

To  
The Board of Directors  
GFH Financial Group BSC (formerly Gulf Finance House BSC)  
Manama  
Kingdom of Bahrain

11 November 2015

### **Introduction**

We have reviewed the accompanying 30 September 2015 condensed consolidated interim financial information of GFH Financial Group BSC (the "Bank") (formerly Gulf Finance House BSC) and its subsidiaries (together the Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2015;
- the condensed consolidated income statement for the three-month and nine-month periods ended 30 September 2015;
- the condensed consolidated statement of changes in owners' equity for the nine-month period ended 30 September 2015;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2015;
- the condensed consolidated statement of changes in restricted investment accounts for the nine-month period ended 30 September 2015;
- the condensed consolidated statement of changes in sources and uses of zakah and charity fund for the nine month period ended 30 September 2015; 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 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 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 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 2015 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 30 September 2015**

US\$ 000's

	note	30 September 2015 (reviewed)	31 December 2014 (audited) (restated)	30 September 2014 (reviewed) (restated)
<b>ASSETS</b>				
Cash and bank balances	11	143,270	129,938	130,124
Placements with financial institutions		147,233	248,482	232,363
Financing assets		840,815	782,628	698,415
Investment securities	12	595,228	482,596	473,669
Assets acquired for leasing		148,881	114,008	103,363
Investment properties		313,635	313,635	291,429
Development properties		120,118	131,317	144,887
Assets held-for-sale		-	-	34,925
Equity-accounted investees		22,210	26,901	22,235
Intangible assets		125,020	125,176	125,220
Property, plant and equipment		168,140	166,445	160,309
Other assets	13	339,148	261,116	258,752
<b>Total assets</b>		<b>2,963,698</b>	<b>2,782,242</b>	<b>2,675,691</b>
<b>LIABILITIES</b>				
Investors' funds		6,249	18,675	15,617
Placements from financial institutions, other entities and individuals	14	319,571	339,458	324,829
Customer current accounts		158,081	111,684	101,574
Financing liabilities	15	215,573	249,340	237,664
Other liabilities		183,468	149,872	174,338
<b>Total liabilities</b>		<b>882,942</b>	<b>869,029</b>	<b>854,022</b>
<b>Equity of investment account holders</b>		<b>993,400</b>	<b>895,558</b>	<b>845,095</b>
<b>OWNERS' EQUITY</b>				
Share capital		597,995	1,253,626	1,133,959
Treasury shares		(4,053)	(912)	(912)
Capital adjustment account		22,420	(475,582)	(395,114)
Statutory reserve		70,060	70,060	68,146
Retained earnings / (accumulated losses)		18,177	(203,608)	(199,892)
Fair value reserve		(2,569)	(2,366)	(49)
Share grant reserve		893	1,129	666
Foreign currency translation reserve		(1,082)	(780)	(678)
<b>Total equity attributable to shareholders of the Bank</b>		<b>701,841</b>	<b>641,567</b>	<b>606,126</b>
Non-controlling interests		385,515	376,088	370,448
<b>Total owners' equity (page 4)</b>		<b>1,087,356</b>	<b>1,017,655</b>	<b>976,574</b>
<b>Total liabilities, equity of investment account holders and owners' equity</b>		<b>2,963,698</b>	<b>2,782,242</b>	<b>2,675,691</b>

The Board of Directors approved the condensed consolidated interim financial information consisting of pages 2 to 23 on 11 November 2015.

Ahmed Al Mutawa  
Chairman

Mosabah Saif Al Mautairy  
Vice Chairman

Hisham Alrayes  
Chief Executive Officer

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**for the nine months ended 30 September 2015**

US\$ 000's

	Nine-months ended		Three-months ended	
	30 September 2015 (reviewed)	30 September 2014 (reviewed) (restated)	30 September 2015 (reviewed)	30 September 2014 (reviewed) (restated)
Income from investment banking services	21,022	4,476	-	4,476
Management and other fees	781	2,700	543	119
Income from placements with financial institutions	1,160	1,243	420	394
Income from financing assets and assets acquired for leasing	42,451	39,337	14,714	13,852
Share of profits of equity-accounted investees	3,025	5,768	1,187	1,244
Income from investment securities, net	11,074	4,589	1,197	402
Foreign exchange (loss) / gain, net	(601)	889	1,129	182
Other income	14,855	48,872	9,364	7,577
<b>Total income before return to investment account holders and finance expenses</b>	<b>93,767</b>	107,874	<b>28,554</b>	28,246
Less: Return to investment account holders	(13,759)	(18,241)	(4,496)	(5,459)
Less: Finance expense	(12,924)	(16,777)	(4,027)	(4,766)
<b>Income from banking business</b>	<b>67,084</b>	72,856	<b>20,031</b>	18,021
Revenue from industrial business	85,991	67,510	24,470	22,188
Less: Cost of sales	(74,176)	(57,259)	(21,205)	(19,517)
<b>Income from industrial business</b>	<b>11,815</b>	10,251	<b>3,265</b>	2,671
<b>Total income</b>	<b>78,899</b>	83,107	<b>23,296</b>	20,692
Staff cost	22,931	19,206	6,705	5,969
Investment advisory expenses	5,674	3,143	1,725	405
Other operating expenses	20,197	21,724	6,525	4,737
<b>Total expenses of banking business</b>	<b>48,802</b>	44,073	<b>14,955</b>	11,111
Other operating expenses of industrial business	8,650	6,096	2,858	1,858
<b>Total expenses</b>	<b>57,452</b>	50,169	<b>17,813</b>	12,969
<b>PROFIT FOR THE PERIOD BEFORE IMPAIRMENT</b>	<b>21,447</b>	32,938	<b>5,483</b>	7,723
Less: Impairment allowances	(3,466)	(10,286)	(1,162)	46
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>	<b>17,981</b>	22,652	<b>4,321</b>	7,769
Income from assets held-for-sale, net	-	490	-	490
<b>PROFIT FOR THE PERIOD</b>	<b>17,981</b>	23,142	<b>4,321</b>	8,259
<b>Attributable to:</b>				
Shareholders of the Bank	4,081	16,785	761	6,034
Non-controlling interests	13,900	6,357	3,560	2,225
	<b>17,981</b>	23,142	<b>4,321</b>	8,259
<b>Earnings per share</b>				
Basic earnings per share (US cents)	<b>0.19</b>	1.33	<b>0.03</b>	0.48
Diluted earnings per share (US cents)	<b>0.19</b>	1.33	<b>0.03</b>	0.48

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**  
for the nine months ended 30 September 2015

US\$ 000's

	Attributable to shareholders of the Bank								Non – controlling interests	Total owners' equity	
	Share capital	Treasury shares	Capital adjustment account	Statutory reserve	Retained earnings / (accumulated losses)	Fair value reserve	Share grant reserve	Foreign currency translation reserve			Total
<b>30 September 2015</b> (reviewed) (restated)											
Balance at 1 January 2015											
As previously reported	1,253,626	(912)	(475,582)	69,251	(165,851)	(2,345)	1,129	(780)	678,536	187,194	865,730
Impact of consolidation (note 3)	-	-	-	809	(37,757)	(21)	-	-	(36,969)	188,894	151,925
<b>As restated</b>	1,253,626	(912)	(475,582)	70,060	(203,608)	(2,366)	1,129	(780)	641,567	376,088	1,017,655
Profit for the period (page 3)	-	-	-	-	4,081	-	-	-	4,081	13,900	17,981
Fair value changes	-	-	-	-	-	(203)	-	-	(203)	-	(203)
Foreign currency translation differences	-	-	-	-	-	-	-	(302)	(302)	(117)	(419)
<b>Total recognised income and expense</b>	-	-	-	-	<b>4,081</b>	<b>(203)</b>	-	<b>(302)</b>	<b>3,576</b>	<b>13,783</b>	<b>17,359</b>
Conversion of Murabaha to capital (note 8)	241,361	-	(181,361)	-	-	-	-	-	60,000	-	60,000
Capital reduction (note 9)	(896,992)	-	679,665	-	217,327	-	-	-	-	-	-
Purchase of treasury shares	-	(4,594)	-	-	-	-	-	-	(4,594)	-	(4,594)
Sale of treasury shares	-	1,453	-	-	-	-	-	-	1,453	-	1,453
Loss on sale of treasury shares	-	-	(302)	-	-	-	-	-	(302)	-	(302)
Share grants vesting expense, net of forfeitures	-	-	-	-	-	-	(236)	-	(236)	-	(236)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(3,979)	(3,979)
Movement in non-controlling interests	-	-	-	-	377	-	-	-	377	(377)	-
<b>Balance at 30 September 2015</b>	<b>597,995</b>	<b>(4,053)</b>	<b>22,420</b>	<b>70,060</b>	<b>18,177</b>	<b>(2,569)</b>	<b>893</b>	<b>(1,082)</b>	<b>701,841</b>	<b>385,515</b>	<b>1,087,356</b>

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**  
for the nine months ended 30 September 2015 (continued)

US\$ 000's

	Attributable to shareholders of the Bank								Non – controlling interests	Total owners' equity	
	Share capital	Treasury shares	Capital adjustment account	Statutory reserve	Accumulated losses	Fair value reserve	Share grant reserve	Foreign currency translation reserve			Total
30 September 2014 (reviewed) (restated)											
Balance at 1 January 2014											
As previously reported	972,281	(912)	(229,656)	68,146	(310,185)	-	1,242	-	500,916	-	500,916
Impact of consolidation (note 3)	-	-	-	-	(40,872)	(49)	-	-	(40,921)	182,501	141,580
As restated	972,281	(912)	(229,656)	68,146	(351,057)	(49)	1,242	-	459,995	182,501	642,496
Profit for the period (page 3)	-	-	-	-	16,785	-	-	-	16,785	6,357	23,142
Foreign currency translation differences	-	-	-	-	-	-	-	(678)	(678)	(709)	(1,387)
Total recognised income and expense	-	-	-	-	16,785	-	-	(678)	16,107	5,648	21,755
Conversion of murabaha to capital	296,058	-	(165,458)	-	-	-	-	-	130,600	-	130,600
Capital reduction	(134,380)	-	-	-	134,380	-	-	-	-	-	-
Share grants vesting expense, net of forfeitures	-	-	-	-	-	-	(576)	-	(576)	-	(576)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	182,299	182,299
Balance at 30 September 2014	1,133,959	(912)	(395,114)	68,146	(199,892)	(49)	666	(678)	606,126	370,448	976,574

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**for the nine months ended 30 September 2015**

US\$ 000's

	<b>30 September 2015 (reviewed)</b>	30 September 2014 (reviewed) (restated)
<b>OPERATING ACTIVITIES</b>		
Profit for the period	17,981	23,142
Adjustments for:		
Management and other fees	-	(119)
Income from investment securities	(2,689)	(1,498)
Share of profit of equity-accounted investees	(2,874)	(2,635)
Foreign exchange loss / (gain)	601	(77)
Income from investment banking services	(21,022)	-
Other income	(9,431)	(42,265)
Income from asset-held-for-sale	-	(490)
Finance expense	12,924	10,179
Impairment allowance	3,466	10,286
Depreciation and amortisation	1,533	2,473
	<b>489</b>	<b>(1,004)</b>
Changes in:		
Financing assets	(58,187)	(53,605)
Assets acquired for leasing	(34,873)	(18,321)
Other assets	(53,952)	24,706
CBB Reserve balance	(6,804)	(2,851)
Investors' funds	(8,636)	(13,225)
Placements from financial, other entities and individuals	(23,677)	(97,295)
Customer current accounts	46,397	54,090
Equity of investment account holders	97,842	33,658
Other liabilities	33,595	(975)
<b>Net cash used in operating activities</b>	<b>(7,806)</b>	<b>(74,822)</b>
<b>INVESTING ACTIVITIES</b>		
Payment for purchase of equipment, net	(5,432)	(824)
Purchase of investment securities	(203,440)	(168,137)
Purchase of investment property held-for-sale	-	(12,561)
Proceeds from sale of investment securities	101,814	162,193
Proceeds from sale of investment in associates	-	276
Income from sukuk	5,642	2,379
Dividend or income / (loss) from equity securities	2,743	(138)
Net cash flows on acquisition of subsidiaries	-	7,341
Net cash flows on disposal for assets held for sale	-	9,890
Disposal / purchase of property, plant and equipment	-	(1,093)
<b>Net cash used in from investing activities</b>	<b>(98,673)</b>	<b>(674)</b>
<b>FINANCING ACTIVITIES</b>		
Financing liabilities, net	(31,073)	(36,092)
Finance expense paid	(8,335)	(7,348)
Dividend paid (including non-controlling interests)	(1,753)	(10)
Proceeds from issue of convertible murabaha	60,000	130,600
Purchase of treasury shares net	(7,081)	-
<b>Net cash generated from financing activities</b>	<b>11,758</b>	<b>87,150</b>
<b>Net (decrease) / increase in cash and cash equivalents during the period</b>	<b>(94,721)</b>	<b>11,654</b>
Cash and cash equivalents at 1 January	333,659	304,362
<b>CASH AND CASH EQUIVALENTS AT 30 September</b>	<b>238,938</b>	<b>316,016</b>
Cash and cash equivalents comprise:		
Cash and balances with banks (excluding balances with Central Bank in reserve account)	91,705	87,259
Placements with financial institutions	147,233	228,757
	<b>238,938</b>	<b>316,016</b>

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



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS  
for the nine months ended 30 September 2015**

30 September 2015 (reviewed)	Balance at 1 January 2015			Movements during the period						Balance at 30 September 2015		
	No of units (000)	Average value per share US\$	Total US\$ 000's	Investment/ (withdrawal) US\$ 000's	Revaluation US\$ 000's	Gross income US\$ 000's	Dividends paid US\$ 000's	Group's fees as an agent US\$ 000's	Administration expenses US\$ 000's	No of units (000)	Average value per share US\$	Total US\$ 000's
Company												
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	7.89	734	-	(48)	-	-	-	-	93	7.38	686
Safana Investment (RIA 1)	8,313	2.65	22,050	-	-	-	-	-	-	8,313	2.65	22,050
Janayen Holding Limited (RIA 4)	48,082	0.25	12,095	-	58	981	-	-	(249)	48,082	0.27	12,885
Shaden Real Estate Investment WLL (RIA 5)	8,100	2.65	21,485	(11,597)	-	-	-	-	-	3,728	2.65	9,888
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			<b>59,049</b>	<b>(11,597)</b>	<b>10</b>	<b>981</b>	<b>-</b>	<b>-</b>	<b>(249)</b>			<b>48,194</b>

30 September 2014 (reviewed) (restated)	Balance at 1 January 2014			Movements during the period						Balance at 30 September 2014		
	No of units (000)	Average value per share US\$	Total US\$ 000's	Investment/ (withdrawal) US\$ 000's	Revaluation US\$ 000's	Gross income US\$ 000's	Dividends paid US\$ 000's	Bank's fees as an agent US\$ 000's	Administration expenses US\$ 000's	No of units (000)	Average value per share US\$	Total US\$ 000's
Company												
Mena Real Estate Company KSCC	150	0.35	53	-	(1)	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	8.39	780	-	188	-	-	-	-	93	10.40	968
Al Hayreth French Property Fund	17.05	1,379.63	23,523	-	(1,881)	-	-	-	-	17.05	1,269	21,642
Safana Investment (RIA 1)	8,323	2.65	22,077	-	(27)	-	-	-	-	8,323	2.65	22,050
Janayen Holding Limited (RIA 4)	48,082	0.29	14,029	-	-	485	(1,979)	-	(308)	48,082	0.25	12,227
Shaden Real Estate Investment WLL (RIA 5)	8,100	2.65	21,485	-	-	-	-	-	-	8,100	2.65	21,485
Locata Corporation Pty Ltd (RIA 6)	2,948	0.90	2,659	(11)	-	-	-	-	-	2,948	0.90	2,648
			<b>84,606</b>	<b>(11)</b>	<b>(1,721)</b>	<b>485</b>	<b>(1,979)</b>	<b>-</b>	<b>(308)</b>			<b>81,072</b>

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 nine months ended 30 September 2015** US\$ 000's

	<b>30 September 2015 (reviewed)</b>	30 September 2014 (reviewed) (restated)
<b>Sources of zakah and charity fund</b>		
Non- Islamic income	103	202
<b>Total sources</b>	<b>103</b>	202
<b>Uses of zakah and charity fund</b>		
Contributions to charitable organisations	(1,215)	(149)
<b>Total uses</b>	<b>(1,215)</b>	(149)
<b>(Deficit) / excess of sources over uses</b>	<b>(1,112)</b>	53
Undistributed zakah and charity fund at beginning of the period	5,050	4,992
<b>Undistributed zakah and charity fund at end of the period</b>	<b>3,938</b>	5,045
Represented by:		
Zakah payable	2,031	3,007
Charity fund	1,907	2,038
	<b>3,938</b>	5,045

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
for the nine months ended 30 September 2015**

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**1 Reporting entity**

The condensed consolidated interim financial information for the nine months ended 30 September 2015 comprise the financial information of GFH Financial Group BSC (the “Bank” / “GFH”) and its subsidiaries (together referred to as “the Group”).

In addition to the list of significant subsidiaries consolidated in the financial statements for the year ended 31 December 2014, the following new subsidiaries have been consolidated retrospectively in accordance with the amendments to the accounting policy of the Group (refer note 3 a).

Name of subsidiary	Equity interest	Place of business	Parent	Primary business activity
Khaleeji Commercial Bank BSC ('KHCB')	46.96%	Bahrain	GFH	Retail banking
Morocco Gateway Investment Company ('MGIC')	33.33%	Morocco	GFH	Infrastructure and Real estate development
Capital Real Estate BSC (c) ('CRE')	60.00%	Bahrain	GFH	Real Estate Development
Surooh Company, Cayman Islands ('Surooh')	10.00%	Bahrain	KHCB	To construct and sell properties at “Oryx Hills”.
Eqarat Al Khaleej, Cayman Islands ('Eqarat')	19.80%	Bahrain	KHCB	To buy, sell and renting income producing properties across the GCC.

**2 Basis of preparation**

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). In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by FAS, 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*'. The condensed consolidated interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2014. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2014.

**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 Group's audited financial statements for the year ended 31 December 2014, except for changes arising from amendments to accounting standards issued and effective from 1 January 2015 as given below:

a) *Amendments to Financial Accounting Standard (FAS) No. 23 – Consolidation*

During the period, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) issued amendments to FAS 23 which are effective from 1 January 2015. These amendments provide clarification and expand the scenarios for assessing control when an entity holds less than majority voting rights in an investee. In particular, the concept of de-facto control has been introduced.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
for the nine months ended 30 September 2015**

3 *Significant accounting policies (continued)*

The amendment clarifies that where the IFI has less than majority voting rights in an investee, control may also exist through

- a) agreement with the entity's other shareholders or the entity itself;
- b) rights arising from other contractual arrangements;
- c) the IFI's voting rights (de facto power);
- d) potential voting rights; or
- e) a combination thereof.

Further, FAS 23 does not provide specific guidance for assessment of control over special purpose vehicles (SPVs) where the Bank has delegated power from its investors. The Bank previously referred to the relevant guidance in International Financial Reporting Standards (IFRSs). As a result of revision to IFRS 10 (consolidation), the Group has now also changed its accounting policy for determining when it has control over SPVs to be in line with IFRS 10. The new control model focuses on the scope of decision making authority over the SPV, rights held by other parties and the Bank's aggregate economic interest in the investee. In particular, expanded guidance has been provided to assess when the Group's power over an investee would be considered as those of a principal (primarily for its own benefit) and when it would be considered to be that of an agent (primarily for benefit of its investors). A principal will be required to consolidate the SPV where as an agent will not be required to consolidate the SPV.

In accordance with the transitional provisions of the amended FAS 23, the Group reassessed its control conclusions for its investees as of 1 January 2015, being the date of initial application of these amendments. The exercise has resulted in change in control conclusion in respect of the followings investees:

<b>Investment</b>	<b>Previous classification</b>	<b>Basis of change in control conclusions</b>
KHCB	Equity accounted associate	The Bank has de facto control over KHCB. The primary consideration has been whether GFH is able to control the outcome of voting at the companies' general meetings. After careful consideration of this question based on both the absolute and relative ownership interests and attendance at previous general meetings of KHCB over the last 4 years, it has been assessed that such control exists. Weightage was also given to the fact that the remaining voting rights of KHCB are widely dispersed and there is no indication that other shareholders exercise their votes collectively.
MGIC	Equity investment carried at fair value through income statement	This represents a investment vehicle (SPV) managed by the Group. The Group has a significant aggregate economic interests and variability from its involvement with the investee and hence is considered to be a principal exercising power for its own benefit.
CRE	Equity investment carried at fair value thorough equity	Along with KHCB, the Group now controls more than majority of voting rights of this entity and hence has now been assessed as a subsidiary.

Previously, the Group would not have consolidated such investments. Accordingly, in accordance with the transitional provisions of the amended FAS 23, the Group applied the change in policy retrospectively, and has restated the relevant amounts as if the investee had always been consolidated from the date the Group obtained control.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
for the nine months ended 30 September 2015**

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3 *Significant accounting policies (continued)*

*Summary of transition approach:*

When the consolidation conclusion changes for an investment that was not previously consolidated, the restatement of comparatives is limited to the immediately preceding period. The following steps have been applied:

- (a) If the investee subject to consolidation is a business, the Bank shall apply acquisition accounting on the date of obtaining control (as per the amended FAS 23) when an investee is consolidated for the first time on transition;
- (b) The acquisition accounting values of assets, liabilities and non-controlling interests should be rolled forward until the beginning of the year immediately preceding the year of adoption; and
- (c) The difference between the values determined in step (b) and the carrying amount of the investment is recognised in equity at the beginning of the immediately preceding year.

If step (a) above is impracticable, then the deemed acquisition date shall be the beginning of the earliest period for which acquisition accounting is possible, which may also be the current period date of initial application of the amendments.

As all the new investments (except MGIC) that have been consolidated were formed and controlled by the Group since inception, no acquisition adjustments have been made to the value of reported assets and liabilities. Changes in interests of subsidiaries that did not result in loss of control have been accounted for as equity transactions.

In case of KHCB, CRE, Eqarat and Surooh, retrospective application has been done as if the investments have been consolidated since date of original acquisition and all adjustments have been effected in the earliest comparable period (i.e. 1 January 2014). In case of MGIC, as retrospective application was considered impracticable, and accordingly, the acquisition accounting and consolidation was given effect from the beginning of the current financial period (i.e. 1 January 2015) with relevant carryover adjustments being accounted for in equity.

**Impact of changes in accounting policies:**

Condensed consolidated statement of financial position (1 January 2014)	As previously reported	Impact of consolidation	As restated
<b>ASSETS</b>			
Cash and bank balances	21,847	82,038	103,885
Placements with financial institutions	-	220,410	220,410
Financing assets	-	644,810	644,810
Investment securities	196,141	243,704	439,845
Assets acquired for leasing	-	85,042	85,042
Investment properties	259,404	32,025	291,429
Development properties	-	35,269	35,269
Equity-accounted investees	209,739	(131,964)	77,775
Property, plant and equipment	299	22,252	22,551
Other assets	172,669	72,341	245,010
<b>Total assets</b>	<b>883,923</b>	<b>1,305,927</b>	<b>2,189,850</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
for the nine months ended 30 September 2015**

3 *Significant accounting policies (continued)*

<b>Condensed consolidated statement of financial position (1 January 2014)</b>	<b>As previously reported</b>	<b>Impact of consolidation</b>	<b>As restated</b>
<b>LIABILITIES</b>			
Investors' funds	19,166	1,446	20,612
Placements from financial institutions, other entities and individuals	93,511	328,520	422,031
Customer current accounts	-	31,732	31,732
Other liabilities	60,408	34,525	94,933
<b>Total liabilities</b>	<b>380,852</b>	<b>396,223</b>	<b>777,075</b>
<b>Equity of investment account holders</b>	<b>2,155</b>	<b>769,179</b>	<b>771,334</b>
<b>OWNERS' EQUITY</b>			
Accumulated losses	(310,185)	(40,872)	(351,057)
Fair value reserve	-	(49)	(49)
Non-controlling interests	-	182,501	182,501

<b>Condensed consolidated statement of financial position (31 December 2014)</b>	<b>As previously reported</b>	<b>Impact of consolidation</b>	<b>As restated</b>
<b>ASSETS</b>			
Cash and bank balances	46,147	83,791	129,938
Placements with financial institutions	45,753	202,729	248,482
Financing assets	-	782,628	782,628
Investment securities	248,418	234,178	482,596
Assets acquired for leasing	-	114,008	114,008
Investment properties	259,404	54,231	313,635
Development properties	45,501	85,816	131,317
Equity-accounted investees	158,804	(131,903)	26,901
Intangible assets	125,176	-	125,176
Property, plant and equipment	141,301	25,144	166,445
Other assets	234,603	26,513	261,116
<b>Total assets</b>	<b>1,305,107</b>	<b>1,477,135</b>	<b>2,782,242</b>
<b>LIABILITIES</b>			
Investors' funds	14,885	3,790	18,675
Placements from financial institutions, other entities and individuals	90,145	249,313	339,458
Customer current accounts	-	111,684	111,684
Financing liabilities	231,124	18,216	249,340
Other liabilities	101,560	48,312	149,872
<b>Total liabilities</b>	<b>437,714</b>	<b>431,315</b>	<b>869,029</b>
<b>Equity of investment account holders</b>	<b>1,663</b>	<b>893,895</b>	<b>895,558</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
for the nine months ended 30 September 2015**

3 *Significant accounting policies (continued)*

Condensed consolidated statement of financial position (31 December 2014)	As previously reported	Impact of consolidation	As restated
<b>OWNERS' EQUITY</b>			
Accumulated losses	(165,851)	(37,757)	(203,608)
Statutory reserve	69,251	809	70,060
Fair value reserve	(2,345)	(21)	(2,366)
Non-controlling interests	187,194	188,894	376,088

**Condensed consolidated income statement**

**For the period ended 30 September 2014**

	As previously reported	Impact of consolidation	As restated
Management and other fees	742	1,958	2,700
Income from placements with financial institutions	153	1,090	1,243
Income from financing assets and assets acquired for leasing	-	39,337	39,337
Income from investment securities, net	1,854	2,735	4,589
Other income	43,163	5,709	48,872
Return to investment account holders	-	18,241	18,241
Finance expense	10,179	6,398	16,777
Staff cost	9,386	9,820	19,206
Other operating expenses	12,566	9,158	21,724
Profit for the period	15,604	7,538	23,142

The above adjustments have been made on a provisional basis using audited and management accounts of the investee companies and may be amended on completion of acquisition accounting of these entities. The Group expects to finalise its acquisition accounting assessment within the current year and does not expect material differences to the current reported balances.

4 **Estimates**

The 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.

In preparing these condensed consolidated interim financial information, except for the matters arising from consolidation of new subsidiaries (note 3 a), the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainties were the same as those applied to the audited consolidated financial statements for the year ended 31 December 2014.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
for the nine months ended 30 September 2015**

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**5 Financial risk management**

Except for additional disclosures that may arise from consolidation of new subsidiaries during the period (refer note 3 a), the Group's financial risk management objectives and policies are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2014.

**6 Seasonality**

Due to the inherent nature of the Group's business (investment banking, commercial banking and industrial business), the nine month results reported in this condensed consolidated interim financial information may not represent a proportionate share of the overall annual results.

**7** The condensed consolidated interim financial information is reviewed, not audited by KPMG Fakhro. Except for the restatement of certain amounts due to changes in the accounting policy (refer note 3 a):

- (a) the comparatives for the condensed consolidated statement of financial position have been extracted from the Group's audited consolidated financial statements for the year ended 31 December 2014 and the reviewed condensed consolidated interim financial information for the nine months ended 30 September 2014; and
- (b) the comparatives for the condensed consolidated statements of income, cash flows, changes in owners' equity, changes in restricted investment accounts and sources and uses of zakah and charity fund have been extracted from the reviewed condensed consolidated interim financial information for the nine months ended 30 September 2014.

**8** During the period, the paid up capital of the Bank was increased from US\$ 1,253,626 thousand to US\$ 1,494,987 thousand as a result of subscription and exercise of conversion option by the holders of the convertible murabaha. As per the terms of the convertible murabaha, 910,793 thousand shares of par value US\$ 0.265 has been issued on conversion. The difference between effective conversion price and the par value per share has been adjusted against the capital adjustment account.

**9** During the period, in the extra ordinary general meeting of the shareholders held on 12 April 2015, the shareholders approved the following:

- write off accumulated losses of US\$ 896,992 thousand resulting in reduction of the issued and paid-up capital from US\$ 1,494,987 thousand to US\$ 597,995 thousand (representing reduction of 6 shares for each 10 shares held approximately);
- Acquire up to 10% of the Bank's share capital as treasury shares; and
- change the name of the Bank to GFH Financial Group BSC.

**10** Appropriations, if any, are made when approved by the shareholders.

**11 Cash and bank balances**

	<b>30 September 2015</b> US\$ 000's (reviewed)	31 December 2014 US\$ 000's (audited) (restated)	<b>30 September 2014</b> US\$ 000's (reviewed) (restated)
Cash	15,971	6,763	8,631
Balances with banks	57,105	64,796	60,128
Balances with Central Bank			
- Current account	18,629	13,618	21,352
- Reserve account	51,565	44,761	40,013
	<b>143,270</b>	<b>129,938</b>	<b>130,124</b>

The reserve account with the Central Bank is not available for day-to-day operations purposes.



**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**for the nine months ended 30 September 2015**

**12 Investment securities**

	<b>30 September 2015</b> US\$ 000's (reviewed)	31 December 2014 US\$ 000's (audited) (restated)	30 September 2014 US\$ 000's (reviewed) (restated)
<b>Equity type investments</b>			
<i>At fair value through income statement</i>			
- Quoted securities	377	883	-
- Quoted funds	9,221	9,878	45,110
- Unquoted funds	3,679	3,679	3,679
- Unquoted securities	58,297	58,297	40,180
- Listed sukuk	-	13,159	13,048
	<b>71,574</b>	85,896	102,017
<i>At fair value through equity</i>			
- Managed funds	1,973	1,973	5,847
- Listed securities	16,160	24,479	-
- Unquoted securities* (at cost)	313,518	287,974	283,577
	<b>403,225</b>	400,322	391,441
<b>Debt type investments</b>			
<i>At amortised cost</i>			
- Unquoted Sukuk	192,003	81,218	79,488
<i>At fair value through income statement</i>			
- Quoted Sukuk	-	1,056	2,740
	<b>595,228</b>	482,596	473,669

\* Unquoted equity securities carried at cost less impairment mainly include investments in real estate projects promoted by the Group. In the absence of reliable measure of fair value, these investments are carried at cost less impairment. During the period, impairment allowances of US\$ 1 million (2014: US\$ 9 million) was recognised against these investments.

**13 Other assets**

	<b>30 September 2015</b> US\$ 000's (reviewed)	31 December 2014 US\$ 000's (audited) (restated)	30 September 2014 US\$ 000's (reviewed) (restated)
Project receivables	46,648	31,378	-
Financing to projects	84,496	84,496	95,586
Reimbursement right (note 19)	35,000	35,000	35,000
Receivable from sale of investments / properties	22,864	6,316	14,567
Lease rentals receivable	26,737	2,117	9,637
Inventories	27,429	28,381	26,833
Trade receivables	45,956	36,491	35,903
Employee receivables	13,341	13,341	13,491
Claims recoverable	11,990	12,255	12,255
Other receivables	24,687	11,341	15,480
	<b>339,148</b>	261,116	258,752

**14 Placements from financial institutions, other entities and individuals**

These comprise placements (murabaha and wakala) from financial and other institutions (including corporate) as part of Group's treasury activities. This includes US\$ 84 million of funds placed by a non-financial entity, which is currently subject to regulatory sanctions, and are currently frozen until such sanctions are formally lifted.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
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**15 Financing liabilities**

	<b>30 September 2015</b> US\$ 000's (reviewed)	31 December 2014 US\$ 000's (audited) (restated)	30 September 2014 US\$ 000's (reviewed) (restated)
<i>Financing of banking operations</i>			
- Murabaha financing (i)	35,147	46,401	42,780
- Wakala financing	37,533	42,588	40,974
- Sukuk liability	69,025	85,277	84,070
<i>Financing of industrial business</i>			
- Short term loans	32,376	24,023	32,788
- Ijarah financing	6,986	11,460	11,311
- Term loans	17,445	19,663	5,817
- Murabaha financing (ii)	5,219	1,712	1,385
- Letter of credit	2,022		323
Other borrowing	9,820	18,216	18,216
	<b>215,573</b>	249,340	237,664

	<b>30 September 2015</b> US\$ 000's (reviewed)	31 December 2014 US\$ 000's (audited) (restated)	30 September 2014 US\$ 000's (reviewed) (restated)
<b>Financing liabilities</b>			
Current portion	83,154	76,864	67,858
Non-current portion	132,419	172,476	169,806
	<b>215,573</b>	249,340	237,664

*Murabaha financing (i)*

Murabaha financing comprise medium-term financing from a syndicate of banks and repayable over 6 years on semi annual basis commencing from August 2014. The profit rate on the facility is 6 months LIBOR plus margin (subject to a minimum of 5%).

The Murabaha financing facilities are secured by a pledge over the Group's investment in a subsidiary of carrying value of US\$ 143 million and investment property of carrying value of US\$ 24.6 million.

*Wakala financing*

Wakala financing is a syndicate facility from a number of financial institutions that was originally due in 2018. During the period, the financing has been restructured and as per the revised terms is repayable over a period till September 2019 at an agreed profit rate of 6% (2014:8%). The Wakala financing facility is secured by a pledge over the Group's investment property of carrying value of US\$ 146 million.

*Sukuk liability*

Sukuk liability is repayable over a period of 6 years starting from July 2014. The revised terms carry a profit rate of LIBOR plus a margin of 3%, with a minimum profit rate of 5%.

The Sukuk Certificates are backed by the Group's investment securities with carrying values of US\$ 99.3 million (31 December 2014: US\$ 99.3 million) and an investment property of carrying value of US\$ 31.5 million (31 December 2014: US\$ 31.5 million)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
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**15** *Financing liabilities (continued)*

The Sukuk were traded on the London Stock Exchange's Gilt Edged and Fixed Interest Market. Currently the Sukuk are suspended from trading.

*Short term loans*

These loans were obtained by Balexco to finance the purchase of raw materials and are revolving in nature. The profit rate on these facilities range from 2.8% to 3% and are secured by a pledge over finished goods.

*Ijarah financing*

Ijarah financing was obtained by Falcon Cement Company BSC (c) for construction of cement plant in the Kingdom of Bahrain. The financing is secured by a mortgage over property, plant and equipment with a carrying value of US\$ 59 million and carries a profit rate of higher of BIBOR plus 4.25% or 7.5% per annum with final repayment on 1 February 2017.

*Term loans*

These facilities were obtained by Balexco for capital expenditure relating to "Extrusion Line", "Anodising Line" and "Press revamp". The loans are secured by a mortgage over machinery, equipment of Extrusion Line and Anodising Line. The loans carries a profit rate of three months LIBOR plus 5.5% and is repayable in 16, 16 and 18 quarterly instalments commencing from 30 September 2011, 31 March 2011 and 31 March 2014 respectively.

*Murabaha financing (ii)*

The murabaha financing has been obtained by Falcon Cement Company BSC (c) for import of raw materials and repayable at a profit rate of 9% per annum for facility availed up to 30 April 2012 and at the rate of BIBOR plus 4.25% per annum (with minimum floor of 7%) for facility availed after 1 May 2012.

**16** **Share-based employee compensation scheme**

The Bank operates a share incentive scheme for its employees. The share awards granted under the scheme have an initial lock-in period of 3 years and shall vest rateably over varied vesting periods of up to 10 years as per the terms of the scheme. As at 30 September 2015, 2.29 million share awards were outstanding to be exercised in future periods.

During 2013, the Group issued new employee share awards (9,185,391 shares at a share price of US\$ 0.125 per share) with vesting conditions over a period of 2 years based on fulfilment of performance and service conditions. As at 30 September 2015, 2.29 million (31 December 2014: 2.03 million shares) were pending vesting under the new employee share awards scheme and during the period 457 thousand shares were forfeited.

In 2014, the Group issued new employee share awards (2,352,632 shares at a price of US\$ 0.19 per share) with vesting conditions over a period of 3 years based on fulfilment of performance and service conditions. As at 30 September 2015, 1.56 million shares (31 December 2014: 2.35 million shares) were pending vesting under the new employee share awards scheme.

In 2015, the Group has approved a new variable remuneration policy which has been adopted to comply with the Central Bank of Bahrain's new regulatory requirements governing variable remuneration of staff covered by the regulation. The policy was approved in the shareholders meeting on 12 April 2015 and new share awards will be granted as per the terms of the new variable remuneration policy.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
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**17 Related party transactions**

The significant related party balances are not materially different from the the amounts reported as at 31 December 2014 except for those arising from consolidation of subsidiaries. Other significant related party transactions entered during the period are given below:

Nine months ended 30 September 2015	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
<b>Income</b>					
Income from investment banking services	-	-	-	21,022	21,022
Income from financing assets and assets acquired for leasing	87	-	-	403	490
Management and other fees	131	-	-	500	631
Income from investment securities	(507)	-	-	-	(507)
Share of profit of equity-accounted investees	3,025	-	-	-	3,025
Other income	-	-	-	554	554
<b>Expenses</b>					
Return to investment account holders	3	-	11	217	231
Staff cost	-	3,226	-	-	3,226
Other expenses	-	-	-	50	50

Nine months ended 30 September 2014 (restated)	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
<b>Income</b>					
Management and other fees	-	-	-	1,870	1,870
Income from financing assets and assets acquired for leasing	202	-	-	419	621
Income from investment securities	-	-	429	(525)	(96)
<b>Expenses</b>					
Return to investment account holders	43	19	239	496	797
Staff cost	-	3,222	-	-	3,222
Impairment allowance	-	-	-	10,000	10,000
Other expenses	-	-	-	116	116

During the period, the participation by entities in which directors are interested in projects promoted by Bank was US\$ 15 million (2014: US\$ Nil)

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**18 Segment reporting**

During the year, the Group has changed its reportable segments as a result of the recent consolidation and refreshing of its business strategy and in-line with the current internal reporting to the Board of Directors and management for performance measurement and monitoring. Currently, the Group is organised into business units based on their nature of operations and independent reporting entities and has four reportable operating segments namely Investment banking, Development infrastructure, Retail Banking and Industrial business.

	Industrial business		Development infrastructure	Commercial banking	Investment banking	Unallocated / Elimination	Total
	Cement	Aluminium					
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
<b>30 September 2015</b> (reviewed)							
Segment revenue	25,096	63,920	2,072	41,140	20,517	330	153,075
Segment expenses	20,760	62,066	9,984	24,849	10,815	6,620	135,094
Segment result	4,336	1,854	(7,912)	16,291	9,702	(6,290)	17,981
Segment assets	241,111	122,886	647,385	1,755,793	195,800	723	2,963,698
Segment liabilities	43,202	62,265	224,255	425,494	114,688	13,038	882,942
<i>Other segment information</i>							
Property, plant and equipment	96,768	46,416	-	21,334	-	3,622	168,140
Intangible assets (commercial license and customer relationship)	124,866	154	-	-	-	-	125,020
Inventories	7,644	19,785	-	-	-	-	27,429
Trade receivables	2,235	43,721	-	-	-	-	45,956
Financing liabilities	14,226	49,822	108,524	-	43,001	-	215,573
Equity of investment account holders	-	-	-	991,736	1,664	-	993,400
Commitments	116,388	700	-	209,293	47,000	-	373,381

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
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18 *Segment reporting (continued)*

	Industrial business		Development infrastructure	Commerical banking	Investment banking	Unallocated / Elimination	Total
	Cement	Aluminium					
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
30 September 2014 (reviewed) (restated)							
Segment revenue	19,526	47,984	36,299	26,194	10,311	542	140,856
Segment expenses	16,410	43,812	12,294	18,788	19,173	7,237	117,714
Segment result	3,116	4,172	24,005	7,406	(8,862)	(6,695)	23,142
31 December 2014 (audited) (restated)							
Segment assets	245,899	114,233	624,786	1,477,135	318,801	1,388	2,782,242
Segment liabilities	40,003	54,942	271,536	391,601	73,887	37,060	869,029
<i>Other segment information</i>							
Property, plant and equipment	95,436	45,279	2,553	22,591	-	586	166,445
Intangible assets (commercial license and customer relationship)	123,620	1,556	-	-	-	-	125,176
Inventories	6,169	22,212	-	-	-	-	28,381
Trade receivables	1,817	34,674	-	-	-	-	36,491
Financing liabilities	13,171	43,687	133,604	-	58,878	-	249,340
Equity of investment account holders	-	-	-	893,895	1,663	-	895,558
Commitments	116,461	1,578	-	127,160	-	-	245,199

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
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**19 Commitments and contingencies**

The commitments contracted in the normal course of business of the Group:

	<b>30 September 2015</b>	31 December 2014	30 September 2014
	US\$ 000's (reviewed)	US\$ 000's (audited) (restated)	US\$ 000's (reviewed) (restated)
Undrawn commitments to extend finance	156,334	105,218	91,016
Commitment to invest	-	-	9,416
Commitment for infrastructure development	32,000	-	-
Financial guarantees	65,706	21,942	31,318
Capital commitments relating to construction of cement plant	114,136	111,736	115,067
Operating lease commitments			
- Within one year	226	297	219
- 1 – 5 years	932	1,378	1,344
- Over 5 years	1,394	1,975	2,305
Guarantees issued by banks on behalf of the Group	2,653	2,653	2,653

Also, the Group has issued a financial guarantee of US\$ 35 million to an investee company. Based on the assessment of the financial position of the investee company, the Group has recognized a provision of US\$ 35 million (31 December 2014: US\$ 35 million) which is included in other liabilities and recognised an equivalent amount of 'reimbursement right' receivable included in 'other assets' (note 13). The Group is currently in discussion with the lenders and in the opinion of the management, as at the reporting date, the guarantee stands expired.

In the opinion of the management, the facilities that are due are being renegotiated and based on the current status of discussions, it is not expected that the Group will have to make payments against any of these guarantees. In the event any payment is required to be made, the Group will repay the existing lenders and the amounts will be recovered from the future cash flows generated from the operation of the relevant project.

*Performance obligations*

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 30 September 2015 due to the performance of any of its projects.

*Litigations, claims and contingencies*

*Litigations and claims*

The Group has a number of claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Further, claims against the Bank also have been filed by former employees. Based on the advice of the Bank's external legal counsel, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Accordingly, no provision for these claims has been made in the condensed consolidated interim financial information. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
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**20 Financial instruments**

**Fair values**

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. This represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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.

As at 30 September 2015 and 31 December 2014, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quotes market prices and internal valuation models for unquoted investments. Other investments are carried at cost in the absence of a reliable measure of fair value.

*Financing assets*

In case of financing assets and lease receivables, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different to fair value of these assets.

*Financing liabilities*

As at 30 September 2015, the fair value of financing liabilities was estimated at US\$ 185,261 thousand (carrying value US\$ 215,573 thousand) (31 December 2014: fair value US\$ 202,787 thousand (carrying value US\$ 249,340 thousand) based on most recent transactions for repurchase of liability instruments by the Bank. These may not necessarily represent active market quotes. In a normal (and not stressed scenario), the carrying values would approximate fair value of financing liabilities as these are largely floating rate instruments which were re-priced recently as part of the debt restructuring process. The fair values of financial assets and liabilities of industrial business segment are determined on provisional basis and approximates the current carrying values.

**Fair value hierarchy**

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices).
- Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**30 September 2015** (reviewed)

Investment securities carried at

- fair value through income statement
- fair value through equity

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
- fair value through income statement	9,221	-	61,976	71,197
- fair value through equity	16,160	-	1,973	18,133
	<b>25,381</b>	<b>-</b>	<b>63,949</b>	<b>89,330</b>



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20 *Financial instruments (continued)*

31 December 2014 (audited) (restated)	Level 1	Level 2	Level 3	Total
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
Investment securities carried at				
- fair value through income statement	24,470	-	62,482	86,952
- fair value through equity	23,914	-	1,973	25,887
	48,384	-	64,455	112,839

The following table analyses the movement in Level 3 financial assets during the period:

	<b>30 September 2015</b> US\$ 000's (reviewed)	31 December 2014 US\$ 000's (audited) (restated)
At beginning of the period	64,455	46,303
Gains (losses) in income statement	(506)	(466)
Purchases	-	18,618
Settlements	-	-
Transfers into (out) of Level 3	-	-
<b>At end of the period</b>	<b>63,949</b>	<b>64,455</b>

21 Certain prior period amounts have been restated on adoption of amendments to FAS 23 (refer note 3 a). This has resulted in amendments to notes and disclosures made in the condensed consolidated interim financial information.