

GULF FINANCE HOUSE BSC
CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION

30 September 2014

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an Islamic wholesale investment Bank)
Registered Office	:	Bahrain Financial Harbour Office: 2901, 29 th 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
Chief Executive Officer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

GULF FINANCE HOUSE BSC

**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2014**

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

To
The Board of Directors
Gulf Finance House BSC
Manama
Kingdom of Bahrain

11 November 2014

Introduction

We have reviewed the accompanying 30 September 2014 condensed consolidated interim financial information of Gulf Finance House BSC ("the Bank") and its subsidiaries (together the Group), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2014;
- the condensed consolidated income statement for the three-month and nine-month periods ended 30 September 2014;
- the condensed consolidated statement of changes in owners' equity for the nine-month period ended 30 September 2014;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2014;
- the condensed consolidated statement of changes in restricted investment accounts for the nine-month period ended 30 September 2014;
- the condensed consolidated statement of changes in sources and uses of charity and zakah fund for the nine-month period ended 30 September 2014; 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 2014 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.


CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2014

US\$ 000's

	note	30 September 2014 (reviewed)	31 December 2013 (audited)	30 September 2013 (reviewed)
ASSETS				
Cash and bank balances		51,350	21,847	81,663
Placements with financial institutions		8,601	-	692
Investment securities	11	221,906	196,141	171,818
Investment property		259,404	259,404	259,404
Development properties	12	45,501	-	-
Assets held-for-sale	13	195,179	184,076	22,246
Equity-accounted investees		18,152	73,417	236,108
Intangible assets	10	125,220	-	-
Property, plant and equipment		135,760	299	340
Other assets	14	239,902	172,669	143,834
Total assets		1,300,975	907,853	916,105
LIABILITIES				
Investors' funds		15,617	19,166	11,506
Placements from financial and other institutions	15	90,871	93,511	110,047
Financing liabilities	16	219,448	207,767	203,989
Liabilities related to assets held-for-sale	13	22,364	-	-
Other liabilities		99,630	60,408	68,935
Total liabilities		447,930	380,852	394,477
Equity of investment account holders		1,659	2,155	2,148
OWNERS' EQUITY				
Share capital		1,133,959	972,281	972,281
Treasury shares		(912)	(912)	(912)
Capital adjustment account		(395,114)	(229,656)	-
Statutory reserve		68,146	68,146	67,519
Accumulated losses		(141,098)	(286,255)	(520,528)
Other reserves		666	1,242	1,120
Foreign currency translation reserve		(678)	-	-
Total equity attributable to shareholders of the Bank (page 4)		664,969	524,846	519,480
Non-controlling interests		186,417	-	-
Total owners' equity (page 4)		851,386	524,846	519,480
Total liabilities, equity of investment account holders and owners' equity		1,300,975	907,853	916,105

The Board of Directors approved the condensed consolidated interim financial information consisting of pages 2 to 21 on 11 November 2014.



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 2014

US\$ 000's

	note	Nine months ended		Three months ended	
		30 September 2014 (reviewed)	30 September 2013 (reviewed)	30 September 2014 (reviewed)	30 September 2013 (reviewed)
Continuing operations					
Income from investment banking		4,476	-	4,476	-
Management and other fees		742	7,197	119	1,953
Income from placements with financial institutions		153	313	36	62
Share of profits of equity-accounted investees		2,635	723	-	(373)
Income from investment securities, net		1,854	537	(171)	194
Foreign exchange gain, net		77	1,037	(17)	696
Other income	18	43,163	19,894	5,816	2,680
Income from investment banking business		53,100	29,701	10,259	5,212
Revenue from industrial business	19	67,510	-	22,188	-
Total income		120,610	29,701	32,447	5,212
Staff cost		9,386	6,439	2,544	2,035
Investment advisory expenses		3,143	2,176	405	546
Finance expense		10,179	12,550	3,106	3,991
Other expenses		12,566	6,289	1,727	1,299
Total expenses of investment banking business		35,274	27,454	7,782	7,871
Cost of sales		57,259	-	19,517	-
Other operating expenses		2,963	-	614	-
Total expenses of industrial business		60,222	-	20,131	-
Total expenses		95,496	27,454	27,913	7,871
Profit from continuing operations before impairment allowances		25,114	2,247	4,534	(2,659)
Impairment allowances		(10,000)	(2,000)	-	(500)
Profit from continuing operations		15,114	247	4,534	(3,159)
Income from assets held-for-sale, net	13	490	776	490	-
PROFIT FOR THE PERIOD		15,604	1,023	5,024	(3,159)
Attributable to:					
Shareholders of the Bank		10,777	1,023	3,310	(3,159)
Non-controlling interests		4,827	-	1,714	-
		15,604	1,023	5,024	(3,159)
Earnings per share (US cents)					
Basic earnings per share		0.47	0.04	0.13	(0.11)
Diluted earnings per share		0.49	0.04	0.16	(0.11)
Earnings per share – continuing operations (US cents)					
Basic earnings per share		0.46	0.04	0.12	(0.11)
Diluted earnings per share		0.48	0.04	0.14	(0.11)

The condensed consolidated interim financial information consists of pages 2 to 21.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the nine months ended 30 September 2014

US\$ 000's

	Attributable to shareholders of the Bank							Non-controlling interests	Total owners' equity	
	Share capital	Treasury shares	Capital adjustment account (note 8)	Statutory reserve	Accumulated losses	Other reserves	Foreign currency translation reserve			Total
30 September 2014 (reviewed)										
Balance at 1 January 2014	972,281	(912)	(229,656)	68,146	(286,255)	1,242	-	524,846	-	524,846
Profit for the period	-	-	-	-	10,777	-	-	10,777	4,827	15,604
Foreign currency translation differences	-	-	-	-	-	-	(678)	(678)	(709)	(1,387)
Total recognised income and expense	-	-	-	-	10,777	-	(678)	10,099	4,118	14,217
Conversion of murabaha to capital (note 8)	296,058	-	(165,458)	-	-	-	-	130,600	-	130,600
Capital reduction (note 8)	(134,380)	-	-	-	134,380	-	-	-	-	-
Share grants vesting expense, net of forfeitures (note 17)	-	-	-	-	-	(576)	-	(576)	-	(576)
Acquisition of subsidiaries (note 10)	-	-	-	-	-	-	-	-	182,299	182,299
Balance at 30 September 2014	1,133,959	(912)	(395,114)	68,146	(141,098)	666	(678)	664,969	186,417	851,386

	Share capital	Treasury shares	Share premium	Statutory reserve	Accumulated losses	Other reserves	Total owners' equity
30 September 2013 (reviewed)							
Balance at 1 January 2013	595,087	(2,995)	13,235	66,356	(291,280)	903	381,306
Profit for the period	-	-	-	-	1,023	-	1,023
Total recognised income and expense	-	-	-	-	1,023	-	1,023
Transfer to statutory reserve	-	-	-	1,003	(1,003)	-	-
Conversion of murabaha to capital	377,194	(8,528)	(13,235)	-	(229,656)	-	125,775
Purchase of treasury shares	-	(1,192)	-	-	-	-	(1,192)
Sale of treasury shares	-	10,997	-	-	-	-	10,997
Gain on sale of treasury shares	-	-	-	286	-	-	286
Share grants vesting expense, net of forfeitures (note 17)	-	806	-	(126)	-	217	897
Gain on partial disposal of assets held-for-sale	-	-	-	-	388	-	388
Balance at 30 September 2013	972,281	(912)	-	67,519	(520,528)	1,120	519,480

The condensed consolidated interim financial information consists of pages 2 to 21.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the nine months ended 30 September 2014

US\$ 000's

	30 September 2014 (reviewed)	30 September 2013 (reviewed)
OPERATING ACTIVITIES		
Profit for the period	15,604	1,023
Adjustments for:		
Impairment allowances	10,000	2,000
Gain on sale of investment securities	(1,498)	190
Income from assets held-for-sale	(490)	-
Share of profit of equity-accounted investees	(2,635)	(723)
Foreign exchange gain	(77)	(1,037)
Management and other fees	(119)	(4,665)
Finance expenses	10,179	12,550
Other income	(42,265)	(12,772)
Depreciation and amortisation	1,155	1,111
Changes in:		
Placement with financial institutions (original maturity of more than 90 days)	(3,600)	14,075
Placement from financial institutions	(2,640)	(15,971)
Investor's funds	(13,225)	(15,147)
Other assets	(9,663)	(1,472)
Other liabilities	2,015	(4,934)
Net cash used in operating activities	(37,259)	(25,772)
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(824)	-
Advance for acquisition of investments	-	(1,904)
Purchase of investment property held-for-sale	(12,561)	-
Purchase of investment securities	(81,575)	(153)
Dividends received	-	84
Net cash flows on disposal of assets held-for-sale	9,890	9,776
Proceeds from sale of investment securities	62,342	3,546
Net cash flow on acquisition of subsidiaries	7,341	-
Net cash (used in) / generated from investing activities	(15,387)	11,349
FINANCING ACTIVITIES		
Financing liabilities, net	(36,092)	(20,345)
Finance expense paid	(7,348)	(13,546)
Proceeds from issue of convertible murabaha	130,600	115,775
Proceeds from sale of treasury shares	-	10,074
Dividends paid	(10)	(80)
Payment to investment account holders	-	(205)
Net cash generated from financing activities	87,150	91,673
Net increase in cash and cash equivalents during the period	34,504	77,250
Cash and cash equivalents at 1 January	21,847	5,105
CASH AND CASH EQUIVALENTS at 30 September	56,351	82,355
Cash and cash equivalents comprise:		
Cash and balances with banks	51,350	81,663
Placements with financial institutions	5,001	692
	56,351	82,355

The condensed consolidated interim financial information consists of pages 2 to 21.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the nine months ended 30 September 2014

30 September 2014 (reviewed)	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
			833	-	187	-	-	-	-			1,020

30 September 2013 (reviewed)	Balance at 1 January 2013			Movements during the period						Balance at 30 September 2013		
	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	0.34	52
Al Basha'er Fund	93	6.69	622	-	351	-	-	(225)	-	93	8.05	748
Oman Development Company	522.50	3.115	1,628	(1,628)	-	-	-	-	-	-	-	-
			2,303	(1,628)	350	-	-	(225)	-			800

The condensed consolidated interim financial information consists of pages 2 to 21.

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

for the nine months ended 30 September 2014

US\$ 000's

	30 September 2014 (reviewed)	30 September 2013 (reviewed)
Sources of charity and zakah fund		
Non-Islamic income	-	-
Total sources	-	-
Uses of charity and zakah fund		
Contributions to charitable organisations	-	-
Total uses	-	-
Deficit of sources over uses		
Undistributed charity and zakah fund at 1 January	2,774	10,427
Undistributed charity and zakah fund at 30 September	2,774	10,427
Represented by:		
Charity fund	-	7,656
Zakah payable	2,774	2,771
	2,774	10,427

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2014**

1 Reporting entity

The condensed consolidated interim financial information for the nine months ended 30 September 2014 comprise the financial information of Gulf Finance House BSC (the “Bank”) and its subsidiaries (together referred to as “the Group”). For new subsidiaries consolidated during the period refer note 10.

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 2013.

During the period, the Group obtained control of certain industrial business (note 10) and is currently in the process of determining fair values of the acquired identifiable assets and liabilities. Accordingly, the carrying values consolidated in these condensed consolidated interim financial statements have been determined on a provisional basis, as permitted by IFRS 3 ‘Business Combinations’. It is possible that there may be significant adjustments to the recognised assets and liabilities in subsequent reporting periods that may require adjustments to the reported amounts and results in the 30 September 2014 condensed consolidated interim financial information.

This business combination has had a significant impact on the basis of presentation of the financial statements of the Group. Accordingly, for a more relevant presentation of the Group’s financial performance, the statement of income is now primarily being presented based on nature of activities rather than nature of expenses and income. The comparatives have been regrouped to conform to the current period’s presentation.

3 Significant accounting policies

Except for changes discussed in the basis of presentation and significant accounting policies of the industrial business highlighted below, the accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the audited consolidated financial statements for the year ended 31 December 2013.

*Significant accounting policies of the industrial business acquired during the period**Property, plant and equipment*

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projection if the recognition criteria are met. All other repair and maintenance costs are recognised in the condensed consolidated income statement as incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight line method over their estimated useful lives, and is generally recognised in the condensed consolidated income statement.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2014**

3 *Significant accounting policies (continued)*

The estimated useful lives of property, plant and equipment of the industrial business assets are as follows:

Buildings and infrastructure on lease hold	15 – 30 years
Plant and machinery	8 – 40 years
Tools and dies	3 years
Computers	3 – 5 years
Furniture and fixtures	5 – 8 years
Motor vehicles	4 – 5 years

Intangible assets

Intangible assets represents commercial licenses for cement production and trading in the Kingdom of Bahrain, Syrian Arab Republic and Libya. Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Subsequently, intangible assets are recognised at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the condensed consolidated income statement in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life of ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. Intangible assets with indefinite useful life consists of a license to construct and operate a cement plant in the Kingdom of Bahrain.

Inventories

Inventories are valued at lower of cost and net realisable value. The cost of inventories is based on a weighted average basis. In the case of manufactured inventories and work-in-process, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Revenue from industrial business

Revenue from industrial business represents sale of cement and aluminum products. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer (i.e. when delivered), recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2014**

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 business combination during the period, 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 2013.

5 Financial risk management

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 2013.

6 Seasonality

Due to the inherent nature of the Group's business (investment 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. The comparatives for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2013 and the reviewed condensed consolidated interim financial information for the nine months ended 30 September 2013. 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 charity and zakah fund have been extracted from the reviewed condensed consolidated interim financial information for the nine months ended 30 September 2013.

8 In the extra ordinary general meeting of the shareholders held on 14 April 2014, the shareholders approved the following:

- reduction of the share's nominal value from US\$ 0.3075 per share to US\$ 0.265 per share, and the subsequent reduction of the issued and paid-up capital from US\$ 972,281,164 to US\$ 837,900,841 by adjusting the accumulated losses; and
- issue of a convertible sukuk scheme or new facilities of up to US\$ 500 million, to be used to restructure the current liabilities, develop projects and acquisitions subject to CBB's approval.

The Group is in the process of amending its statutory records to effect the above changes.

In July 2014, the Group launched a convertible notes program. The convertible notes program provide for returns of 12% p.a. to the holder and has a tenure of 60 months from the date of issue, unless converted into ordinary shares of the Bank at the option of the holder, at an exchange price of US\$ 0.31 per share. The program also provides additional share based incentives on early conversion. During the period, the Group received subscriptions of US\$ 130.6 million for the convertible notes with conversions resulting in issue of 1,117,199,683 shares. The effective conversion cost was below the par value per share. The difference was adjusted against a "capital adjustment account" in the equity.

In the previous periods, difference between effective conversion cost and par value per share on convertible instruments were recognised in retained earnings. During the period, the cumulative amounts recognised in retained earnings has been regrouped for all period presented and included under the "capital adjustment account".

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2014

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

10 Business combination

During the period, the Group obtained management control over 51.82% of voting rights of Cemena Investment Company (CIC), a company incorporated in Cayman Islands. CIC was previously an equity accounted investee where the Group held 38.89% stake. The management control was obtained through assignment of voting rights by certain investors to the Group resulting in the Group obtaining control over operating and financial policies of CIC. Accordingly, the Group has consolidated Cemena Investment Company and its subsidiaries (together "CIC Group") effective 1 January 2014, being the deemed date of exercise of control.

The following investee companies are being consolidated as part of CIC and the Group's effective percentage shareholdings and the nature of activities of the investee companies has been presented below:

Investee name	Country of incorporation	Parent / Owing Company	Effective ownership interests
Cemena Investment Company (CIC)	Cayman Islands	Gulf Finance House BSC	38.89%
Subsidiaries of CIC			
Cemena Holding Company BSC (c)	Bahrain	CIC	100%
BCC Building Materials BSC (c)	Bahrain	Cemena Holding Company BSC (c)	100%
United Arab Cement Company PJSC	Syria		90%
Libya Investment Company	Libya		100%
Balexco House Limited	British Virgin Islands		88.17%
Falcon Cement Company BSC (c)	Bahrain		BCC Building Materials BSC (c)
Bahrain Aluminium Extrusion Company BSC (c) ('Balexco')	Bahrain	Balexco House Limited	44.22%
Saudi Bahraini Aluminium Company WLL	Kingdom of Saudi Arabia	Balexco	40%
Joint ventures			
Technal Middle East WLL	Bahrain	Balexco	50%
Balexco Doha Trading WLL	Qatar	Balexco	44%

Consideration transferred and non-controlling interests

As there was no consideration transferred in the business combination, the Group had used the acquisition-date fair value of its interest in the CIC Group for the acquisition accounting. The stake held by investors other than the Group along with the non-controlling interests in the subsidiaries of CIC is recognised in the condensed consolidated interim financial information under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets.

Identifiable assets acquired and liabilities assumed

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2014

10 *Business combination (continued)*

The reported amounts below represent the adjusted carrying values as reported by the acquired entities as at 1 January 2014 and have been reported on a provisional basis as permitted by accounting standards. The results of investee companies have also been included in Group's condensed consolidated interim financial information from the date of acquisition on a provisional basis. No gain or loss was recognised upon remeasurement of previously held equity interest in CIC as the provisional fair value approximated the carrying value.

Except for reduction in carrying value of reported intangible assets by US\$ 20 million, the other amounts are reflective of acquisition date carrying values as follows:

	US\$ 000's
Non-current assets	
Property, plant and equipment	136,474
Intangible assets	125,220
Equity-accounted investees	17,263
Statutory deposit	1,036
Total non-current assets	279,993
Current assets	
Inventories	23,230
Trade and other receivables	33,815
Cash, bank balances and term deposits	12,296
Total current assets	69,341
Total assets	349,334
Liabilities	
Non-current liabilities	
Bank borrowings	14,709
Payable to a contractor	955
Employees' end of service benefits	686
Total non-current liabilities	16,350
Current liabilities	
Trade and other payables	37,125
Bank borrowings	34,271
Accrued expenses	3,237
Total current liabilities	74,633
Total liabilities	90,983
Total net identifiable assets and liabilities	258,351
Consideration of Group's interest in CIC	76,052
Non-controlling interests recognized	182,299
Total consideration	258,351

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2014

10 *Business combination (continued)*

Given the size, geographic dispersion and inherent complexity involved in the acquisition, the Group, as on date of issue of these condensed consolidated interim financial information, has not concluded on the determination of fair value of tangible and intangible assets acquired, liabilities assumed and residual goodwill arising from the acquisition. The estimates of fair values for tangible and intangible assets acquired and liabilities assumed is subject to significant judgement and shall be determined by management based on various market and income analyses and asset appraisals at the effective date. No goodwill has been recognised on the effective date.

11 **Investment securities**

	30 September 2014 US\$ 000's (reviewed)	31 December 2013 US\$ 000's (audited)	30 September 2013 US\$ 000's (reviewed)
Equity type investments			
<i>At fair value through income statement</i>			
- Quoted securities	5,847	972	1,539
- Quoted funds	45,110	30,824	-
- Unquoted funds	3,679	3,679	3,678
	54,636	35,475	5,217
<i>At fair value through equity</i>			
- Unquoted securities* (at cost)	167,270	160,666	166,601
	221,906	196,141	171,818

* Unquoted equity securities classified as fair value through equity mainly include investments in private equity investments managed by external investment managers and investments in 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\$ 9,000 thousand (2013: US\$ 2,000 thousand) was recognised against unquoted equity securities carried at cost.

12 **Development properties**

Development properties represent land received as part of a settlement agreement with a master developer in Dubai. (refer note 18). The land has been recognised at its fair value determined based on an independent external valuation. Development properties are carried at lower of cost and net realisable value.

13 **Assets and liabilities held-for-sale**

	30 September 2014 US\$ 000's (reviewed)	31 December 2013 US\$ 000's (audited)	30 September 2013 US\$ 000's (reviewed)
Assets held-for-sale			
- LCHL	-	23,824	-
- KHCB	160,252	160,252	-
- Investment property	34,927	-	-
	195,179	184,076	-
Liabilities related to assets held-for-sale			
- Related to investment property	22,364	-	-

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for the nine months ended 30 September 2014**

13 *Assets and liabilities held-for-sale (continued)*

KHCB

Assets held-for-sale includes the Bank's investment of 46.965% stake in Khaleeji Commercial Bank ("KHCB"). The management was previously actively involved in merger discussions with a local bank that would have resulted in a significant disposal of the Bank's stake. During the period, the merger discussions were called off by the counterparty. However, the Group continues to actively be involved in discussions for divesting the Bank's stake in KHCB. Accordingly, the investment in KHCB continues to be classified as held-for-sale. The Group's investment in KHCB is pledged towards a Murabaha financing facility (note 16).

LCHL

At 31 December 2013, assets held-for-sale also included the Group's investment in Leeds City Holdings Limited (LCHL), a holding company for a number of trading entities whose activities form the operations of Leeds United Football Club (LUFC) in the United Kingdom. During the period, the Group sold its investment in LCHL and retained a stake of 10%. The retained investment in LCHL is classified as "investment securities carried at fair value through equity". There was no significant gain/ loss on the disposal of the investment.

Investment property

During the period, the Bank acquired certain properties in US using a special purpose vehicle funded using a combination of equity by the Bank and financing from financial institutions. The Bank has provisionally recognised identifiable assets of US\$ 34,927 thousand and related liabilities of US\$ 22,364 thousand at the date of acquisition which also represents the management's estimated fair value less cost to sell of the investment. The Bank has acquired the properties with an intention to sell to investors, and is currently in the process of marketing the structure through a private placement memorandum.

Accordingly, the assets and corresponding liabilities have been presented in the condensed consolidated interim financial information as "held-for-sale" in accordance with IFRS 5 *Non-current assets held-for-sale*. The net income from the investment property during the period amounting to US\$ 490 thousand is presented in the condensed consolidated income statement under "income from assets held-for-sale,net".

14 **Other assets**

	30 September 2014	31 December 2013	30 September 2013
	US\$ 000's (reviewed)	US\$ 000's (audited)	US\$ 000's (reviewed)
Financing to projects	109,142	101,275	83,601
Reimbursement right (note 20)	35,000	35,000	35,000
Prepayments and other receivables	31,995	36,394	25,233
Inventories	26,833	-	-
Trade receivables	36,932	-	-
	239,902	172,669	143,834

15 **Placements from financial and other institutions**

These comprise placements (murabaha and wakala) accepted 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. The funds are currently frozen until such sanctions are formally lifted.

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16 Financing liabilities

	30 September 2014	31 December 2013	30 September 2013
	US\$ 000's (reviewed)	US\$ 000's (audited)	US\$ 000's (reviewed)
Murabaha financing (i)	42,780	59,987	58,745
Wakala financing	40,974	47,739	46,797
Sukuk liability	84,070	100,041	98,447
<i>Financing of industrial business</i>			
- Short term loans	32,788	-	-
- Ijarah financing	11,311	-	-
- Term loans	5,817	-	-
- Murabaha financing (ii)	1,385	-	-
- Letter of credit	323	-	-
	219,448	207,767	203,989

Murabaha financing (i)

Murabaha financing comprise medium-term financing from a syndicate of banks. The financing was repayable in August 2013 (extendable by 1 year provided 25% of the facility is repaid in 2012) and carries a profit rate of 2.50% over the benchmark rate (LIBOR) payable semi annually and an additional profit mark up of 1.25% payable at maturity. In 2012, the Group obtained approval from the syndicate for restructuring of the Murabaha facility to be repaid over 6 years on semi annual basis commencing from August 2014. The revised 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 an associate of carrying value of US\$ 160,252 thousand 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. In 2012, the Group renegotiated the facility and, as per the revised terms the balance is repayable over a period of six years till April 2018 at an agreed profit rate of 8%. The Wakala financing facility is secured by a pledge over the Group's investment property of carrying value of US\$ 203 million.

Sukuk liability

The Sukuk had an original tenure of 5 years maturing in June 2012 and returns based on an agreed spread of 175 bps over the benchmark rate (LIBOR). The Sukuk are backed by a pool of assets of the Group and has a liquidity facility provided by the Bank to support timely payments of distributions. The Sukuk were traded on the London Stock Exchange's Gilt Edged and Fixed Interest Market. Currently the Sukuk are suspended from trading.

In 2012, the Group obtained approval of the sukuk holders to restructure the facility to 2018. The revised terms include the extension of the tenure for a period of 6 years with periodic repayment starting July 2014, with final instalment in July 2018. 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\$ 90.2 million (31 December 2013: US\$ 87.56 million) and an investment property of carrying value of US\$ 31.5 million (31 December 2013: US\$ 31.5 million)

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

Financing of Industrial Business

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 loan is 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.

	30 September 2014 US\$ 000's (reviewed)	31 December 2013 US\$ 000's (audited)	30 September 2013 US\$ 000's (reviewed)
Financing liabilities			
Current portion	67,858	36,725	-
Non-current portion	151,590	171,042	-
	219,448	207,767	-

17 **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. A net charge of US\$ 37 thousand (30 September 2013: US\$ 43 thousand) was recognised as part of staff costs, during the period, net of effect of forfeitures. As at 30 September 2014, 2.29 million share awards were outstanding.

During 2013, the Group issued 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. During the period, the Group had recognised a charge of US\$ 283 thousand (31 December 2013: US \$ 323 thousand) towards the new employee share awards. As at 30 September 2014, 2.03 million shares (31 December 2013: 4.09 million shares) were pending vesting under the new employee share awards scheme and during the period 498 thousand shares were forfeited.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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17 *Share-based employee compensation scheme (continued)*

During 2014, the Group issued employee share awards (2,352,632 shares at a share price of US\$ 0.19 per share) with vesting conditions over a period of 3 years based on fulfilment of performance and service conditions. During the period, the Group had recognised a charge of US\$ 447 thousand towards the new employee share awards. As at 30 September 2014, 2.35 million shares were pending vesting under the new employee share awards scheme.

18 **Other income**

During the period, the Group has recognized a net amount of US\$ 38 million of recovery from a previously discontinued project with one of the major developers in Dubai. The settlement was in the form of land and is net of associated liabilities and has been recognized as a recovery of a previously impaired project and included under "other income".

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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19 Segment reporting

As a result of acquisition of new business (refer note 10), the Group has added industrial business as a new reportable segment, industrial business which primarily represents operations of cement and aluminum extrusion manufacturing business. The amounts included for industrial business have been determined on a provisional basis.

30 September 2014 (reviewed)

	Industrial business		Development infrastructure	Banking	Unallocated / Elimination	Total
	Cement	Aluminium				
	US\$ 000's	US\$ 000's				
Segment revenue	19,526	47,984	42,737	10,311	542	121,100
Segment expenses	16,410	43,812	18,864	19,173	7,237	105,496
Segment result	3,116	4,172	23,873	(8,862)	(6,695)	15,604
Segment assets	277,911	108,854	570,653	343,026	531	1,300,975
Segment liabilities	60,044	49,923	210,563	102,556	24,845	447,930
<i>Other segment information</i>						
Property, plant and equipment	91,885	43,533	-	-	342	135,760
Intangible assets (commercial license and customer relationship)	125,066	154	-	-	-	125,220
Inventories	21,676	5,157	-	-	-	26,833
Trade receivables	33,393	2,510	-	-	-	35,903
Financing liabilities	17,237	34,387	107,203	60,621	-	219,448
Other liabilities	20,444	15,535	40,928	1,077	21,646	99,630
Impairment allowances	-	-	10,000	-	-	10,000
Commitments	115,067	6,521	9,416	-	-	131,004

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

	Development infrastructure	Banking	Unallocated	Total
30 September 2013 (reviewed)	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
Segment revenue	13,576	16,305	596	30,477
Segment expenses	11,067	16,682	1,705	29,454
Segment result	2,509	(377)	(1,109)	1,023
Segment assets	520,646	392,240	3,219	916,105
Segment liabilities	246,968	117,439	30,070	394,477
<i>Other segment information</i>				
Gain from discontinued operations	-	776	-	776
Impairment allowances	2,000	-	-	2,000

20 **Commitments and contingencies**

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

	30 September 2014 US\$ 000's (reviewed)	31 December 2013 US\$ 000's (audited)	30 September 2013 US\$ 000's (reviewed)
Commitments to invest	9,416	-	-
Capital commitments relating to construction of cement plant	115,067	-	-
Operating lease commitments			
- Within one year	219	-	-
- 1 – 5 years	1,344	-	-
- Over 5 years	2,305	-	-
Guarantees issued by banks on behalf of the Group	2,653	-	-

The Group has a potential commitment under a constructive obligation to extend finance to a project promoted by the Group of up to US\$ 26.5 million (31 December 2013: US\$ 26.5 million).

Also, the Group has issued a financial guarantee of US\$ 35 million to a project promoted by the Group. Based on the assessment of the financial position of the project company, the Group has recognized a provision of US\$ 35 million (31 December 2013: US\$ 35 million) which is included in other liabilities and recognised an equivalent amount of 'reimbursement right' receivable included in 'other assets' (note 14). 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 and it is unlikely that the amounts would need to be funded.

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.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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20 *Commitments and contingencies (continued)**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 2014 due to the performance of any of its projects.

Litigations, claims and contingencies

The Group is defending a number of claims and litigations in connection with projects promoted by the Bank in the past and with certain transactions. Based on the advice of the Bank's external legal counsel, it is premature to quantify the amount or timing of liability, if any. The external legal counsels have advised 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.

The Bank has filed several cases and counterclaims against counterparties for recoveries which are pending in various courts in the GCC. The Bank is also pursuing several legal cases in courts in the Kingdom of Bahrain against the former chairman of the Bank. The Bank has won some of them while the outcome of the remaining litigations are contingent on obtaining a favourable outcome or settlement which are wholly not within the control of the Group. Accordingly, no contingent assets are recognised in these condensed consolidated interim financial information.

No further disclosures regarding contingent liabilities or recoveries arising from any of such cases are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial and detrimental to the Bank's position.

21 **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 2014 and 31 December 2013, 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 investment securities are carried at cost in the absence of a reliable measure of fair value.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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21 *Financial instruments (continued)*

As at 30 September 2014, the fair value of financing liabilities was estimated at US\$ 202,787 thousand (carrying value US\$ 253,484 thousand) (31 December 2013: fair value US\$ 153,630 thousand (carrying value US\$ 207,767 thousand) based on 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 2014

Investment securities
carried at fair value through income
statement

Level 1 US\$ 000's	Level 2 US\$ 000's	Level 3 US\$ 000's	Total US\$ 000's
49,985	-	4,651	54,636
49,985	-	4,651	54,636

30 September 2013

Investment securities
carried at fair value through income
statement

Level 1 US\$ 000's	Level 2 US\$ 000's	Level 3 US\$ 000's	Total US\$ 000's
1,539	-	3,678	5,217
1,539	-	3,678	5,217

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

	30 September 2014 US\$ 000's (reviewed)	31 December 2013 US\$ 000's (audited)
At 1 January	4,651	4,841
Gains (losses) in income statement	-	(190)
Purchases	-	-
Settlements	-	-
Transfers into (out) of Level 3	-	-
At 30 September / 31 December	4,651	4,651

22 Certain prior period amounts have been regrouped to conform to the current period's presentation. Such regrouping did not affect previously reported profit or owners' equity.