

**GULF FINANCE HOUSE BSC**  
**CONDENSED CONSOLIDATED INTERIM**  
**FINANCIAL INFORMATION**

**31 March 2015**

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

**GULF FINANCE HOUSE BSC**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
for the three months ended 31 March 2015**

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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

13 May 2015

### **Introduction**

We have reviewed the accompanying 31 March 2015 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 31 March 2015;
- the condensed consolidated income statement for the three month-period ended 31 March 2015;
- the condensed consolidated statement of changes in owners' equity for the three-month period ended 31 March 2015;
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2015;
- the condensed consolidated statement of changes in restricted investment accounts for the three-month period ended 31 March 2015;
- the condensed consolidated statement of changes in sources and uses of zakah and charity fund for the three-month period ended 31 March 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 31 March 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 31 March 2015

US\$ 000's

|   | note | 31 March<br>2015<br>(reviewed) | 31 December<br>2014<br>(audited)<br>(restated) | 31 March<br>2014<br>(reviewed)<br>(restated) |
|---|------|--------------------------------|--|--|
| <b>ASSETS</b>   |      |                                |  |  |
| Cash and bank balances  | 11   | 114,785                        | 129,938  | 97,550                                       |
| Placements with financial institutions  |      | 226,993                        | 248,482  | 289,255                                      |
| Financing assets  |      | 752,792                        | 782,628  | 679,973                                      |
| Investment securities   | 12   | 628,091                        | 482,596  | 423,247                                      |
| Assets acquired for leasing   |      | 123,202                        | 114,008  | 92,910                                       |
| Investment properties   |      | 313,635                        | 313,635  | 273,967                                      |
| Development properties  |      | 131,317                        | 131,317  | 116,848                                      |
| Equity-accounted investees  |      | 21,676                         | 26,901   | 22,158                                       |
| Intangible assets   |      | 125,133                        | 125,176  | 125,220                                      |
| Property, plant and equipment   |      | 166,199                        | 166,445  | 159,973                                      |
| Other assets  | 13   | 296,945                        | 261,116  | 302,712                                      |
| <b>Total assets</b>   |      | <b>2,900,768</b>               | <b>2,782,242</b>                               | <b>2,583,813</b>                             |
| <b>LIABILITIES</b>  |      |                                |  |  |
| Investors' funds  |      | 13,708                         | 18,675   | 15,115                                       |
| Placements from financial institutions, other entities and individuals            | 14   | 340,729                        | 339,458  | 414,797                                      |
| Customer current accounts   |      | 112,893                        | 111,684  | 54,433                                       |
| Financing liabilities   | 15   | 245,099                        | 249,340  | 280,617                                      |
| Other liabilities   |      | 181,186                        | 149,872  | 139,226                                      |
| <b>Total liabilities</b>  |      | <b>893,615</b>                 | <b>869,029</b>                                 | <b>904,188</b>                               |
| <b>Equity of investment account holders</b>                                       |      | <b>924,153</b>                 | <b>895,558</b>                                 | <b>853,648</b>                               |
| <b>OWNERS' EQUITY</b>   |      |                                |  |  |
| Share capital   |      | 1,494,987                      | 1,253,626                                      | 972,281                                      |
| Treasury shares   |      | (948)                          | (912)  | (912)  |
| Capital adjustment account  |      | (656,943)                      | (475,582)                                      | (229,656)                                    |
| Statutory reserve   |      | 70,060                         | 70,060   | 68,146                                       |
| Accumulated losses  |      | (199,998)                      | (202,198)                                      | (348,404)                                    |
| Fair value reserve  |      | (1,785)                        | (2,366)  | (49)   |
| Share grant reserve   |      | 1,129                          | 1,129  | 1,321  |
| Foreign currency translation reserve  |      | (314)                          | (780)  | (542)  |
| <b>Total equity attributable to shareholders of the Bank</b>                      |      | <b>706,188</b>                 | <b>642,977</b>                                 | <b>462,185</b>                               |
| Non-controlling interests   |      | 376,812                        | 374,678  | 363,792                                      |
| <b>Total owners' equity (page 4)</b>  |      | <b>1,083,000</b>               | <b>1,017,655</b>                               | <b>825,977</b>                               |
| <b>Total liabilities, equity of investment account holders and owners' equity</b> |      | <b>2,900,768</b>               | <b>2,782,242</b>                               | <b>2,583,813</b>                             |


The Board of Directors approved the condensed consolidated interim financial information consisting of pages 2 to 23 on 13 May 2015.



Ahmed Al Mutawa  
Chairman



Mosabah Saif Al Mautairy  
Vice Chairman



Hisham Alrayes  
Chief Executive Officer

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**for the three months ended 31 March 2015**

US\$ 000's

|  | <b>Three months ended</b>              |  |
|--|--|--|
|  | <b>31 March<br/>2015</b><br>(reviewed) | 31 March<br>2014<br>(reviewed)<br>(restated) |
| Income from investment banking services  | 11,633                                 | -  |
| Management and other fees  | 119                                    | 504  |
| Income from placements with financial institutions                                   | 342                                    | 434  |
| Income from financing assets and assets acquired for leasing                         | 14,589                                 | 13,992                                       |
| Share of profits of equity-accounted investees                                       | 828                                    | 2,635  |
| Income from investment securities, net   | 2,242                                  | 2,285  |
| Foreign exchange (loss) / gain, net  | (1,783)                                | 6  |
| Other income   | 1,001                                  | 4,741  |
| <b>Total income before return to investment account holders and finance expenses</b> | <b>28,971</b>                          | 24,597                                       |
| Less: Return to investment account holders   | (5,361)                                | (6,872)                                      |
| Less: Finance expense  | (4,668)                                | (6,349)                                      |
| <b>Income from banking business</b>  | <b>18,942</b>                          | 11,376                                       |
| Revenue from industrial business   | 28,228                                 | 22,465                                       |
| Less: Cost of sales  | (24,245)                               | (17,766)                                     |
| <b>Income from industrial business</b>   | <b>3,983</b>                           | 4,699  |
| <b>Total income</b>  | <b>22,925</b>                          | <b>16,075</b>                                |
| Staff cost   | 6,745                                  | 5,205  |
| Investment advisory expenses   | 1,582                                  | 777  |
| Other operating expenses   | 6,254                                  | 5,577  |
| <b>Total expenses of banking business</b>  | <b>14,581</b>                          | 11,559                                       |
| Other operating expenses of industrial business                                      | 2,301                                  | 2,018  |
| <b>Total expenses</b>  | <b>16,882</b>                          | 13,577                                       |
| <b>PROFIT FOR THE PERIOD</b>   | <b>6,043</b>                           | 2,498  |
| <b>Attributable to:</b>  |  |  |
| Shareholders of the Bank   | 2,200                                  | 1,243  |
| Non-controlling interests  | 3,843                                  | 1,255  |
|  | <b>6,043</b>                           | 2,498  |
| <b>Earnings per share</b>  |  |  |
| Basic and diluted earnings per share (US cents)                                      | <b>0.04</b>                            | 0.04   |

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**  
**for the three months ended 31 March 2015**

US\$ 000's

|  | Attributable to shareholders of the Bank |                    |                                  |                      |                       |                          |                           |   | Non –<br>controlling<br>interests | Total<br>owners'<br>equity |                  |
|--|--|--------------------|----------------------------------|----------------------|-----------------------|--------------------------|---------------------------|---|-----------------------------------|----------------------------|------------------|
|  | Share<br>capital                         | Treasury<br>shares | Capital<br>adjustment<br>account | Statutory<br>reserve | Accumulated<br>losses | Fair<br>value<br>reserve | Share<br>grant<br>reserve | Foreign<br>currency<br>translation<br>reserve |                                   |                            | Total            |
| <b>31 March 2015</b> (reviewed)<br>(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                  | (36,347)              | (21)                     | -                         | -   | (35,559)                          | 187,484                    | 151,925          |
| <b>As restated</b>                             | <b>1,253,626</b>                         | <b>(912)</b>       | <b>(475,582)</b>                 | <b>70,060</b>        | <b>(202,198)</b>      | <b>(2,366)</b>           | <b>1,129</b>              | <b>(780)</b>                                  | <b>642,977</b>                    | <b>374,678</b>             | <b>1,017,655</b> |
| Profit for the period (page 3)                 | -  | -                  | -                                | -                    | 2,200                 | -                        | -                         | -   | 2,200                             | 3,843                      | 6,043            |
| Fair value changes                             | -  | -                  | -                                | -                    | -                     | 581                      | -                         | -   | 581                               | -                          | 581              |
| Foreign currency translation<br>differences    | -  | -                  | -                                | -                    | -                     | -                        | -                         | 466   | 466                               | -                          | 466              |
| <b>Total recognised income and<br/>expense</b> | <b>-</b>                                 | <b>-</b>           | <b>-</b>                         | <b>-</b>             | <b>2,200</b>          | <b>581</b>               | <b>-</b>                  | <b>466</b>                                    | <b>3,247</b>                      | <b>3,843</b>               | <b>7,090</b>     |
| Conversion of Murabaha to<br>capital (note 8)  | 241,361                                  | -                  | (181,361)                        | -                    | -                     | -                        | -                         | -   | 60,000                            | -                          | 60,000           |
| Purchase of treasury shares                    | -  | (36)               | -                                | -                    | -                     | -                        | -                         | -   | (36)                              | -                          | (36)             |
| Dividends to non-controlling<br>interests      | -  | -                  | -                                | -                    | -                     | -                        | -                         | -   | -                                 | (1,709)                    | (1,709)          |
| <b>Balance at 31 March 2015</b>                | <b>1,494,987</b>                         | <b>(948)</b>       | <b>(656,943)</b>                 | <b>70,060</b>        | <b>(199,998)</b>      | <b>(1,785)</b>           | <b>1,129</b>              | <b>(314)</b>                                  | <b>706,188</b>                    | <b>376,812</b>             | <b>1,083,000</b> |

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**  
**for the three months ended 31 March 2015 (continued)**

US\$ 000's

|   | Attributable to shareholders of the Bank |                    |                                  |                      |                       |                          |                           |   | Non –<br>controlling<br>interests | Total owners'<br>equity |         |
|---|--|--------------------|----------------------------------|----------------------|-----------------------|--------------------------|---------------------------|---|-----------------------------------|-------------------------|---------|
|   | Share<br>capital                         | Treasury<br>shares | Capital<br>adjustment<br>account | Statutory<br>reserve | Accumulated<br>losses | Fair<br>value<br>reserve | Share<br>grant<br>reserve | Foreign<br>currency<br>translation<br>reserve |                                   |                         | Total   |
| 31 March 2014 (reviewed)<br>(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)                    | -  | -                  | -                                | -                    | (39,462)              | (49)                     | -                         | -   | (39,511)                          | 181,090                 | 141,579 |
| As restated   | 972,281                                  | (912)              | (229,656)                        | 68,146               | (349,647)             | (49)                     | 1,242                     | -   | 461,405                           | 181,090                 | 642,495 |
| Profit for the period (page 3)                      | -  | -                  | -                                | -                    | 1,243                 | -                        | -                         | -   | 1,243                             | 1,255                   | 2,498   |
| Foreign currency translation<br>differences         | -  | -                  | -                                | -                    | -                     | -                        | -                         | (542)   | (542)                             | (852)                   | (1,394) |
| Total recognised income and<br>expense              | -  | -                  | -                                | -                    | 1,243                 | -                        | -                         | (542)   | 701                               | 403                     | 1,104   |
| Share grants vesting expense,<br>net of forfeitures | -  | -                  | -                                | -                    | -                     | -                        | 79                        | -   | 79                                | -                       | 79      |
| Acquisition of subsidiaries                         | -  | -                  | -                                | -                    | -                     | -                        | -                         | -   | -                                 | 182,299                 | 182,299 |
| Balance at 31 March 2014                            | 972,281                                  | (912)              | (229,656)                        | 68,146               | (348,404)             | (49)                     | 1,321                     | (542)   | 462,185                           | 363,792                 | 825,977 |

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**for the three months ended 31 March 2015**

US\$ 000's

|  | <b>31 March<br/>2015<br/>(reviewed)</b> | <b>31 March<br/>2014<br/>(reviewed)<br/>(restated)</b> |
|--|---|--|
| <b>OPERATING ACTIVITIES</b>  |   |  |
| Profit for the period  | 6,043                                   | 2,498  |
| Adjustments for:   |   |  |
| Fair value changes in investment securities  | 374                                     | (1,751)  |
| Loss on sale of investment securities  | -                                       | 915  |
| Share of profit of equity-accounted investees  | (828)                                   | (3,170)  |
| Foreign exchange loss / (gain)   | 1,783                                   | (6)  |
| Income from investment banking services  | (11,633)                                | -  |
| Other income   | (94)                                    | (3,537)  |
| Impairment allowance   | 317                                     | 279  |
| Depreciation and amortisation  | 1,414                                   | 2,736  |
|  | <b>(2,624)</b>                          | <b>(2,036)</b>   |
| Changes in:  |   |  |
| Financing assets   | 29,836                                  | (35,163)   |
| Assets acquired for leasing  | (9,194)                                 | (7,868)  |
| Other assets   | (19,323)                                | (37,092)   |
| CBB Reserve balance  | (3,647)                                 | (4,987)  |
| Investors' funds   | (4,967)                                 | (5,497)  |
| Placements from financial, non-financial institutions and individuals                  | 1,271                                   | (7,234)  |
| Customer current accounts  | 1,209                                   | 22,743   |
| Equity of investment account holders   | 28,594                                  | 82,314   |
| Other liabilities  | 30,906                                  | 44,293   |
| <b>Net cash generated from operating activities</b>                                    | <b>52,061</b>                           | <b>49,473</b>  |
| <b>INVESTING ACTIVITIES</b>  |   |  |
| Payment for purchase of equipment, net   | (1,357)                                 | (1,161)  |
| Purchase of investment securities  | (155,984)                               | (57,274)   |
| Advance for investments  | (3,348)                                 | -  |
| Proceeds from sale of investment securities  | 16,703                                  | 50,636   |
| Proceeds from sale of assets held-for-sale   | -                                       | 9,890  |
| Dividend/Income from sukuk investments   | 955                                     | 631  |
| Acquisition of subsidiaries  | -                                       | 7,341  |
| <b>Net cash (used in) / generated from investing activities</b>                        | <b>(143,031)</b>                        | <b>10,063</b>  |
| <b>FINANCING ACTIVITIES</b>  |   |  |
| Financing liabilities, net   | (4,155)                                 | (504)  |
| Finance expense paid   | (3,422)                                 | (1,499)  |
| Dividend paid (including non-controlling interests)                                    | (1,709)                                 | (10)   |
| Proceeds from issue of convertible murabaha  | 60,000                                  | -  |
| Purchase of treasury shares  | (36)                                    | -  |
| <b>Net cash generated from / (used in) financing activities</b>                        | <b>50,678</b>                           | <b>(2,013)</b>   |
| <b>Net increase in cash and cash equivalents during the period</b>                     | <b>(40,292)</b>                         | <b>57,523</b>  |
| Cash and cash equivalents at 1 January   | 333,659                                 | 284,282  |
| <b>CASH AND CASH EQUIVALENTS AT 31 March</b>   | <b>293,367</b>                          | <b>341,805</b>   |
| Cash and cash equivalents comprise:  |   |  |
| Cash and balances with banks (excluding balances with Central Bank in reserve account) | 66,374                                  | 52,550   |
| Placements with financial institutions   | 226,993                                 | 289,255  |
|  | <b>293,367</b>                          | <b>341,805</b>   |

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



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS**  
**for the three months ended 31 March 2015**

| 31 March 2015 (reviewed)                  | Balance at 1 January 2015 |                              |                  | Movements during the period         |                        |                         |                           |                                     |                                    | Balance at 31 March 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                        | 8.39                         | 780              | -                                   | (44)                   | -                       | -                         | -                                   | -                                  | 93                       | 7.91                         | 736              |
| Safana Investment (RIA 1)                 | 8,313                     | 2.65                         | 22,050           | -                                   | -                      | -                       | -                         | -                                   | -                                  | 8,313                    | 2.65                         | 22,050           |
| Janayen Holding Limited (RIA 4)           | 48,082                    | 0.24                         | 12,095           | -                                   | -                      | 390                     | -                         | -                                   | (82)                               | 48,082                   | 0.27                         | 12,403           |
| Shaden Real Estate Investment WLL (RIA 5) | 8,100                     | 2.65                         | 21,485           | (8,594)                             | -                      | -                       | -                         | -                                   | -                                  | 4,860                    | 2.65                         | 12,891           |
| Locata Corporation Pty Ltd (RIA 6)        | 2,633                     | 1.01                         | 2,633            | -                                   | -                      | -                       | -                         | -                                   | -                                  | 2,633                    | 1.00                         | 2,633            |
|   |                           |                              | <b>59,095</b>    | <b>(8,594)</b>                      | <b>(44)</b>            | <b>390</b>              |                           |                                     | <b>(82)</b>                        |                          |                              | <b>50,765</b>    |

| 31 March 2014 (reviewed) (restated)       | Balance at 1 January 2014 |                              |                  | Movements during the period         |                        |                         |                           |                                    |                                    | Balance at 31 March 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              | -                                   | 79                     | -                       | -                         | -                                  | -                                  | 93                       | 9.24                         | 859              |
| Al Hayreth French Property Fund           | 17.05                     | 1,379.63                     | 23,522           | -                                   | (16)                   | -                       | -                         | -                                  | -                                  | 17.05                    | 1,378.70                     | 23,506           |
| Safana Investment (RIA 1)                 | 8,323                     | 2.65                         | 22,077           | -                                   | -                      | -                       | -                         | -                                  | -                                  | 8,323                    | 2.65                         | 22,077           |
| Janayen Holding Limited (RIA 4)           | 48,082                    | 0.29                         | 13,963           | -                                   | -                      | 122                     | -                         | -                                  | (95)                               | 48,082                   | 0.29                         | 13,990           |
| 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                         | 2,655            | -                                   | -                      | -                       | -                         | -                                  | -                                  | 2,948                    | 0.90                         | 2,655            |
|   |                           |                              | <b>84,535</b>    | <b>-</b>                            | <b>62</b>              | <b>122</b>              | <b>-</b>                  | <b>-</b>                           | <b>(95)</b>                        |                          |                              | <b>84,624</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 three months ended 31 March 2015

US\$ 000's

|  | <b>31 March<br/>2015<br/>(reviewed)</b> | 31 March<br>2014<br>(reviewed)<br>(restated) |
|--|---|--|
| <b>Sources of zakah and charity fund</b>                         |   |  |
| Non-Islamic income   | 10                                      | 117  |
| <b>Total sources</b>   | <b>10</b>                               | 117  |
| <b>Uses of zakah and charity fund</b>                            |   |  |
| Contributions to charitable organisations                        | (1,042)                                 | (5)  |
| <b>Total uses</b>  | <b>(1,042)</b>                          | (5)  |
| <b>Deficit of sources over uses</b>                              | <b>(1,032)</b>                          | 112  |
| Undistributed zakah and charity fund at beginning of the period  | 5,050                                   | 4,989  |
| <b>Undistributed zakah and charity fund at end of the period</b> | <b>4,018</b>                            | 5,101  |
| Represented by:  |   |  |
| Charity fund   | 2,167                                   | 2,088  |
| Zakah payable  | 1,851                                   | 3,013  |
|  | <b>4,018</b>                            | 5,101  |

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
for the three months ended 31 March 2015**

**1 Reporting entity**

The condensed consolidated interim financial information for the three months ended 31 March 2015 comprise the financial information of Gulf Finance House BSC (the “Bank”) 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).

| <b>Name of subsidiary</b>                    | <b>Equity interest</b> | <b>Place of business</b> | <b>Parent</b> | <b>Primary business activity</b>                                     |
|--|------------------------|--------------------------|---------------|--|
| Khaleeji Commercial Bank B.S.C ('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. 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 three months ended 31 March 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 three months ended 31 March 2015**

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) | US\$ 000's             |                         |                  |
|---|------------------------|-------------------------|------------------|
|   | 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 three months ended 31 March 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)                     | (13,730)                       | (323,915)          |
| Fair value reserve   | -                             | (49)                           | (49)               |
| Total equity attributable to shareholders of the Bank                          | 500,916                       | (13,779)                       | 487,137            |
| Non-controlling interests  | -                             | 154,304                        | 154,304            |

| <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 three months ended 31 March 2015**

3 *Significant accounting policies (continued)*

| <b>Condensed consolidated statement of financial position (31 Decmeber 2014)</b> | <b>As previously reported</b> | <b>Impact of consolidation</b> | <b>As restated</b> |
|--|-------------------------------|--------------------------------|--------------------|
| <b>OWNERS' EQUITY</b>  |                               |                                |                    |
| Accumulated losses   | (165,581)                     | (36,347)                       | (202,198)          |
| Statutory reserve  | 69,251                        | 809                            | 70,060             |
| Fair value reserve   | (2,345)                       | (21)                           | (2,366)            |
| Non-controlling interests  | 187,194                       | 187,484                        | 374,678            |

**Condensed consolidated income statement**

| <b>For the period ended 31 March 2014</b>                    | <b>As previously reported</b> | <b>Impact of consolidation</b> | <b>As restated</b> |
|--|-------------------------------|--------------------------------|--------------------|
| Income from placements with financial institutions           | 67                            | 367                            | 434                |
| Income from financing assets and assets acquired for leasing | -                             | 13,992                         | 13,992             |
| Income from investment securities, net                       | 836                           | 1,449                          | 2,285              |
| Other income   | 3,171                         | 1,570                          | 4,741              |
| Total income before return to investment account holders     | 7,219                         | 17,378                         | 24,597             |
| Less: Return to investment account holders                   | -                             | (6,872)                        | (6,872)            |
| Less: Finance expense  | (3,620)                       | (2,729)                        | (6,349)            |
| Total income from banking business                           | 7,219                         | 4,157                          | 11,376             |
| Staff cost   | 2,100                         | 3,105                          | 5,205              |
| Investment advisory expense                                  | 716                           | 61                             | 777                |
| Other operating expenses                                     | 2,412                         | 3,165                          | 5,577              |
| Total expenses of banking business                           | 8,848                         | 2,711                          | 11,559             |
| Profit for the period  | 1,052                         | 1,446                          | 2,498              |

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 three months ended 31 March 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 three 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. Except for the restatement of certain amounts on 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 three months ended 31 March 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 three months ended 31 March 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** Subsequent to the period end, in the extra ordinary general meeting of the shareholders held on 12 April 2015, the shareholders approved the following:

- reduction of the share's nominal value from US\$ 0.3075 per share to US\$ 0.265 per share, to write off accumulated losses of US\$ 134,380,323 resulting in reduction of the issued and paid-up capital from US\$ 972,281,164 to US\$ 837,900,841;
- own 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>31 March<br/>2015</b> | 31 December<br>2014                   | 31 March<br>2014                       |
|----------------------------|--------------------------|---------------------------------------|--|
|                            | US\$ 000's<br>(reviewed) | US\$ 000's<br>(audited)<br>(restated) | US\$ 000's<br>(reviewed)<br>(restated) |
| Cash                       | 10,671                   | 6,763                                 | 8,834                                  |
| Balances with banks        | 44,066                   | 64,796                                | 34,514                                 |
| Balances with Central Bank |                          |                                       |  |
| - Current account          | 11,637                   | 13,618                                | 9,202                                  |
| - Reserve account          | 48,411                   | 44,761                                | 45,000                                 |
|                            | <b>114,785</b>           | <b>129,938</b>                        | <b>97,550</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 three months ended 31 March 2015**

**12 Investment securities**

|   | <b>31 March<br/>2015</b><br>US\$ 000's<br>(reviewed) | 31 December<br>2014<br>US\$ 000's<br>(audited)<br>(restated) | 31 March<br>2014<br>US\$ 000's<br>(reviewed)<br>(restated) |
|---|--|--|--|
| <b>Equity type investments</b>                |  |  |  |
| <i>At fair value through income statement</i> |  |  |  |
| - Quoted securities                           | 377  | 883  | 1,349  |
| - Quoted funds                                | 10,011   | 9,878  | 26,746   |
| - Unquoted funds                              | 3,679  | 3,679  | 3,679  |
| - Unquoted securities                         | 58,297   | 58,297   | 39,679   |
| - Quoted sukuk                                | 22,740   | 13,159   | 13,127   |
|   | <b>95,104</b>  | 85,896   | 84,580   |
| <i>At fair value through equity</i>           |  |  |  |
| - Quoted securities                           | 14,259   | 3,060  | -  |
| - Managed funds                               | 28,842   | 22,827   | 1,973  |
| - Unquoted securities* (at cost)              | 303,382  | 288,539  | 263,050  |
|   | <b>441,587</b>                                       | 400,322  | 349,603  |
| <b>Debt type investments</b>                  |  |  |  |
| <i>At amortised cost</i>                      |  |  |  |
| - Unquoted Sukuk                              | 185,448  | 81,218   | 70,912   |
| <i>At fair value through income statement</i> |  |  |  |
| - Quoted Sukuk                                | 1,056  | 1,056  | 2,732  |
|   | <b>628,091</b>                                       | 482,596  | 423,247  |

\* Unquoted equity securities classified at fair value through equity mainly include 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\$ Nil (2014: US\$ 500 thousand) was recognised against these investments.

**13 Other assets**

|                                   | <b>31 March<br/>2015</b><br>US\$ 000's<br>(reviewed) | 31 December<br>2014<br>US\$ 000's<br>(audited)<br>(restated) | 31 March<br>2014<br>US\$ 000's<br>(reviewed)<br>(restated) |
|-----------------------------------|--|--|--|
| Financing to projects             | 95,007   | 95,007   | 101,275  |
| Reimbursement right (note 18)     | 35,000   | 35,000   | 35,000   |
| Lease rentals receivable          | 3,289  | 2,117  | 8,761  |
| Prepayments and other receivables | 96,866   | 64,120   | 98,083   |
| Inventories                       | 26,058   | 28,381   | 28,469   |
| Trade receivables                 | 40,725   | 36,491   | 31,124   |
|                                   | <b>296,945</b>                                       | 261,116  | 302,712  |

**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  
for the three months ended 31 March 2015**

**15 Financing liabilities**

|   | <b>31 March<br/>2015</b><br>US\$ 000's<br>(reviewed) | 31 December<br>2014<br>US\$ 000's<br>(audited)<br>(restated) | 31 March<br>2014<br>US\$ 000's<br>(reviewed)<br>(restated) |
|---|--|--|--|
| <i>Financing of banking operations</i>  |  |  |  |
| - Murabaha financing (i)                | 47,294   | 46,401   | 60,503   |
| - Wakala financing                      | 42,454   | 42,588   | 48,660   |
| - Sukuk liability                       | 83,749   | 85,277   | 98,886   |
| <i>Financing of industrial business</i> |  |  |  |
| - Short term loans                      | 24,130   | 24,023   | 31,769   |
| - Ijarah financing                      | 9,138  | 11,460   | 11,427   |
| - Term loans                            | 19,046   | 19,663   | 6,517  |
| - Murabaha financing (ii)               | 1,072  | 1,712  | 2,510  |
| Other borrowing                         | 18,216   | 18,216   | 20,345   |
|   | <b>245,099</b>                                       | 249,340  | 280,617  |

|                              | <b>31 March<br/>2015</b><br>US\$ 000's<br>(reviewed) | 31 December<br>2014<br>US\$ 000's<br>(audited)<br>(restated) | 31 March<br>2014<br>US\$ 000's<br>(reviewed)<br>(restated) |
|------------------------------|--|--|--|
| <b>Financing liabilities</b> |  |  |  |
| Current portion              | 68,751   | 76,864   | 75,587   |
| Non-current portion          | 176,348  | 172,476  | 205,030  |
|                              | <b>245,099</b>                                       | 249,340  | 280,617  |

*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\$ 130 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 and 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*

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)

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
for the three months ended 31 March 2015**

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**15** *Financing liabilities (continued)**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 31 March 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 31 March 2015, 2.03 million shares (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 31 March 2015, 2.35 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 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:

| Three months ended<br>31 March 2015                                | Associates | Key<br>management<br>personnel | Significant<br>shareholders<br>/ entities in<br>which<br>directors are<br>interested | Assets under<br>management<br>(including<br>special<br>purpose<br>entities) | Total  |
|--|------------|--------------------------------|--|---|--------|
| <b>Income</b>  |            |                                |  |   |        |
| Income from financing assets<br>and assets acquired for<br>leasing | 56         | -                              | -  | -   | 56     |
| Income from investment<br>banking services                         | -          | -                              | -  | 11,633  | 11,633 |
| Management and other fees  | 44         | -                              | -  | -   | 44     |
| Income from investment<br>securities                               | (506)      | -                              | -  | -   | (506)  |
| Share of profit of equity-<br>accounted investees                  | 828        | -                              | -  | -   | 828    |
| <b>Expenses</b>  |            |                                |  |   |        |
| Return to investment account<br>holders                            | 3          | -                              | 66   | 80  | 149    |
| Staff cost   | -          | 1,358                          | -  | -   | 1,358  |
| Other expenses   | -          | 117                            | -  | 32  | 149    |

| Three months ended<br>31 March 2014<br>(restated)                  | Associates | Key<br>management<br>personnel | Significant<br>shareholders /<br>entities in<br>which directors<br>are interested | Assets under<br>management<br>(including<br>special<br>purpose<br>entities) | Total |
|--|------------|--------------------------------|---|---|-------|
| <b>Income</b>  |            |                                |   |   |       |
| Income from financing assets<br>and assets acquired for<br>leasing | 66         | -                              | -   | -   | 66    |
| Management and other fees  | -          | -                              | -   | 429   | 429   |
| Share of profit of equity-<br>accounted investees                  | 2,635      | -                              | -   | -   | 2,635 |
| <b>Expenses</b>  |            |                                |   |   |       |
| Return to investment account<br>holders                            | 13         | 8                              | 56  | 204   | 281   |
| Staff cost   | -          | 1,430                          | -   | -   | 1,430 |
| Other expenses   | -          | -                              | -   | 61  | 61    |

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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>31 March 2015</b> (reviewed)                                  |                     |            |                            |                    |                    |                           |            |
| Segment revenue  | 7,618               | 20,610     | (4,257)                    | 13,013             | 9,468              | 718                       | 47,170     |
| Segment expenses   | 7,414               | 19,132     | 3,037                      | 7,132              | 2,882              | 1,530                     | 41,127     |
| Segment result   | 204                 | 1,478      | (7,294)                    | 5,881              | 6,586              | (812)                     | 6,043      |
| Segment assets   | 239,195             | 117,114    | 591,419                    | 1,656,569          | 296,202            | 269                       | 2,900,768  |
| Segment liabilities  | 36,693              | 59,891     | 232,016                    | 403,305            | 141,670            | 20,040                    | 893,615    |
| <i>Other segment information</i>                                 |                     |            |                            |                    |                    |                           |            |
| Property, plant and equipment                                    | 95,261              | 47,830     | -                          | 22,353             | -                  | 755                       | 166,199    |
| Intangible assets (commercial license and customer relationship) | 123,620             | 1,513      | -                          | -                  | -                  | -                         | 125,133    |
| Inventories  | 4,175               | 21,883     | -                          | -                  | -                  | -                         | 26,058     |
| Trade receivables  | 3,335               | 37,390     | -                          | -                  | -                  | -                         | 40,725     |
| Financing liabilities  | 10,210              | 43,176     | 133,817                    | -                  | 57,896             | -                         | 245,099    |
| Equity of investment account holders                             | -                   | -          | -                          | 919,617            | 4,536              | -                         | 924,153    |
| Commitments  | 111,736             | 6,303      | -                          | 186,947            | 10,000             | -                         | 314,986    |

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18 *Segment reporting (continued)*

|  | Industrial business |            | Development<br>infrastructure | Commerical<br>banking | Investment<br>banking | Unallocated /<br>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 |
| 31 March 2014 (reviewed) (restated)                              |                     |            |                               |                       |                       |                              |            |
| Segment revenue  | 8,011               | 14,454     | 3,388                         | 4,157                 | 5,120                 | (1,289)                      | 33,841     |
| Segment expenses   | 7,605               | 13,639     | 2,474                         | 2,711                 | 6,085                 | (1,171)                      | 31,343     |
| Segment result   | 406                 | 815        | 914                           | 1,446                 | (965)                 | (118)                        | 2,498      |
| 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>31 March<br/>2015</b><br>US\$ 000's<br>(reviewed) | 31 December<br>2014<br>US\$ 000's<br>(audited)<br>(restated) | 31 March<br>2014<br>US\$ 000's<br>(reviewed)<br>(restated) |
|--|--|--|--|
| Undrawn commitments to extend finance                        | 149,727  | 105,218  | 132,710  |
| Financial guarantees   | 47,220   | 21,942   | 28,003   |
| Capital commitments relating to construction of cement plant | 111,736  | 111,736  | 115,067  |
| Operating lease commitments                                  |  |  |  |
| - Within one year  | 278  | 297  | 219  |
| - 1 – 5 years  | 1,193  | 1,378  | 1,344  |
| - Over 5 years   | 1,467  | 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 12). 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 31 March 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 who confirmed 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 of 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 31 March 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 31 March 2015, the fair value of financing liabilities was estimated at US\$ 221,003 thousand (carrying value US\$ 241,940 thousand) (31 December 2014: fair value US\$ 202,787 thousand (carrying value US\$ 231,124 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).
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**31 March 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 | 34,184         | -              | 61,976         | 96,160         |
| - fair value through equity           | 41,128         | -              | 1,973          | 43,101         |
|                                       | <b>75,312</b>  | <b>-</b>       | <b>63,949</b>  | <b>139,261</b> |



**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
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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>31 March<br/>2015</b><br>US\$ 000's<br>(reviewed) | 31 December<br>2014<br>US\$ 000's<br>(audited)<br>(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). This has resulted in amendments to notes and disclosures made in the condensed consolidated interim financial information.