

GFH FINANCIAL GROUP BSC
CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION

30 June 2017

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an Islamic wholesale 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	:	H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa, <i>Chairman</i> Dr. Ahmed Al Mutawa, <i>Vice Chairman</i> Jassim AlSeddiqi Kamal Abdullah Bahamdan Mazen Bin Mohammed Al Saeed Mosabah Saif Al Mautairy Rashid Nasser Al Kaabi Ghazi F. Alhajeri Bashar Mohamed Al Mutawa Hisham Alrayes
Group Chief Executive Officer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

GFH FINANCIAL GROUP BSC

**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017**

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

To
The Board of Directors
GFH Financial Group BSC
Manama
Kingdom of Bahrain

Introduction

We have reviewed the accompanying 30 June 2017 condensed consolidated interim financial information of GFH Financial Group BSC (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 June 2017;
- the condensed consolidated income statement for the three-month and six-month periods ended 30 June 2017;
- the condensed consolidated statement of changes in owners' equity for the six-month period ended 30 June 2017;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2017;
- the condensed consolidated statement of changes in restricted investment accounts for the six-month period ended 30 June 2017;
- the condensed consolidated statement of changes in sources and uses of zakah and charity fund for the six-month period ended 30 June 2017; 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 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 with Auditing Standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2017 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.

13 August 2017

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2017

US\$ 000's

	note	30 June 2017 (reviewed)	31 December 2016 (audited)	30 June 2016 (reviewed)
ASSETS				
Cash and bank balances	9	162,074	156,448	77,598
Placements with financial institutions		261,300	213,898	97,503
Financing assets		987,226	961,490	945,967
Investment securities	10	452,611	527,203	540,971
Assets acquired-for-leasing		265,377	246,257	236,137
Investment properties		484,973	488,436	282,581
Development properties		882,765	280,972	178,228
Equity-accounted investees		116,662	79,010	81,398
Intangible assets		-	54,891	-
Property, plant and equipment		120,089	169,153	25,240
Other assets	11	200,478	125,643	237,420
Total assets		3,933,555	3,303,401	2,703,043
LIABILITIES				
Investors' funds		36,538	44,565	19,973
Placements from financial institutions, other entities and individuals		833,208	570,515	414,528
Customer current accounts		222,543	192,783	137,304
Financing liabilities	12	204,340	168,992	167,580
Other liabilities		232,562	182,649	117,142
Total liabilities		1,529,191	1,159,504	856,527
Equity of investment account holders		882,297	1,022,190	938,716
OWNERS' EQUITY				
Share capital		657,794	597,995	597,995
Treasury shares		(340)	(340)	(8,467)
Capital adjustment and share subscription in progress	8	282,130	24,320	22,597
Statutory reserve		95,475	93,768	72,055
Retained earnings		102,095	201,993	18,106
Share grant reserve		966	902	893
Foreign currency translation reserve		-	(10,614)	-
Total equity attributable to shareholders of the Bank		1,138,120	908,024	703,179
Non-controlling interests		383,947	213,683	204,621
Total owners' equity (page 4)		1,522,067	1,121,707	907,800
Total liabilities, equity of investment account holders and owners' equity		3,933,555	3,303,401	2,703,043

The Board of Directors approved the condensed consolidated interim financial information consisting of pages 2 to 21 on 13 August 2017.



H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa
Chairman



Dr. Ahmed Al Mutawa
Vice Chairman
& Chairman of the Audit committee



Hisham Alrayes
Chief Executive Officer & Board member

CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2017

US\$ 000's

	note	Six-months ended		Three-months ended	
		30 June 2017 (reviewed)	30 June 2016 (reviewed)	30 June 2017 (reviewed)	30 June 2016 (reviewed)
Continuing operations					
Income from investment banking activities	13	73,875	-	36,119	-
Fee and commission income		3,479	10,588	1,766	1,841
Income from placements with financial institutions		1,712	911	1,103	442
Income from financing assets and assets acquired for leasing		36,197	33,817	18,451	17,652
Share of profits of equity-accounted investees, net		4,013	125	2,893	-
Income from investment securities, net		8,870	248	6,058	(984)
Foreign exchange gain / (loss), net		2,134	(1,432)	1,872	(1,849)
Gain on sale of investment property		-	46,082	-	46,082
Other income		12,750	513	9,311	92
Total income before return to investment account holders and finance expense		143,030	90,852	77,573	63,276
Return to investment account holders before Group's share as Mudarib		(22,019)	(21,422)	(11,003)	(11,469)
Group's share as Mudarib		11,448	12,595	5,573	6,892
Return to investment account holders		(10,571)	(8,827)	(5,430)	(4,577)
Finance expense		(19,065)	(8,444)	(9,828)	(4,472)
Operating income		113,394	73,581	62,315	54,227
Income from settlement of litigations		-	9,782	-	-
Total income		113,394	83,363	62,315	54,227
Staff cost		24,049	19,829	13,430	12,500
Investment advisory expenses		5,235	7,656	2,685	
Other operating expenses		22,087	19,645	11,883	16,992
Total expenses		51,371	47,130	27,998	29,492
Profit before impairment		62,023	36,233	34,317	24,735
Less: Impairment allowances reversal / (charge) for the period		3,496	(18,265)	(2,349)	(16,807)
PROFIT FOR THE PERIOD		65,519	17,968	31,968	7,928
Attributable to					
Shareholders of the Bank		62,142	11,525	30,227	5,461
Non-controlling interests		3,377	6,443	1,741	2,467
PROFIT FOR THE PERIOD		65,519	17,968	31,968	7,928
Earnings per share					
Basic earnings per share (US cents)		2.51	0.48	1.22	0.23
Diluted earnings per share (US cents)		1.75	0.48	0.85	0.23

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the six months ended 30 June 2017

US\$ 000's

	Attributable to shareholders of the Bank							Non – controlling interests	Total owners' equity	
	Share capital	Treasury shares	Capital adjustment and share subscription in progress	Statutory reserve	Retained earnings	Share grant reserve	Foreign currency translation reserve			Total
30 June 2017 (reviewed)										
Balance at 1 January 2017	597,995	(340)	24,320	93,768	201,993	902	(10,614)	908,024	213,683	1,121,707
Profit for the period (page 3)	-	-	-	-	62,142	-	-	62,142	3,377	65,519
Total recognised income and expense	-	-	-	-	62,142	-	-	62,142	3,377	65,519
Bonus shares issued (note 8)	59,799	-	-	-	(59,799)	-	-	-	-	-
Dividends declared	-	-	-	-	(59,799)	-	-	(59,799)	-	(59,799)
Transfer to zakah and charity fund (page 8)	-	-	-	-	(3,509)	-	-	(3,509)	-	(3,509)
Subscriptions received (note 8)	-	-	257,810	-	-	-	-	257,810	214,318	472,128
Acquisition of additional interests in subsidiaries and resulting changes in non-controlling interests (note 14)	-	-	-	1,707	(38,933)	(40)	10,614	(26,652)	(38,574)	(65,226)
Issue of shares under incentive scheme, net of forfeitures	-	-	-	-	-	104	-	104	-	104
Derecognition of a subsidiary	-	-	-	-	-	-	-	-	(8,857)	(8,857)
Balance at 30 June 2017	657,794	(340)	282,130	95,475	102,095	966	-	1,138,120	383,947	1,522,067

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the six months ended 30 June 2017 (continued)

US\$ 000's

	Attributable to shareholders of the Bank							Non – controlling interests	Total owners' equity	
	Share capital	Treasury shares	Capital adjustment account	Statutory reserve	Retained earnings	Investments fair value reserve	Share grant reserve			Total
30 June 2016 (reviewed)										
Balance at 1 January 2016	597,995	(4,053)	22,420	72,055	6,581	(230)	893	695,661	197,760	893,421
Profit for the period	-	-	-	-	11,525	-	-	11,525	6,443	17,968
Transfer to income statement on disposal of investments	-	-	-	-	-	230	-	230	-	230
Total recognised income and expense	-	-	-	-	11,525	230	-	11,755	6,443	18,198
Purchase of treasury shares	-	(5,095)	-	-	-	-	-	(5,095)	-	(5,095)
Sale of treasury shares	-	681	-	-	-	-	-	681	-	681
Gain on sale of treasury shares, net	-	-	177	-	-	-	-	177	-	177
Issue of shares under incentive scheme	-	-	-	-	-	-	-	-	418	418
Balance at 30 June 2016	597,995	(8,467)	22,597	72,055	18,106	-	893	703,179	204,621	907,800

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2017

US\$ 000's

	30 June 2017 (reviewed)	30 June 2016 (reviewed)
OPERATING ACTIVITIES		
Profit for the period	65,519	17,968
Adjustments for:		
Fair value changes in investment securities	-	5,313
Income from investment securities	(8,869)	(5,563)
Share of profit of equity-accounted investees	(4,013)	(125)
Foreign exchange (gain) / loss	(2,134)	1,432
Gain on sale of private equity subsidiaries	(61,719)	-
Gain on sale of investment property	-	(46,082)
Other income	-	(10,295)
Finance expense	19,065	2,519
Impairment allowances (reversal) / charge	(3,496)	18,265
Depreciation and amortisation	816	940
	5,169	(15,628)
Changes in:		
Placements with financial institutions (original maturity of more than 3 months)	195	-
Financing assets	(16,636)	(86,546)
Assets acquired for leasing	(19,120)	(56,267)
Other assets	(13,543)	8,408
CBB Reserve balance	2,494	(2,162)
Investors' funds	(8,027)	(7,755)
Placements from financial institutions, other entities and individuals	262,693	74,438
Customer current accounts	29,760	(16,748)
Equity of investment account holders	(139,893)	(6,199)
Other liabilities	(6,601)	(21,353)
Net cash generated from / (used in) operating activities	96,491	(129,812)
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(743)	(24)
Purchase of investment securities	(74,718)	(30,010)
Proceeds from sale of investment securities	25,134	93,915
Proceeds from sale of private equity subsidiaries	64,414	-
Proceeds from sale of investment property	-	2,066
Dividend / income from sukuk investments	6,973	4,430
Net cash generated from investing activities	21,060	70,377
FINANCING ACTIVITIES		
Financing liabilities, net	29,297	(4,800)
Finance expense paid	(17,168)	(2,519)
Dividend paid (including to non-controlling interests)	(59,799)	-
Acquisition of additional stake in a subsidiary	(15,228)	-
Purchase of treasury shares	-	(4,820)
Net cash used in financing activities	(62,898)	(12,139)
Net increase / (decrease) in cash and cash equivalents during the period	54,653	(71,574)
Cash and cash equivalents at 1 January	312,572	194,460
CASH AND CASH EQUIVALENTS AT 30 June	367,225	122,886
Cash and cash equivalents comprise:		
Cash and balances with banks (excluding CBB Reserve balance)	111,228	25,383
Placements with financial institutions (original maturity of less than 3 months)	255,997	97,503
	367,225	122,886

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the six months ended 30 June 2017

30 June 2017 (reviewed)

Company	Balance at 1 January 2017			Movements during the period						Balance at 30 June 2017		
	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
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	6.85	637	(532)	(12)	-	-	-	-	13	7.03	93
Safana Investment (RIA 1)	6,304	2.65	16,721	(133)	-	-	-	-	-	6,254	2.65	16,588
Shaden Real Estate Investment WLL (RIA 5)	3,652	2.65	9,686	(300)	-	-	-	-	-	3,539	2.65	9,386
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			29,729	(965)	(12)	-	-	-	-			28,752

30 June 2016 (reviewed)

Company	Balance at 1 January 2016			Movements during the period						Balance at 30 June 2016		
	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
Mena Real Estate Company KSCC	150	0.35	52	-	(2)	-	-	-	-	150	0.33	50
Al Basha'er Fund	93	6.95	646	-	(40)	-	-	-	-	93	6.52	606
Safana Investment (RIA 1)	8,313	2.65	22,050	-	-	-	-	-	-	8,313	2.65	22,050
Janayen Holding Limited (RIA 4)	48,082	0.48	22,546	(22,546)	-	-	-	-	-	-	-	-
Shaden Real Estate Investment WLL (RIA 5)	3,728	2.65	9,888	(202)	-	-	-	-	-	3,652	2.65	9,686
Locata Corporation Pty Ltd (RIA 6)	2,633	0.94	2,475	-	-	-	-	-	-	2,633	0.94	2,475
			57,657	(22,748)	(42)	-	-	-	-			34,867

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

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the six months ended 30 June 2017

US\$ 000's

	30 June 2017 (reviewed)	30 June 2016 (reviewed)
Sources of zakah and charity fund		
Contribution by the Group	4,481	-
Non-Islamic income	-	64
Total sources	4,481	64
Uses of zakah and charity fund		
Contributions to charitable organisations	(2,731)	593
Total uses	(2,731)	593
Surplus of sources over uses	1,750	(529)
Undistributed zakah and charity fund at beginning of the period	2,160	2,675
Undistributed zakah and charity fund at end of the period	3,910	2,146
Represented by:		
Zakah payable	28	269
Charity fund	3,882	1,877
	3,910	2,146

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017**

1 Reporting entity

The condensed consolidated interim financial information for the six months ended 30 June 2017 comprise the financial information of GFH Financial Group BSC (GFH or the “Bank”) and its subsidiaries (together referred to as “the Group”).

The following are the principal subsidiaries consolidated in the condensed consolidated interim financial information.

Investee name	Country of incorporation	Parent / Owing Company	Effective ownership interests 2017	Activities
GFH Capital Limited	United Arab Emirates	GFH	100%	Investment management
Khaleeji Commercial Bank BSC ('KHCB') *	Kingdom of Bahrain		55.41%*	Islamic retail bank
Morocco Gateway Investment Company ('MGIC') *	Cayman Islands		83.29%	Real estate development
Tunis Bay Investment Company ('TBIC') *			47.74%	Real estate development
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together “India Projects”) *			69.59%	Real estate development
Al Areen Hotels SPC	Kingdom of Bahrain		100%	Hospitality management
Al Areen Project companies			100%	Real estate development
Al Areen Leisure and Tourism Company – The Lost Paradise of Dilmun SPC ('LPOD')			100%	Amusement and theme park
Surooh Company ('Surooh')	Cayman Islands		KHCB	10.00%
Eqarat Al Khaleej ('Eqarat')		19.80%		To buy, sell and renting income producing properties across the GCC.

* Refer note 14

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 2016. 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 2016.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017**

3 Significant accounting policies

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group's audited financial statements for the year ended 31 December 2016.

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 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 2016.

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 2016.

6 Seasonality

Due to the inherent nature of the Group's business (investment banking, commercial banking and real estate development), the six month results reported in this condensed consolidated interim financial information may not represent a proportionate share of the overall annual results. During the period, the Group recognised gains in the condensed consolidated income statement amounting to US\$ 9 million related to certain recovery transactions in the books of KHCB. These transactions were recognised in the prior year financial statements of KHCB after obtaining requisite regulatory approvals. The Group had not included these transactions in its prior year results on the date of approval of its consolidated financial statements. This adjustment is considered to be a non-recurring item in the current period 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 Group's audited consolidated financial statements for the year ended 31 December 2016 and the reviewed condensed consolidated interim financial information for the six months ended 30 June 2016. 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 six months ended 30 June 2016.

8 Appropriations and changes in capital structure

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

In the ordinary and extraordinary general meetings held on 1 March 2017, shareholders approved the following:

- a) Dividend of 20% of the paid-up share capital amounting to US\$ 119.6 million comprising 10% cash and 10% bonus shares;
- b) Appropriation of US\$ 2 million towards charity reserve;
- c) Appropriation of US\$ 1.5 million towards zakah fund; and
- d) Authorise board of directors to issue new shares upto 300,000,000 for the benefit of GFH Employee Benefit Trust towards staff performance incentive program.
- e) Increase the authorised share capital of the Bank from US\$ 1.5 billion to US\$ 2.5 billion divided into 9,433,962,264 shares at par value of US\$ 0.265 per share;

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017**

8 *Appropriations and changes in capital structure (continued)*

- f) Issue of upto 1,700,000,000 new shares for acquisition of a number of infrastructure projects and investment funds; and
- g) Issue of upto 1,700,000,000 new shares at a nominal value of US\$ 0.265 per share and a share premium to be determined by the Board of Directors as per market conditions, to be used for the acquisition of a number of financial institutions and strategic assets.

The Bank is in the process of amending the memorandum and articles of association to reflect the above.

Investment offering

The Group has offered to investors in infrastructure projects and investment funds previously promoted by the Group and in which the Group maintains stakes to acquire their holdings in return for pre-determined number of the Bank's shares (the "offering"). Subscriptions for 1,070,518,218 shares of the Bank were made up to the initial closing period of 15 June 2017. The shares are pending allotment to investors as at 30 June 2017. Subscriptions pending allotment of shares were reflected in equity as 'Share subscriptions in progress'. The Board has subsequently approved extension of the offering to investors until August 2017. Refer note 14 for details of assets acquired under the offering.

9 **Cash and bank balances**

	30 June 2017 US\$ 000's (reviewed)	31 December 2016 US\$ 000's (audited)	30 June 2016 US\$ 000's (reviewed)
Cash	19,699	18,271	13,991
Balances with banks	61,892	53,281	12,084
Balances with Central Bank of Bahrain			
- Current account	30,311	32,230	(692)
- Reserve account	50,172	52,666	52,215
	162,074	156,448	77,598

The reserve account with the Central Bank of Bahrain and bank balances of US\$ 674 thousand are not available for day-to-day operations purposes of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017

10 Investment securities

	30 June 2017 US\$ 000's (reviewed)	31 December 2016 US\$ 000's (audited)	30 June 2016 US\$ 000's (reviewed)
Equity type investments			
<i>At fair value through income statement</i>			
- Quoted securities	-	377	539
- Unquoted managed fund	-	-	2,050
- Unquoted securities	40,180	40,180	52,984
	40,180	40,557	55,573
<i>At fair value through equity</i>			
- Managed funds (at fair value)	-	1,973	305
- Listed securities (at fair value)	103	103	1,384
- Unquoted securities (at cost) *	165,431	287,180	336,775
- Quoted sukuk	10,249	-	-
	175,783	289,256	338,464
Debt type investments			
<i>At amortised cost</i>			
- Quoted sukuk	235,430	194,809	143,724
- Unquoted sukuk	1,218	2,581	3,210
	236,648	197,390	146,934
	452,611	527,203	540,971

* 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.

11 Other assets

	30 June 2017 US\$ 000's (reviewed)	31 December 2016 US\$ 000's (audited)	30 June 2016 US\$ 000's (reviewed)
Investment banking receivables	4,824	11,561	26,172
Financing to projects, net	17,889	6,442	54,882
Reimbursement right	-	-	35,000
Receivable from sale of:			
- Subsidiaries	44,252	-	-
- Investment property	-	37,952	37,952
- Development property	10,000	10,000	10,000
Deposits and advances	20,106	19,835	18,024
Employee receivables	19,924	19,786	13,309
Income from sukuk receivable	4,911	3,902	3,360
Lease rentals receivable	10,634	6,825	3,918
Prepayments and other receivables	67,938	9,340	34,803
	200,478	125,643	237,420

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017

12 Financing liabilities

	30 June 2017	31 December 2016	30 June 2016
	US\$ 000's (reviewed)	US\$ 000's (audited)	US\$ 000's (reviewed)
Murabaha financing	31,108	-	36,499
Wakala and tawarroq financing	77,012	66,959	35,045
Sukuk liability	50,506	50,059	70,135
Ijarah financing	15,807	16,571	-
Other borrowings	29,907	35,403	25,901
	204,340	168,992	167,580

Murabaha financing

Murabaha financing comprise financing facilities obtained during the year from financial institutions for a period of 3 to 5 years with profit rate ranging from 6 month LIBOR / EIBOR plus a margin of 3% to 4.5% p.a. (subject to minimum 6% p.a.) The Murabaha financing is secured by a pledge over the Group's investment in shares of KHCB.

Wakala and tawarroq financing

Wakala financing

The Wakala financing are repayable over a period of 3 to 6 years and carry a profit rate in the range of 6% to 8%. The Wakala financing are secured by pledge over the Group's development property of carrying value of US\$ 42.3 million and investment property of carrying value of US\$ 160.7 million.

Tawarroq financing

The US\$ 15 million facility has been obtained during the year for general corporate purposes for a period of 5 years at a profit rate of LIBOR plus margin of 6% (subject to a minimum of 7%). The facility is secured by a mortgage of Group's investment in shares of KHCB.

Sukuk liability

The Sukuk is 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 is repayable over a period of 6 years with semi-annual repayment starting from July 2014, with final instalment in July 2018. The Sukuk 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\$ 92.94 million (31 December 2016: 92.94 million) and an investment property with carrying value of US\$ 31.5 million (31 December 2016: US\$ 31.5 million)

Ijarah financing

Ijarah financing represents facility from a financial institution for acquisition of a property repayable over a period of 8 years at a yield rate of 7% p.a. The Ijarah financing is pledged against an investment property of the Group with a carrying value of US\$ 46.84 million.

Other borrowings

These comprise financing availed by subsidiaries of the Bank relating to project development and working capital requirements.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017**

13 Income from investment banking activities

This mainly comprise US\$ 61,719 thousand from placement of private equity subsidiaries and US\$ 12,156 thousand from other investment products.

In 2016, the Group acquired, an educational institution held through two subsidiaries, one subsidiary holding the operations and another holding the property. During the first quarter, the Group sold part of its stake in the subsidiary holding the operations resulting in the Group losing control over the subsidiary. Accordingly, the Group has derecognized the operations of the educational institution on loss of control and recognised the retained interests as an investment in joint venture which is included under "Equity-accounted investees".

The disposal had the following impact on the condensed consolidated interim financial information as at 30 June 2017:

	US\$ 000's
Total assets derecognized on loss of control	81,027
Total liabilities derecognized on loss of control	(21,027)
Carrying value of retained interest in investment	(30,600)
Net assets derecognised on loss of control	29,400

	US\$ 000's
Gross consideration received	55,000
Less: Net assets derecognised on loss of control	(29,400)
Gain on disposal of a subsidiary	25,600

The effect of disposal for the purpose of cash flow statement is given below:

	US\$ 000's
Gross consideration received	55,000
Less: Cash and bank balance deconsolidated on loss of control	(2,034)
Net cash generated from disposal of a subsidiary	52,966

During the second quarter, the Group sold the whole subsidiary holding the property for US\$ 55 million resulting in a gain of US\$ 36 million.

14 Acquisition of subsidiaries

Pursuant to the approval by the shareholders in the Extraordinary General Meeting held on 1 March 2017, the Group has offered shares of the Bank to acquire the holdings of its investors in various infrastructure projects and investment funds. The Group had acquired the additional stake in the following infrastructure projects resulting in the Group obtaining control over these projects as at 30 June 2017, and accordingly, these have been consolidated in these condensed consolidated interim financial information.

The Group's existing stake and additional stake acquired are given below:

	Current stake	Additional stake acquired *	Total stake
TBIC	13%	34.74%	47.74%
India Projects	7.52%	62.07%	69.59%

* The offer has been extended until August 2017 and the final stake is subject to allotment of shares upon closure.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017**

14 *Acquisition of subsidiaries (continued)*

Consideration transferred and non-controlling interests

The consideration transferred in the acquisition of assets were in the form of shares of GFH. Given the nature of the repurchase transaction and the basis of determination of swap ratios for each asset by the shareholders, the transaction has been treated similar to a capital increase through transfer of non-cash assets in which the value of the asset received has been considered as the basis for measurement for increase in equity. The Group has used the acquisition-date expected realisable value of assets and settlement amount of liabilities of the entities acquired for the acquisition accounting and as consideration received for shares issued resulting in no gain or loss on initial recognition. The stake held by shareholders other than the Group in the subsidiaries 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

All entities acquired were considered as businesses. The fair value of assets, liabilities, equity interests have been reported on a provisional basis. 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.

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities as at 30 June 2017, being the effective date of acquisition, have been reported on a provisional basis as permitted by accounting standards.

Given the size, geographic dispersion and inherent complexity involved in the acquisition, the Group, as on date of issue of this 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 or negative goodwill has been recognised on the effective date.

Carrying value of assets acquired and liabilities assumed at the effective date were:

	TBIC	India Projects
Property, plant and equipment	56	-
Cash and bank balances	184	-
Development properties	206,794	365,176
Other assets	608	40,566
Total assets	207,642	405,742
Other payables	1,897	54,617
Total liabilities	1,897	54,617
Total net identifiable assets and liabilities	205,745	351,125

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017

14 *Acquisition of subsidiaries (continued)*

	TBIC	India Projects
Carrying value of Group's previously held equity interest in investee companies	30,000	51,207
Value of consideration transferred in shares	68,222	193,124
Non-controlling interests recognised	107,523	106,794
Total consideration	205,745	351,125

Also, during the period, the Group has acquired additional interests in the following subsidiaries.

	Current stake	Additional stake acquired	Total stake
KHCB	46.97%	8.44%	55.41%
MGIC	33.53%	49.75%	83.29%

The acquisition of additional interests had the following effect on the condensed consolidated interim financial information:

	US\$ 000's
Proportionate share of net assets acquired (at book value)	35,040
Consideration	63,323

Consideration for acquisition of additional stake in KHCB was in cash and MGIC was in the form of 181,491,986 shares in the Bank.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017

15 Related party transactions

The significant related party balances are not materially different from the the amounts reported as at 31 December 2016 except for those arising from consolidation of subsidiaries. Other significant related party transactions entered during the period are given below:

Six months ended 30 June 2017 (reviewed)	Associates and joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose and other entities)	Total
	US\$ '000s	US\$ '000s	US\$ '000s	US\$ '000s	US\$ '000s
Income					
Income from investment banking services	-	-	1,268	10,888	12,156
Fee and commission income	-	-	-	699	699
Income from financing assets	-	43	387	-	430
Share of profit of equity-accounted investees	4,013	-	-	-	4,013
Income from investment securities, net	1,588	-	-	422	2,010
Expenses					
Return to investment account holders	(21)	(5)	(207)	(27)	(260)
Finance expense	-	-	(1,275)	-	(1,275)
Staff cost	-	(8,312)	-	-	(8,312)
Other expenses	-	-	-	(202)	(202)

Six months ended 30 June 2016 (reviewed)	Associates and joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
	US\$ '000s	US\$ '000s	US\$ '000s	US\$ '000s	US\$ '000s
Income					
Fee and commission income	-	-	6,000	947	6,947
Income from investment securities	(5,313)	-	-	-	(5,313)
Share of profit of equity-accounted investees	125	-	-	-	125
Other income	16	-	-	504	520
Expenses					
Return to investment account holders	2	2	50	21	75
Staff cost	-	3,352	-	-	3,352
Other expenses	-	-	11	310	321

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017

16 Segment reporting

The Group is organised into business units based on their nature of operations and independent reporting entities and has three reportable operating segments namely Real estate development, investment banking and commercial banking.

	Real estate development	Investment banking	Commercial banking	Unallocated / Elimination	Total
	US\$ '000s	US\$ '000s	US\$ '000s	US\$ '000s	US\$ '000s
30 June 2017 (reviewed)					
Segment revenue	(8,929)	88,529	32,020	1,774	113,394
Segment expenses	(5,055)	(21,734)	(13,135)	(7,951)	(47,875)
Segment result	(13,985)	66,795	18,886	(6,177)	65,519
Segment assets	1,417,386	423,702	2,082,258	10,209	3,933,555
Segment liabilities	541,437	207,611	757,452	22,691	1,529,191
<i>Other segment information</i>					
Impairment allowance	-	(1,433)	4,929	-	3,496
Equity accounted investees	5,702	98,338	12,622	-	116,662
Equity of investment account holders	-	-	881,143	1,154	882,297
Commitments	45,000	10,696	87,135	-	142,831

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017**

16 *Segment reporting (continued)*

	Real estate development US\$ '000s	Investment banking US\$ '000s	Commercial banking US\$ '000s	Unallocated / Elimination US\$ '000s	Total US\$ '000s
30 June 2016 (reviewed)					
Segment revenue	48,085	2,131	31,821	1,326	83,363
Segment expenses	23,954	12,171	19,570	9,700	65,395
Segment result	24,131	(10,040)	12,251	(8,374)	17,968
31 December 2016 (audited)					
Segment assets	914,893	376,768	2,012,401	(661)	3,303,401
Segment liabilities	243,569	194,997	644,145	76,793	1,159,504
<i>Other segment information</i>					
Impairment allowance	15,000	224	3,041	-	18,265
Equity accounted investees	-	79,010	-	-	79,010
Equity of investment account holders	-	-	1,021,038	-	1,021,038
Commitments	105,129	10,696	174,527	-	290,352

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017**

17 Commitments and contingencies

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

	30 June 2017 US\$ 000's (reviewed)	31 December 2016 US\$ 000's (audited)	30 June 2016 US\$ 000's (reviewed)
Undrawn commitments to extend finance	112,135	174,527	165,844
Financial guarantees	85,711	85,129	71,297
Commitment for infrastructure development	20,000	20,000	22,000
Commitment to invest	10,696	10,696	-

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 June 2017 due to the performance of any of its projects.

Litigations, claims and contingencies

The Group has certain claims and litigations filed against it 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, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Appropriate provision have been made in the books of accounts. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

18 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 June 2017 and 31 December 2016, 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.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2017**
18 Financial instruments (continued)
Financing liabilities

As at 30 June 2017, the fair value of financing liabilities was estimated at US\$ 170,341 thousand (carrying value US\$ 204,340 thousand) (31 December 2016: fair value US\$ 159,545 thousand (carrying value US\$ 168,992 thousand)). These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, 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.

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 June 2017 (reviewed)

Investment securities carried at

- fair value through income statement
- fair value through equity

	Level 1	Level 2	Level 3	Total
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
- fair value through income statement	-	-	40,180	40,180
- fair value through equity	10,352	-	-	10,352
	10,352	-	40,180	50,532

31 December 2016 (audited)

Investment securities carried at

- fair value through income statement
- fair value through equity

	Level 1	Level 2	Level 3	Total
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
- fair value through income statement	377	-	40,180	40,557
- fair value through equity	103	-	1,973	2,076
	480	-	42,153	42,633

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

	30 June 2017 US\$ 000's (reviewed)	31 December 2016 US\$ 000's (audited)
At beginning of the period	42,153	62,320
Gains (losses) in income statement	-	(2,050)
Purchases	-	-
Disposals	(1,973)	(18,117)
Transfers into (out) of Level 3	-	-
At end of the period	40,180	42,153

19 COMPARATIVES

Certain prior period amounts have been regrouped to confirm current period presentation. Such regrouping does not affect the previously reported profit for the period or total owners' equity.