# GULF FINANCE HOUSE BSC

# CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 30 September 2013

| | | |
|---|---|---|
| Commercial registration | : | 44136 (registered with Central Bank of Bahrain as a Islamic wholesale investment Bank) |
| Registered Office | : | Bahrain Financial Harbour<br>Office: 2901, 29th Floor<br>Building 1398, East Tower,<br>Block: 346, Road: 4626<br>Manama, Kingdom of Bahrain<br>Telephone +973 17538538 |
| Directors | : | Ahmed Al Mutawa , *Chairman*<br>Mosabah Saif Al Mautairy, *Vice chairman*<br>Azzam Al Felaij<br>Dr. Esam Janahi (resigned on 4 October 2013)<br>Bashar Muhammad Almutawa (w.e.f. 4 April 2013)<br>Mohammed Ali Talib (w.e.f. 4 April 2013)<br>Sheikh Mohammed Bin Duaij Al Khalifa (w.e.f. 4 April 2013)<br>Khalid Alkhazraji (w.e.f. 4 April 2013) |
| Acting Chief Executive Officer | : | Hisham Alrayes |
| Auditors | : | KPMG Fakhro, Bahrain |

**GULF FINANCE HOUSE BSC**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**
**for the nine months ended 30 September 2013**

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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

14 November 2013

**Introduction**
We have reviewed the accompanying 30 September 2013 condensed consolidated interim financial information of Gulf Finance House BSC ("the Bank") and its subsidiaries (together the Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2013;
- the condensed consolidated income statement for the three month and nine month periods ended 30 September 2013;
- the condensed consolidated statement of changes in owners' equity for the nine month period ended 30 September 2013;
- the condensed consolidated statement of cash flows for the nine month period ended 30 September 2013;
- the condensed consolidated statement of changes in restricted investment accounts for the nine month period ended 30 September 2013;
- the condensed consolidated statement of changes in sources and uses of charity and zakah fund for the nine month period ended 30 September 2013; 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 Acounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

**Scope of Review**
We conducted our review in accordance with the International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance Auditing Standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**
Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2013 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.

KPMG

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**as at 30 September 2013** US$ 000's

| | Note | **30 September 2013** (reviewed) | 31 December 2012 (audited) | 30 September 2012 (reviewed) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and bank balances | | 81,663 | 3,216 | 15,558 |
| Placements with financial institutions | | 692 | 14,767 | 21,252 |
| Equity-accounted investees | | 236,108 | 235,383 | 231,544 |
| Investment securities | 10 | 171,818 | 174,017 | 185,377 |
| Investment property | | 259,404 | 259,404 | 259,404 |
| Assets held-for-sale | 11 | 22,246 | 88,139 | - |
| Other assets | 12 | 144,174 | 115,531 | 119,475 |
| **Total assets** | | **916,105** | 890,457 | 832,610 |
| **LIABILITIES** | | | | |
| Investors' funds | | 11,506 | 31,428 | 26,479 |
| Placements from financial and other institutions | 13 | 110,047 | 126,017 | 125,379 |
| Financing liabilities | 14 | 203,989 | 232,827 | 236,353 |
| Liabilities related to assets held-for-sale | 11 | - | 42,655 | - |
| Other liabilities | | 68,935 | 73,871 | 76,033 |
| **Total liabilities** | | **394,477** | 506,798 | 464,244 |
| **Equity of investment account holders** | | **2,148** | 2,353 | 2,342 |
| **OWNERS' EQUITY** | | | | |
| Share capital | 9 | 972,281 | 595,087 | 556,393 |
| Treasury shares | | (912) | (2,995) | (1,356) |
| Share premium | | - | 13,235 | 36,829 |
| Statutory reserve | | 67,519 | 66,356 | 67,044 |
| Accumulated losses | | (520,528) | (291,280) | (293,762) |
| Other reserves | | 1,120 | 903 | 876 |
| **Total owners' equity** (page 4) | | **519,480** | 381,306 | 366,024 |
| **Total liabilities, equity of investment account holders and owners' equity** | | **916,105** | 890,457 | 832,610 |

The Board of Directors approved the condensed consolidated interim financial information consisting of pages 2 to 16 on 14 November 2013.



Ahmed Al Mutawa
*Chairman*



Hisham Alrayes
*Acting Chief Executive Officer*

**CONDENSED CONSOLIDATED INCOME STATEMENT**
**for the nine months ended 30 September 2013** US$ 000's

| | Note | Nine months ended | | Three months ended | |
|---|---|---|---|---|---|
| | | **30 September 2013** (reviewed) | 30 September 2012 (reviewed) | **30 September 2013** (reviewed) | 30 September 2012 (reviewed) |
| **Continuing operations** | | | | | |
| Management and other fees | | 7,197 | 2,260 | 1,953 | 650 |
| Income from placements with financial institutions | | 313 | 77 | 62 | 30 |
| Share of profits of equity-accounted investees | | 723 | 1,090 | (373) | 278 |
| Gain / (loss) from investment securities, net | | 537 | (465) | 194 | 825 |
| Foreign exchange gain / (loss), net | | 1,037 | 5,697 | 696 | 3,711 |
| Other income | 15 | 19,894 | 32,697 | 2,680 | 3,234 |
| **Total income** | | **29,701** | 41,356 | **5,212** | 8,728 |
| Staff cost | | 6,439 | 6,100 | 2,035 | 1,743 |
| Investment advisory expenses | | 2,176 | 3,737 | 546 | 728 |
| Finance expense | | 12,550 | 14,298 | 3,991 | 2,321 |
| Other expenses | | 6,289 | 9,676 | 1,299 | 2,135 |
| **Total expenses** | | **27,454** | 33,811 | **7,871** | 6,927 |
| **Profit / (loss) from continuing operations before impairment allowances** | | **2,247** | 7,545 | **(2,659)** | 1,801 |
| Impairment allowances | | (2,000) | - | (500) | - |
| **Profit / (loss) from continuing operations** | | **247** | 7,545 | **(3,159)** | 1,801 |
| Gain from discontinued operations, net | 11 | 776 | - | - | - |
| **PROFIT / (LOSS) FOR THE PERIOD** | | **1,023** | 7,545 | **(3,159)** | 1,801 |
| **Earnings per share – continuing operations** | | | | | |
| Basic earnings per share (US cents) | | **0.04** | 0.56 | **(0.11)** | 0.13 |
| Diluted earnings per share (US cents) | | **0.04** | 0.56 | **(0.11)** | 0.13 |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**
**for the nine months ended 30 September 2013** US$ 000's

| **30 September 2013** (reviewed) | **Share capital** | **Treasury shares** | **Share premium** | **Statutory reserve** | **Accumulated losses** | **Other reserves** | **Total** |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2013 | 595,087 | (2,995) | 13,235 | 66,356 | (291,280) | 903 | 381,306 |
| Profit for the period (page 3) | - | - | - | - | 1,023 | - | 1,023 |
| **Total recognised income and expense** | **-** | **-** | **-** | **-** | **1,023** | **-** | **1,023** |
| Transfer to statutory reserve (note 8) | - | - | - | 1,003 | (1,003) | - | - |
| Conversion of murabaha to capital (note 9) | 377,194 | (8,528) | (13,235) | - | (229,656) | - | 125,775 |
| Purchase of treasury shares | - | (1,192) | - | - | - | - | (1,192) |
| Sale of treasury shares | - | 10,997 | - | - | - | - | 10,997 |
| Gain on sale of treasury shares | - | - | - | 286 | - | - | 286 |
| Share grants vesting expense, net of forfeitures (note 16) | - | 806 | - | (126) | - | 217 | 897 |
| Gain on partial disposal of assets held-for-sale | - | - | - | - | 388 | - | 388 |
| **Balance at 30 September 2013** | **972,281** | **(912)** | **-** | **67,519** | **(520,528)** | **1,120** | **519,480** |

The condensed consolidated interim financial information consists of pages 2 to 16.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**
**for the nine months ended 30 September 2013** *(continued)* US$ 000's

| 30 September 2012 (reviewed) | Share capital | Treasury shares | Share premium | Statutory reserve | Accumu-lated losses | Invest-ments fair value reserve | Other reserves | Total owners' equity |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2012 | 321,031 | (12,852) | 145,708 | 79,408 | (301,687) | 403 | 1,377 | 233,388 |
| Profit for the period (page 3) | - | - | - | - | 7,545 | - | - | 7,545 |
| Transfer to income statement on disposal | - | - | - | - | - | (403) | - | (403) |
| Total recognised income and expense | - | - | - | - | 7,545 | (403) | - | 7,142 |
| Conversion of Murabaha to capital | 235,362 | (26,781) | (108,879) | - | - | - | - | 99,702 |
| Transfer to retained earnings on settlement of convertible murabaha | - | - | - | - | 380 | - | (380) | - |
| Sale of treasury shares | - | 38,277 | - | - | - | - | - | 38,277 |
| Loss on sale of treasury shares | - | - | - | (12,364) | - | - | - | (12,364) |
| Share grants vesting expense, net of forfeitures | - | - | - | - | - | - | (121) | (121) |
| Balance at 30 september 2012 | 556,393 | (1,356) | 36,829 | 67,044 | (293,762) | - | 876 | 366,024 |

The condensed consolidated interim financial information consists of pages 2 to 16.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
**for the nine months ended 30 September 2013** US$ 000's

| | Nine months ended | |
|---|---|---|
| | **30 September 2013** (reviewed) | 30 September 2012 (reviewed) |
| **OPERATING ACTIVITIES** | | |
| Placements with / from financial institutions, net | (2,272) | 13,210 |
| Disbursement of financing to projects, net | (10,652) | (4,222) |
| Investors' funds, net | - | (6,174) |
| Management fees received | 3,245 | 666 |
| Income received from placements with financial institution | 313 | 77 |
| Payment for expenses and project costs | (16,406) | (17,543) |
| **Net cash used in operating activities** | **(25,772)** | (13,986) |
| **INVESTING ACTIVITIES** | | |
| Acquisition of investment securities | (153) | (6,343) |
| Net cashflows on disposal of assets held-for-sale | 9,776 | - |
| Advance paid for acquisition of investments | (1,904) | - |
| Dividends received | 84 | 956 |
| Proceeds from sale of investment securities | 3,546 | 6,156 |
| **Net cash generated from investing activities** | **11,349** | 769 |
| **FINANCING ACTIVITIES** | | |
| Financing liabilities, net | (20,345) | (22,081) |
| Finance expense paid | (13,546) | (16,630) |
| Proceeds from issue of convertible murabaha | 115,775 | 56,101 |
| Proceeds from sale of treasury shares | 10,074 | 25,860 |
| Dividends paid | (80) | (44) |
| Payment to investment account holders | (205) | - |
| **Net cash generated from financing activities** | **91,673** | 43,206 |
| **INCREASE IN CASH AND CASH EQUIVALENTS** | **77,250** | 29,989 |
| Cash and cash equivalents at 1 January | 5,105 | 6,821 |
| **CASH AND CASH EQUIVALENTS at 30 September** | **82,355** | 36,810 |
| **Cash and cash equivalents comprise:** | | |
| Cash and bank balances | 81,663 | 15,558 |
| Placements with financial institutions | 692 | 21,252 |
| | **82,355** | 36,810 |

The condensed consolidated interim financial information consists of pages 2 to 16.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
**for the nine months ended 30 September 2013**

| **30 September 2013** (reviewed) | **Balance at 1 January 2013** | | | **Movements during the period** | | | | | | **Balance at 30 September 2013** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | 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** |
| Mena Real Estate Company KSCC | 150 | 0.35 | 53 | - | (1) | - | - | - | - | 150 | 0.34 | 52 |
| Al Basha'er Fund | 93 | 6.69 | 622 | - | 351 | - | - | (225) | - | 93 | 8.05 | 748 |
| Oman Development Company | 522.50 | 3.115 | 1,628 | (1,628) | - | - | - | - | - | - | - | - |
| | | | **2,303** | **(1,628)** | **350** | **-** | **-** | **(225)** | **-** | | | **800** |

| 30 September 2012 (reviewed) | Balance at 1 January 2012 | | | Movements during the period | | | | | | Balance at 30 September 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | 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 |
| Mena Real Estate Company KSCC | 150 | 0.36 | 54 | - | - | - | - | - | - | 150 | 0.36 | 54 |
| Al Basha'er Fund | 93 | 6.63 | 617 | - | 34 | - | - | - | - | 93 | 7.00 | 651 |
| Pan European Fund | 36 | 797.67 | 28,597 | - | (197) | - | - | - | - | 36 | 792.19 | 28,400 |
| Oman Development Company | 523 | 3.12 | 1,628 | - | - | - | - | - | - | 523 | 3.12 | 1,628 |
| | | | 30,896 | - | (163) | - | - | - | - | | | 30,733 |

The condensed consolidated interim financial information consists of pages 2 to 16.

**CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND**
**for the nine months ended 30 September 2013** US$ 000's

| | **30 September 2013** (reviewed) | 30 September 2012 (reviewed) |
|---|---|---|
| **Sources of charity and zakah fund** | | |
| Non-Islamic income | - | 1 |
| **Total sources** | **-** | 1 |
| **Uses of charity and zakah fund** | | |
| Contributions to charitable organisations | - | - |
| **Total uses** | **-** | - |
| **Excess of sources over uses** | **-** | 1 |
| Undistributed charity and zakah fund at 1 January | 10,427 | 10,503 |
| **Undistributed charity and zakah fund at 30 September** | **10,427** | 10,504 |
| Represented by: | | |
| Charity fund | 7,656 | 7,703 |
| Zakah payable | 2,771 | 2,801 |
| | **10,427** | 10,504 |

The condensed consolidated interim financial information consists of pages 2 to 16.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**
**for the nine months ended 30 September 2013**

## 1 Reporting entity

The condensed consolidated interim financial information for the nine months ended 30 September 2013 comprise the financial information of Gulf Finance House BSC (the "Bank") and its subsidiaries (together referred to as "the Group").

## 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 2012. 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 2012.

*Going concern*

In 2012, the Group successfully restructured its financial liabilities by extending the tenure of its obligations. To improve its liquidity position, the Group has raised additional capital through the issue of convertible murabaha instruments (refer note 9). The Board of Directors' have reviewed the Group's future plans and are satisfied with the appropriateness of the going concern assumption used in the preparation of the condensed consolidated interim financial information.

## 3 Significant accounting polices

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the audited consolidated financial statements for the year ended 31 December 2012 except for the adoption of applicable new accounting standards with effect from 1 January 2013 as referred to below.

*New standards and amendments*

The Bank has adopted Financial Accounting Standard 26 ("FAS 26") "Investment in real estate" issued by AAOIFI during 2012, which became effective from 1 January 2013. The adoption of the new standard did not have any material impact on the Group.

Also revisions to IAS 34 effective from 1 January 2013 requires certain additional disclosures relating to fair value measurement in the condensed consolidated interim financial information, which has been disclosed in note 19.

## 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 2012.

**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 2012.

**6 Seasonality**

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

**7** The condensed consolidated interim financial information is reviewed, not audited. The comparatives for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2012 and the reviewed 30 September 2012 condensed consolidated interim financial information. The comparatives for the condensed consolidated statements of income, cash flows, changes in owners' equity, changes in restricted investment accounts and changes in sources and uses of charity and zakah fund have been extracted from the reviewed 30 September 2012 condensed consolidated interim financial information.

**8** In the annual general meeting held on 4 April 2013, the shareholders approved appropriation for 2012 of US$ 1 million to statutory reserve in accordance with the requirements of the Bahrain Commercial Companies Law which was effected during the period.

**9** During the period, the Group has entered into bilateral convertible murabaha agreements with certain investors to raise additional capital. The convertible murabaha provide for returns of 12% p.a. to the holder and has a tenure of 42 months from the date of issue, unless converted into ordinary shares of the Bank at the option of the holder, at an exchange price of US$ 0.31 per share. The agreement also provides additional share based incentives on early conversion.

During the period, the Bank received subscription of US$ 135,938 thousand and all the subscribers have exercised their option to convert their subscription to equity of the Bank resulting in issue of 1,226,648 thousand number of shares of par value US$ 377,194 thousand as per the terms of the convertible murabaha. Of the total shares issued, 1,072,249 thousand were issued for cash consideration and the balance 154,399 number of equity shares have been issued against settlement of liabilities. This has resulted in increase in the paid up capital of the Bank from US$ 595,087 thousand to US$ 972,281 thousand. As the effective conversion price is below the par value per share, the resulting difference and the related share issue expenses has been adjusted against the share premium account to the extent available and the balance is adjusted against accumulated losses.

**10 Investment securities**

| | **30 September 2013** US$ 000's (reviewed) | 31 December 2012 US$ 000's (audited) | 30 September 2012 US$ 000's (reviewed) |
|---|---|---|---|
| **Equity type investments** | | | |
| *At fair value through income statement* | | | |
| - Quoted securities | 1,539 | 2,548 | 1,061 |
| - Unquoted funds | 3,678 | 3,868 | 3,650 |
| *At fair value through equity* | | | |
| - Unquoted securities* (at cost) | 166,601 | 167,601 | 180,666 |
| | **171,818** | 174,017 | 185,377 |

*10 Investment securities (continued)*

* Unquoted equity securities classified as fair value through equity mainly include investments in private equity investments managed by external investment managers and investments in projects promoted by the Group. In the absence of reliable measure of fair value, these investments are carried at cost less impairment.

During the period, impairment allowances of US$ 500 thousand (2012: Nil) was recognised against unquoted equity securities carried at cost.

## 11 Assets and liabilities held-for-sale

Assets and liabilities held-for-sale represented the Group's 100% investment in Leeds City Holdings Limited (LCHL), a holding company for a number of trading entities whose activities form the operations of Leeds United Football Club (LUFC) in the United Kingdom acquired in 2012 through LUFC Holdings Company, a company incorporated in the Cayman Island and a wholly owned subsidiary of GFH Capital Limited.

During the period, based on placement of majority stake in LUFC to strategic investors, the Group de-consolidated LUFC Holdings Company, and accordingly, the previously consolidated asset and liabilities of LUFC Holdings Company were derecognised resulting in a net gain of US$ 776 thousand included in the condensed consolidated income statement under gain from discontinued operations. The Group's remaining stake continues to be classified as held-for-sale and is recognised as an investment in associate (equity accounted), which is being carried at lower of its carrying value and estimated fair value less cost to sell.

## 12 Other assets

| | **30 September 2013** US$ 000's (reviewed) | 31 December 2012 US$ 000's (audited) | 30 September 2012 US$ 000's (reviewed) |
|---|---|---|---|
| Financing to projects | 83,601 | 67,192 | 71,192 |
| Reimbursement right (note 18) | 35,000 | 35,000 | 35,000 |
| Receivable from sale of investment | - | - | 10,113 |
| Prepayments and other receivables | 25,233 | 11,960 | 1,246 |
| Equipment | 340 | 1,379 | 1,924 |
| | **144,174** | 115,531 | 119,475 |

Other assets are net of impairment allowances of US$ 137,407 thousand (31 December 2012: US$ 135,907 thousand).

## 13 Placements from financial and other institutions

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

## 14 Financing liabilities

| | **30 September 2013** US$ 000's (reviewed) | 31 December 2012 US$ 000's (audited) | 30 September 2012 US$ 000's (reviewed) |
|---|---|---|---|
| Murabaha financing | 58,745 | 80,170 | 87,116 |
| Wakala financing | 46,797 | 46,744 | 45,265 |
| Sukuk liability | 98,447 | 105,913 | 103,972 |
| | **203,989** | 232,827 | 236,353 |

During the period, the Group has repurchased financing liabilities of US$ 17.46 million at a discount resulting in gain of US$ 7.12 million, which is included in "other income" (note 15).

*Murabaha financing*
Murabaha financing comprise medium-term financing from a syndicate of banks. The financing was repayable in August 2013 (extendable by 1 year provided 25% of the facility is repaid in 2012) and carries a profit rate of 2.50% over the benchmark rate (LIBOR) payable semi annually and an additional profit mark up of 1.25% payable at maturity. During 2012, the Group obtained approval from the syndicate for restructuring of the Murabaha facility to be repaid over 6 years on semi annual basis commencing from August 2014. The revised profit rate on the facility is 6 months LIBOR plus margin (subject to a minimum of 5%).

The Murabaha financing facilities are secured by a pledge over the Group's investment in an associate of carrying value of US$ 163,690 thousand and investment property of carrying value of US$ 24.6 million.

*Wakala financing*
Wakala financing is a syndicate facility from a number of financial institutions. During 2012, the Group renegotiated the facility and as per the revised terms, the balance is repayable over a period of six years till April 2018 at an agreed profit rate of 8%. The Wakala financing facility is secured by a pledge over the Group's investment property of carrying value of US$ 203 million.

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

In 2012, the Group obtained approval of the sukuk holders to restructure the facility to 2018. The revised terms include the extension of the tenure for a period of 6 years with periodic repayment starting July 2014, with final installment in July 2018. The revised terms carry a profit rate of LIBOR plus a margin of 3%, (minimum profit rate of 5%).

The Sukuk Certificates are backed by the Group's investment securities with carrying values of US$ 86.13 million (31 December 2012: US$ 86.13 million) and an investment property of carrying value of US$ 31.5 million (31 December 2012: US$ 31.5 million)

## 15 Other income

Other income primarily includes income from buy back of financing liabilities of US$ 7.12 million (note 14), recovery of expenses of US$ 4.5 million incurred in the previous periods, reversal of liabilities no longer payable of US$ 2.5 million and recovery of previously impaired balances of US$ 4 million.

## 16 Share-based employee compensation scheme

During the period, a net charge of US$ 43 thousand (30 September 2012: US$ 38 thousand) was recognised towards the old incentive scheme as part of staff costs, during the period, net of effect of forfeitures. As at 30 September 2013, 2.29 million share awards were outstanding to be exercised in future periods.

Further, during the period, the Group issued new employee share awards (9,185,391 shares at a share price of US$ 0.148 per share) with vesting conditions over a period of 2 years based on fulfilment of performance and service conditions. Accordingly, the Group had recognised a charge of US$ 854 thousand towards the new employee share awards.

## 17 Segment reporting

| **30 September 2013** (reviewed) | **Development infrastructure** | **Banking** | **Unallocated** | **Total** |
|---|---|---|---|---|
| Segment revenue | 13,576 | 16,305 | 596 | 30,477 |
| Segment expenses | 11,067 | 16,682 | 1,705 | 29,454 |
| Segment result | 2,509 | (377) | (1,109) | 1,023 |
| Segment assets | 520,646 | 392,240 | 3,219 | 916,105 |
| Segment liabilities | 246,968 | 117,439 | 30,070 | 394,477 |
| **Other material items:** | | | | |
| Gain from discontinued operations | - | 776 | - | 776 |
| Impairment allowances | 2,000 | - | - | 2,000 |

Banking segement includes assets, liabilities and results of discontinued operations (refer note 11)

| 30 September 2012 (reviewed) | Development infrastructure | Banking | Unallocated | Total |
|---|---|---|---|---|
| Segment revenue | 5,627 | 28,612 | 7,117 | 41,356 |
| Segment expenses | 9,906 | 19,547 | 4,358 | 33,811 |
| Segment result | (4,279) | 9,065 | 2,759 | 7,545 |
| 31 December 2012 (audited) | | | | |
| Segment assets | 520,687 | 364,178 | 5,592 | 890,457 |
| Segment liabilities | 290,923 | 182,857 | 33,018 | 506,798 |

## 18 Commitments and contingencies

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

| | **30 September 2013** US$ 000's (reviewed) | 31 December 2012 US$ 000's (audited) | 30 September 2012 US$ 000's (reviewed) |
|---|---|---|---|
| Commitments to invest | - | 153 | 613 |
| Commitments to extend finance | - | 77,636 | 77,636 |

The Group has a potential commitment under a constructive obligation to extend finance to a project promoted by the Group of up to US$ 26.5 million (31 December 2012: US$ 26.5 million).

The Group had issued a financial guarantee of US$ 35 million to a project promoted by the Group. Based on its assessment of the financial position of the project company, the Group recognised a provision of US$ 35 million (31 December 2012: 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 discussions with the lenders and in the opinion of the management, as at the reporting date, the guarantee stands expired and it is unlikely that the amounts would need to be funded.

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

*Performance obligations*

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 30 September 2013 due to the performance of any of its projects.

*Litigations, claims and contingencies*

*Litigations and claims*

The Group is a party to number of claims and litigations 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, it is premature to quantify the amount or timing of liability, if any. The external legal counsels has also confirmed that the Bank has strong grounds to successfully defend itself against these claims and no material claims are expected to arise from those litigations. 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 position.

*Contingencies*

The Group has contingent claims arising from the decision to not proceed with a project. The Group is currently negotiating with the counter party for an amicable settlement. While liability is not admitted, if defence against the action is unsuccessful, the claim and associated costs could amount to approximately US$ 36 million. The management do not expect any significant liability to arise on final closure.

## 19 Financial instruments

### Fair values

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

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

As at 30 September 2013 and 31 December 2012, 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.

As at 30 September 2013, the fair value of financing liabilities was estimated at US$ 153,297 thousand (carrying value US$ 203,989 thousand) (31 December 2012: fair value US$ 176,512 thousand (carrying value US$ 232,827 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.

### Fair value hierarchy

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

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

| **30 September 2013** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Investment securities carried at fair value through income statement | 1,539 | - | 3,678 | 5,217 |
| | **1,539** | **-** | **3,678** | **5,217** |

| 31 December 2012 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investment securities carried at fair value through income statement | 2,548 | - | 3,868 | 6,416 |
| | 2,548 | - | 3,868 | 6,416 |

*19 Financial instruments (continued)*

During the nine month period ended 30 September 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

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

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