# GULF FINANCE HOUSE BSC

## INTERIM FINANCIAL INFORMATION

## 30 JUNE 2010

| | | |
|---|---|---|
| Commercial registration | : | 44136 (registered with Central Bank of Bahrain as an Islamic wholesale investment bank) |
| Office | : | Bahrain Financial Harbour<br>PO Box 10006, Manama, Kingdom of Bahrain |
| Directors | : | Dr. Esam Yousif A. Janahi, *Chairman*<br>Hamad A Aziz Al-Shaya, *Vice Chairman*<br>Abdul Latif Abdullah Al-Meer<br>Adel Dawood Al-Ohali<br>Yousuf Mohammed Khayat<br>Dr. Abdul Aziz Al – Hinai<br>Anthony Travis<br>Mosabah Saif Al Mutairy<br>Abdullah Ali Al Hamli<br>Mohammad Ebrahim Mohammed<br>Bader Nasser Al Subaei (upto15 June 2010) |
| Chief Executive Officer | : | Edward Noel Pretty |
| Company secretary | : | Dr. Haider Majali |
| Auditors | : | KPMG |

GULF FINANCE HOUSE BSC

INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2010

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**Independent auditors' report on review of interim financial information**

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

19 August 2010

**Introduction**

We have reviewed the accompanying condensed consolidated statement of financial position of Gulf Finance House BSC (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2010, and the related condensed consolidated statements of income, comprehensive income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of charity and zakah fund (the "interim financial information") for the six month period then ended. The Board of Directors of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 - *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

**Scope of review**

We conducted our review in accordance with 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 International Standards on Auditing 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34 - *Interim Financial Reporting.*

*Emphasis of matter*

Without qualifying our conclusion, we draw attention to note 1 in the interim financial information which discusses material uncertainties relating to the Group's liquidity position and regulatory capital adequacy, which, may cast significant doubt about the appropriateness of the going concern assumption used in the preparation of the interim financial information.

KPMG

KPMG Fakhro, a registered partnership under Bahrain law,
is a member of KPMG International, a Swiss cooperative

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
**as at 30 June 2010**

US$ 000's

| | Note | 30 June 2010 (reviewed) | 31 December 2009 (audited) | 30 June 2009 (reviewed) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and bank balances | | 13,248 | 10,174 | 5,947 |
| Placements with financial and other institutions | 5 | 121,411 | 454,966 | 649,022 |
| Financing receivables | | 15,000 | 29,173 | 68,310 |
| Receivable from investment banking services | | 40,481 | 85,270 | 146,642 |
| Development property | | - | - | 571,996 |
| Assets held-for-sale | 6 | 260,000 | - | - |
| Investment in associates | | 199,952 | 376,424 | 497,960 |
| Investment securities | 7 | 340,207 | 349,399 | 329,367 |
| Other assets | 8 | 392,821 | 336,930 | 444,198 |
| **Total assets** | | **1,383,120** | 1,642,336 | 2,713,442 |
| **LIABILITIES** | | | | |
| Investors' funds | | 188,902 | 246,193 | 264,867 |
| Placements from financial and other institutions | | 142,865 | 210,842 | 636,599 |
| Financing liabilities | 9 | 411,923 | 652,520 | 607,874 |
| Payable towards development property | | - | - | 301,926 |
| Other liabilities | | 220,918 | 96,584 | 74,214 |
| **Total liabilities** | | **964,608** | 1,206,139 | 1,885,480 |
| **Unrestricted investment accounts** | | **1,874** | 2,875 | 4,129 |
| **EQUITY** | | | | |
| Share capital | 4 | 625,790 | 604,079 | 315,375 |
| Share premium | | 206,203 | 202,316 | 180,382 |
| Treasury shares | | (23,298) | (52,371) | (17,364) |
| Statutory reserve | | 85,268 | 106,700 | 106,700 |
| Other reserves | | 2,054 | 4,300 | 30,920 |
| Investments fair value reserve | | 975 | 975 | 1,381 |
| (Accumulated losses) / retained earnings | | (480,354) | (432,677) | 206,439 |
| **Total equity** (page 5) | | **416,638** | 433,322 | 823,833 |
| **Total liabilities, unrestricted investment accounts and equity** | | **1,383,120** | 1,642,336 | 2,713,442 |
| Restricted investment accounts (page 7) | | **45,713** | 50,042 | 52,582 |

Dr. Esam Yousif A. Janahi
*Chairman*

Edward Noel Pretty
*Chief Executive Officer*

The Board of Directors approved the interim financial information consisting of pages 2 to 16 on 19 August 2010.

## CONDENSED CONSOLIDATED INCOME STATEMENT
**for the six months ended 30 June 2010** US$ 000's

| | Six months ended | | Three months ended | |
|---|---|---|---|---|
| | **30 June 2010** (reviewed) | 30 June 2009 (reviewed) | **30 June 2010** (reviewed) | 30 June 2009 (reviewed) |
| Income from investment banking services | 5,161 | 47,890 | - | 1,050 |
| Placement, arrangement and management fees | 5,092 | 3,578 | 1,061 | 2,036 |
| Income from placements with financial and other institutions | 664 | 2,298 | 260 | 879 |
| Income from financing | 302 | 735 | - | 362 |
| Share of (losses) / profits from investment in associates | (1,473) | 2,888 | 491 | 2,990 |
| (Loss) / income from investment securities | (376) | (238) | (2,286) | 1,233 |
| Foreign exchange gain, net | 7,984 | (592) | 5,762 | (1,388) |
| Other income, net (note 10) | 8,561 | 11,406 | 2,159 | 11,301 |
| **Total Income** | **25,915** | 67,965 | **7,447** | 18,463 |
| Staff cost | 8,802 | 25,646 | 5,208 | 9,309 |
| Investment advisory expenses | 4,728 | 11,895 | 2,438 | 5,566 |
| Finance expense | 23,922 | 21,616 | 11,548 | 10,259 |
| Impairment allowances (note 11) | 20,000 | 80,927 | 20,000 | 37,927 |
| Other expenses | 16,140 | 20,019 | 8,434 | 9,804 |
| **Total expenses** | **73,592** | 160,103 | **47,628** | 72,865 |
| **LOSS FOR THE PERIOD** | **(47,677)** | (92,138) | **(40,181)** | (54,402) |
| **Earnings per share** | | | | |
| Basic and diluted earnings per share (US cents) | **(2.67)** | (9.74) | **(2.22)** | (5.75) |

The interim financial information consists of pages 2 to 16.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
**for the six months ended 30 June 2010** US$ 000's

| | Six months ended | | Three months ended | |
|---|---|---|---|---|
| | **30 June 2010** (reviewed) | 30 June 2009 (reviewed) | **30 June 2010** (reviewed) | 30 June 2009 (reviewed) |
| Loss for the period | (47,677) | (92,138) | (40,181) | (54,402) |
| **Other comprehensive income** | | | | |
| Transfer from investments fair value reserve on impairment | - | 249 | - | 249 |
| **Total comprehensive income for the period** | **(47,677)** | (91,889) | **(40,181)** | (54,153) |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
**for the six months ended 30 June 2010**

US$ 000's

| **30 June 2010** (reviewed) | **Share Capital** | **Share premium** | **Treasury shares** | **Statutory reserve** | **Other reserves** | **Invest-ments fair value reserve** | **Accumula ted losses** | **Total equity** |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2010 | 604,079 | 202,316 | (52,371) | 106,700 | 4,300 | 975 | (432,677) | 433,322 |
| Loss for the period | - | - | - | - | - | - | (47,677) | (47,677) |
| **Total comprehensive income for the period** (page 4) | - | - | - | - | - | - | **(47,677)** | **(47,677)** |
| Conversion of murabha to share capital (note 9) | 21,711 | 3,922 | - | - | (633) | - | - | 25,000 |
| Share issue expenses | - | (35) | - | - | - | - | - | (35) |
| Share grants vesting expenses, net of forfeitures (note 12) | - | - | - | - | (1,613) | - | - | (1,613) |
| Sale of treasury shares | - | - | 29,073 | - | - | - | - | 29,073 |
| Loss on sale of treasury shares | - | - | - | (21,432) | - | - | - | (21,432) |
| **Balance at 30 June 2010** | **625,790** | **206,203** | **(23,298)** | **85,268** | **2,054** | **975** | **(480,354)** | **416,638** |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
**for the six months ended 30 June 2010**

US$ 000's

| 30 June 2009 (reviewed) | Share capital | Share premium | Treasury shares | Statutory reserve | Other reserves | Invest-ments fair value reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2009 | 262,813 | 180,382 | (17,364) | 106,700 | 23,508 | 1,132 | 409,702 | 966,873 |
| Loss for the period | - | - | - | - | - | 249 | (92,138) | (91,889) |
| Total comprehensive income for the period (page 4) | - | - | - | - | - | 249 | (92,138) | (91,889) |
| Issue of bonus shares | 52,562 | - | - | - | - | - | (52,562) | - |
| Share grants vesting expense (note 12) | - | - | - | - | 7,412 | - | - | 7,412 |
| Dividend declared for 2008 | - | - | - | - | - | - | (52,563) | (52,563) |
| Charity contribution declared for 2008 | - | - | - | - | - | - | (3,000) | (3,000) |
| Board remuneration declared for 2008 | - | - | - | - | - | - | (3,000) | (3,000) |
| Balance at 30 June 2009 | 315,375 | 180,382 | (17,364) | 106,700 | 30,920 | 1,381 | 206,439 | 823,833 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
**for the six months ended 30 June 2010** US$ 000's

| | 30 June 2010 (reviewed) | 30 June 2009 (reviewed) |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Proceeds of income from investment banking services | 5,161 | 100,000 |
| Placements with / received from financial institutions, net | (44,629) | (309,776) |
| Cash received from water park operations | 2,596 | 2,287 |
| Disbursement of financing of projects, net | (3,647) | (12,432) |
| Investors' funds utilised, net | (22,918) | (286,599) |
| Placement, arrangement and management fees received | 193 | 3,578 |
| Income from placements and financing received | 664 | 3,033 |
| Payment for operating expenses and project costs | (31,561) | (16,066) |
| **Cash flows from operating activities** | **(94,141)** | (515,975) |
| **INVESTING ACTIVITIES** | | |
| Purchase of investment securities | (6,882) | (41,069) |
| Proceeds from disposal of investment securities | 31,274 | - |
| Dividends received | 2,230 | 3,162 |
| Payments for development property | - | (15,260) |
| (Payments for) / proceeds from disposal of equipment and capital work-in-progress | (190) | 713 |
| Distributions received from associates | - | 14,708 |
| **Cash flows from investing activities** | **26,432** | (37,746) |
| **FINANCING ACTIVITIES** | | |
| Financing liabilities, net | (220,724) | (11,969) |
| Finance expense paid | (23,716) | (18,387) |
| Cash paid to charitable organisations | (631) | (360) |
| Board remuneration paid | - | (3,000) |
| Proceeds from sale of treasury shares | 7,641 | - |
| Dividends paid | (163) | (55,132) |
| Net (payments) / receipts from unrestricted investment accounts | (1,001) | 2,000 |
| **Cash flows from financing activities** | **(238,594)** | (86,848) |
| **DECREASE IN CASH AND CASH EQUIVALENTS** | **(306,303)** | (640,569) |
| Cash and cash equivalents at 1 January | 325,552 | 1,289,538 |
| **CASH AND CASH EQUIVALENTS at 30 June** | **19,249** | 648,969 |
| **Cash and cash equivalents comprise:** | | |
| Cash and bank balances | 13,248 | 5,947 |
| Placements with financial and other institutions (note 5) | 6,001 | 643,022 |
| | **19,249** | 648,969 |

The interim financial information consists of pages 2 to 16.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
**for the six months ended 30 June 2010**

| 30 June 2010 (reviewed) | Balance at 1 January 2010 | | | Movements during the period | | | | | | Balance at 30 June 2010 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 52 | - | (1) | - | - | - | - | 150 | 0.34 | 51 |
| Kuwait National Real Estate Investment and Services Company KSCC | 250 | 0.35 | 87 | - | (1) | - | - | - | - | 250 | 0.34 | 86 |
| Gulf Holding Company | 10,000 | 0.24 | 2,417 | - | (36) | - | - | - | - | 10,000 | 0.24 | 2,381 |
| Gulf North Africa Holding Company KSCC | 11,500 | 0.24 | 2,751 | - | (41) | - | - | - | - | 11,500 | 0.24 | 2,710 |
| Gulf Real Estate Development Company | 936 | 12.05 | 11,271 | - | - | - | - | - | - | 936 | 12.05 | 11,271 |
| Al Basha'er Fund | 93 | 7.22 | 671 | - | (50) | - | - | - | - | 93 | 6.68 | 621 |
| Pan European Fund | 35.85 | 869.32 | 31,165 | - | (4,200) | - | - | - | - | 35.85 | 752 | 26,965 |
| Oman Development Company | 522.50 | 3.12 | 1,628 | - | - | - | - | - | - | 522.50 | 3.12 | 1,628 |
| | | | **50,042** | **-** | **(4,329)** | **-** | **-** | **-** | | | | **45,713** |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
**for the six months ended 30 June 2010** *(continued)*

| 30 June 2009 (reviewed) | Balance at 1 January 2009 | | | Movements during the period | | | | | | Balance at 30 June 2009 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | - | (2) | - | - | - | - | 150 | 0.35 | 52 |
| Kuwait National Real Estate Investment and Services Company KSCC | 250 | 0.36 | 90 | - | (3) | - | - | - | - | 250 | 0.35 | 87 |
| Gulf Holding Company | 10,000 | 0.36 | 3,624 | - | (148) | - | - | - | - | 10,000 | 0.35 | 3,476 |
| Gulf North Africa Holding Company KSCC | 11,500 | 0.36 | 4,168 | - | (171) | - | - | - | - | 11,500 | 0.35 | 3,997 |
| Gulf Real Estate Development Company | 936 | 13.32 | 12,472 | - | 1 | - | - | - | - | 936 | 13.33 | 12,473 |
| Al Basha'er Fund | 203 | 7.93 | 1,610 | (871) | (29) | - | - | (181) | - | 93 | 5.69 | 529 |
| Pan European Fund | 35.85 | 1,410.76 | 50,576 | - | (20,236) | - | - | - | - | 35.85 | 846.30 | 30,340 |
| Oman Development Company | 522.50 | 3.12 | 1,628 | - | - | - | - | - | - | 522.50 | 3.12 | 1,628 |
| | | | 74,222 | (871) | (20,588) | - | - | (181) | - | | | 52,582 |

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

**for the six months ended 30 June 2010** US$ 000's

| | **30 June 2010** (reviewed) | 30 June 2009 (reviewed) |
|---|---|---|
| **Sources of charity and zakah fund** | | |
| Contributions by the Bank | - | 3,000 |
| Non-Islamic income | 6 | 16 |
| **Total sources** | **6** | 3,016 |
| **Uses of charity and zakah fund** | | |
| Contributions to charitable organisations | 631 | 360 |
| **Total uses** | **631** | 360 |
| **Excess of sources over uses** | **(625)** | 2,656 |
| Undistributed charity and zakah fund at 1 January | 11,256 | 5,718 |
| **Undistributed charity and zakah fund at 30 June** | **10,631** | 8,374 |

## NOTES TO THE INTERIM FINANCIAL INFORMATION
## for the six months ended 30 June 2010

1 **Reporting entity**

The interim financial information for the six months ended 30 June 2010 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 interim financial information has been prepared in condensed form in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. The 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 2009.

The accounting policies and methods of computation applied by the Group in the preparation of the interim financial information are consistent with those applied in the preparation of the audited consolidated financial statements for the year ended 31 December 2009, except for the changes arising from adoption of relevant revised IFRS, amendments and interpretation issued by IASB and FAS issued by AAOIFI that are effective for annual reporting periods beginning 1 January 2010. The adoption of these standards did not have an impact on the interim financial information

*Going concern*

As at 30 June 2010, the Group had accumulated losses of US$ 480.35 million and, as of that date, its current contractual obligations exceeded its liquid assets. As a result, the ability of the Group to meet its obligations when due depends on its ability to achieve a timely disposal of assets. Further, the regulatory capital adequacy ratio of the Group as at 30 June 2010 stood at 12.92%, which restricts the Group's ability to absorb further losses or undertake additional exposures. These factors indicates the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

During the period, the Group has repaid US$ 220 million of debt obligations on the due date and was able to refinance a portion of its debts due during 2010 (refer note 9). The management has put in place an asset sale and liquidity plan to generate liquidity to support repayment of the Group's obligations and its operations. Further, the Group has a pipeline of revenues and is undertaking cost reduction exercises that would improve its operating cash flows. The Group is also evaluating other options to arrange liquidity and strengthen its position over the next twelve months. These actions are also expected to improve the Group's capital adequacy ratio. The Board of Directors' have reviewed the Group's future plans and are satisfied with the appropriateness of the going concern assumption for preparation of the interim financial information.

3 The interim financial information is not audited but has been reviewed by KPMG. The corresponding figures for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2009 and the reviewed interim financial information for the six months ended 30 June 2009. The corresponding figures for the condensed consolidated statements of income, comprehensive income, cash flows, changes in equity and changes in restricted investment accounts and sources and uses of charity and zakah fund have been extracted from the reviewed interim financial information for the six months ended 30 June 2009.

4 During the period, the paid up capital of the Bank was increased from US$ 604,079 thousand to US$ 625,790 thousand as a result of exercise of conversion option by the holders of the convertible murabaha (refer note 9).

5 **Placement with financial and other institutions**

Placements with financial and other institutions include balances amounting to US$ 115,410 thousand (31 December 2009: US$ 139,588 thousand) that are pledged against commitments and facilities of projects of the Group and are not available for the Group's day-to-day operations. These amounts have not been considered as part of cash and cash equivalents for the purpose of the statement of cash flows.

## NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2010

### 6 Assets held-for-sale

Assets held-for-sale comprise:

| | 30 June 2010 US$ 000's (reviewed) |
|---|---|
| Investment in an associate | 175,000 |
| Receivable from sale of investment securities | 50,000 |
| Financing to projects | 35,000 |
| | **260,000** |

During the period, the Bank has negotiated an agreement for transfer of its interest in an investment in an associate and settlement of certain receivables from sale of investment securities against receipt of consideration in the form of cash and land plots. The transaction has been concluded in August 2010. The group of assets that are subject to the transaction have been classified as held-for-sale in accordance with International Financial Reporting Standard ('IFRS') 5 "Non-current Assets Held for Sale and Discontinued Operations".

### 7 Investment securities

| | 30 June 2010 US$ 000's (reviewed) | 31 December 2009 US$ 000's (audited) | 30 June 2009 US$ 000's (reviewed) |
|---|---|---|---|
| Investments designated at fair value through profit or loss | 31,359 | 33,976 | 37,844 |
| Available-for-sale investments | 308,848 | 315,423 | 291,523 |
| | **340,207** | 349,399 | 329,367 |

Income from investment securities include fair value changes of US$ NIL (30 June 2009: losses of US$ 3,401 thousand) on 'investment designated at fair value through profit or loss'.

### 8 Other assets

| | 30 June 2010 US$ 000's (reviewed) | 31 December 2009 US$ 000's (audited) | 30 June 2009 US$ 000's (reviewed) |
|---|---|---|---|
| Project costs recoverable | 1,774 | 811 | 7,008 |
| Financing to projects | 155,405 | 186,758 | 231,878 |
| Receivable from sale of investments | 44,463 | 94,463 | 99,410 |
| Operating property and equipment of a water park | 28,461 | 28,625 | 42,508 |
| Goodwill | - | - | 17,375 |
| Other equipment | 13,035 | 15,910 | 18,903 |
| Reimbursement right (note 15) | 137,000 | - | - |
| Prepayments and other receivables | 12,683 | 10,363 | 27,116 |
| | **392,821** | 336,930 | 444,198 |

Other assets are net of impairment allowances of US$ 117,224 thousand (31 December 2009: US$ 117,224 thousand).

## NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2010

### 9 Financing liabilities

| | 30 June 2010 US$ 000's (reviewed) | 31 December 2009 US$ 000's (audited) | 30 June 2009 US$ 000's (reviewed) |
|---|---|---|---|
| Murabaha financing | 117,414 | 301,620 | 300,224 |
| Wakala financing | 133,648 | 150,907 | 145,766 |
| Sukuk liability | 137,726 | 152,640 | 161,884 |
| Convertible Murabaha | 23,135 | 47,353 | - |
| | **411,923** | 652,520 | 607,874 |

*Murabaha financing*
Murabaha financing comprise medium-term financing from a syndicate of banks of US$ 100 million (31 December 2009: US$ 301.62 million) and a short-term facility of US$ 16.64 million (31 December 2009: Nil) from a financial institution. During the period, the Group repaid US$ 200 million of the outstanding unsecured medium-term murabaha financing facility and refinanced the balance of US$ 100 million to be repaid in 6 months on 10 August 2010. The Murabaha financing facility carries an agreed profit rate of 5.00% over the benchmark rate (LIBOR) for the 6 month period.

Subsequent to 30 June 2010, the Group was able to renegotiate the terms of the financing facility by extending the repayment terms for a further period of 2 years (extendable by 1 year at the option of the Bank) and by reducing the profit rate to 3.75% over the benchmark rate (LIBOR). Under the revised terms, the Group's investment in Khaleeji Commercial Bank BSC, an associate, was provided as collateral.

Murabaha financing includes a short-tem facility of US$ 16.64 million obtained during the period and is repayable in November 2010.

*Wakala financing*
Wakala financing facilities include financing of US$ 100 million that was due in the first quarter of 2010. During the period the Group repaid US$ 20 million of the outstanding facility and renegotiated the balance amount to be repaid equally in 2010 and 2011 at an agreed profit rate of 8.5%.

*Sukuk liability*
During the period the Group repurchased Sukuk Certificates of nominal value of US$ 15 million.

*Convertible murabaha facility*
During 2009, the Group issued a compound financial instrument ("Notes") in the form of unsecured convertible murabaha facility. The Notes have a tenure of 3 years maturing in October 2012 unless converted into ordinary shares of the Bank at the option of the holder, at an exchange price of US$ 0.38 per share. The Notes provide for returns of 8% p.a. payable quarterly to the holder. During the period, Note holders amounting to US$ 25 million have exercised their option to convert their Notes into equity.

## NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2010

### 10 Other income

Other income includes US$ 4,248 thousand (30 June 2009: Nil) representing liabilities no longer payable and recoveries of expenses from project entities of US$ 1,667 thousand (30 June 2009: Nil).

### 11 Impairment allowances

| | 30 June 2010 US$ 000's (reviewed) | 30 June 2009 US$ 000's (reviewed) |
|---|---|---|
| Receivable from investment banking services | 20,000 | 23,000 |
| Development property | - | 40,000 |
| Investment securities | - | 5,876 |
| Receivable from sale of investments | - | 9,562 |
| Other receivables | - | 2,489 |
| | **20,000** | 80,927 |

### 12 Share-based employee compensation scheme

During the period, 7.85 million share awards were forfeited due to non-satisfaction of service conditions by outgoing employees of the Bank. A net reversal of vesting charge amounting to US$ 1,613 thousand (30 June 2009: charge of US$ 7,412 thousand) was recognised as part of staff costs during the period. As at 30 June 2010, 6.69 million share awards were outstanding to be exercised in future periods.

### 13 Segment reporting

| **30 June 2010** | **Development infrastructure** | **Banking** | **Unallocated** | **Total** |
|---|---|---|---|---|
| Segment revenue | 8,192 | 7,334 | 10,389 | **25,915** |
| Segment expenses | 40,516 | 26,720 | 6,356 | **73,592** |
| Segment result | (32,324) | (19,386) | 4,033 | **(47,677)** |
| Segment assets | 981,667 | 381,561 | 19,892 | **1,383,120** |
| Segment liabilities | 668,997 | 209,745 | 85,866 | **964,608** |

| 30 June 2009 | Development infrastructure | Banking | Unallocated | Total |
|---|---|---|---|---|
| Segment revenue | 55,825 | 12,732 | (592) | 67,965 |
| Segment expenses | 108,912 | 42,161 | 9,030 | 160,103 |
| Segment result | (53,087) | (29,429) | (9,622) | (92,138) |
| Segment assets | 1,643,902 | 1,044,059 | 25,481 | 2,713,442 |
| Segment liabilities | 1,269,067 | 552,182 | 64,231 | 1,885,480 |

## NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2010

### 14 Significant related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group and assets under management of the Group.

During the period, the Group recognised income from investment banking services of US$ 4,986 thousand (30 June 2009: US$ 47,890 thousand) arising from transactions with related parties.

### 15 Commitments and contingencies

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

| | **30 June 2010** US$ 000's (reviewed) | 31 December 2009 US$ 000's (audited) |
|---|---|---|
| Commitments to invest | 6,613 | 30,613 |
| Commitments to extend finance | 16,500 | - |
| Capital commitments | 220 | 283 |

The Group has issued financial guarantees and credit enhancements of US$ 5,354 thousand (31 December 2009: US$ 169,454 thousand) to financial institutions and other lenders to secure credit facility arrangements for projects managed by the Group. The Group potentially has a commitment under a constructive obligation to extend finance to one of its projects of up to US$ 150 million (31 December 2009: US$ 150 million).

During the period, the Group's credit enhancement amounting to US$ 102 million issued to financial institutions against credit facility arrangements for a project managed by the Group were enforced by the lenders due to contractual defaults by the project company. Further, based on the Group's assessment of the likelihood that another project will be able to meet the financing obligation when they fall due, the Group has estimated that its financial guarantee of US$ 35 million may be enforced. In accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, the Group has recognised a provision of US$ 137 million towards these liabilities until revised / renegotiated terms are agreed with the lenders of the project companies. The Group has recognised an equivalent amount of 'reimbursement right' which has been included in 'other assets' (note 8).

In the opinion of the management, all facilities that are due are being renegotiated and based on the current status of discussions, it is not expected that the Bank will have to make payments against any of these guarantees. In the event any payment is required to be made, 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 June 2010 due to the performance of any of its projects.

**NOTES TO THE INTERIM FINANCIAL INFORMATION**
**for the six months ended 30 June 2010**

*15 Commitments and contingencies (continued)*

*Contingencies*
The Group has contingent claims arising from the decision to not proceed with a project development agreement during the year. 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 does not expect any significant liability to arise on final closure.

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

**17** Appropriations, if any, are made only at the year end.

**18** Certain prior period amounts have been regrouped to conform to the current period's presentation. Such regrouping did not affect previously reported loss, comprehensive income or equity.