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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

28 August 2011

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 2011, and the related condensed consolidated statements of income, changes in owners' equity, cash flows, changes in restricted investment accounts and sources and uses of charity and zakah fund for the six months period then ended (the "interim financial information"). The Board of Directors of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. 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 the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

Emphasis of matter

Without qualifying our conclusion, we draw attention to note 2 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.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2011

US$ 000's

	Note	30 June 2011 (reviewed)	31 December 2010 (audited)	30 June 2010 (reviewed)
ASSETS				
Cash and bank balances		7,047	3,770	13,248
Placements with financial and other institutions		26,016	56,868	121,411
Financing receivables		13,950	14,400	15,000
Investment in associates		227,720	224,647	199,952
Investment securities	5	219,906	248,794	340,207
Investment property		259,404	268,412	-
Assets-held -for-sale		-	-	280,000
Receivable from investment banking services		-	-	40,481
Other assets	6	108,774	203,150	392,821
Total assets		862,817	1,018,241	1,393,120
LIABILITIES				
Investors' funds		87,602	138,798	188,902
Placements from financial and other institutions		131,557	126,241	142,865
Financing liabilities	7	333,982	439,504	411,923
Other liabilities		80,457	195,535	220,918
Total liabilities		633,598	900,078	964,608
Equity of investment account holders		1,884	1,880	1,874
OWNERS' EQUITY				
Share capital	4	312,379	145,780	625,760
Treasury shares		(12,789)	(24,674)	(23,298)
Share premium		147,998	206,203	206,203
Statutory reserve		79,413	88,298	85,260
Accumulated losses		(301,364)	(302,068)	(480,354)
Other reserves		1,295	1,760	2,054
Investments fair value reserve		403	975	975
Total owners' equity (page 4)		227,335	116,283	416,638
Total liabilities, equity of investment account holders and owners' equity		862,817	1,018,241	1,393,120

Dr. Esam Yousi A. Janahi
Chairman

Mosabah Said Al Maktary
Director

The Board of Directors approved the interim financial information consisting of pages 2 to 18 on 28 August 2011

GULF FINANCE HOUSE BSC

CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2011

US$ 000's

	Note	Six months ended		Three months ended	
		30 June 2011 (reviewed)	30 June 2010 (reviewed)	30 June 2011 (reviewed)	30 June 2010 (reviewed)
Income from investment banking services		89	5,161	54	-
Placement, arrangement and management fees		878	5,092	357	1,061
Income from placements with financial and other institutions		602	664	295	260
Income from financing		-	302	-	-
Share of (losses) / profits from investment in Associates		(190)	(1,473)	(564)	491
Income/ (Loss) from investment securities	8	12,274	(376)	4,964	(2,286)
Net foreign exchange (loss)/gain		(6,501)	7,984	(1,878)	5,762
Other income, net	9	27,673	6,561	3,174	2,159
Total income		32,825	25,915	6,403	7,447
Staff cost		4,914	6,802	2,115	5,208
Investment advisory expenses		876	4,728	319	2,438
Finance expense	11	18,416	23,922	11,232	11,548
Impairment allowances on receivables		-	20,000	-	20,000
Other expenses		7,916	16,140	3,972	6,434
Total expenses		32,121	73,592	17,638	47,628
PROFIT / (LOSS) FOR THE PERIOD		704	(47,677)	(11,235)	(40,181)
Earnings per share					
Basic and diluted earnings per share (US cents)		0.09	(10.72)	(1.34)	(8.96)

The interim financial information consists of pages 2 to 15.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the six months ended 30 June 2011

US$ 000's

30 June 2011 (reviewed)	Share capital	Share premium	Treasury shares	Statutory reserve	Other reserves	Investments fair value reserve	Accumulated losses	Total equity
Balance at 1 January 2011	145,780	206,203	(24,674)	88,298	1,769	975	(302,068)	116,283
Profit for the period	-	-	-	-	-	-	704	704
Changes in fair value of investment securities	-	-	-	-	-	(572)	-	(572)
Conversion of murabaha to share capital (note 4)	166,599	(58,205)	-	-	(253)	-	-	108,141
Share grants vesting expense, net of forfeitures (note 10)	-	-	-	-	(221)	-	-	(221)
Sale of treasury shares	-	-	11,885	-	-	-	-	11,885
Loss on sale of treasury shares	-	-	-	(8,885)	-	-	-	(8,885)
Balance at 30 June 2011	312,379	147,998	(12,789)	79,413	1,295	403	(301,364)	227,335

30 June 2010 (reviewed)	Share capital	Share premium	Treasury shares	Statutory reserve	Other reserves	Investments fair value reserve	Accumulated 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)
Conversion of murabaha to share capital	21,711	3,922	-	-	(633)	-	-	25,000
Share issue expenses	-	(35)	-	-	-	-	-	(35)
Share grants vesting expense, net of forfeitures (note 10)	-	-	-	-	(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

The interim financial information consists of pages 2 to 15.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2011

US$ 000's

	Six months ended 30 June 2011 (reviewed)	Six months ended 30 June 2010 (reviewed)
OPERATING ACTIVITIES		
Proceeds of income from investment banking services	89	5,161
Placements with financial institutions (more than 90 days), net	(2,309)	(44,629)
Cash received from waterpark operations	-	2,596
Disbursement for projects, net	(2,975)	(3,647)
Receipts from financing receivables	460	-
Investors' funds paid , net	(2,155)	(22,918)
Management fees received	164	193
Income from placements and financing received	602	664
Payment for expenses and project costs	(13,898)	(31,581)
Cash flows from operating activities	(20,032)	(94,141)
INVESTING ACTIVITIES		
Purchase of investment securities	-	(6,882)
Proceeds from sale of available-for-sale investments	3,381	31,274
Dividends received	3,306	2,230
Payment for acquisition of equipment	-	(190)
Cash flows from investing activities	6,687	26,432
FINANCING ACTIVITIES		
Financing liabilities, net	1,042	(220,724)
Finance expense paid	(13,039)	(23,716)
Proceeds from conversion to share capital	9,564	-
Payment for share issue expenses	(11,291)	-
Cash paid to charitable organisations	-	(631)
Proceeds from sale of treasury shares	-	7,641
Dividends paid	(506)	(163)
Payments to investment account holders, net	-	(1,001)
Cash flows from financing activities	(14,230)	(238,594)
DECREASE IN CASH AND CASH EQUIVALENTS	(27,575)	(306,303)
Cash and cash equivalents at 1 January	60,638	325,552
CASH AND CASH EQUIVALENTS at 30 June	33,063	19,249
Cash and cash equivalents comprise:		
Cash and bank balances	7,047	13,248
Placements with financial and other institutions (less than 90 days)	26,016	6,001
	33,063	19,249

The interim financial information consists of pages 2 to 15.