

GFH FINANCIAL GROUP BSC
CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION
30 SEPTEMBER 2019

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	:	Jassim Al Seddiqi, <i>Chairman</i> H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa, <i>Vice Chairman</i> Hisham Alrayes Amro Saad Omar Al Menhali Mazen Bin Mohammed Al Saeed Mosabah Saif Al Mautairy Ghazi Faisal Ebrahim Alhajeri Bashar Mohamed Al Mutawa Rashid Nasser Al Kaabi Mustafa Kheriba
Chief Executive Officer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

GFH FINANCIAL GROUP BSC

**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019**

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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

13 November 2019

Introduction

We have reviewed the accompanying 30 September 2019 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 September 2019;
- the condensed consolidated income statement for the three-month and nine-month periods ended 30 September 2019;
- the condensed consolidated statement of changes in owners' equity for the nine-month period ended 30 September 2019;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2019;
- the condensed consolidated statement of changes in restricted investment accounts for the nine-month period ended 30 September 2019;
- the condensed consolidated statement of changes in sources and uses of zakah and charity fund for the nine-month period ended 30 September 2019; 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 September 2019 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.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

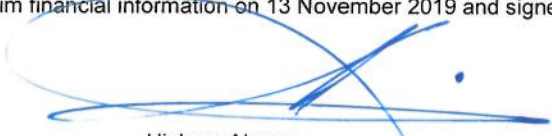
As at 30 September 2019

US\$ 000's

	note	30 September 2019 (reviewed)	31 December 2018 (audited)	30 September 2018 (reviewed)
ASSETS				
Cash and bank balances		401,873	341,567	277,044
Treasury portfolio	9	1,655,850	818,000	534,654
Financing assets	10	1,316,727	1,208,947	1,177,479
Real estate Investments	11	1,815,757	1,840,010	1,770,282
Proprietary investments	12	276,527	234,012	235,638
Co-investments	13	74,352	77,644	79,955
Assets held-for-sale	14	101,213	147,141	-
Receivables and prepayments		471,368	229,142	264,107
Property and equipment		24,584	92,902	92,537
Total		6,138,251	4,989,365	4,431,696
LIABILITIES				
Clients' funds		74,469	46,639	25,167
Placements from financial, non-financial institutions and individuals		2,675,375	1,628,389	1,119,747
Customer current accounts		169,432	177,906	160,276
Term financing	15	268,016	256,137	260,079
Liabilities directly related to assets held-for-sale	14	39,936	42,749	-
Payables and accruals		526,902	517,857	533,960
Total		3,754,130	2,669,677	2,099,229
Equity of investment account holders		971,485	896,910	916,490
OWNERS' EQUITY				
Share capital	8	975,638	975,638	975,638
Treasury shares		(47,158)	(85,424)	(89,029)
Statutory reserve		117,301	117,301	105,893
Investment fair value reserve		(4,909)	(4,725)	-
Foreign currency translation reserve		(36,655)	(43,380)	(26,713)
Retained earnings	8	67,039	98,318	121,830
Share grant reserve		1,198	1,086	1,086
Total equity attributable to shareholders of Bank		1,072,454	1,058,814	1,088,705
Non-controlling interests		314,786	323,408	327,272
Non-controlling interests held-for-sale		25,396	40,556	-
Total owners' equity		1,412,636	1,422,778	1,415,977
Total liabilities, equity of investment account holders and owners' equity		6,138,251	4,989,365	4,431,696

The Board of Directors approved the condensed consolidated interim financial information on 13 November 2019 and signed on its behalf by:


Jassim Al Seddiqi
Chairman


Hisham Alrayes
Chief Executive Officer & Board member

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT

for the nine months ended 30 September 2019

US\$ 000's

	Nine months ended		Three months ended	
	30 September 2019 (reviewed)	30 September 2018 (reviewed)	30 September 2019 (reviewed)	30 September 2018 (reviewed)
Continuing operations				
Investment banking income				
Asset management	2,007	1,766	649	658
Deal related income	77,012	31,600	34,923	-
	79,019	33,366	35,572	658
Commercial banking income				
Income from financing	61,416	50,857	22,654	17,573
Treasury and investment income	21,240	16,549	3,910	5,069
Fee and other income	13,526	5,393	2,781	1,934
Less: Return to investment account holders	(29,615)	(16,782)	(10,485)	(6,015)
Less: Finance expense	(14,143)	(16,566)	(4,355)	(5,965)
	52,424	39,451	14,505	12,596
Income from proprietary and co-investments				
Direct investment income, net	10,371	17,906	285	9,719
Restructuring related income	29,406	35,300	-	-
Dividend from co-investments	1,607	721	1,099	-
	41,384	53,927	1,384	9,719
Real estate income				
Development and sale	18,012	4,912	4,495	501
Rental and operating income	1,901	2,087	654	677
	19,913	6,999	5,149	1,178
Treasury and other income				
Finance income	18,094	663	8,671	190
Dividend and net gain on treasury investments	30,881	1,270	14,351	1,270
Other income, net	12,308	69,622	10,847	45,569
	61,283	71,555	33,869	47,029
Total income	254,023	205,298	90,479	71,180
Operating expenses	70,209	70,966	21,425	28,422
Finance expense	84,669	24,836	30,965	9,428
Impairment allowances	28,433	9,455	16,269	3,756
Total expenses	183,311	105,257	68,659	41,606
Profit from continuing operations	70,712	100,041	21,820	29,574
(Loss) / profit from assets held-for-sale and discontinued operations, net	(467)	4,619	-	1,681
Profit for the period	70,245	104,660	21,820	31,255
Attributable to:				
Shareholders of the Bank	73,562	103,438	24,429	30,937
Non-controlling interests	(3,317)	1,222	(2,609)	318
	70,245	104,660	21,820	31,255
Earnings per share				
Basic and diluted earnings per share (US cents)	1.99	2.91	0.58	0.87
Earnings per share – continuing operations				
Basic and diluted earnings per share (US cents)	2.01	2.81	0.58	0.84

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the nine months ended 30 September 2019

US\$ 000's

	Attributable to shareholders of the Bank							Non – controlling interests	Non – controlling interests held-for- sale	Total owners' equity	
	Share capital	Treasury shares	Statutory reserve	Investment fair value reserve	Foreign currency translation reserve	Retained earnings	Share grant reserve				Total
30 September 2019 (reviewed)											
Balance at 1 January 2019 *	975,638	(85,424)	117,301	(4,725)	(43,380)	98,318	1,086	1,058,814	323,408	40,556	1,422,778
Profit for the period (page 3)	-	-	-	-	-	73,562	-	73,562	(3,317)	-	70,245
Fair value changes during the period	-	-	-	(184)	-	-	-	(184)	-	-	(184)
Total recognised income and expense	-	-	-	(184)	-	73,562	-	73,378	(3,317)	-	70,061
Bonus shares issued	55,000	-	-	-	-	(55,000)	-	-	-	-	-
Extinguishment of treasury shares	(55,000)	50,549	-	-	-	4,451	-	-	-	-	-
Dividends declared (note 8)	-	-	-	-	-	(30,000)	-	(30,000)	-	-	(30,000)
Transfer to zakah and charity fund (page 8)	-	-	-	-	-	(2,219)	-	(2,219)	(223)	-	(2,442)
Issue of shares under incentive scheme	-	-	-	-	-	-	112	112	-	-	112
Purchase of treasury shares	-	(146,592)	-	-	-	-	-	(146,592)	-	-	(146,592)
Sale of treasury shares	-	134,309	-	-	-	(22,504)	-	111,805	-	-	111,805
Foreign currency translation differences	-	-	-	-	6,725	-	-	6,725	(5,082)	-	1,643
Acquisition of NCI without a change in control	-	-	-	-	-	431	-	431	-	(15,160)	(14,729)
Balance at 30 September 2019	975,638	(47,158)	117,301	(4,909)	(36,655)	67,039	1,198	1,072,454	314,786	25,396	1,412,636

* The Bank used to recognise gain / (loss) on sale of treasury shares in the statutory reserve. The Bank has regrouped the losses on sale of treasury shares of US\$ 24,818 thousand for the year ended 31 December 2018 to retained earnings.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

for the nine months ended 30 September 2019 (continued)

US\$ 000's

	Attributable to shareholders of the Bank							Non – controlling interests	Total owners' equity	
	Share capital	Share premium	Treasury shares	Statutory reserve	Retained earnings	Share grant reserve	Foreign currency translation reserve			Total
30 September 2018 (reviewed)										
Balance at 1 January 2018 (as previously reported)	975,638	3,058	(58,417)	105,893	122,825	1,026	-	1,150,023	345,770	1,495,793
Impact of adoption of FAS 30	-	-	-	-	(16,586)	-	-	(16,586)	(13,092)	(29,678)
Balance at 1 January 2018 (restated)	975,638	3,058	(58,417)	105,893	106,239	1,026	-	1,133,437	332,678	1,466,115
Profit for the period (page 3)	-	-	-	-	103,438	-	-	103,438	1,222	104,660
Total recognised income and expense	-	-	-	-	103,438	-	-	103,438	1,222	104,660
Dividends declared	-	-	-	-	(82,412)	-	-	(82,412)	-	(82,412)
Transfer to zakah and charity fund	-	-	-	-	(2,432)	-	-	(2,432)	(522)	(2,954)
Derecognition on loss of control	-	-	-	-	(35)	-	-	(35)	(745)	(780)
Issue of shares under incentive scheme	-	-	-	-	62	60	-	122	49	171
Purchase of treasury shares	-	-	(72,311)	-	-	-	-	(72,311)	-	(72,311)
Sale of treasury shares	-	(3,058)	41,699	-	(3,030)	-	-	35,611	-	35,611
Foreign currency translation differences	-	-	-	-	-	-	(26,713)	(26,713)	(11,793)	(38,506)
Non-controlling interests arising on acquisition of a subsidiary	-	-	-	-	-	-	-	-	6,383	6,383
Balance at 30 September 2018	975,638	-	(89,029)	105,893	121,830	1,086	(26,713)	1,088,705	327,272	1,415,977

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the nine months ended 30 September 2019

US\$ 000's

	30 September 2019 (reviewed)	30 September 2018 (reviewed)
OPERATING ACTIVITIES		
Profit for the period	70,245	104,660
Adjustments for:		
Income from deal related income	(77,012)	-
Income from commercial banking	(15,926)	(16,549)
Income from proprietary investments	(11,851)	(11,885)
Income from dividend and gain / (loss) on treasury investments	(30,880)	(1,270)
Foreign exchange (gain) / loss	1,567	(351)
Restructuring related income	(29,406)	(80,300)
Other income	-	(4,586)
Finance expense	84,672	41,401
Impairment allowances	28,433	9,455
Depreciation and amortisation	1,636	1,557
	21,478	42,132
Changes in:		
Placements with financial institutions (original maturities of more than 3 months)	(123,305)	(15,465)
Financing assets	(107,780)	42,298
Other assets	(122,752)	(25,508)
CBB Reserve and restricted bank balance	(13,165)	(7,972)
Clients' funds	27,830	(14,246)
Placements from financial and non-financial institutions	1,046,986	261,251
Customer current accounts	(8,474)	(29,331)
Equity of investment account holders	74,575	10,137
Payables and accruals	9,045	(8,148)
Net cash generated from operating activities	804,438	255,148
INVESTING ACTIVITIES		
Payments for purchase of equipment	(556)	(1,447)
Proceeds from sale of proprietary investment securities, net	2,156	(87,769)
Purchase of treasury portfolio, net	(419,306)	(30,612)
Proceeds from sale of a subsidiary	-	104,591
Proceeds from sale of investment in real estate	38,352	-
Purchase of investment in real estate	-	(2,652)
Dividends received from proprietary investments and co-investments	4,164	21,255
Advance paid for development of real estate	(16,282)	(9,099)
Acquisition of additional stake in a subsidiary	-	(5,144)
Net cash used in investing activities	(391,472)	(10,877)
FINANCING ACTIVITIES		
Financing liabilities, net	11,312	(57,477)
Finance expense paid	(67,569)	(33,888)
Dividends paid	(30,590)	(75,646)
Acquisition of NCI	(9,026)	-
Purchase of treasury shares, net	(12,283)	(30,776)
Net cash used in financing activities	(108,156)	(197,787)
Net increase in cash and cash equivalents during the period	304,810	46,484
Cash and cash equivalents at 1 January *	397,620	256,887
Cash and cash equivalents at 30 September	702,430	303,371
Cash and cash equivalents comprise: *		
Cash and balances with banks (excluding CBB Reserve balance and restricted cash)	333,483	220,398
Placements with financial institutions (original maturities of 3 months or less)	368,947	82,973
	702,430	303,371

* net of expected credit loss of US\$ 55 thousand (31 December 2018: US\$ 1,041 thousand). The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the nine months ended 30 September 2019

30 September 2019 (reviewed)

Company	Balance at 1 January 2019			Movements during the period					Balance at 30 September 2019			
	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	0.33	50	-	-	-	-	-	-	150	0.33	50
Al Basha'er Fund	13	7.03	91	-	12	-	-	-	-	13	7.91	103
Safana Investment (RIA 1)	6,254	2.65	16,573	-	-	-	-	-	-	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5)	3,434	2.65	9,100	-	-	-	-	-	-	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,447	-	12	-	-	-	-			28,459

30 September 2018 (reviewed)

Company	Balance at 1 January 2018			Movements during the period					Balance at 30 September 2018			
	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	53	-	-	-	-	-	-	150	0.35	53
Al Basha'er Fund	13	7.15	93	-	-	-	-	-	-	13	7.15	93
Safana Investment (RIA 1)	6,254	2.65	16,573	-	-	-	-	-	-	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5)	3,529	2.66	9,387	-	-	-	-	-	-	3,529	2.66	9,387
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,739	-	-	-	-	-	-			28,739

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

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

for the nine months ended 30 September 2019

US\$ 000's

	30 September 2019 (reviewed)	30 September 2018 (reviewed)
Sources of zakah and charity fund		
Contribution by the Group	2,437	2,954
Non-Islamic income	282	32
Total sources	2,719	2,986
Uses of zakah and charity fund		
Contributions to charitable organisations	(1,466)	(104)
Total uses	(1,466)	(104)
Surplus of sources over uses	1,253	2,882
Undistributed zakah and charity fund at beginning of the period	4,636	2,840
Undistributed zakah and charity fund at end of the period	5,889	5,722
Represented by:		
Zakah payable	944	1,870
Charity fund	4,945	3,852
	5,889	5,722

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

1 Reporting entity

The condensed consolidated interim financial information for the nine months ended 30 September 2019 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 / Owning Company	Effective ownership interests 2019	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		89.26%	Real estate development
Tunis Bay Investment Company ('TBIC')			51.41%	Real estate development
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects")			77.20%	Real estate development
Al Areen Project companies			100%	Real estate development
Falcon Cement Company BSC (c)			51.72%	Cement manufacturing
Gulf Holding Company KSCC	State of Kuwait		51.18%	Investment in real estate
Surooh Company ('Surooh')	Cayman Islands		KHCB	10.00%

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 2018. 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 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

2 *Basis of preparation (continued)*

Change in presentation:

Effective January 2019, the Group has changed its description and presentation of the statement of financial position and income statement to better align them with the various revenue generating activities of the Group and to enhance disclosures to enable users have a better understanding of the activities and financial performance of the Group. The below paragraphs and tables describe the Group's significant lines of business and sources of revenue they are associated with.

Activities:

The Group's primary activities include: a) to provide investment opportunities and manage assets on behalf of its clients as an agent, b) to provide commercial banking services, c) to undertake targeted development and sale of infrastructure and real estate projects for enhanced returns, d) to co-invest with clients and hold strategic proprietary assets as a principal. In addition, the Group also manages its treasury portfolio with the objective of earning higher returns from capital and money market opportunities.

Segments:

To undertake the above activities, the Group has organised itself in the following operating segments units:

Investment banking	<p>Investment banking segment focuses on private equity and asset management activities. Private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The Group acts as both a principal and an intermediary by acquiring, managing and realizing investments in investment assets for institutional and high net worth clients. The asset management unit is responsible for identifying and managing investments in income yielding real estate and leased assets in the target markets.</p> <p>Investment banking activities focuses on acquiring, managing and realizing investments to achieve and exceed benchmark returns.</p> <p>Investment banking activities produce fee-based, activity-based and asset-based income for the Group. Assets under this segment include proprietary private equity, co-investments and strategic non-banking investments.</p>
Commercial banking	<p>This includes all sharia compliant corporate banking and retail banking activities of the Group provided through the Group's subsidiary, Khaleeji Commercial Bank BSC. The subsidiary also manages its own treasury and proprietary investment book within this operating segment.</p>
Real Estate development	<p>This business unit is primarily involved in origination and management of large scale economic infrastructure projects. The business unit also covers the Group's investment in real estate and related assets.</p>
Corporate and treasury	<p>All common costs and activities that are undertaken at the Group level, including treasury and residual investment assets, is considered as part of the Corporate and treasury activities of the Group.</p>

Each of the above operating segments, except commercial banking which is a separate subsidiary has its own dedicated team of professionals and are supported by a common placement team and support units.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

2 *Basis of preparation (continued)*

The strategic business units offer different products and services, and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level. Expenses are not allocated to the business segment.

Sources of revenue:

The Group primarily earns its revenue from the following sources and presents its statement of income accordingly:

Activity/ Source	Products	Types of revenue
Investment banking activity	Deal-by-deal offerings of private equity, income yielding asset opportunities	<i>Deal related income</i> , earned by the Group from investee companies in connection with new acquisitions <i>Fee based income</i> , in the nature of management fees, performance fee, acquisition fee and exit fee which are contractual in nature
Commercial banking income	Islamic Shari'ah compliant corporate, institutional and retail banking financing and cash management products and services	Financing income, fees and investment income (net of direct funding costs)
Proprietary investments	Proprietary investments comprise the Group's strategic and co-investment exposure. This also includes non-banking subsidiaries and equity -accounted investees where the Bank has significant influence.	Includes dividends, gain / (loss) on sale and remeasurement of proprietary investments, co-investments and share of profit / (loss) of equity accounted investees. Income from restructuring of liabilities and funding arrangements are also considered as income from proprietary investments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

2 *Basis of preparation (continued)*

Activity/ Source	Products	Types of revenue
Co-investment	Represent the Group's co-investment along with its clients in the products promoted by the Group.	<i>Dividends, gain / (loss) on co-investments of the Bank</i>
Real estate	Proprietary holdings of real estate for direct sale, development and sale, and/ or rental yields. This also includes the group's holding or participation in leisure and hospitality assets.	<i>Development and sale income</i> , from development and sale of real estate projects of the Group based on percentage of completion (POC) method <i>Rental and operating income</i> , from rental and other ancillary income from investment in real estate
Treasury operations	Represents the Bank's liquidity management operations, including its fund raising and deployment activities to earn a commercial profit margin.	Income arising from the deployment of the Bank's excess liquidity, through but not limited to short term placements with bank and financial institutions, money market instruments, capital market and other related treasury investments.

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 2018.

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 2018.

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 2018.

6 **Seasonality**

Due to the inherent nature of the Group's business (investment banking, commercial banking and leisure and hospitality management business), the nine month results reported in this condensed consolidated interim financial information may not represent a proportionate share of the overall annual results.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

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 2018 and the reviewed condensed consolidated interim financial information for the nine months ended 30 September 2018. 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 nine months ended 30 September 2018.

8 Appropriations

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

In the shareholders meeting held on 28 March 2019, the following were approved and effected during the period:

- a) Cash dividend of 3.34% of the paid-up share capital amounting to US\$ 30 million;
- b) Bonus shares of US\$ 55 million representing 5.97% of the nominal value of shares (1 share for every 16.74 shares held).
- c) Appropriation of US\$ 1 million towards charity for the year;
- d) Appropriation of US\$ 941 thousand towards zakah for the year;
- e) Transfer of US\$ 11.4 million to statutory reserve; and
- f) Extinguishment of 207,547,170 treasury shares held by the Bank as of the date of the AGM, after obtaining the approval of relevant authorities.

9 Treasury portfolio

	30 September 2019 US\$ 000's (reviewed)	31 December 2018 US\$ 000's (audited)	30 September 2018 US\$ 000's (reviewed)
Placements with financial institutions	668,839	289,558	106,739
Equity type investments			
<i>At fair value through income statement</i>			
- Structured notes *	216,060	-	-
Debt type investments			
<i>At fair value through income statement</i>			
- Quoted sukuk	265,610	100,527	76,059
<i>At amortised cost</i>			
- Quoted sukuk *	505,341	427,915	351,856
	1,655,850	818,000	534,654

* Includes structured notes of US\$ 216,060 thousand (31 December 2018: Nil) and quoted sukuk of US\$ 50,487 thousand (31 December 2018: US\$ 177,092 thousand) pledged against financing liabilities of US\$ 197,999 thousand (31 December 2018: US\$ 142,447 thousand).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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10 Financing assets

	30 September 2019 US\$ 000's (reviewed)	31 December 2018 US\$ 000's (audited)	30 September 2018 US\$ 000's (reviewed)
Murabaha	982,207	948,189	946,510
Musharaka	6,237	9,393	9,977
Wakala	13,280	13,281	13,280
Mudharaba	2,776	2,782	2,782
Istisnaa	3,000	5,448	3,789
Assets held-for-leasing	394,855	294,788	264,955
	1,402,355	1,273,881	1,241,293
Less: Impairment allowances	(85,628)	(64,934)	(63,814)
	1,316,727	1,208,947	1,177,479

11 Real estate investments

	30 September 2019 US\$ 000's (reviewed)	31 December 2018 US\$ 000's (audited)	30 September 2018 US\$ 000's (reviewed)
Investment Property			
- Land	465,847	482,851	485,291
- Building	40,841	40,841	40,841
	506,688	523,692	526,132
Development Property			
- Land	796,639	811,684	772,658
- Building	512,430	504,634	471,492
	1,309,069	1,316,318	1,244,150
	1,815,757	1,840,010	1,770,282

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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12 Proprietary investments

	30 September 2019 US\$ 000's (reviewed)	31 December 2018 US\$ 000's (audited)	30 September 2018 US\$ 000's (reviewed)
Equity type investments			
<i>At fair value through income statement</i>			
- Quoted securities	-	-	917
- Unquoted securities	30,435	34,875	34,875
	30,435	34,875	35,792
<i>At fair value through equity</i>			
- Listed securities (at fair value)	27,246	29,093	103
- Unquoted securities (at cost less impairment)	102,969	103,080	104,613
	130,215	132,173	104,716
Equity-accounted investees	115,877	66,964	95,130
	276,527	234,012	235,638

13 Co-investments

	30 September 2019 US\$ 000's (reviewed)	31 December 2018 US\$ 000's (audited)	30 September 2018 US\$ 000's (reviewed)
<i>At fair value through equity</i>			
- Unquoted securities (at cost less impairment)	74,352	77,644	79,955
	74,352	77,644	79,955

14 Assets held-for-sale and liabilities related to it

	30 September 2019 US\$ 000's (reviewed)	31 December 2018 US\$ 000's (audited)	30 September 2018 US\$ 000's (reviewed)
Assets	101,213	147,141	-
Liabilities	39,936	42,749	-

Assets and related liabilities held-for-sale represents the assets and liabilities of Falcon Cement Company BSC (c) ('FCC'), the Group's subsidiary acquired in 2018. The Group has an active plan approved by the Board, to sell its stake in FCC, and accordingly, the asset, liabilities and non-controlling interest acquired are classified as held-for-sale in the consolidated statement of financial position. The net profit / (loss) from operations is presented in the condensed consolidated income statement as 'Profit / (loss) from assets held-for-sale and discontinued operations, net'.

During the period, the Group disposed off its entire stake (along with the additional interests acquired during the quarter) in Sheffield Dubai Investment Company (SDIC) that was previously classified as 'held-for-sale' resulting in loss of control, accordingly, the assets and liabilities of SDIC were derecognised in the condensed consolidated interim financial information and the resulting gain of US\$ 8 million is included under 'deal related income'.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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15 Term financing

	30 September 2019	31 December 2018	30 September 2018
	US\$ 000's (reviewed)	US\$ 000's (audited)	US\$ 000's (reviewed)
Murabaha financing	196,158	145,167	173,633
Wakala financing	-	24,797	45,982
Ijarah financing	25,182	26,743	12,848
Other borrowings	46,676	59,430	27,616
	268,016	256,137	260,079

16 Restructuring related income

This represents income from restructuring of liabilities of a subsidiary. During the period, the Group agreed to settle a liability of US\$ 56 million to a service provider in exchange for cash and partial stake (40%) in a subsidiary engaged in hospitality management. The excess of the the carrying amount of liability over the total consideration of cash and carrying value of the 40% stake in the subsidiary is recognised as 'restructuring related income' representing income from settlement of liabilities at lower amounts. As the investee is now jointly managed between the service provider and the Group based on contractual arrangement between the parties (joint venture), this has resulted in loss of control and the carrying value of retained investment is recognised as 'equity-accounted investee' and included under Proprietary investment.

2018 income of US\$ 35.3 million represents income from restructuring of liabilities of a subsidiary. In 2016, as part of total recoveries made by the Group following litigation settlements, the Group had acquired the holding company of a master developer for a project in the Kingdom of Bahrain under administration and insolvency proceedings which had net liabilities at the time of the settlement. Subsequently, the Group managed to get the company out of administration by restructuring the liabilities of the Company and negotiating settlements with creditors through a court administered process. The legal process of confirming creditors claims was completed in 2018 resulting in the Company being taken out of legal administration and handed back to the Group. Accordingly the difference between the previously recognised liability / provisions and the court approved amounts was reversed to the income statement.

17 Impairment allowances

	Nine months ended	
	30 September 2019	30 September 2018
	US\$ 000's (reviewed)	US\$ 000's (reviewed)
Expected credit loss on:		
- Bank balances	7	1
- Placement with financial institutions	816	49
- Financing assets	17,952	4,485
- Other receivables	2,580	1,382
- Investment in equity securities	7,078	3,538
	28,433	9,455

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

18 Related party transactions

The significant related party balances and transactions as at 30 September 2019 are given below:

30 September 2019 (reviewed)	Related parties as per FAS 1			Assets under management (including special purpose and other entities) US\$ 000's	Total US\$ 000's
	Associates and joint venture	Key management personnel	Significant shareholders / entities in which directors are interested		
	US\$ 000's	US\$ 000's	US\$ 000's		
Assets					
Financing assets	-	5,621	3,166	60,530	69,317
Proprietary investments	103,868	-	6,058	52,798	162,724
Co-investments	-	-	-	29,795	29,795
Receivables and prepayments	13,235	-	13,257	233,634	260,126
Liabilities					
Clients' funds	72	-	-	14,661	14,733
Placements from financial, non-financial institutions and individuals	-	4,761	396	-	5,157
Customer accounts	167	371	13,237	3,199	16,974
Term financing	39,936	-	-	-	39,936
Payables and accruals	1,398	-	10,010	93,312	104,720
Equity of investment account holders	1,111	1,886	25,516	1,103	29,616
Income					
Income from Investment banking	-	-	-	78,917	78,917
Income from commercial banking	(143)	42	325	(95)	129
Income from proprietary and co-investments	7,814	-	-	1,606	9,420
Real estate income	-	50	17,962	-	18,012
Treasury and other income	313	-	-	876	1,189
Expenses					
Operating expenses	-	11,437	-	-	11,437
Finance expense	-	-	623	-	623
Transactions during the period	167,771	24,418	90,550	570,336	853,075
Sale of real estate investment					

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18 *Related party transactions (continued)*

	Related parties as per FAS 1			Assets under management (including special purpose and other entities) US\$ 000's	Total US\$ 000's
	Associates and joint venture US\$ 000's	Key management personnel US\$ 000's	Significant shareholders / entities in which directors are interested US\$ 000's		
31 December 2018 (audited)					
Assets					
Financing assets	-	6,016	15,146	44,810	65,972
Proprietary investments	54,829	-	6,058	54,958	115,845
Co-investments	-	-	-	16,798	16,798
Receivables and prepayments	914	-	13,257	47,605	61,776
Liabilities					
Investment funds	129	-	-	14,412	14,541
Placements from financial, non-financial institutions and individuals	-	-	249,117	-	249,117
Customer accounts	178	2,117	1,844	3,196	7,335
Term financing	-	-	24,797	-	24,797
Payables and accruals	-	3,499	3,132	8,364	14,995
Equity of investment account holders	1,273	3,634	28,592	1,241	34,740

	Related parties as per FAS 1			Assets under management (including special purpose and other entities) US\$ 000's	Total US\$ 000's
	Associates and joint venture US\$ 000's	Key management personnel US\$ 000's	Significant shareholders / entities in which directors are interested US\$ 000's		
Nine months ended 30 September 2018 (reviewed)					
Income					
Income from investment banking services	-	-	15,000	16,600	31,600
Fee and commission income	-	-	-	1,766	1,766
Income from financing assets	-	265	740	-	1,005
Share of profit of equity-accounted investees	3,431	-	-	-	3,431
Income from investment securities, net	-	-	-	280	280
Other income	(48)	-	-	-	(48)
Expenses					
Return to investment account holders	24	138	147	21	330
Finance expense	-	-	5,246	-	5,246
Staff cost	-	3,406	-	-	3,406
Other expenses	-	-	-	98	98
Transaction during the period					
Subscription in projects promoted by the Group	-	-	38,100	-	38,100
Discount on subscription	-	-	8,100	-	8,100

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

19 Segment reporting

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

	Real estate development	Investment banking	Commercial banking	Corporate and treasury	Total
	US\$ '000s	US\$ '000s	US\$ '000s	US\$ '000s	US\$ '000s
30 September 2019 (reviewed)					
Segment revenue	19,699	133,207	52,425	48,692	254,023
Segment expenses	(20,633)	(50,979)	(52,453)	(59,713)	(183,778)
Segment result *	(934)	82,228	(28)	(11,021)	70,245
Segment assets	2,156,046	379,982	2,450,378	1,151,845	6,138,251
Segment liabilities	548,038	771,848	784,679	1,649,565	3,754,130
<i>Other segment information</i>					
Impairment allowance	209	528	27,681	15	28,433
Proprietary investments (<i>Equity-accounted investees</i>)	46,661	57,207	12,009	-	115,877
Equity of investment account holders	-	-	970,891	594	971,485
Commitments	28,186	-	227,565	23,500	279,251

* Includes segment result of discontinued operations, net.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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19 *Segment reporting (continued)*

	Real estate development US\$ '000s	Investment banking US\$ '000s	Commercial banking US\$ '000s	Unallocated / Elimination US\$ '000s	Total US\$ '000s
30 September 2018 (reviewed)					
Segment revenue *	68,467	61,003	39,450	22,561	191,481
Segment expenses	(14,141)	(27,539)	(33,573)	(11,568)	(86,821)
Segment result	54,326	33,464	5,877	10,993	104,660
31 December 2018 (audited)					
Segment assets	2,035,664	686,688	2,246,159	20,854	4,989,365
Segment liabilities	1,238,147	558,787	817,529	55,214	2,669,677
<i>Other segment information</i>					
Finance expense	20,395	4,199	16,566	242	41,402
Impairment allowance	-	319	9,136	-	9,455
Proprietary investments (Equity accounted investees)	5,702	49,127	12,135	-	66,964
Equity of investment account holders	-	-	896,320	590	896,910
Commitments	114,314	-	122,167	25,000	261,481

* Includes segment result of discontinued operations, net.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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20 Commitments and contingencies

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

	30 September 2019 US\$ 000's (reviewed)	31 December 2018 US\$ 000's (audited)	30 September 2018 US\$ 000's (reviewed)
Undrawn commitments to extend finance	194,056	88,045	89,565
Financial guarantees	33,509	34,122	47,067
Capital commitment for infrastructure development projects	27,086	55,407	65,584
Purchase commitment for investment in real estate	-	58,907	-
Commitment to invest	-	-	-
Commitment to lend	16,500	18,000	-
Other commitments	8,100	7,000	-
	279,251	261,481	202,216

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 2019 due to the performance of any of its projects.

Litigations, claims and contingencies

The Group has a number of claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Further, claims against the Bank also have been filed by former employees. Based on the advice of the Bank's external legal counsel, 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.

21 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 2019 and 31 December 2018, the fair value of bank balances, placements with financial institutions, investment in quoted sukuk carried at amortised cost, other financial assets, client funds, 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
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21 *Financial instruments (continued)*

Term financing

As at 30 September 2019, the fair value of term financing was estimated at US\$ 199,960 thousand (carrying value US\$ 199,960 thousand) (31 December 2018: fair value US\$ 256,137 thousand (carrying value US\$ 256,137 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 September 2019 (reviewed)

i) Proprietary investments

Investment securities carried at fair value through:

- income statement
- equity

	Level 1	Level 2	Level 3	Total
US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
- income statement	-	-	30,435	30,435
- equity	27,246	-	-	27,246
	27,246	-	30,435	57,681
<i>ii) Treasury portfolio</i>				
Investment securities carried at fair value through income statement	481,671	-	-	481,671
	481,671	-	-	481,671
	508,917	-	30,435	539,352

31 December 2018 (audited)

i) Proprietary investments

Investment securities carried at fair value through:

- income statement
- equity

	Level 1	Level 2	Level 3	Total
US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
- income statement	-	-	34,875	34,875
- equity	29,093	-	-	29,093
	29,093	-	34,875	63,968
<i>ii) Treasury portfolio</i>				
Investment securities carried at fair value through income statement	100,527	-	-	100,527
	100,527	-	-	100,527
	129,620	-	34,875	164,495

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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21 *Financial instruments (continued)*

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

	30 September 2019 US\$ 000's (reviewed)	31 December 2018 US\$ 000's (audited)
At beginning of the period	34,875	34,875
Losses in income statement	(4,440)	-
Derecognition on loss of control	-	-
Transfers into (out) of Level 3	-	-
At end of the period	30,435	34,875

22 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.