GFH FINANCIAL GROUP BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 June 2018

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an Islamic wholesale Bank)
Registered Office	:	Bahrain Financial Harbour Office: 2901, 29th Floor Building 1398, East Tower Block: 346, Road: 4626 Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	:	Jassim AlSeddiqi, *Chairman* H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa, *Vice Chairman* Hisham Alrayes Amro Saad Omar Al Menhali Mazen Bin Mohammed Al Saeed Mosabah Saif Al Mautairy Ghazi F. 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 six months ended 30 June 2018

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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 August 2018

Introduction

We have reviewed the accompanying 30 June 2018 condensed consolidated interim financial information of GFH Financial Group BSC (the "Bank") and its subsidiaries (together the Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 June 2018;
- the condensed consolidated income statement for the six-month and three-month periods ended 30 June 2018;
- the condensed consolidated statement of changes in owners' equity for the six-month period ended 30 June 2018;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2018;
- the condensed consolidated statement of changes in restricted investment accounts for the six-month period ended 30 June 2018;
- the condensed consolidated statement of changes in sources and uses of zakah and charity fund for the six-month period ended 30 June 2018; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with Financial Accounting Standards issued by Accounting and Auditing Organisation for Islamic Financial Institutions. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2018 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.

KPMG

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018 US$ 000's

	note	**30 June 2018 *** (reviewed)	31 December 2017 (audited)	30 June 2017 (reviewed)
ASSETS				
Cash and bank balances	9	171,456	216,445	162,074
Placements with financial institutions		67,879	95,569	261,300
Financing assets		961,235	992,502	987,226
Investment securities	10	571,444	521,408	452,611
Assets acquired for leasing		264,989	257,806	265,377
Investment properties		525,853	616,263	484,973
Development properties		1,272,620	893,037	882,765
Equity-accounted investees		85,441	81,440	116,662
Property, plant and equipment		113,630	117,135	120,089
Other assets	11	295,662	318,852	200,478
Total assets		**4,330,209**	4,110,457	3,933,555
LIABILITIES				
Investors' funds		27,072	39,413	36,538
Placements from financial institutions, other entities and individuals		947,184	858,496	833,208
Customer current accounts		165,751	189,607	222,543
Financing liabilities	12	471,447	365,062	204,340
Other liabilities		440,894	255,733	232,562
Total liabilities		**2,052,348**	1,708,311	1,529,191
Equity of investment account holders		**832,116**	906,353	882,297
OWNERS' EQUITY				
Share capital		975,638	975,638	657,794
Treasury shares		(50,815)	(58,417)	(340)
Share premium		-	3,058	-
Capital adjustment account		-	-	282,130
Statutory reserve		102,863	105,893	95,475
Retained earnings		93,897	122,825	102,095
Investment fair value reserve		3,342	-	-
Foreign currency translation reserve		(11,866)	-	-
Share grant reserve		1,115	1,026	966
Total equity attributable to shareholders of the Bank		**1,114,174**	1,150,023	1,138,120
Non-controlling interests		331,571	345,770	383,947
Total owners' equity (page 4)		**1,445,745**	1,495,793	1,522,067
Total liabilities, equity of investment account holders and owners' equity		**4,330,209**	4,110,457	3,933,555

** June 2018 results reflect the adoption of FAS 30. Prior periods have not been restated. refer note 3 for further details.*

The Board of Directors approved the condensed consolidated interim financial information consisting of pages 2 to 24 on 13 August 2018.

Jassim AlSeddiqi
Chairman

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

Hisham Alrayes
Chief Executive Officer & Board member

CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2018 US$ 000's

	Six months ended		Three months ended	
	30 June 2018 * (reviewed)	30 June 2017 (reviewed)	**30 June 2018 *** (reviewed)	30 June 2017 (reviewed)
Income from investment banking activities	31,600	73,875	22,700	36,119
Fee and commission income	3,699	3,479	1,795	1,766
Income from placements with financial institutions	1,572	1,712	560	1,103
Income from financing assets and assets acquired-for-leasing	34,403	36,197	17,346	18,451
Share of profit of equity-accounted investees, net	3,999	1,038	544	1,411
Income from investment securities, net	15,242	8,870	11,257	6,058
Income from real estate	4,411	-	1,211	-
Foreign exchange gain/(loss), net	478	2,134	(491)	1,872
Other income, net (note 13)	65,554	12,750	27,707	9,311
Operating income before return to investment account holders and finance expenses	**160,958**	140,055	**82,629**	76,091
Return to investment account holders before Group's share as Mudarib	(15,406)	(22,019)	(7,581)	(11,003)
Group's share as Mudarib	4,634	11,448	2,355	5,573
Return to investment account holders	**(10,772)**	(10,571)	**(5,226)**	(5,430)
Less: Finance expense	(26,008)	(19,065)	(13,677)	(9,828)
Total income	**124,178**	110,419	**63,726**	60,833
Staff cost	22,021	24,049	11,475	13,430
Investment advisory expenses	4,849	5,235	1,994	2,685
Other operating expenses	18,203	22,087	9,721	11,883
Total expenses	**45,073**	51,371	**23,190**	27,998
Profit before impairment allowances	**79,105**	59,048	**40,536**	32,835
Impairment allowances (charge) / reversal for the period	(5,699)	3,496	(4,025)	(2,349)
Profit from continuing operations	**73,406**	62,544	**36,511**	30,486
Discontinued operations				
Profit from operations of non-banking subsidiaries, net	-	2,975	-	1,482
PROFIT FOR THE PERIOD	**73,406**	65,519	**36,511**	31,968
Profit for the period attributable to:				
Shareholders of the Bank	72,502	62,142	36,023	30,227
Non-controlling interests	904	3,377	488	1,741
	73,406	65,519	**36,511**	31,968
Earnings per share				
Basic and diluted earnings per share (US cents)	**2.02**	2.51	**1.00**	1.22
Earnings per share – continuing operations				
Basic and diluted earnings per share (US cents)	**2.02**	2.39	**1.00**	1.16

** June 2018 results reflect the adoption of FAS 30. Prior periods have not been restated. refer note 3 for further details.*

The condensed consolidated interim financial information consists of pages 2 to 24.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the six months ended 30 June 2018 US$ 000's

	Attributable to shareholders of the Bank										
30 June 2018 (reviewed)	**Share capital**	**Share premium**	**Treasury shares**	**Statutory reserve**	**Retained earnings**	**Share grant reserve**	**Investment fair value reserve**	**Foreign currency translation reserve**	**Total**	**Non – controlling interests**	**Total owners' equity**
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(note3(b)	-	-	-	-	(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)	-	-	-	-	72,502	-	-	-	72,502	904	73,406
Fair value changes during the period	-	-	-	-	-	-	3,342	-	3,342	-	3,342
Total recognised income and expense	**-**	**-**	**-**		**72,502**	**-**	**3,342**	**-**	**75,844**	**904**	**76,748**
Dividends declared (note 8)	-	-	-	-	(82,412)	-	-	-	(82,412)	-	(82,412)
Transfer to zakah and charity fund (page 8)	-	-	-	-	(2,432)	-	-	-	(2,432)	(522)	(2,954)
Derecognition on loss of control	-	-	-	-	-	-	-	-	-	(711)	(711)
Issue of shares under incentive scheme	-	-	-	-	-	89	-	-	89	-	89
Purchase of treasury shares	-	-	(16,241)	-	-	-	-	-	(16,241)	-	(16,241)
Sale of treasury shares	-	(3,058)	23,843	(3,030)	-	-	-	-	17,755	-	17,755
Foreign currency translation differences	-	-	-	-	-	-	-	(11,866)	(11,866)	(7,161)	(19,027)
Non-controlling interests arising on acquisition of a subsidiary (note 14)	-	-	-	-	-	-	-	-	-	6,383	6,383
Balance at 30 June 2018	**975,638**	**-**	**(50,815)**	**102,863**	**93,897**	**1,115**	**3,342**	**(11,866)**	**1,114,174**	**331,571**	**1,445,745**

The condensed consolidated interim financial information consists of pages 2 to 24.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the six months ended 30 June 2018 *(continued)* US$ 000's

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2018 US$ 000's

	30 June 2018 (reviewed)	30 June 2017 (reviewed)
OPERATING ACTIVITIES		
Profit for the period	73,406	65,519
Adjustments for:		
Income from investment banking activities	(15,000)	-
Income from investment securities	(15,242)	(8,869)
Share of profit of equity-accounted investees	(3,999)	(4,013)
Foreign exchange loss/ (gain)	307	(2,134)
Gain on sale of a subsidiary	-	(61,719)
Income from restructuring	(35,300)	-
Finance expense	26,008	19,065
Impairment allowances (reversal) / charge	5,699	(3,496)
Depreciation and amortisation	1,025	816
	36,904	**5,169**
Changes in:		
Placements with financial institutions (more than 3 months)	8,301	195
Financing assets	1,589	(16,636)
Assets acquired for leasing	(7,183)	(19,120)
Other assets	(52,118)	(13,543)
CBB Reserve balance	(2,454)	2,494
Investors' funds	(12,341)	(8,027)
Placements from financial, other entities and individuals	88,688	262,693
Customer current accounts	(23,856)	29,760
Equity of investment account holders	(74,237)	(139,893)
Other liabilities	(11,093)	(6,601)
Net cash (used in) / generated from operating activities	**(47,800)**	96,491
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(1,065)	(743)
Purchase of investment securities	(99,120)	(74,718)
Proceeds from sale of a subsidiary	104,591	64,414
Net cash paid for acquisition of a subsidiary	(5,144)	-
Proceeds from sale of investment securities	83,880	25,134
Dividend income	15,983	6,973
Payment for purchase of investment property	(2,652)	-
Net cash generated from investing activities	**96,473**	21,060
FINANCING ACTIVITIES		
Financing liabilities, net	(7,012)	29,297
Finance expense paid	(22,651)	(17,168)
Dividends paid	(90,533)	(59,799)
Acquisition of additional stake in a subsidiary	-	(15,228)
Purchase of treasury shares, net	1,514	-
Net cash used in financing activities	**(118,682)**	(62,898)
Net (decrease) / increase in cash and cash equivalents during the period	**(70,009)**	54,653
Cash and cash equivalents at 1 January *	256,887	312,572
Cash and cash equivalents at 30 June	**186,878**	367,225
Cash and cash equivalents comprise: *		
Cash and balances with banks (excluding CBB Reserve balance and restricted cash)	118,999	111,228
Placements with financial institutions (less than 3 months)	67,879	255,997
	186,878	367,225

** net of expected credit loss of US$ 7 thousands (31 December 2017: US$ 5 thousands)*

The condensed consolidated interim financial information consists of pages 2 to 24.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the six months ended 30 June 2018

30 June 2018 (reviewed)	**Balance at 1 January 2018**			**Movements during the period**						**Balance at 30 June 2018**		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revalua-tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	13	7.15	93	-	-	-	-	-	-	13	7.15	93
Safana Investment (RIA 1)	6,254	2.65	16,588	-	-	-	-	-	-	6,254	2.65	16,588
Shaden Real Estate Investment WLL (RIA 5)	3,529	2.65	9,386	-	-	-	-	-	-	3,529	2.65	9,386
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,752	**-**	**-**	**-**	**-**	**-**	**-**			**28,752**

30 June 2017 (reviewed)	Balance at 1 January 2017			Movements during the period						Balance at 30 June 2017		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revalua-tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	6.85	637	(532)	(12)	-	-	-	-	13	7.03	93
Safana Investment (RIA 1)	6,304	2.65	16,721	(133)	-	-	-	-	-	6,254	2.65	16,588
Shaden Real Estate Investment WLL (RIA 5)	3,652	2.65	9,686	(300)	-	-	-	-	-	3,539	2.65	9,386
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			29,729	(965)	(12)	-	-	-	-			28,752

The condensed consolidated interim financial information consists of pages 2 to 24.

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the six months ended 30 June 2018 US$ 000's

	30 June 2018 (reviewed)	30 June 2017 (reviewed)
Sources of zakah and charity fund		
Contribution by the Group	2,954	4,481
Non-Islamic income	27	-
Total sources	**2,981**	4,481
Uses of zakah and charity fund		
Contributions to charitable organisations	(3)	(2,731)
Total uses	**(3)**	(2,731)
Surplus of sources over uses	**2,978**	1,750
Undistributed zakah and charity fund at beginning of the period	2,841	2,160
Undistributed zakah and charity fund at end of the period	**5,819**	3,910
Represented by:		
Zakah payable	1,970	28
Charity fund	3,849	3,882
	5,819	3,910

The condensed consolidated interim financial information consists of pages 2 to 24.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2018

1 Reporting entity

The condensed consolidated interim financial information for the six months ended 30 June 2018 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 2018	Activities
GFH Capital Limited	United Arab Emirates	GFH	100%	Investment management
Khaleeji Commercial Bank BSC ('KHCB')	Kingdom of Bahrain	GFH	55.41%	Islamic retail bank
Morocco Gateway Investment Company ('MGIC')	Cayman Islands	GFH	89.26%	Real estate development
Tunis Bay Investment Company ('TBIC')	Cayman Islands	GFH	51.41%	Real estate development
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects")	Cayman Islands	GFH	77.73%	Real estate development
Al Areen Hotels SPC	Kingdom of Bahrain	GFH	100%	Hospitality management
Al Areen Project companies	Kingdom of Bahrain	GFH	100%	Real estate development
Al Areen Leisure and Tourism Company – The Lost Paradise of Dilmun SPC ('LPOD')	Kingdom of Bahrain	GFH	100%	Amusement and theme park
GCL CPOL Management Company	Cayman Islands	GFH	100%	Acquire commercial office asset in USA
Gulf Holding Company KSC (Holding) *	State of Kuwait	GFH	51.18%	Investment in real estate
Surooh Company ('Surooh')	Cayman Islands	KHCB	10.00%	Construct and sell properties at "Oryx Hills".

** refer note 14*

2 Basis of preparation

The condensed consolidated interim financial information has been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with the requirement of AAOIFI and the Rule Book issued by the Central Bank of Bahrain (CBB) , 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 2017. 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 audited annual consolidated financial statements as at and for the year ended 31 December 2017.

3 Significant accounting policies

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group's audited financial statements for the year ended 31 December 2017, except for the effect of early adoption of FAS 30 as described below:

Adoption of FAS 30 – Impairment, Credit Losses and Onerous Commitments

The Group has early adopted FAS 30 as issued by AAOIFI in November 2017, effective for financial periods beginning on or after 1 January 2020. The date of transition is 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements as of and for the year ended 31 December 2017.

As permitted by the transitional provisions of FAS 30, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets as at the date of transition were recognised in the opening retained earnings.

The adoption of FAS 30 has resulted in changes in the accounting policies for impairment of financial assets. FAS 30 also amends disclosures required under other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'. Set out below are the FAS 30 transition impact disclosures for the Group.

(a) Changes in accounting policies

The key changes to the Group's accounting policies resulting from the adoption of FAS 30 are summarised below. Since the comparative financial information has not been restated, the accounting policies in respect of the financial instruments for comparative periods are based on respective standards as disclosed in the audited financial statements as of and for the year ended 31 December 2017.

Impairment of financial assets

FAS 30 introduces an 'expected credit losses' ("ECL") model as against the incurred loss model followed earlier. The new impairment model also applies to certain commitments and financial guarantee contracts but not to equity investments.

The Group applies a three-stage approach to measuring ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL

Stage 1 includes financial assets on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

3 Significant accounting policies (continued)

(b) Changes to the Significant Estimates and Judgements
Impairment of financial assets

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Inputs, assumptions and techniques used for estimating impairment

Credit risk grades
The Group's commercial banking subsidiary has an internal credit rating model that uses qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. The credit grades are calibrated such that the risk of default increases at each higher risk grade. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The Bank also uses external credit ratings for certain exposures.

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

I. Downgrade in risk rating according to the approved ECL policy;
II. Facilities restructured during previous twelve months;
III. Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances

Generating the term structure of Probability of Default (PD)
The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Group has taken exposures.

Measurement of expected credit losses
The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures expected credit loss using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and the associated recovery cost.

Credit risk grading
The Group's commercial banking subsidiary uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group's commercial banking subsidiary uses internal rating models tailored to the various categories of counterparty. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

3 Significant accounting policies (continued)

(c) Impact of adopting FAS 30

The impact from the adoption of FAS 30 as at 1 January 2018 has resulted in decrease in retained earnings by US$ 29.7 million:

	Retained earnings US$ 000's	**Non - controlling interests** US$ 000's
Balance as of 1 January 2018 (as previously reported)	122,825	345,770
Impact on recognition of expected credit losses		
Bank balances and placements with financial institutions	(5)	(2)
Investment in sukuk	(4)	(4)
Financing assets	(12,983)	(10,447)
Assets acquired for leasing (including lease rental receivables)	(2,523)	(2,031)
Other receivables	(316)	-
Commitments and financial guarantees	(755)	(608)
	(16,586)	(13,092)
Balance as of 1 January 2018 (restated)	**106,239**	**332,678**

(d) Exposures subject to ECL

The following table reconciles the exposures subject to ECL as at 31 December 2017 to the restated opening balances as at 1 January 2018 determined in accordance with FAS 30

	31 December 2017 US$ 000's	**Effect of Re-Measurement *** US$ 000's	**1 January 2018** US$ 000's
Bank balances and placements with financial institutions	193,919	(7)	193,912
Financing assets	992,502	(23,430)	969,072
Investment in sukuk	300,655	(8)	300,647
Assets acquired for leasing (including lease rental receivables)	280,592	(4,554)	276,038
Other receivables	143,526	(316)	143,210
Commitments and Financial Guarantees	229,689	(1,363)	228,326
	2,140,883	**(29,678)**	**2,111,205**

** including those attributable to non-controlling interests*

3 *Significant accounting policies (continued)*

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

30 June 2018	**Stage 1** US$ 000's	**Stage 2** US$ 000's	**Stage 3** US$ 000's	**Total** US$ 000's
Financial assets at amortized cost				
Financing assets and assets acquired-for-leasing (funded)	834,606	223,066	178,229	1,235,901
Financing assets and assets acquired for leasing (unfunded)	93,178	31,668	4,796	129,642
Bank balances and placements	171,456	-	-	171,456
Investment in sukuk	339,081	-	170	339,251
Other receivables	135,387	-	-	135,387
Less: Expected credit losses	(7,697)	(17,281)	(42,531)	(67,509)
Financial assets carrying amount	**1,566,011**	**237,453**	**140,664**	**1,944,128**

30 June 2018	Stage 1 US$ 000's	Stage 2 US$ 000's	Stage 3 US$ 000's	Total US$ 000's
Opening balance at 1 January	7,902	27,950	30,366	66,218
Transfer to Stage 1	66	(66)	-	-
Transfer to Stage 2	(1,103)	1,572	(469)	-
Transfer to Stage 3	(69)	(3,838)	3,907	-
Charge for the period, net	901	(8,337)	8,727	1,291
Closing balance at 30 June	7,697	17,281	42,531	67,509

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 2017, except for the effect of early adoption of FAS 30 (refer note 3(b)).

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 2017, except for the effect of early adoption of FAS 30 (refer note 3(b)).

6 Seasonality

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

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 2017 and the reviewed condensed consolidated interim financial information for the six months ended 30 June 2017. The comparatives for the condensed consolidated statements of income, cash flows, changes in owners' equity, changes in restricted investment accounts and sources and uses of zakah and charity fund have been extracted from the reviewed condensed consolidated interim financial information for the six months ended 30 June 2017.

8 Appropriations

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

In the shareholders meeting held on 27 March 2018, the following were approved and effected during the period:

a) Dividend of 8.72% of the paid-up share capital amounting to US$ 82 million in the form of cash;
b) Appropriation of US$ 1 million towards charity for the year;
c) Appropriation of US$ 784 thousand towards zakah for the year; and
d) Transfer US$ 10 million to statutory reserve.

9 Cash and bank balances

	30 June 2018 US$ 000's (reviewed)	31 December 2017 US$ 000's (audited)	30 June 2017 US$ 000's (reviewed)
Cash	21,010	21,513	19,699
Balances with banks	81,783	80,365	61,892
Balances with Central Bank of Bahrain			
- Current account	19,897	68,255	30,311
- Reserve account	48,766	46,312	50,172
	171,456	216,445	162,074

The reserve account with the Central Bank of Bahrain and bank balances of US$ 3,691 thousand are not available for day-to-day operations purposes. The cash and bank balances are net of ECL of US$ 11 thousands (31 December 2017: US$ 5 thousands)

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10 Investment securities

	30 June 2018 US$ 000's (reviewed)	31 December 2017 US$ 000's (audited)	30 June 2017 US$ 000's (reviewed)
Equity type investments			
At fair value through income statement			
- Unquoted securities	34,875	34,875	40,180
	34,875	34,875	40,180
At fair value through equity			
- Listed securities (at fair value)	23,022	103	103
- Unquoted securities (at cost) *	174,261	185,775	165,431
- Quoted sukuk	-	-	10,249
	197,283	185,878	175,783
Debt type investments			
At amortised cost			
- Quoted sukuk**	339,127	300,265	235,430
- Unquoted sukuk	170	390	1,218
Less: Expected credit losses	(11)	-	-
	339,286	300,655	236,648
	571,444	521,408	452,611

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

**Quoted sukuk of US$ 129,676 thousand were pledged against medium-term borrowing of US$ 109,570 thousand (note 12).

11 Other assets

	30 June 2018 US$ 000's (reviewed)	31 December 2017 US$ 000's (audited)	30 June 2017 US$ 000's (reviewed)
Investment banking receivables	96,596	123,506	4,824
Financing to projects, net	20,265	21,175	17,889
Receivable from sale of			
- Subsidiaries	-	-	44,252
- Development property	7,043	10,000	10,000
Deposits and advances	28,251	38,156	20,106
Employee receivables	18,628	18,302	19,924
Profit on sukuk receivable	5,892	5,815	4,911
Lease rentals receivable	8,809	22,785	10,634
Prepayments and other receivables	110,178	79,113	67,938
	295,662	318,852	200,478

Other assets are net of ECL of US$ 360 thousand (31 December 2017: US$ 316 thousand).

12 Financing liabilities

	30 June 2018 US$ 000's (reviewed)	31 December 2017 US$ 000's (audited)	30 June 2017 US$ 000's (reviewed)
- Murabaha financing	152,100	153,899	31,108
- Wakala financing	49,797	54,167	77,012
- Sukuk liability	25,226	25,364	50,506
- Ijarah financing	14,021	15,607	15,807
- Other borrowings	230,303	116,025	29,907
	471,447	365,062	204,340

Murabaha financing

Murabaha financing (i) (2017)
Murabaha financing comprise US$ 20 million financing facility for a period of 3 years with profit rate of 6 month LIBOR plus a margin of 4.5% p.a. (subject to minimum 6% p.a.) The Murabaha financing is secured by a pledge over the Group's investment in shares of KHCB and matures in 2020.

Murabaha financing (ii) (2017)
A US$ 15 million facility has been obtained for general corporate purposes for a period of 5 years at a profit rate of 3 month LIBOR plus margin of 6% p.a. (subject to a minimum of 7% p.a.). The facility is secured by a pledge on Group's investment in shares of KHCB and matures in 2022.

This also includes two medium-term facilities of US$ 109,570 thousand obtained in 2017 through pledge over sukuk of US$ 129,676 thousand (note 2).

Wakala financing

(i) (2016)
This comprise a US$ 35 million facility from a financial institution repayable in 3 years starting November 2016 and maturing in 2019 at a profit rate of LIBOR plus margin of 7.65% p.a.(subject to a minimum of 8% p.a.). The facility is secured by a pledge over the Group's investment property of carrying value of US$ 24.7 million (31 December 2017: US$ 24.7 million) and development property of carrying value of US$ 44.5 million (31 December 2017: US$ 42.3 million).

(ii) (2009)
This comprise a syndicate facility from a number of financial institutions repayable over a period of six years till April 2019 at a profit rate of 6% p.a. The facility is secured by a pledge over the Group's investment property with a carrying value of US$ 136 million (31 December 2017: US$ 136 million).

Sukuk liability
The Sukuk is backed by a pool of assets of the Group and has a liquidity facility provided by the Bank to support timely payments of distributions. The Sukuk were traded on the London Stock Exchange. Currently, the Sukuk certificates stand cancelled from admission to trading.

The Sukuk was subsequently settled in July 2018.

12 Financing liabilities (continued)

Ijarah financing facility
This represents facility obtained from a financial institution in 2016 to part finance the acquisition of an investment property of US$ 40.84 million, repayable over a period of 8 years at a profit rate of LIBOR plus margin of 5.7% p.a. (subject to minimum of 7% p.a.).

Other borrowings
These comprise financing availed by subsidiaries to fund project development and working capital requirements. The financing is secured against investment in real estate and are held through special purpose vehicle that do not have any recourse to the Bank. The Bank is not a party to these financing contracts and has not guaranteed repayment in any form. These balances are reported in the condensed consolidated interim financial information as a result of consolidation of subsidiaries. During the period, the Group consolidated a subsidiary (note 14) resulting in the increase in other project related borrowing of US$ 203 million.

13 Other income

- Other income includes US$ 35.3 million arising from restructuring of liabilities of a subsidiary. In 2016, as part of total recoveries made by the Group under litigation settlements, the Group had acquired a master developer holding entity under administration and insolvency proceedings which had net liabilities at the time of the settlement. Since then, the Group has been working 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 claims for settlement has been completed in 2018 resulting in the Company being taken out of legal administration and handed back to the Group. The final court judgment confirmed the final amounts due to each creditor and hence the difference between the previously recognised liability / provisions and the court approved amounts have been reversed to the income statement as they were no longer required.

- Other income also includes US$ 22 million received in cash on settlement of litigations.

14 Acquisition of subsidiaries

During the period, the Group acquired additional stake of 31.39% in Gulf Holding Company KSC (Holding) (GHC), a company incorporated in the State of Kuwait resulting in the Group holding total stake of 51.18% and obtaining control over GHC, accordingly, GHC’s assets and liabilities and results have been consolidated from the date the Group obtained control.

GHC has the following subsidiaries:

Name	Country of incorporation	Effective ownership interests	Activities
Residential South Real Estate Development Co SPC (RSRED)	Kingdom of Bahrain	100%	Undertake Villamar Project in Bahrain
AlAreen Down Town Real Estate Development Co SPC (AADT)	Kingdom of Bahrain	100%	Undertake AlAreen Down Town Project in Bahrain
The Royal Real Estate Development Co Holding Co SPC (RREDH)	Kingdom of Bahrain	100%	Holding investment in Villa Royale project and real estate development project in Morocco

14 Acquisition of subsidiaries (continued)

Consideration transferred and non-controlling interests

The consideration transferred in the acquisition of assets were partially in the form of treasury shares held by the Group and cash. The consideration transferred is generally measured at fair value and the stake held by shareholders other than the Group in the subsidiaries is recognised in the condensed consolidated interim financial information under “Non-controlling interests” based on the proportionate share of non-controlling shareholders’ in the recognised amounts of the investee’s net assets.

Identifiable assets acquired and liabilities assumed

All entities acquired were considered as businesses. The fair value of assets, liabilities, equity interests have been reported on a provisional basis. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

The reported amounts below represent the adjusted fair values of the acquired entities as at 30 June 2018, being the effective date of acquisition, have been reported on a provisional basis as permitted by accounting standards.

Given the size, geographic dispersion and inherent complexity involved in the acquisition, the Group, as on date of issue of this condensed consolidated interim financial information, has not concluded on the determination of fair value of tangible and intangible assets acquired, liabilities assumed and residual goodwill arising from the acquisition. The estimates of fair values for tangible and intangible assets acquired and liabilities assumed is subject to significant judgement and shall be determined by management based on various market and income analyses and asset appraisals at the effective date. No goodwill or negative goodwill has been recognised on the effective date.

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

	US$ 000’s
Investment properties	40,373
Development properties	387,332
Cash and bank balances	1,547
Other receivables and pre-payments	26,280
Total assets	**455,532**
Sukuk financing	202,784
Advances from customers	168,857
Other liabilities	70,818
Total liabilities	**442,459**
Total net identifiable assets	**13,073**

14 Acquisition of subsidiaries (continued)

	US$ 000's
Carrying value of Group's previously held equity interest in investee	-
Consideration transferred	6,691
Non-controlling interests recognised	6,383
Total consideration	**13,074**

	US$ 000's
Consideration paid	6,691
Less: Cash bank balances acquired on consolidation	(1,547)
Net cash paid for the purpose of consolidated statement cash flows	**5,144**

15 Related party transactions

The significant related party balances are not materially different from the amounts reported as at 31 December 2017 except for those arising from consolidation of subsidiaries. Other significant related party transactions entered during the period are given below:

Six months ended 30 June 2018 (reviewed)	**Associates and joint venture**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management (including special purpose and other entities)**	**Total**
	US$ '000s	US$ '000s	US$ '000s	US$ '000s	US$ '000s
Income					
Income from investment banking services	-	-	15,000	16,600	31,600
Fee and commission income	-	-	-	1,108	1,108
Income from financing assets	-	178	491	-	669
Share of profit of equity-accounted investees	3,999	-	-	-	3,999
Income from investment securities, net	-	-	-	(86)	(86)
Other income	-	-	-	69	69
Expenses					
Return to investment account holders	(19)	(80)	(302)	(8)	(409)
Finance expense	-	-	(1,637)	-	(1,637)
Staff cost	-	(4,774)	-	-	(4,774)
Other expenses	-	-	-	-	-
Transaction during the period					
Subscription in projects promoted by the Group	-	-	38,100	-	38,100
Discount on subscription	-	-	8,100	-	8,100

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15 Related party transactions (continued)

Six months ended 30 June 2017 (reviewed)	Associates and joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose and other entities)	Total
	US$ '000s	US$ '000s	US$ '000s	US$ '000s	US$ '000s
Income					
Income from investment banking services	-	-	26,868	10,888	37,756
Fee and commission income	-	-	-	699	699
Income from financing assets	-	43	387	-	430
Share of profit of equity-accounted investees	4,013	-	-	-	4,013
Income from investment securities, net	1,588	-	-	422	2,010
Expenses					
Return to investment account holders	(21)	(5)	(207)	(27)	(260)
Finance expense	-	-	(1,275)	-	(1,275)
Staff cost	-	(8,312)	-	-	(8,312)
Other expenses	-	-	-	(202)	(202)

16 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 and commercial banking.

	Real estate development US$ '000s	Investment banking US$ '000s	Commercial banking US$ '000s	Unallocated / Elimination US$ '000s	Total US$ '000s
30 June 2018 (reviewed)					
Segment revenue	29,655	46,015	26,849	21,659	124,178
Segment expenses	(8,401)	(14,365)	(22,525)	(5,481)	(50,772)
Segment result	21,254	31,650	4,324	16,178	73,406
Segment assets	1,985,132	356,799	1,954,847	33,430	4,330,208
Segment liabilities	1,008,759	196,248	785,421	61,919	2,052,347
Other segment information					
Finance expense	12,876	2,314	10,602	216	26,008
Impairment allowance	-	-	(5,653)	(46)	(5,699)
Equity accounted investees	5,702	67,556	12,183	-	85,441
Equity of investment account holders	-	-	830,855	1,261	832,116
Commitments	98,134	-	130,676	-	228,810

16 Segment reporting (continued)

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

** Includes segment result of discontinued operations, net.*

17 Commitments and contingencies

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

	30 June 2018 US$ 000's (reviewed)	31 December 2017 US$ 000's (audited)	30 June 2017 US$ 000's (reviewed)
Undrawn commitments to extend finance	87,239	129,302	112,135
Financial guarantees	53,988	73,960	85,711
Commitment for infrastructure development	87,584	20,000	20,000
Commitment to invest	-	6,427	10,696

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities other than those already recognised, are expected to materialise on the Group at 30 June 2018 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.

18 Financial instruments

Fair values

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

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

As at 30 June 2018, 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 internal valuation models for unquoted securities. Certain unquoted equity securities are carried at cost less impairment in the absence of a reliable measure of fair value (note 10).

18 *Financial instruments (continued)*

Financing liabilities
As at 30 June 2018, the fair value of financing liabilities was estimated at US$ 471,447 thousand (carrying value US$ 471,447 thousand) (31 December 2017: fair value US$ 365,062 thousand (carrying value US$ 365,062 thousand)). These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of financing liabilities as these are largely floating rate instruments which were re-priced recently as part of the debt restructuring process.

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

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

30 June 2018 (reviewed)	**Level 1** US$ 000's	**Level 2** US$ 000's	**Level 3** US$ 000's	**Total** US$ 000's
Investment securities carried at				
- fair value through income statement	-	-	34,875	34,875
- fair value through equity	23,022	-	-	23,022
	23,022	**-**	**34,875**	**57,897**

31 December 2017 (audited)	Level 1 US$ 000's	Level 2 US$ 000's	Level 3 US$ 000's	Total US$ 000's
Investment securities carried at				
- fair value through income statement	-	-	34,875	34,875
- fair value thorugh equity	103	-	-	103
	103	-	34,875	34,978

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

	30 June 2018 US$ 000's (reviewed)	31 December 2017 US$ 000's (audited)
At beginning of the period	34,875	42,153
Gains (losses) in income statement	-	(5,305)
Derecognition on loss of control	-	(1,973)
Transfers into (out) of Level 3	-	-
At end of the period	**34,875**	34,875

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