GULF FINANCE HOUSE BSC

INTERIM FINANCIAL INFORMATION

31 MARCH 2011

GULF FINANCE HOUSE BSC

INTERIM FINANCIAL INFORMATION
for the three months ended 31 MARCH 2011

CONTENTS Page

Independent auditors' report on review of interim financial information

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

24 May 2011

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Gulf Finance House BSC (the "Bank") and its subsidiaries (together the "Group") as at 31 March 2011, and the related condensed consolidated statements of income, changes in owners' equity, cash flows, changes in restricted investment accounts and sources and uses of charity and zakah fund for the three month period then ended (the "interim financial information"). The Board of Directors of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

Emphasis of matter

Without qualifying our conclusion, we draw attention to note 2 in the interim financial information which discusses material uncertainties relating to the Group's liquidity position and regulatory capital adequacy, which, may cast significant doubt about the appropriateness of the going concern assumption used in the preparation of the interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 March 2011 US$ 000's

	Note	**31 March 2011 (reviewed)**	31 December 2010 (audited)	31 March 2010 (reviewed)
ASSETS				
Cash and bank balances		1,883	3,770	5,430
Placements with financial and other institutions		39,040	56,868	156,701
Financing receivables		13,950	14,400	15,000
Investment in associates		225,235	224,847	374,462
Investment securities	5	247,293	248,794	323,010
Investment property		259,404	266,412	-
Receivable from investment banking services		-	-	85,270
Other assets	6	198,013	203,150	341,294
Total assets		**984,818**	1,018,241	1,301,167
LIABILITIES				
Investors' funds		124,250	138,798	196,984
Placements from financial and other institutions		131,759	126,241	169,165
Financing liabilities	7	338,409	439,504	397,206
Other liabilities		170,317	195,535	91,760
Total liabilities		**764,735**	900,078	855,115
Equity of investment account holders		**1,885**	1,880	2,026
OWNERS' EQUITY				
Share capital	4	288,491	145,780	621,449
Treasury shares		(24,674)	(24,674)	(52,371)
Share premium		154,097	206,203	205,398
Statutory reserve		88,298	88,298	106,700
Accumulated losses		(290,129)	(302,068)	(440,173)
Other reserves		1,712	1,769	2,048
Investments fair value reserve		403	975	975
Total owners' equity (page 4)		**218,198**	116,283	444,026
Total liabilities, equity of investment account holders and owners' equity		**984,818**	1,018,241	1,301,167

Dr. Esam Yousif A. Janahi
Chairman

Mosabah Saif Al Mautairy
Director

The Board of Directors approved the interim financial information consisting of pages 2 to 14 on 24 May 2011.

CONDENSED CONSOLIDATED INCOME STATEMENT
for the three months ended 31 March 2011 US$ 000's

	31 March 2011 (reviewed)	31 March 2010 (reviewed)
Income from investment banking services	35	5,161
Management fees	521	4,031
Income from placements with financial and other institutions	306	404
Income from financing	-	302
Share of profit / (loss) from investment in associates	374	(1,964)
Income from investment securities	7,310	1,910
Foreign exchange (loss) / gain, net	(6,623)	2,222
Other income (note 8)	24,499	6,402
Total income	**26,422**	18,468
Staff cost	2,799	3,594
Investment advisory expenses	557	2,290
Finance expense	7,183	12,374
Other expenses	3,944	7,706
Total expenses	**14,483**	25,964
PROFIT / (LOSS) FOR THE PERIOD	**11,939**	(7,496)
Earnings per share		
Basic and diluted earnings per share (US cents)	**1.68**	(1.19)
Diluted earnings per share (US cents)	**1.50**	-

The interim financial information consists of pages 2 to 14.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the three months ended 31 March 2011

US$ 000's

31 March 2011 (reviewed)	**Share capital**	**Share premium**	**Treasury shares**	**Statutory reserve**	**Other reserves**	**Invest-ments fair value reserve**	**Accumu-lated losses**	**Total equity**
Balance at 1 January 2011	145,780	206,203	(24,674)	88,298	1,769	975	(302,068)	116,283
Profit for the period	-	-	-	-	-	-	11,939	11,939
Changes in fair value of investment securities	-	-	-	-	-	(572)	-	(572)
Conversion of murabaha to share capital (note 4)	142,711	(52,106)	-	-	-	-	-	90,605
Share grants vesting expense , net of forfeitures (note 9)	-	-	-	-	(57)	-	-	(57)
Balance at 31 March 2011	**288,491**	**154,097**	**(24,674)**	**88,298**	**1,712**	**403**	**(290,129)**	**218,198**

31 March 2010 (reviewed)	Share capital	Share premium	Treasury shares	Statutory reserve	Other reserves	Invest-ments fair value reserve	Accumu-lated losses	Total equity
Balance at 1 January 2010	604,079	202,316	(52,371)	106,700	4,300	975	(432,677)	433,322
Loss for the period	-	-	-	-	-	-	(7,496)	(7,496)
Conversion of murabaha to share capital	17,370	3,117	-	-	(487)	-	-	20,000
Share issue expenses	-	(35)	-	-	-	-	-	(35)
Share grants vesting expense , net of forfeitures (note 9)	-	-	-	-	(1,765)	-	-	(1,765)
Balance at 31 March 2010	621,449	205,398	(52,371)	106,700	2,048	975	(440,173)	444,026

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2011 US$ 000's

	Three months ended 31 March 2011 (reviewed)	Three months ended 31 March 2010 (reviewed)
OPERATING ACTIVITIES		
Proceeds of income from investment banking services	35	5,161
Placements with / received from financial institutions, net	(719)	(43,537)
Cash received from waterpark operations	-	530
Disbursement of financing of projects, net	(1,542)	(1,508)
Receipts from financing receivables	450	-
Investors' funds, net	(1,843)	(29,249)
Management fees received	162	31
Income from placements and financing received	306	471
Payment for expenses and project costs	(16,754)	(16,486)
Cash flows from operating activities	**(19,905)**	(84,587)
INVESTING ACTIVITIES		
Purchase of investment securities	-	(6,882)
Proceeds from sale of available-for-sale investments	847	21,217
Proceeds from sale of investment in associate	-	242
Dividends received	-	(166)
Cash flows from investing activities	**847**	14,411
FINANCING ACTIVITIES		
Financing liabilities, net	1,769	(220,724)
Finance expense paid	(7,178)	(11,545)
Proceeds from conversion to share capital	5,153	
Cash paid to charitable organisations	-	(631)
Dividends paid	(401)	(114)
Payments to investment account holders, net	-	(849)
Cash flows from financing activities	**(657)**	(233,863)
DECREASE IN CASH AND CASH EQUIVALENTS	**(19,715)**	(304,039)
Cash and cash equivalents at 1 January	60,638	325,552
CASH AND CASH EQUIVALENTS at 31 March	**40,923**	21,513
Cash and cash equivalents comprise:		
Cash and bank balances	1,883	5,430
Placements with financial and other institutions (note 5)	39,040	16,083
	40,923	21,513

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the three months ended 31 March 2011

31 March 2011 (reviewed)	**Balance at 1 January 2011**			**Movements during the period**						**Balance at 31 March 2011**		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	**Total US$ 000's**
Mena Real Estate Company KSCC	150	0.35	53	-	1	-	-	-	-	150	0.36	54
Kuwait National Real Estate Investment & Services Company KSCC	250	0.35	88	-	2	-	-	-	-	250	0.36	90
Gulf Holding Company	10,000	0.25	2,455	-	48	-	-	-	-	10,000	0.25	2,503
Gulf North Africa Holding Company KSCC	11,500	0.24	2,794	-	54	-	-	-	-	11,500	0.25	2,848
Gulf Real Estate Development Company	936	12.05	11,272	-	-	-	-	-	-	936	12.05	11,272
Al Basha'er Fund	93	7.59	704	-	(25)	-	-	-	-	93	7.30	679
Pan European Fund	35.85	815.39	29,233	-	2,043	-	-	-	-	35.85	872.42	31,276
Oman Development Company	522.50	3.12	1,628	-	-	-	-	-	-	522.50	3.12	1,628
			48,227	**-**	**2,123**	-	-	-	-			**50,350**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the three months ended 31 March 2011 *(continued)*

31 March 2010 (reviewed)	Balance at 1 January 2010			Movements during the period						Balance at 31 March 2010		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Kuwait National Real Estate Investment & Services Company KSCC	250	0.35	87	-	-	-	-	-	-	250	0.35	87
Gulf Holding Company	10,000	0.24	2,417	-	(12)	-	-	-	-	10,000	0.24	2,405
Gulf North Africa Holding Company KSCC	11,500	0.24	2,751	-	(12)	-	-	-	-	11,500	0.24	2,739
Gulf Real Estate Development Company	936	12.05	11,271	-	3	-	-	-	-	936	12.04	11,274
Al Basha'er Fund	93	7.22	671	-	38	-	-	-	-	93	7.62	709
Pan European Fund	35.85	869.32	31,165	-	(1,559)	-	-	-	-	35.85	825.81	29,606
Oman Development Company	522.50	3.12	1,628	-	-	-	-	-	-	522.50	3.12	1,628
			50,042	-	(1,542)	-	-	-	-			48,500

The interim financial information consists of pages 2 to 14.

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND
for the three months ended 31 March 2011 US$ 000's

	31 March 2011 (reviewed)	31 March 2010 (reviewed)
Sources of charity and zakah fund		
Non-Islamic income	-	1
Total sources	**-**	1
Uses of charity and zakah fund		
Contributions to charitable organisations	-	(631)
Total uses	**-**	(631)
Excess of sources over uses	**-**	(630)
Undistributed charity and zakah fund at 1 January	10,631	11,256
Undistributed charity and zakah fund at 31 March	**10,631**	10,626

Represented by:		
Charity fund	7,830	7,824
Zakah payable	2,801	2,802
	10,631	10,626

NOTES TO THE INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2011

1 Reporting entity

The interim financial information for the three months ended 31 March 2011 comprise the financial information of Gulf Finance House BSC (the "Bank") and its subsidiaries (together referred to as "the Group").

2 Basis of preparation

The interim financial information has been prepared in 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 AAOIFI standards, the Group uses guidance from the relevant International Financial Reporting Standard. Accordingly, the interim financial information has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – *'Interim Financial Reporting'*. The interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Bank for the year ended 31 December 2010.

Going concern

As at 31 March 2011, the Group had accumulated losses of US$ 218.19 million and, as of that date, its current contractual obligations exceeded its liquid assets. As a result, the ability of the Group to meet its obligations when due depends on its ability to achieve a timely disposal of assets. Further, the capital adequacy ratio of the Group at 11.39% as at 31 March 2011 was below the minimum required regulatory ratio, which restricts the Group's ability to absorb further losses or undertake additional exposures. These factors indicates the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The Group has been able to refinance and extend the tenure of a substantial portion of its obligations. To improve its equity and liquidity positions, the Group is in the process of issuing additional capital through the issue of a new series of convertible murabaha instruments of up to US$ 500 million. During the period convertible murabaha note holders of US$ 103 million have exercised their option to convert the notes into equity shares of the Group (refer note 7). To further address the liquidity issues, the management has put in place an asset sale and liquidity plan to generate liquidity to support repayment of the Group's obligations and its operations. The Group is also evaluating other options to arrange liquidity and strengthen its position over the next twelve months.

The Board of Directors' have reviewed the Group's future plans and are satisfied with the appropriateness of the going concern assumption for preparation of the interim financial information.

i) Accounting policies

Except for changes resulting from the adoption of FAS 25 'Investment in sukuk, shares and similar instruments and Statement of Financial Accounting No.1 Conceptual framework for the financial reporting by Islamic financial institutions' (SFA 1) the accounting policies and methods of computation applied by the Group in the preparation of the interim financial information are the same as those used in the preparation of the audited consolidated financial statements for the year ended 31 December 2010.

a) SFA 1: Conceptual framework for the financial reporting by Islamic financial institutions

The revised conceptual framework for Financial Reporting by Islamic Financial Institutions was issued on 22 July 2010 and is effective from 1 January 2011 on a prospective basis and supersedes the previous SFA 1 and SFA 2. The conceptual framework has been amended to primarily reflect the following:

- Widening the scope of the framework to a broader spectrum of entities rather than limiting it to only Islamic financial institutions;
- Clarify elements of financial statements and definitions of investment accounts;
- Provide overall criteria and framework for determination of on and off balance sheet accounts; and

2 *Basis of preparation (continued)*

- Changes in terminology and editorial amendments to provide more consistency in understanding of key concepts.

The amended framework introduces and emphasises the generally accepted concept of substance and form compared to the concept of form over substance. The framework states that it is necessary that information, transaction and other events are accounted for and presented in accordance with its substance and economic reality as well as legal form.

The revised conceptual framework has a pervasive impact on financial reporting. However, this has not resulted in any material changes to the accounting policies and the financial statements of the Group.

b) FAS 25 'Investment in sukuk, shares and similar instruments'

FAS 25 was issued in July 2010 and replaced FAS 17 'Investments'. FAS 25 simplifies the mixed measurement model and establishes two measurement categories for investments: amortised cost and fair value. The standard requires each investment to be first segregated as either debt-type or equity type instruments, and the basis of classification depends on the entity's business model and the contractual cash flow characteristics of the investment. For debt type instrument, the standard requires that the instrument be measured either at amortised cost or at fair value through income statement. For equity type instruments, the standard requires that the instrument is measured either at fair value through income statement or fair value through equity. Reclassification between categories is not permitted. The guidance in FAS 17 on 'investment in real estate' continues to apply. The new standard requires retroactive application.

The Group has adopted the revised FAS 25 on its required application date 1 January 2011. The retroactive adoption of this standard did not result in any impact on the consolidated income statement and equity of the previous period.

On the date of application, the classification and categorisation of investments has been reassessed based on the facts and circumstances on that date. The adoption of the standard resulted in the following re-categorisation of investment securities in the statement of financial position:

1 January 2010	Revised categorisation		
Previous categorisation as per FAS 17	Fair value through income statement	Fair value through equity	Total
Fair value through income statement	33,976	-	33,976
Available-for-sale	-	315,423	315,423
	33,976	315,423	349,399

31 December 2010	Revised categorisation		
Previous categorisation as per FAS 17	Fair value through income statement	Fair value through equity	Total
Fair value through income statement	25,860	-	25,860
Available-for-sale	-	222,934	222,934
	25,860	222,934	248,794

ii) 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 2010.

3 The interim financial information is not audited but has been reviewed by KPMG. The comparatives for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2010 and the reviewed interim financial information for the three months ended 31 March 2010. The comparatives for the condensed consolidated statements of income, cash flows, changes in equity, changes in restricted investment accounts and sources and uses of charity and zakah fund have been extracted from the reviewed interim financial information for the three months ended 31 March 2010.

4 During the period, the paid up capital of the Bank was increased from US$ 145,780 thousand to US$ 288,491 thousand as a result of exercise of conversion option by the holders of the convertible murabaha (note 7). As per the terms of the convertible murabaha, 464 million shares of par value US$ 142,711 thousand has been issued on conversion. The effective conversion price is below the par value per share and the resulting difference and the related share issue expenses has been adjusted against the share premium account.

5 **Investment securities**

	31 March 2011 US$ 000's (reviewed)	31 December 2010 US$ 000's (audited)	31 March 2010 US$ 000's (reviewed)
Equity type instruments			
Fair value through income statement			
- Quoted securities	3,140	3,140	6,140
- Unquoted funds	2,500	2,500	5,000
- Unquoted securities	20,220	20,220	20,220
Fair value through equity			
- Quoted securities	475	475	475
- Unquoted securities	220,958	222,459	291,175
	247,293	248,794	323,010

Fair value through equity – unquoted securities include investments in private equity investments managed by external investment managers or investments in projects promoted by the Group. In the absence of reliable measure of fair value, these investments are carried at cost.

6 **Other assets**

	31 March 2011 US$ 000's (reviewed)	31 December 2010 US$ 000's (audited)	31 March 2010 US$ 000's (reviewed)
Project cost recoverable	-	-	6,447
Financing to projects	64,496	73,716	188,266
Receivable from sale of investments	-	-	94,463
Operating property and equipment of a water park	-	-	24,798
Other equipment	5,773	7,137	14,456
Reimbursement right (note 12)	121,111	121,111	-
Prepayments and other receivables	6,633	1,186	12,864
	198,013	203,150	341,294

Other assets are net of impairment allowances of US$ 135,907 thousand (31 December 2010: US$ 135,907 thousand).

7 Financing liabilities

	31 March 2011 US$ 000's (reviewed)	31 December 2010 US$ 000's (audited)	31 March 2010 US$ 000's (reviewed)
Murabaha financing	100,585	101,796	100,747
Wakala financing	60,616	66,288	130,440
Sukuk liability	152,116	152,123	137,702
Convertible Murabaha (2009)	24,093	23,437	28,317
Convertible Murabaha (2010)	999	95,860	-
	338,409	439,504	397,206

Murabaha financing

Murabaha financing comprise a medium-term financing from a syndicate of banks of US$ 100 million (31 December 2010: US$ 100 million). The financing is repayable in July 2013 (extendable by 1 year at the option of the Bank) and carries a profit rate of 2.50% over the benchmark rate (LIBOR) payable semi annually and an additional profit mark up of 1.25% payable at maturity. The Murabaha financing facilities are secured by a pledge over a portion of the Group's investment in an associate of carrying value of US$ 125 million.

Wakala financing

Wakala financing facilities include financing of US$ 100 million obtained from a syndicate of financial institutions. During the period, the Group renegotiated the facility and as per the revised terms the balance is repayable over a period of two years till April 2013 at an agreed profit rate of 8%. The Wakala financing facility is secured by a pledge over the Group's investment property of carrying value of US$ 204 million.

Sukuk liability

In 2007, the Group announced a US$ 1 billion medium term Shari'a compliant Sukuk issuance programme. The programme provides a facility for the issuance of Sukuk Certificates in series. The Sukuk Certificates are backed by certain of the Group's investment securities. The Sukuk carries a profit rate of LIBOR + 175 bps payable on a quarterly basis. The Bank is currently in the process of discussions with the sukuk holders to restructure the terms of the programme.

Convertible murabaha 2009

During 2009, the Group issued a compound financial instrument ("Notes") in the form of unsecured convertible murabaha facility. The Notes have a tenure of 3 years maturing in October 2012 unless converted into ordinary shares of the Bank at the option of the holder, at an exchange price of US$ 1.52 per share (adjusted for the 2010 share consolidation). The Notes provide for returns of 8% p.a. payable quarterly to the holder. Subsequent to the period end, Note holders amounting to US$ 10 million exchanged the 2009 Notes with the 2010 series of the convertible murabaha issued (see below).

Convertible Murabaha 2010

In 2010, the Group launched a new series of convertible murabaha to raise additional capital. The new series of convertible murabaha provide for returns of 12% p.a. payable quarterly to the holder and has a tenure of 3.5 years from the date of issue, unless converted into ordinary shares of the Bank at the option of the holder, at an exchange price of US$ 0.31 per share. The Bank has received subscription of US$ 103 million and during the period note holders amounting to US$ 102 million has exercised their option to convert the facility resulting in issue 464,113,729 number of equity shares as per the terms of the convertible murabaha.

NOTES TO THE INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2011

8 Other income

During the period, based on directives received from the regulator, the Bank has written back employee incentive accruals of US$ 20,337 thousand pertaining to the year ended 31 December 2008. Further, accruals for board fees and expenses of previous years amounting to US$ 4 million has been reversed.

9 Share-based employee compensation scheme

During the period, 350 thousand share awards were forfeited due to non-satisfaction of service conditions by outgoing employees of the Bank. A net reversal of vesting charge amounting to US$ 57 thousand (31 March 2010: charge of US$ 1,765 thousand) was recognised as part of staff costs during the period. As at 31 March 2011, 4.59 million share awards were outstanding to be exercised in future periods.

10 Segment reporting

31 March 2011 (reviewed)	**Development infrastructure**	**Banking**	**Unallocated**	**Total**
Segment revenue	81	28,967	(2,626)	**26,422**
Segment expenses	4,708	7,031	2,744	**14,483**
Segment result	(4,627)	21,936	(5,370)	**11,939**
Segment assets	638,665	336,021	10,132	**984,818**
Segment liabilities	383,849	203,106	177,780	**764,735**

31 March 2010 (reviewed)	Development infrastructure	Banking	Unallocated	Total
Segment revenue	10,109	3,210	5,149	18,468
Segment expenses	2,322	20,998	2,644	25,964
Segment result	7,787	(17,788)	2,505	(7,496)
Segment assets	815,343	468,925	16,899	1,301,167
Segment liabilities	166,876	595,442	92,797	855,115

11 Significant related party transactions

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

During the period, the Group recognised income of US$ 6 million (31 March 2010: Nil) representing partial recovery of amounts receivable from a project (managed by a related party) that was fully provided in the previous years (refer note 8).

NOTES TO THE INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2011

12 Commitments and contingencies

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

	31 March 2011 US$ 000's (reviewed)	31 December 2010 US$ 000's (audited)	31 March 2010 US$ 000's (reviewed)
Commitments to invest	6,613	6,613	36,613
Commitments to extend finance	16,500	16,500	16,500
Capital commitments	-	-	220

The Group potentially has a commitment under a constructive obligation to extend finance to one of its projects of up to US$ 150 million (31 December 2009: US$ 150 million).

During 2010, the Group's credit enhancement issued to financial institutions against outstanding credit facility arrangements for a project managed by the Group were enforced by the lenders due to contractual defaults by the project company. Further, based on the Group's assessment of the likelihood that another project will not be able to meet the financing obligation when they fall due, the Group has estimated that its financial guarantee of US$ 35 million may be enforced. In accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, the Group has recognised a provision of US$ 121.11 million (31 December 2010: US$ 121.11million) towards these liabilities until revised / renegotiated terms are agreed with the lenders of the project companies and included in other liabilities and recognised an equivalent amount of 'reimbursement right' receivable included in 'other assets'.

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

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2010 due to the performance of any of its projects.

Contingencies

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

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

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

15 Certain prior period amounts have been regrouped to conform to the current period's presentation. Such regrouping did not affect previously reported loss or equity (also refer note 2).