



CMP/MAY/2018/0009

13th May 2018

Mr. Hassan Al Serkal

EVP, COO – Head of Operations Division, Market Operations Division

Dubai Financial Market

P.O Box 9700

Dubai - United Arab Emirates

Dear Mr. Al Serkal,

Subject: Results of GFH's Board of Directors Meeting held on 13th May 2018

GFH Financial Group ("GFH") would like to advise its shareholders and the markets that its Board of Directors has met today, Sunday, 13th May 2018, and has discussed and resolved the following:

- The financial results for Q1-2018, period ended 31st March 2018.
- Resignation of Mr. Kamal Bahamdan from the Board of Directors of GFH.
- Election of Mr. Amro Al Menhali as a member of the Board of Directors of GFH, subject to regulatory approvals.
- Other internal matters.

Enclosed are the approved financial results for Q1-2018, period ended 31st March 2018.

Yours Sincerely,

A handwritten signature in blue ink, enclosed in a blue rectangular box. The signature is stylized and appears to read 'Nabeel Mirza'.

Nabeel Mirza

Senior Director Compliance & MLRO

GFH FINANCIAL GROUP BSC
CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION
31 March 2018

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 AlSeddiqi, <i>Chairman</i> H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa, <i>Vice Chairman</i> Hisham Alrayes Kamal Abdullah Bahamdan 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 three months ended 31 March 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 May 2018

Introduction

We have reviewed the accompanying 31 March 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 31 March 2018;
- the condensed consolidated income statement for the three-month period ended 31 March 2018;
- the condensed consolidated statement of changes in owners' equity for the three-month period ended 31 March 2018;
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2018;
- the condensed consolidated statement of changes in restricted investment accounts for the three-month period ended 31 March 2018;
- the condensed consolidated statement of changes in sources and uses of zakah and charity fund for the three-month period ended 31 March 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 31 March 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.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 March 2018

US\$ 000's

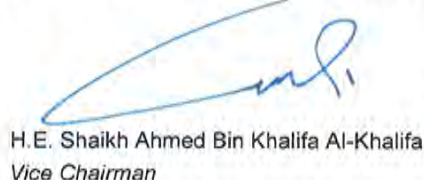
	note	31 March 2018 * (reviewed)	31 December 2017 (audited)	31 March 2017 (reviewed)
ASSETS				
Cash and bank balances	9	193,919	216,445	126,432
Placements with financial institutions		125,025	95,569	183,577
Financing assets		929,127	992,502	975,542
Investment securities	10	535,899	521,408	560,801
Assets acquired-for-leasing		266,735	257,806	244,703
Investment properties		611,901	616,263	485,758
Development properties		904,528	893,037	280,972
Equity-accounted investees		84,895	81,440	113,408
Property, plant and equipment		117,377	117,135	143,031
Other assets	11	203,525	318,852	126,023
Total assets		3,972,931	4,110,457	3,240,247
LIABILITIES				
Investors' funds		35,183	39,413	39,259
Placements from financial institutions, other entities and individuals		841,979	858,496	595,127
Customer current accounts		188,684	189,607	183,533
Financing liabilities	12	367,035	365,062	174,774
Other liabilities		310,954	255,733	190,517
Total liabilities		1,743,835	1,708,311	1,183,210
Equity of investment account holders		812,326	906,353	992,005
OWNERS' EQUITY				
Share capital		975,638	975,638	657,794
Treasury shares		(60,636)	(58,417)	(340)
Share premium		2,191	3,058	-
Capital adjustment account		-	-	24,320
Statutory reserve		105,893	105,893	95,475
Retained earnings		59,670	122,825	99,494
Investment fair value reserve		1,139	-	-
Share grant reserve		1,026	1,026	862
Total equity attributable to shareholders of the Bank		1,084,921	1,150,023	877,605
Non-controlling interests		331,849	345,770	187,427
Total owners' equity (page 4)		1,416,770	1,495,793	1,065,032
Total liabilities, equity of investment account holders and owners' equity		3,972,931	4,110,457	3,240,247

* March 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 23 on 13 May 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 three months ended 31 March 2018

US\$ 000's

	note	Three months ended	
		31 March 2018 * (reviewed)	31 March 2017 (reviewed)
Income from investment banking activities		8,900	37,756
Fee and commission income		1,904	1,713
Income from placements with financial institutions		1,012	609
Income from financing assets and assets acquired-for-leasing		17,057	17,746
Share of profit / (loss) of equity-accounted investees, net		3,455	(373)
Income from investment securities, net		3,985	2,812
Income from real estate		3,200	-
Foreign exchange gain, net		969	262
Other income, net	13	37,847	3,439
Operating income before return to investment account holders and finance expenses		78,329	63,964
Return to investment account holders before Group's share as Mudarib		(7,825)	(11,016)
Group's share as Mudarib		2,279	5,875
Return to investment account holders		(5,546)	(5,141)
Less: Finance expense		(12,331)	(9,237)
Total income		60,452	49,586
Staff cost		10,546	10,619
Investment advisory expenses		2,855	2,550
Other operating expenses		8,482	10,204
Total expenses		21,883	23,373
Profit before impairment allowances		38,569	26,213
Impairment allowances (charge) / reversal for the period		(1,674)	5,845
Profit from continuing operations		36,895	32,058
Discontinued operations			
Profit from operations of non-banking subsidiaries, net		-	1,493
PROFIT FOR THE PERIOD		36,895	33,551
Profit for the period attributable to:			
Shareholders of the Bank		36,479	31,915
Non-controlling interests		416	1,636
		36,895	33,551
Earnings per share			
Basic and diluted earnings per share (US cents)		1.02	1.28
Earnings per share – continuing operations			
Basic and diluted earnings per share (US cents)		1.02	1.28

* March 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 23.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the three months ended 31 March 2018

US\$ 000's

	Attributable to shareholders of the Bank							Non – controlling interests	Total owners' equity	
	Share capital	Treasury shares	Share premium	Statutory reserve	Retained earnings	Share grant reserve	Investment fair value reserve			Total
31 March 2018 (reviewed)										
Balance at 1 January 2018	975,638	(58,417)	3,058	105,893	122,825	1,026	-	1,150,023	345,770	1,495,793
Impact of adoption of FAS 30 (note 3(b))	-	-	-	-	(16,586)	-	-	(16,586)	(13,092)	(29,678)
Balance at 1 January 2018 (restated)	975,638	(58,417)	3,058	105,893	106,239	1,026	-	1,133,437	332,678	1,466,115
Profit for the period (page 3)	-	-	-	-	36,479	-	-	36,479	416	36,895
Fair value changes during the period	-	-	-	-	-	-	1,139	1,139	-	1,139
Total recognised income and expense	-	-	-	-	36,479	-	1,139	37,618	416	38,034
Dividends to shareholders (note 8)	-	-	-	-	(82,412)	-	-	(82,412)	-	(82,412)
Transfer to zakah and charity	-	-	-	-	(636)	-	-	(636)	(534)	(1,170)
Derecognition on loss of control	-	-	-	-	-	-	-	-	(711)	(711)
Purchase of treasury	-	(5,444)	-	-	-	-	-	(5,444)	-	(5,444)
Sale of treasury shares	-	3,225	(867)	-	-	-	-	2,358	-	2,358
Balance at 31 March 2018	975,638	(60,636)	2,191	105,893	59,670	1,026	1,139	1,084,921	331,849	1,416,770

The condensed consolidated interim financial information consists of pages 2 to 23.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the three months ended 31 March 2018 (continued)

US\$ 000's

	Attributable to shareholders of the Bank						Non –controlling interests	Total owners' equity	
	Share capital	Treasury shares	Capital adjustment account	Statutory reserve	Retained earnings	Share grant reserve			Total
31 March 2017 (reviewed)									
Balance at 1 January 2017	597,995	(340)	24,320	93,768	191,379	902	908,024	213,683	1,121,707
Profit for the period	-	-	-	-	31,915	-	31,915	1,636	33,551
Total recognised income and expense	-	-	-	-	31,915	-	31,915	1,636	33,551
Bonus shares issued	59,799	-	-	-	(59,799)	-	-	-	-
Dividends to shareholders	-	-	-	-	(59,799)	-	(59,799)	-	(59,799)
Transfer to zakah and charity fund	-	-	-	-	(3,509)	-	(3,509)	-	(3,509)
Acquisition of additional interests in a subsidiary	-	-	-	1,707	5,458	(40)	7,125	(25,186)	(18,061)
Changes in non-controlling interests	-	-	-	-	(6,151)	-	(6,151)	6,151	-
Derecognition of a subsidiary	-	-	-	-	-	-	-	(8,857)	(8,857)
Balance at 31 March 2017	657,794	(340)	24,320	95,475	99,494	862	877,605	187,427	1,065,032

The condensed consolidated interim financial information consists of pages 2 to 23.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2018

US\$ 000's

	31 March 2018 (reviewed)	31 March 2017 (reviewed)
OPERATING ACTIVITIES		
Profit for the period	36,895	33,551
Adjustments for:		
Income from investment securities	(632)	(2,812)
Share of profit of equity-accounted investees	(3,455)	(1,120)
Foreign exchange (gain) / loss	(969)	(262)
Gain on sale of a subsidiary	-	(25,600)
Income from restructuring	(35,300)	-
Other income	(2,547)	(3,439)
Finance expense	17,877	9,237
Impairment allowances (reversal) / charge	1,674	(5,845)
Depreciation and amortisation	509	413
	14,052	4,123
Changes in:		
Placements with financial institutions (more than 3 months)	2,756	54
Financing assets	33,697	(4,952)
Assets acquired for leasing	(8,929)	1,554
Other assets	21,136	5,718
CBB Reserve balance	(4,802)	1,817
Investors' funds	(4,230)	(5,306)
Placements from financial, other entities and individuals	(16,517)	24,612
Customer current accounts	(923)	(9,250)
Equity of investment account holders	(94,027)	(30,185)
Other liabilities	(26,779)	9,067
Net cash used in operating activities	(84,566)	(2,748)
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(512)	(477)
Purchase of investment securities	(49,510)	(45,840)
Proceeds from sale of a subsidiary	104,591	52,966
Proceeds from sale of investment securities	35,971	5,565
Dividend income from investments	7,128	2,812
Net cash generated from investing activities	97,668	15,026
FINANCING ACTIVITIES		
Financing liabilities, net	1,973	10,042
Finance expense paid	(8,839)	(7,902)
Dividend paid	(100)	(59,799)
Acquisition of additional stake in a subsidiary	-	(15,228)
Purchase of treasury shares, net	(2,219)	-
Net cash used in financing activities	(9,185)	(72,887)
Net increase / (decrease) in cash and cash equivalents during the period	3,917	(60,609)
Cash and cash equivalents at 1 January *	256,887	312,572
CASH AND CASH EQUIVALENTS AT 31 March	260,804	251,963
Cash and cash equivalents comprise: *		
Cash and balances with banks (excluding CBB Reserve balance and restricted cash)	141,324	73,494
Placements with financial institutions (less than 3 months)	119,480	178,469
	260,804	251,963

* 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 23.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the three months ended 31 March 2018

31 March 2018 (reviewed)	Balance at 1 January 2018			Movements during the period						Balance at 31 March 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
Company												
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

31 March 2017 (reviewed)	Balance at 1 January 2017			Movements during the period						Balance at 31 March 2017		
	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
Company												
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	6.85	637	-	-	-	-	-	-	93	6.85	637
Safana Investment (RIA 1)	6,304	2.65	16,721	(133)	-	-	-	-	-	6,304	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	(433)	-	-	-	-	-			29,296

The condensed consolidated interim financial information consists of pages 2 to 23.

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

for the three months ended 31 March 2018

US\$ 000's

	31 March 2018 (reviewed)	31 March 2017 (reviewed)
Sources of zakah and charity fund		
Contribution by the Group	2,956	4,470
Non-Islamic income	12	11
Total sources	2,968	4,481
Uses of zakah and charity fund		
Contributions to charitable organisations	(3)	(12)
Total uses	(3)	(12)
Surplus of sources over uses	2,965	4,469
Undistributed zakah and charity fund at beginning of the period	2,840	2,160
Undistributed zakah and charity fund at end of the period	5,805	6,629
Represented by:		
Zakah payable	1,970	2,734
Charity fund	3,835	3,895
	5,805	6,629

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2018**

1 Reporting entity

The condensed consolidated interim financial information for the three months ended 31 March 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		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 Hotels SPC	Kingdom of Bahrain		100%	Hospitality management
Al Areen Project companies			100%	Real estate development
Al Areen Leisure and Tourism Company – The Lost Paradise of Dilmun SPC ('LPOD')			100%	Amusement and theme park
GCL CPOL Management Company	Cayman Islands		100%	Acquire commercial office asset in USA
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 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 annual consolidated financial statements as at and for the year ended 31 December 2017.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2018**

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.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2018**

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2018

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 (previously reported)	122,825	345,770
<u>Impact on recognition of expected credit losses</u>		
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)
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

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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.

31 March 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)	801,776	265,995	201,133	1,268,904
Financing assets and assets acquired for leasing (unfunded)	69,385	58,886	27,207	155,478
Bank balances and placements	193,919	-	-	193,919
Investment in sukuk	294,369	-	3,928	298,297
Other receivables	42,435	-	-	42,435
Less: Expected credit losses	(7,093)	(18,897)	(41,902)	(67,892)
Financial assets carrying amount	1,394,791	305,984	190,366	1,891,141

31 March 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	69	(69)	-	-
Transfer to Stage 2	(965)	968	(3)	-
Transfer to Stage 3	(247)	(1,634)	1,881	-
	(1,143)	(735)	1,878	-
Charge for the period, net	334	(8,318)	9,658	1,674
Closing balance at 31 March	7,093	18,897	41,902	67,892

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 three 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
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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 three months ended 31 March 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 three months ended 31 March 2017.

8 Appropriations

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

In the shareholders meeting held on 27 March 2018, the following were approved:

- 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

	31 March 2018 US\$ 000's (reviewed)	31 December 2017 US\$ 000's (audited)	31 March 2017 US\$ 000's (reviewed)
Cash	19,942	21,513	17,324
Balances with banks	107,235	80,365	40,483
Balances with Central Bank of Bahrain			
- Current account	15,629	68,255	17,776
- Reserve account	51,114	46,312	50,849
	193,319	216,445	126,432

The reserve account with the Central Bank of Bahrain and bank balances of US\$ 1,481 thousand are not available for day-to-day operations purposes. The cash and bank balances are net of ECL of US\$ 7 thousands (31 December 2017: US\$ 5 thousands)

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10 Investment securities

	31 March 2018 US\$ 000's (reviewed)	31 December 2017 US\$ 000's (audited)	31 March 2017 US\$ 000's (reviewed)
Equity type investments			
<i>At fair value through income statement</i>			
- Unquoted securities	34,875	34,875	40,180
	34,875	34,875	40,180
<i>At fair value through equity</i>			
- Listed securities (at fair value)	20,834	103	103
- Unquoted securities (at cost) *	185,662	185,775	284,629
	206,496	185,878	284,732
Debt type investments			
<i>At amortised cost</i>			
- Quoted sukuk	294,369	300,265	234,406
- Unquoted sukuk	170	390	1,483
Less: Expected credit losses	(11)	-	-
	294,528	300,655	235,889
	535,899	521,408	560,801

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

11 Other assets

	31 March 2018 US\$ 000's (reviewed)	31 December 2017 US\$ 000's (audited)	31 March 2017 US\$ 000's (reviewed)
Investment banking receivables	27,815	123,506	17,329
Financing to projects, net	19,697	20,020	3,906
Receivable from sale of			
- Investment property	-	-	37,952
- Development property	9,059	10,000	10,000
Deposits and advances	42,633	38,156	10,143
Employee receivables	18,474	18,302	19,824
Profit on sukuk receivable	2,781	5,815	2,156
Lease rentals receivable	8,106	22,785	7,469
Prepayments and other receivables	74,960	80,268	17,244
	203,525	318,852	126,023

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

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12 Financing liabilities

	31 March 2018	31 December 2017	31 March 2017
	US\$ 000's (reviewed)	US\$ 000's (audited)	US\$ 000's (reviewed)
- Murabaha financing	136,550	153,899	10,796
- Wakala financing	59,713	54,167	32,182
- Sukuk liability	24,908	25,364	49,471
- Ijarah financing	13,809	15,607	15,564
- Other borrowings	132,054	116,025	66,316
	367,034	365,062	174,329

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.

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% (subject to a minimum of 7% p.a.). The facility is secured by a pledge on Group's investment in shares of KHCB.

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 6).

Wakala financing

Wakala financing (i) (2016)

Wakala financing comprise of a facility from a financial institution. The facility is for an amount of US\$ 35 million, repayable over a period of 3 years annually from November 2017 till November 2019 at a profit rate of LIBOR plus margin of 7.65% (subject to a minimum of 8%). 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) (note 7) and development property of carrying value of US\$ 44.5 million (31 December 2017: US\$ 42.3 million).

Wakala financing (ii) (2009)

Wakala financing comprise is a syndicate facility from a number of financial institutions. Wakala financing is repayable over a period of six years till April 2019 at an agreed profit rate of 6%. The Wakala financing facility is secured by a pledge over the Group's investment property having 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 final Sukuk instalment is payable in July 2018. The Sukuk carry a profit rate of LIBOR plus a margin of 3%, with a minimum profit rate of 5%. The Sukuk Certificates are backed by the Group's investment securities with carrying values of US\$ 55.1 million (31 December 2017: US\$ 55.1 million) and an investment property with carrying value of US\$ 31.5 million (31 December 2017: US\$ 31.5 million)

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12 Financing liabilities (continued)

ljarah facility

Represents facility from a financial institution for acquisition of a property repayable over a period of 8 years at a profit rate of LIBOR plus margin of 5.7% (subject to minimum of 7% p.a.). The ljarah is for an investment property of the Group with a carrying value of US\$ 40.84 million (31 December 2017: US\$ 40.84 million)

Other borrowings

These comprise financing availed by subsidiaries relating to project development and working capital requirements. The financing is secured against the 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 consolidated financial statements as a result of consolidation of the assets related to such financing.

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 which was under administration and insolvency proceedings and had net liabilities at the time of the settlement. The Group has since then 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.

14 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:

Three months ended 31 March 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\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
Income					
Income from investment banking activities	-	-	-	8,900	8,900
Fee and commission income	-	-	-	537	537
Income from financing assets				553	553
Share of profit of equity-accounted investees	3,474	-	-	-	3,474
Income from investment securities, net				571	571
Other income	-	-	167	1,130	1,297
Expenses					
Return to investment account holders	13	5	90	16	124
Finance expense	-	-	663	-	663
Staff cost	-	1,709	-	-	1,709

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14 *Related party transactions (continued)*

Three months ended 31 March 2017 (reviewed)	Associates and joint venture US\$ 000's	Key management personnel US\$ 000's	Significant shareholders / entities in which directors are interested US\$ 000's	Assets under management (including special purpose and other entities) US\$ 000's	Total US\$ 000's
Income					
Income from investment banking activities	-	-	1,268	10,888	12,156
Fee and commission income	-	-	141	349	490
Income from financing assets	-	-	-	179	179
Share of loss of equity- accounted investees	(373)	-	-	-	(373)
Income from investment securities, net	-	-	-	250	250
Expenses					
Return to investment account holders	8	3	207	11	229
Finance expense	-	-	382	-	382
Staff cost	-	5,939	-	-	5,939
Other expenses	-	-	-	95	95

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15 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	Investment banking	Commercial banking	Unallocated / Elimination	Total
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
31 March 2018 (reviewed)					
Segment revenue	34,503	12,817	11,544	1,588	60,452
Segment expenses	(2,218)	(7,279)	(9,190)	(4,870)	(23,557)
Segment result	32,285	5,538	2,354	(3,282)	36,895
Segment assets	1,569,473	444,163	1,938,730	20,565	3,972,931
Segment liabilities	623,038	247,592	761,412	111,793	1,743,835
<i>Other segment information</i>					
Impairment allowance	-	-	(1,674)	-	(1,674)
Equity-accounted investees	-	72,687	12,208	-	84,895
Equity of investment account holders	-	-	811,065	1,261	812,326
Commitments	104,881	-	155,478	-	260,359

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15 *Segment reporting (continued)*

	Real estate development US\$ 000's	Investment banking US\$ 000's	Commercial banking US\$ 000's	Unallocated / Elimination US\$ 000's	Total US\$ 000's
31 March 2017 (reviewed)					
Segment revenue	(4,303)	39,911	15,264	207	51,079
Segment expenses	(3,498)	(9,509)	(2,341)	(2,180)	(17,528)
Segment result *	(7,801)	30,402	12,923	(1,973)	33,551
31 December 2017 (audited)					
Segment assets	1,556,265	468,122	2,071,510	14,560	4,110,457
Segment liabilities	680,103	217,881	776,471	33,856	1,708,311
<i>Other segment information</i>					
Impairment allowance	-	-	(5,845)	-	(5,845)
Equity-accounted investees	-	69,211	12,229	-	81,440
Equity of investment account holders	-	-	905,190	1,163	906,353
Commitments	51,607	-	178,082	-	229,689

* Includes segment result of discontinued operations, net.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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16 Commitments and contingencies

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

	31 March 2018 US\$ 000's (reviewed)	31 December 2017 US\$ 000's (audited)	31 March 2017 US\$ 000's (reviewed)
Undrawn commitments to extend finance	106,942	129,302	136,448
Financial guarantees	59,406	73,960	85,995
Commitment for infrastructure development	87,584	20,000	20,000
Commitment to invest	6,427	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 are expected to materialise on the Group at 31 March 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.

17 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 31 March 2018 and 31 December 2017, 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 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.

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17 *Financial instruments (continued)*

Financing liabilities

As at 31 March 2018, the fair value of financing liabilities was estimated at US\$ 170,341 thousand (carrying value US\$ 174,329 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).

31 March 2018 (reviewed)

Investment securities carried at

- fair value through income statement
- fair value through equity

	Level 1	Level 2	Level 3	Total
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
- fair value through income statement	-	-	34,875	34,875
- fair value through equity	20,834	-	-	20,834
	20,721	-	34,875	55,709

31 December 2017 (audited)

Investment securities carried at

- fair value through income statement
- fair value through equity

	Level 1	Level 2	Level 3	Total
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
- fair value through income statement	-	-	34,875	34,875
- fair value through equity	103	-	-	103
	103	-	34,875	34,978

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

	31 March 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

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18 Subsequent events

Subsequent to the period end, the Group acquired 85% stake in The Entertainer Group engaged in incentive providing and lifestyle app. The Group is in the process of downselling to investors in the normal course of business.

19 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.