

GFH FINANCIAL GROUP BSC
CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION

31 March 2017

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	:	H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa, <i>Chairman</i> Dr. Ahmed Al Mutawa, <i>Vice Chairman</i> Jassim AlSeddiqi Kamal Abdullah Bahamdan Mazen Bin Mohammed Al Saeed Mosabah Saif Al Mautairy Rashid Nasser Al Kaabi Ghazi F. Alhajeri Bashar Mohamed Al Mutawa Hisham Alrayes
Group Chief Executive Officer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2017

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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

2 May 2017

Introduction

We have reviewed the accompanying 31 March 2017 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 2017;
- the condensed consolidated income statement for the three-month period ended 31 March 2017;
- the condensed consolidated statement of changes in owners' equity for the three-month period ended 31 March 2017;
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2017;
- the condensed consolidated statement of changes in restricted investment accounts for the three-month period ended 31 March 2017;
- the condensed consolidated statement of changes in sources and uses of zakah and charity fund for the three-month period ended 31 March 2017; 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 2017 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 2017

US\$ 000's

	note	31 March 2017 (reviewed)	31 December 2016 (audited)	31 March 2016 (reviewed)
ASSETS				
Cash and bank balances	9	126,432	156,448	84,378
Placements with financial institutions		183,577	213,898	143,641
Financing assets		975,542	961,490	897,057
Investment securities	10	560,801	527,203	582,979
Assets acquired-for-leasing		244,703	246,257	200,229
Investment properties		485,758	488,436	311,395
Development properties		280,972	280,972	179,453
Equity-accounted investees		113,408	79,010	81,399
Intangible assets		-	54,891	25,472
Property, plant and equipment		143,031	169,153	-
Other assets	11	126,023	125,643	196,296
Total assets		3,240,247	3,303,401	2,702,299
LIABILITIES				
Investors' funds		39,259	44,565	13,541
Placements from financial institutions, other entities and individuals		595,127	570,515	376,069
Customer current accounts		183,533	192,783	174,526
Financing liabilities	12	174,774	168,992	169,400
Other liabilities		190,517	182,649	103,946
Total liabilities		1,183,210	1,159,504	837,482
Equity of investment account holders		992,005	1,022,190	965,168
OWNERS' EQUITY				
Share capital		657,794	597,995	597,995
Treasury shares		(340)	(340)	(8,873)
Capital adjustment account		24,320	24,320	22,392
Statutory reserve		95,475	93,768	72,055
Retained earnings		110,108	201,993	12,645
Investment fair value reserve		-	-	806
Share grant reserve		862	902	893
Foreign currency translation reserve		(10,614)	(10,614)	-
Total equity attributable to shareholders of the Bank		877,605	908,024	697,913
Non-controlling interests		187,427	213,683	201,736
Total owners' equity (page 4)		1,065,032	1,121,707	899,649
Total liabilities, equity of investment account holders and owners' equity		3,240,247	3,303,401	2,702,299

The Board of Directors approved the condensed consolidated interim financial information consisting of pages 2 to 18 on 2 May 2017.


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


Ahmed Al Mutawa
Vice Chairman


Hisham Alrayes
Chief Executive Officer & Board member

CONDENSED CONSOLIDATED INCOME STATEMENT
for the three months ended 31 March 2017

US\$ 000's

	note	Three months ended	
		31 March 2017 (reviewed)	31 March 2016 (reviewed)
Income from investment banking services		12,156	-
Fee and commission income		1,713	8,747
Income from placements with financial institutions		609	469
Income from financing assets and assets acquired-for-leasing		17,746	16,165
Share of profits of equity-accounted investees, net		1,120	125
Income from investment securities, net		2,812	1,232
Gain on sale of a subsidiary	13	25,600	-
Foreign exchange gain, net		262	417
Other income		3,439	6,396
Operating income before return to investment account holders and finance expenses		65,457	33,551
Return to investment account holders before Group's share as Mudarib		(11,016)	(9,953)
Group's share as Mudarib		5,875	5,703
Return to investment account holders		(5,141)	(4,250)
Less: Finance expense		(9,237)	(3,972)
Operating income		51,079	25,329
Income from settlement of litigations		-	3,807
Total income		51,079	29,136
Staff cost		10,619	7,329
Investment advisory expenses		2,550	3,244
Other operating expenses		10,204	7,065
Total expenses		23,373	17,638
Profit before impairment		27,706	11,498
Impairment allowances reversal / (charge) for the period		5,845	(1,458)
PROFIT FOR THE PERIOD		33,551	10,040
Profit for the period attributable to:			
Shareholders of the Bank		31,915	6,064
Non-controlling interests		1,636	3,976
		33,551	10,040
Earnings per share			
Basic earnings per share (US cents)		1.28	0.27
Diluted earnings per share (US cents)		1.28	0.27

The condensed consolidated interim financial information consists of pages 2 to 18.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the three months ended 31 March 2017

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	Foreign currency translation reserve			Total
31 March 2017 (reviewed)										
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)	-	-	-	-	31,915	-	-	31,915	1,636	33,551
Total recognised income and expense	-	-	-	-	31,915	-	-	31,915	1,636	33,551
Bonus shares issued (note 8)	59,799	-	-	-	(59,799)	-	-	-	-	-
Dividends to shareholders	-	-	-	-	(59,799)	-	-	(59,799)	-	(59,799)
Transfer to zakah and charity fund (page 8)	-	-	-	-	(3,509)	-	-	(3,509)	-	(3,509)
Acquisition of additional interests in a subsidiary (note 1)	-	-	-	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	110,108	862	(10,614)	877,605	187,427	1,065,032

The condensed consolidated interim financial information consists of pages 2 to 18.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the three months ended 31 March 2017 *(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	Investment fair value reserve	Share grant reserve			Total
31 March 2016 (reviewed)										
Balance at 1 January 2016	597,995	(4,053)	22,420	72,055	6,581	(230)	893	695,661	197,760	893,421
Profit for the period (page 3)	-	-	-	-	6,064	-	-	6,064	3,976	10,040
Fair value changes	-	-	-	-	-	1,036	-	1,036	-	1,036
Total recognised income and expense	-	-	-	-	6,064	1,036	-	7,100	3,976	11,076
Purchase of treasury shares	-	(5,095)	-	-	-	-	-	(5,095)	-	(5,095)
Sale of treasury shares	-	275	-	-	-	-	-	275	-	275
Loss on sale of treasury shares, net	-	-	(28)	-	-	-	-	(28)	-	(28)
Balance at 31 March 2016	597,995	(8,873)	22,392	72,055	12,645	806	893	697,913	201,736	899,649

The condensed consolidated interim financial information consists of pages 2 to 18.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2017

US\$ 000's

	31 March 2017 (reviewed)	31 March 2016 (reviewed)
OPERATING ACTIVITIES		
Profit for the period	33,551	10,040
Adjustments for:		
Fair value changes in investment securities	-	1,734
Income from investment securities	(2,812)	(3,906)
Share of profit of equity-accounted investees	(1,120)	(125)
Foreign exchange (gain) / loss	(262)	(417)
Gain on sale of a subsidiary	(25,600)	-
Other income	-	(9,789)
Finance expense	9,237	3,972
Impairment allowances reversal / (charge)	(5,845)	1,458
Depreciation and amortisation	413	480
	7,562	3,447
Changes in:		
Placements with financial institutions (more than 3 months)	54	-
Financing assets	(4,952)	(37,636)
Assets acquired for leasing	1,554	(20,359)
Other assets	2,279	20,703
CBB Reserve balance	1,817	305
Investors' funds	(5,306)	(14,187)
Placements from financial, other entities and individuals	24,612	35,979
Customer current accounts	(9,250)	20,474
Equity of investment account holders	(30,185)	20,253
Other liabilities	9,067	(32,031)
Net cash used in operating activities	(2,748)	(3,052)
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(477)	(40)
Purchase of investment securities	(45,840)	(30,010)
Proceeds from sale of a subsidiary	52,966	-
Proceeds from sale of investment securities	5,565	20,594
Dividend income from investments	2,812	3,658
Net cash generated from / (used in) investing activities	15,026	(5,798)
FINANCING ACTIVITIES		
Financing liabilities, net	10,042	-
Finance expense paid	(7,902)	(2,519)
Dividend paid	(59,799)	-
Acquisition of additional stake in a subsidiary	(15,228)	-
Purchase of treasury shares	-	(4,820)
Net cash used in financing activities	(72,887)	(7,339)
Net decrease in cash and cash equivalents during the period	(60,609)	(16,189)
Cash and cash equivalents at 1 January	312,572	194,460
CASH AND CASH EQUIVALENTS AT 31 March	251,963	178,271
Cash and cash equivalents comprise:		
Cash and balances with banks (excluding CBB Reserve balance)	73,494	34,630
Placements with financial institutions (less than 3 months)	178,469	143,641
	251,963	178,271

The condensed consolidated interim financial information consists of pages 2 to 18.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the three months ended 31 March 2017

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	0.33	52	-	-	-	-	-	-	150	0.33	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

31 March 2016 (reviewed)	Balance at 1 January 2016			Movements during the period						Balance at 31 March 2016		
	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	6.95	646	-	(48)	-	-	-	-	93	6.43	598
Safana Investment (RIA 1)	8,313	2.65	22,050	-	-	-	-	-	-	8,313	2.65	22,050
Janayen Holding Limited (RIA 4)	48,082	0.48	22,546	(22,546)	-	-	-	-	-	-	-	-
Shaden Real Estate Investment WLL (RIA 5)	3,728	2.65	9,888	(212)	-	-	-	-	-	3,648	2.65	9,676
Locata Corporation Pty Ltd (RIA 6)	2,633	0.94	2,475	-	-	-	-	-	-	2,633	0.94	2,475
			57,657	(22,758)	(48)	-	-	-	-			34,851

The condensed consolidated interim financial information consists of pages 2 to 18.

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the three months ended 31 March 2017

US\$ 000's

	31 March 2017 (reviewed)	31 March 2016 (reviewed)
Sources of zakah and charity fund		
Contribution by the Group	4,470	-
Non-Islamic income	11	35
Total sources	4,481	35
Uses of zakah and charity fund		
Contributions to charitable organisations	(13)	(32)
Total uses	(13)	(32)
Surplus of uses over sources	4,469	3
Undistributed zakah and charity fund at beginning of the period	2,160	2,675
Undistributed zakah and charity fund at end of the period	6,629	2,678
Represented by:		
Zakah payable	2,734	751
Charity fund	3,895	1,927
	6,629	2,678

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2017**

1 Reporting entity

The condensed consolidated interim financial information for the three months ended 31 March 2017 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 / Owing Company	Effective ownership interests 2017	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		33.53%	Real estate development
British School of Bahrain (PropCo)	Kingdom of Bahrain		100.00%	Education
Al Areen Hotels SPC			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
Surooh Company ('Surooh')	Cayman Islands		KHCB	10.00%
Eqarat Al Khaleej ('Eqarat')		19.80%		To buy, sell and renting income producing properties across the GCC.

* During the period, the Bank acquired additional stake of 8.41% in KHCB resulting in increase in the stake held from 46.965% to 55.41%. The acquisition of additional stake resulted in a gain of US\$ 7,125 thousand which has been recognised in retained earnings (page 4).

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 2016. 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 2016.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 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 2016.

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 2016.

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 2016.

6 Seasonality

Due to the inherent nature of the Group's business (investment banking, commercial banking and industrial business), the three month results reported in this condensed consolidated interim financial information may not represent a proportionate share of the overall annual results. During the period, the Group recognised gains in the condensed consolidated income statement amounting to US\$ 9m related to certain recovery transactions in the books of KHCB. These transactions were recognised in the prior year financial statements of KHCB after obtaining requisite regulatory approvals. The Group had not included these transactions in its prior year results on the date of approval of its consolidated financial statements. This adjustment is considered to be a non-recurring item in the current period results

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 2016 and the reviewed condensed consolidated interim financial information for the three months ended 31 March 2016. 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 2016.

8 Appropriations and changes in capital structure

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

In the ordinary and extraordinary general meeting held on 1 March 2017, shareholders approved the following:

- a) Dividend of 20% of the paid-up share capital amounting to US\$ 119.6 million in the form of cash (10%) and bonus shares (10%);
- b) Appropriation of US\$ 2 million towards charity for the year;
- c) Appropriation of US\$ 1.5 million towards zakah for the year; and
- d) Authorise board of directors to issue new shares upto 300,000,000 for GFH Employee Benefit Trust as per internal staff remuneration program.
- e) Increase the authorised share capital of the Bank from US\$ 1.5 billion to US\$ 2.5 billion divided into 9,433,962,264 shares at par value of US\$ 0.265 per share;

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2017**

8 *Appropriations and changes in capital structure (continued)*

- f) Issue of upto 1,700,000,000 new shares at a nominal value of US\$ 0.265 shares and premium of US\$ 0.688 per share for acquisition of number of infrastructure projects and investment funds; and
- g) Issue of upto 1,700,000,000 new shares at a nominal value of US\$ 0.265 per share in addition to a share premium to be determined by the Board of Directors as per market conditions, to be allocated for the acquisition of a number of financial institutions and strategic assets.

The Bank is in the process of amending the memorandum and articles of association to reflect the changes in authorised capital. The Bank has offered investors in its various infrastructure projects and investment funds to repurchase their holdings in return for shares of the Bank. The final subscription is expected to be closed and finalised by first half of 2017 when the exact numbers of shares and value of assets acquired by the Bank can be determined.

9 **Cash and bank balances**

	31 March 2017 US\$ 000's (reviewed)	31 December 2016 US\$ 000's (audited)	31 March 2016 US\$ 000's (reviewed)
Cash	17,324	18,271	15,433
Balances with banks	40,483	53,281	14,369
Balances with Central Bank of Bahrain			
- Current account	17,776	32,230	4,828
- Reserve account	50,849	52,666	49,748
	126,432	156,448	84,378

The reserve account with the Central Bank of Bahrain and bank balances of US\$ 2,089 thousand are not available for day-to-day operations purposes.

10 **Investment securities**

	31 March 2017 US\$ 000's (reviewed)	31 December 2016 US\$ 000's (audited)	31 March 2016 US\$ 000's (reviewed)
Equity type investments			
<i>At fair value through income statement</i>			
- Quoted securities	-	377	3,299
- Unquoted managed fund	-	-	2,050
- Unquoted securities	40,180	40,180	56,563
	40,180	40,557	61,912
<i>At fair value through equity</i>			
- Managed funds (at fair value)	-	1,973	1,384
- Listed securities (at fair value)	103	103	14,777
- Unquoted securities (at cost) *	284,629	287,180	324,503
	284,732	289,256	340,664
Debt type investments			
<i>At amortised cost</i>			
- Quoted sukuk	234,406	194,809	173,607
- Unquoted sukuk	1,483	2,581	6,796
	235,889	197,390	180,403
	560,801	527,203	582,979

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2017

10 *Investment securities (continued)*

* 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.

11 **Other assets**

	31 March 2017 US\$ 000's (reviewed)	31 December 2016 US\$ 000's (audited)	31 March 2016 US\$ 000's (reviewed)
Investment banking receivables	17,329	11,396	21,280
Financing to projects, net	3,906	6,442	53,570
Reimbursement right	-	-	35,000
Receivable from sale of			
- Investment property	37,952	37,952	-
- Development property	10,000	10,000	10,000
Deposits and advances	10,143	19,711	21,204
Employee receivables	19,824	19,786	14,003
Claims recoverable	-	-	4,954
Income from sukuk receivable	2,156	3,902	1,992
Lease rentals receivable	7,469	6,825	5,305
Prepayments and other receivables	17,244	9,629	28,988
	126,023	125,643	196,296

12 **Financing liabilities**

	31 March 2017 US\$ 000's (reviewed)	31 December 2016 US\$ 000's (audited)	31 March 2016 US\$ 000's (reviewed)
- Murabaha financing	10,796	-	35,780
- Wakala financing	32,182	66,959	38,825
- Sukuk liability	49,471	50,059	69,171
- Ijarah financing	15,564	16,571	-
- Other borrowings	66,316	35,403	25,624
	174,329	168,992	169,400

Murabaha financing (2017)

Murabaha financing comprise of a facility from a financial institution. The facility is for an amount of US\$ 10,654 thousand, repayable over a period of 3 years semi-annually from July 2017 at a profit rate of 6 months EIBOR plus margin of 3% (subject to a minimum of 6%). The facility is secured by a pledge of 88,322,425 shares of KHCB held by the Bank.

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 development property of carrying value of US\$ 42.3 million and investment property of carrying value of US\$ 24.7 million.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2017**

12 *Financing liabilities (continued)*

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.

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 is repayable over a period of 6 years with semi-annual repayment starting from July 2014, with final instalment 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\$ 92.94 million (31 December 2016: 92.94 million) and an investment property with carrying value of US\$ 31.5 million (31 December 2016: US\$ 31.5 million)

Ijarah financing

Ijarah financing represents facility from a financial institution for acquisition of a property repayable over a period of 8 years at a yield rate of 7% p.a. The Ijarah financing is pledged against an investment property of the Group with a carrying value of US\$ 46.84 million.

Other borrowings

These comprise financing availed by subsidiaries relating to project development and working capital requirements.

13 Gain on sale of a subsidiary

In 2016, the Group acquired, an educational institution in Bahrain held through two subsidiaries, one subsidiary to hold operations and another to hold fixed assets. During the period, the Group sold part of its stake in the subsidiary holding the operations resulting in the Group losing control over the operations. Accordingly, the Group has derecognized the operations of the educational institution on loss of control and recognised the retained interests as an investment in joint venture which is included under "Equity-accounted investees".

The disposal had the following impact on the condensed consolidated interim financial information as at 31 March 2017:

	US\$ 000's
Total assets derecognized on loss of control	81,027
Total liabilities derecognized on loss of control	(21,027)
Carrying value of retained interest in investment	(30,600)
	29,400
Net assets derecognised on loss of control	
	US\$ 000's
Gross consideration received	55,000
Less: Net assets dereocgnised on loss of control	(29,400)
	25,600
Gain on disposal of a subsidiary	

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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13 *Gain on sale of a subsidiary*

The effect of disposal for the purpose of cash flow statement is given below:

	US\$ '000's
Gross consideration received	55,000
Less: Cash and bank balance deconsolidated on loss of control	(2,034)
Net cash generated from disposal of a subsidiary	52,966

14 Related party transactions

The significant related party balances are not materially different from the the amounts reported as at 31 December 2016 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 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 service	-	-	1,268	10,888	12,156
Fee and commission income	-	-	141	349	490
Income from financing assets	-	-	-	179	179
Share of profit of equity-accounted investees	1,120	-	-	-	1,120
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

Three months ended 31 March 2016 (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					
Fee and commission income	-	-	6,000	947	6,947
Income from investment securities	(1,734)	-	-	-	(1,734)
Share of profit of equity-accounted investees	125	-	-	-	125
Other income	16	-	-	-	16
Expenses					
Staff cost	-	3,468	-	-	3,468
Other expenses	-	95	-	-	95

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2017

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\$ '000s	US\$ '000s	US\$ '000s	US\$ '000s	US\$ '000s
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
Segment assets	922,913	292,640	1,996,298	28,396	3,240,247
Segment liabilities	339,215	172,963	585,717	85,315	1,183,210
<i>Other segment information</i>					
Impairment allowance	-	-	(5,845)	-	(5,845)
Equity accounted investees	5,702	95,497	12,209	-	113,408
Equity of investment account holders	-	-	990,853	1,152	992,005
Commitments	55,696	-	197,443	-	253,139

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2017

15 *Segment reporting (continued)*

	Real estate development US\$ '000s	Investment banking US\$ '000s	Commercial banking US\$ '000s	Unallocated / Elimination US\$ '000s	Total US\$ '000s
31 March 2016 (reviewed)					
Segment revenue	4,135	4,958	16,176	3,867	29,136
Segment expenses	3,891	5,596	8,434	1,175	19,096
Segment result	148	(771)	7,742	2,921	10,040
31 December 2016 (audited)					
Segment assets	914,893	376,768	2,012,401	(661)	3,303,401
Segment liabilities	243,569	194,997	644,145	76,793	1,159,504
<i>Other segment information</i>					
Impairment allowance	103,905	81,441	35,766	-	221,112
Equity accounted investees	-	79,010	-	-	79,010
Equity of investment account holders	-	-	1,021,038	-	1,021,038
Commitments	105,129	10,696	174,527	-	290,352

**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 2017 US\$ 000's (reviewed)	31 December 2016 US\$ 000's (audited)	31 March 2016 US\$ 000's (reviewed)
Undrawn commitments to extend finance	136,448	174,527	191,183
Financial guarantees	85,995	85,129	76,117
Commitment for infrastructure development	20,000	20,000	22,000
Commitment to invest	10,696	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 2017 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 2017 and 31 December 2016, 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.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2017**
17 Financial instruments (continued)
Financing liabilities

As at 31 March 2017, the fair value of financing liabilities was estimated at US\$ 170,341 thousand (carrying value US\$ 174,329 thousand) (31 December 2016: fair value US\$ 159,545 thousand (carrying value US\$ 168,992 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 2017 (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
-	-	40,180	40,180
103	-	-	103
103	-	40,180	40,283

31 December 2016 (audited)

Investment securities carried at

- fair value through income statement
- fair value through equity

Level 1	Level 2	Level 3	Total
377	-	40,180	40,557
103	-	1,973	2,076
480	-	42,153	42,633

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

	31 March 2017 US\$ 000's (reviewed)	31 December 2016 US\$ 000's (audited)
At beginning of the period	42,153	62,320
Gains (losses) in income statement	-	(2,050)
Purchases	-	-
Disposals	(1,973)	(18,117)
Transfers into (out) of Level 3	-	-
At end of the period	40,180	42,153

18 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.