Insightful Changes

Annual Report & Accounts. 2014

His Royal Highness
Prince Khalifa bin Salman Al Khalifa
The Prime Minister of the Kingdom of Bahrain

His Majesty
King Hamad bin Isa Al Khalifa
The King of the Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad Al Khalifa
Crown Prince, Deputy Supreme Commander & First Deputy Prime Minister

Change, the only constant

There are those who prepare for change and grow stronger because of it, while others struggle to come to terms with the inevitable. We believe our remarkable brand needed a bold and considered change and we have been preparing for the right time to make the required transformation.

That time is now.

+5Billion

Since inception in 1999, GFH has raised over US$ 5 billion in the following four key investment areas; Wealth Management, Commercial Banking, Asset Management and Real Estate Investment.

GFH Headquarters. Bahrain Financial Harbour. Kingdom of Bahrain.

GFH is fast becoming a dynamic financial group with a clear vision to develop a high growth, diversified investment and commercial portfolio. GFH actively seeks unique opportunities to grow the value and potential of its investments. To achieve industry-leading performance, GFH employs deep market insights, innovative thinking and investment intelligence.

Our **Corporate Profile** illustrates we have a remarkable legacy on which to grow.

Introduction

An internationally recognized Islamic investment bank, GFH has been a pioneer in its field for over a decade. GFH is considered to be one of the leading Gulf banks, this is underscored by the firm' ability to unlock investment opportunities and potential through the harnessing of economic growth in some of the world's most dynamic emerging economies.

Since inception in 1999, GFH has raised over US$ 5 billion in the following four key investment areas; Wealth Management, Commercial Banking, Asset Management and Real Estate Investment. GFH is listed on a number of international stock exchanges, including the Bahrain Stock Exchange, Kuwait Stock Exchange and Dubai Financial Market.

Recognition

GFH has a long track record of identifying and delivering investment opportunities for its investors and shareholders and has been awarded for its outstanding innovations in Islamic Finance. In 2012 GFH received the *Best Islamic Investment Bank (Bahrain)* award from Capital Finance International (CFI). Other awards included: Banker Middle East's *Deal of the Year 2008*, Euromoney's *Best Investment Bank 2005, 2006* and *2007* and *Best Islamic Investment Bank 2005*.

Creation

Cementing its position as a pioneering investment house, GFH has conceptualised and established some of the region's leading financial institutions including First Energy Bank (the world's first Islamic investment bank focused exclusively on the energy sector), Khaleeji Commercial Bank in Bahrain, QInvest in Qatar, Arab Finance House in Lebanon, First Leasing Bank in Bahrain and Asia Finance Bank in Malaysia.

GFH has also developed some of the region's most innovative residential and commercial flagship infrastructure projects, including Bahrain and Tunisia's iconic Financial Harbours, business-focused Energy Cities in Qatar and India, and luxury lifestyle developments Al Areen Development in Bahrain and the Royal Ranches of Marrakech in Morocco. In addition, an exclusive mega project conceptualized by the bank was Jordan's biggest commercial infrastructure project, the Jordan Gate in Amman, which was successfully completed and delivered.

Diversification

Initially investing in the emerging and dynamic economies of the Middle East, North Africa and Asia, GFH has recently widened its international scope. As part of this diversification strategy, the bank undertook distinct venture capital and private equity projects in a number of sectors. To date GFH has made strategic investments in wide-ranging sectors such as: Healthcare, Industrial, Education, Technology and Sports and Entertainment. Investment in Leeds United Football Club, Cemena Investment Company, Balexco Aluminium Extrusion Company and Falcon Cement Company are key examples.

GFH has a long track record of identifying and delivering investment opportunities for its investors and shareholders and has been awarded for its outstanding innovations in Islamic Finance

We have transformed our brand

GFH is driven by a unique and challenging vision:

To discover, innovate and realise value potential

GFH is fast becoming a dynamic financial group with a clear vision to develop a high growth, diversified investment and commercial portfolio. GFH actively seeks unique opportunities to grow the value and potential of its investments. To achieve industry-leading performance, GFH employs deep market insights, innovative thinking and investment intelligence.

to ensure even greater growth

Our unique culture is created by living our values:

We are Diligent
Our deepest commitment is to realising our ambition. A natural perseverance is the foundation on which we grow. We focus on the detail, ensuring we get extraordinary results. Our success is the direct result of our tenacity.

We are Honest
We believe in being open, transparent and straightforward in every aspect of our business. We gain trust by providing reliable information about the things which affect our performance.

We are Smart
We find the world a curious place; its challenges and opportunities entertain our minds. Our rich experience is balanced with a restless inquisitiveness that drives us to find and innovate unique opportunities.

GFH's Board of Directors provides a breadth of experience and oversight that is helping to shape the firm for a new era of growth and prosperity.

Insight & direction from across the board

180

GFH's highly respected Board of Directors have over 180 years of experience in business between them.

Dr. Ahmed Al-Mutawa
Chairman, Non-Executive

Dr. Ahmed Al-Mutawa is Chairman of GFH, a role to which he was appointed in October 2013 following two years as the bank's Vice Chairman.

Dr. Al-Mutawa who is a well respected executive, researcher and economics academic, brings more than 36 years of financial and economic experience to GFH. He has been closely involved in the restructuring of the bank and in the development and implementation of its current strategy.

Dr. Al-Mutawa currently serves as the Advisor to the Board of Khalifa Fund for Enterprise Development and has a wealth of experience in advising and consulting. He has served as a board member in some of the region's largest and most reputable universities and organizations, namely Majid Al Futtaim Properties, Abu Dhabi Basic Industries Company (ADBIC), Dubai University College and Dunia Finance. He is also a board member in Khaleeji Commercial Bank, Summit Bank, Cemena, GFH Capital and National Qualification Authority.

He began his career as a teaching assistant at the UAE University and went on to become a well-known professor and director at the University. He has also spoken and presented at a number of key finance and economics conferences throughout the region.

Dr. Al-Mutawa holds a PhD in Economics from Georgetown University, Washington DC and a Masters degree in Economics from the University of North Carolina, USA. He also holds a Bachelors degree in Economics from Cairo University in Egypt.

Currently serving as the Advisor to the Board of Khalifa Fund for Enterprise Development, Dr Ahmed Al Mutawa has a wealth of experience in advising and consulting.

GFH's Board of Directors

Mosabah Al-Mutairy
Vice Chairman, Non-Executive

Mr. Mosabah Al-Mutairy has been a board member of GFH for the past five years and brings extensive financial expertise amassed throughout his 19 year career in the fields of investment, finance and accounting.
He is currently a member of several boards across different organizations including the Investment Committee of Royal Guard of Oman Pension Fund, in which he plays a pivotal role in managing funds. He is also a member of the Board of Directors at the Hotels Management Co. Int and Dhofar Power Company and a member of India Entertainment City and Mena Resident among others.

Mr. Al-Mutairy currently holds a Masters of Business Administration (Finance) from the University of Lincolnshire & Humberside (UK), a degree in Accounting from South West London College (UK) and a postgraduate qualification from South Bank University London in Accounting (UK).

Bashar Mohammed Al-Mutawa
Member, Independent

Mr. Bashar Al-Mutawa has been appointed as a board member of GFH bringing his knowledge and experience to the board on decisions regarding the bank's operations going forward.

Prior to his appointment as a board member, Mr. Al-Mutawa occupied the position of Advisor to the board. Prior to his role as Board Advisor of GFH, Mr. Bashar was Managing Director of Noon Investment Company, which focuses on investments in real estate. Mr. Al-Mutawa was also employed previously as a consultant with KPMG's Corporate Advisory Department, responsible for providing corporate advisory to major corporations and companies in Bahrain, including those in the financial, industrial, governmental and real estate sectors.

He also holds a number of Directorship positions, including Al Jazeera Tourism Company, Naseej BSC©, Tashyeed Properties, Bahrain Film production Company and Saar Investment Company.

Mr. Al-Mutawa graduated from Babson College, Boston, MA (USA) in 2000 with a Bachelors of Science degree in Finance and Economics.

Dr. Khalid M. Al-Khazraji
Member, Independent

Dr. Khalid Al-Khazraji has joined GFH as a board member. Prior to his current role, Dr. Al-Khazraji was an Advisor to the board of Directors of GFH, bringing over 23 years of experience across a number of industries. Dr. Al-Khazraji's skills set include a wealth of knowledge in Organizational Change, Entrepreneurship and Business Enterprise Management, Human Resource Management and Development, as well as a particular strength in academia.

Dr. Al-Khazraji is currently the Executive Chairman of AlKawthar Investment LLC., a diversified investment company operating in the finance, manufacturing, real estate and trading sectors. Prior to that he was appointed as the Director General of the National Human Resources Development and Employment authority (TANMIA) in the UAE, following his appointment as a Deputy Minister of Labour at the Ministry of Labour and Social Affairs in the UAE. He also was the Head of the Labour Team and member of the Free Trade Agreement Negotiating Team between the USA and UAE.

He began his career with Dubai Aluminum Company as a buyer and expediter, before moving over to a career in academia. He began teaching at the United Arab Emirates University, moving through a number of positions there, including Honour Students Coordinator, a member of the Strategic Planning Committee for the Business Administration Department in the College of Business & Economics, the Head of International Executive MBA Program Committee in the College of Business & Economics, Associate Dean in the College of Business & Economics and a member of the Supreme Council of the United Arab Emirates University.

In addition to his position as a board member at GFH, Dr. Al-Khazraji is also a Member of the Board of Trustees for the University of Dubai and Deputy Chairman of the Board of Directors for Majid Al Futtaim Retail.

Dr. Khalid Al-Khazraji graduated from the University of Miami, Florida (USA) in 1982 with a Bachelors of Business Administration degree. He also holds a Masters of Business Administration from Loyola University, in New Orleans, Louisiana (USA) and a PhD in Business Administration from University of Mississippi, Mississippi (USA).

Sh. Mohammed Duaij Al-Khalifa
Member, Independent

Appointed as a board member, Mr. Mohammed Al-Khalifa brings to GFH knowledge and experience in the investment and management arenas.

Mr. Al-Khalifa is also currently serving as Chief Executive Officer of Barwa Real Estate (Qatar) Bahrain and is responsible in his capacity there for the management of the company's investment portfolio, managing a team of professionals in identifying and pursuing opportunities for investment in the real estate development, investment and private equity markets.

Prior to his role with Barwa Real Estate, Mr. Al-Khalifa served as Vice Chairman of Nuzul Holding B.S.C., taking up the mantle in May 2009, in addition to the role of Acting Chief Executive Officer. In his roles at Nuzul Holding he was responsible for restructuring the company and its investment portfolio with the aim of increasing revenues, with oversight of the company's daily operations and administration.

Mr. Al-Khalifa has also served as a Member of the Investment Committee at Fund Management LLC and as Principal-Investment Placement (Bahrain & Qatar) at Abu Dhabi Investment House.

Mr. Al-Khalifa graduated from Saint Edward's University, Austin, Texas in 2003 with a Bachelor's Degree in Business Administration and Management. He also holds an MBA from New York Institute of Technology, Bahrain, graduating from the program with Distinction. Mr. Al-Khalifa is a board member of the Bahrain Maritime Sports Association and a Member of the Advisory Committee for the Bahrain Youth Parliament.

GFH's Board of Directors (contd.)

Mohammed Ali Talib
Member, Independent

Mr. Mohammed Talib has been appointed as a board member for GFH, bringing with him over 28 years of experience in the management and legal sectors. Mr. Talib takes on the direct responsibility of the bank's Board of Directors on matters pertaining to legal issues across all the bank's operations.

Prior to being appointed as Board Advisor and later Board Member at GFH, Mr. Talib held the role of Under secretary for the Ministry of Housing, Bahrain, as well as the Director General of Customs at the Ministry of Finance, where he headed a number of Bahrain's delegations to major meetings of the World Customs Organizations, Director General of Customs meetings of MENA countries and of GCC countries.

Mr. Talib also held the position of Director of Foreign Economic Relations at the Ministry of Finance and National Economy (Bahrain), for over 10 years. Prior to that, he was a Legal Consultant at the Ministry of Finance and National Economy, following the establishment of his own legal practice in Bahrain, the Mohammed Ali Talib Law Office.

He is also the member of a number of Boards of Directors in the GCC, including the National Hotels Company (Bahrain), the King Fahad Causeway Authority and the Arab Investment Guarantee Institutes (Kuwait).

Additionally, he is the representative of the Kingdom of Bahrain at the Arab Gulf Program for United Nations Development Organization (AGFUND).

Mr. Talib graduated from Damascus University (Law College), Syria with a Bachelors of Law degree in 1981 and received his Masters of Law degree (LLM) in International Commercial Law from the University of Kent at Canterbury, UK in 1995. He also successfully completed the Program on Macroeconomics – Policy and Management from Harvard University, Boston, Massachusetts (USA), receiving his Advanced Certificate in 1996.

Faisal Abdulla Abubshait
Member, Independent

Mr. Faisal Abdulla Abubshait has over 10 years of experience in diversified business fields such as Real Estate, Industrial, Telecommunication, Technology, Hotel and Food & Beverage, to name a few. Currently Mr. Abubshait is the President of Abdulla Fouad Holding Company, a post he has held since 2001. Previously he worked for Arthur Anderson, the global consulting firm.

Mr. Abubshait holds a Bachelors degree in Business Administration from Mount Ida College, USA and serves on numerous boards including: Non-Executive Director at Gulf Consolidated Contractors Company, Ejar Cranes, Mantech Company, Rayhann Dammam Hotel (Rotana), Mantech Computer and telecommunication, Mantech Real Estate Company, Taqqat Global Company, SADFCO, Ideal Food Company, Saudi Electro Mechanical Construction Co. (PETCON) and Arab Solution Technology Company. Additionally, Mr. Abubshait serves as an Executive Director at Abdulla Fouad Holding Company, Abdulla Fouad Impalloy Company, Abdulla Fouad Investment & Development Company, Faisal Abdulla Fouad & Partner Company, AF Industrial Lab Services Company, Fouad Abdulla Fouad Company LTD (FAFCO) and Abdulla Fouad Corelab Co.

*(Faisal Abdulla Abubshait was appointed in April 2014)

Yousef Ibrahim Yousef AlGhanim
Member, Independent

Mr. Yousef AlGhanim has 7 years of experience in the fields of business management and investment. Currently he is a Managing Partner at Gatelink Communication Company, a Kuwait-based telecommunications firm where he is responsible for managing the daily operations of the company and its various business lines. He is also a Deputy General Manager for Investment and Development in Alam Al Mesila General Trading Company, where his primary focus is to develop and manage a pool of verticals in accordance with the company's core activities. Previously Mr. AlGhanim was a Relationship Officer at the National Bank of Abu Dhabi (Kuwait) from 2007 until 2010.

Currently Mr. AlGhanim and his family have controlling interests in the following Kuwait-based companies: GateLink Communication Company W.L.L, G & B General Trading Company W.L.L, Gulf Solution Company and Alam Al Mesila General Trading W.L.L.

He also serves as a Non-Executive Director at Al Aman Investment Company and as an Executive Director at GateLink Communication Company W.L.L. Mr. AlGhanim holds a certificate in Credit Management from the Institute of Banking Studies in Kuwait and a Bachelors degree in Accounting from Kuwait University.
*(Yousef Ibrahim Yousef AlGhanim was appointed in April 2014)

Sharia Supervisory Board

Shaikh Abdulla bin Sulaiman Al-Manie
Chairman

Sh. Abdulla is a consultant to His Majesty the Custodian of the Two Holy Mosques with the rank of Minister member of the Grand Scholars Panel, Kingdom of Saudi Arabia. He is also the Chairman of the Sharia Supervisory Board of a number of Islamic banks.

Dr. Fareed Mohammed Hadi
Executive Member

Dr. Hadi is an Assistant Professor at the College of Arts in the Department of Arabic and Islamic Studies at the University of Bahrain. Dr Hadi is also a member of the Sharia Supervisory Board of a number of Islamic banks.

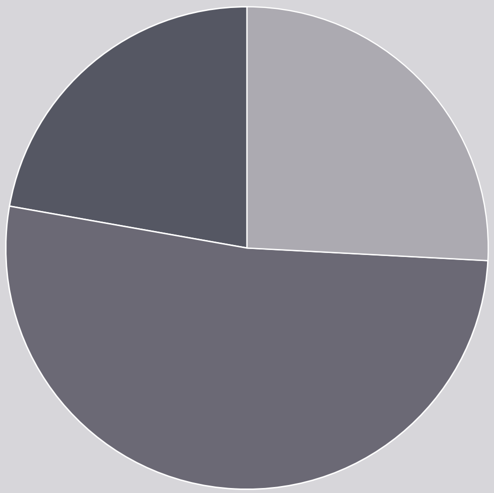
Shaikh Nidham bin Mohammed Saleh Yaquby
Executive Member

Sh. Nedham is a member of the Sharia Supervisory Board of Bahrain Islamic Bank, Abu Dhabi Islamic Bank, a board member of the Dow Jones Islamic Index and a member of a number of other Islamic banks.

Dr. Abdulaziz Khalifa Al-Qassar
Member

Dr. Abdulaziz is a Professor in the department of Sharia at the University of Kuwait. He is also a Sharia Consultant and a member of the Sharia Supervisory Board of a number of Islamic banks.

Financial Highlights



1.31 Billion (US$)

Total Group Assets as of 31st December 2014.

26%

Industrial Business

52%

Real Estate

22%

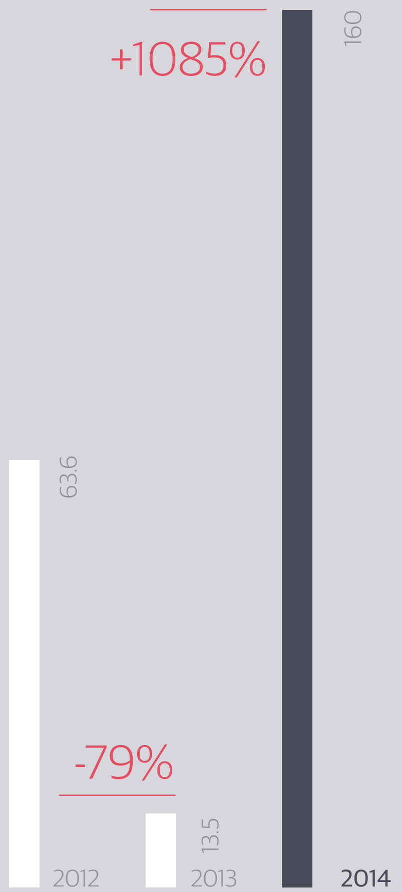
Financial Services

GFH's interest in its key commercial banking asset KHCB is part of it's strategy to ensure greater stability from global financial issues.

Transforming asset concentration
The group's balance sheet is currently weighted towards real estate investment. The group is seeking to transform this weighting over the coming period. As part of our corporate strategy to move from an investment bank to a financial group, GFH's balance sheet will start to reflect a greater shift towards both Commercial Banking and Wealth Management.

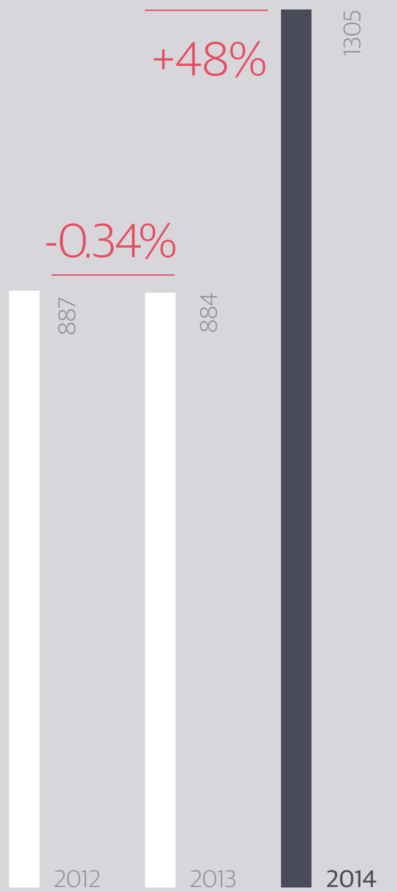
GFH's interest in its key commercial banking asset Khaleeji Commercial Bank is part of it's strategy to ensure greater stability from global financial issues. The group will undertake to grow this asset through operational and brand developments.

While GFH has been buffeted by the global trade winds it has never been so well diversified or in better shape to compete in the global market place. With a clearly defined vision, new strategic direction and leadership, GFH is poised to enjoy its greatest and most prosperous era yet.



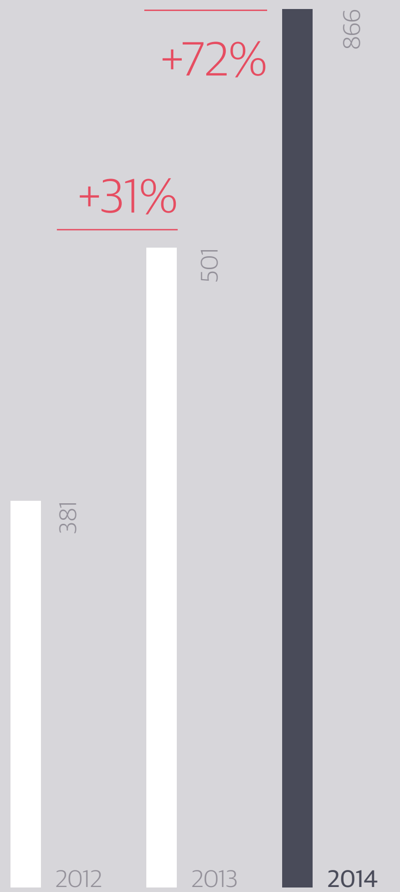
Turnover
Up 1085%

Total group turnover in US$ 160 Million



Assets
Up 48%

Total group assets in US$ 1,305 Million



Equity
Up 72%

Total ownership equity in US$ 866 Million

GFH's Executive Management and Senior Leadership team comprises a body of financial and managerial experts with remarkable international and regional experience.

International leadership, experience & expertise

209

GFH's executive team has over 209 years of collective experience in the field of financial services, real estate and business administration.

Hisham Alrayes
Chief Executive Officer

Hisham Alrayes is the CEO of GFH Financial Group, one of the Gulf's leading financial groups with shares listed in Bahrain, Dubai and Kuwait.

In 2012, Mr Alrayes assumed leadership of the firm with an objective to establish a diverse and well recognized regional financial institution offering a remarkable portfolio of Wealth Management, Real Estate, Commercial Banking and Asset Management.

Prior to his role as Group CEO, Mr Alrayes was GFH's Chief Investment Officer during which period he was responsible for driving the development and execution of its regional and international investment strategy.

Before joining the group in 2007, Mr. Alrayes was part of the senior management team of the Bank of Bahrain & Kuwait ('BBK'), a leading commercial bank in the Kingdom of Bahrain. During his tenure at BBK, Mr Alrayes was responsible for a number of key projects and new venture initiatives. These included establishing one of the bank's key subsidiaries Invita, BBK's contact consultancy and business process outsourcing brand as well as developing BBK's successful eBanking platform.

Mr. Alrayes holds a Masters degree with Honors in Business Administration from the University of De Paul in Chicago (USA) and a Bachelors degree in Engineering with Honors from the University of Bahrain.

Prior to his role as Group CEO, Mr Alrayes was GFH's Chief Investment Officer during which period he was responsible for driving the development and execution of its regional and international investment strategy.

Executive Management

Chandan Gupta
Chief Financial Officer

Chandan Gupta was appointed as Group Chief Financial Officer of GFH in 2009. He is responsible for handling the Finance, Accounting, Capital Management and Treasury functions of the group. Previously, Mr. Gupta was an Executive Director of Origination & Structuring where he co-led the investment feasibility, due diligence exercise and investment structuring process for various investment projects of the group. Mr. Gupta joined GFH in 2005 in the Financial Control department.

Prior to joining GFH, Mr. Gupta worked at HSBC in Mumbai as Vice President of Financial Reporting and at Price Waterhouse Coopers in Mumbai, in the Assurance and Business Advisory Services Division.

Mr. Gupta has 17 years of experience in Audit, Finance and Investment. He is a Certified Public Accountant (CPA) from the American Institute of Certified Public Accountants, a Certified Financial Analyst (CFA) from the Institute of Certified Financial Analysts of India, a Chartered Accountant (CA) from the Institute of Chartered Accountants of India and holds a Bachelors degree of Commerce from the University of Mumbai.

Mohamed Ameen Ahmed Ali
Chief Administrative Officer

As Chief Administrative Officer, Mohamed Ameen plans, leads and controls the day-to-day operational activities of GFH. He is responsible for directing the operational and administrative strategy as well as managing corporate functions including Administration, Operations, Fund Administration, IT, Corporate Communications and other administrative corporate functions as required.

Mr. Mohamed Ameen is a seasoned banker and a management professional with more than 33 years of experience in financial markets, conventional and Islamic banking, as well as investment sectors.

Prior to his appointment at GFH, Mr. Ameen led the Quality Assurance Department at Investcorp in Bahrain, where he was responsible for the implementation of the new quality assurance system, as well as streamlining the department's daily activities. Prior to Investcorp, he served as Vice President and Unit Head of the Product Processing Division at Gulf International Bank.

Mr. Ameen is a Fellow member of the Chartered Institute of Bankers and an Associate member of the Chartered Institute of Management Accountants in UK. In addition, he has completed the Gulf Executive Development Programme at Darden Graduate School of Business at the University of Virginia (USA).

Ajay Subramanian
Head of Risk Management

Head of Risk Management at GFH, Mr. Ajay Subramanian, has a 14 year track record of service in leading multinational banks and the 'Big Four' consulting firms. This includes a wealth of experience in Risk Management, Business Process Improvement and Transition (project) Management. As Head of Risk Management, Mr. Subramanian is a core member of the Executive Committee and works closely with the group CEO and other members of the executive management team, while reporting independently to the Chairman of the Board Audit & Risk Committee of GFH.

Mr. Subramanian began his career as Process Manager with JP Morgan Chase based in Singapore, and later Hong Kong. He was a part of the key group responsible for migrating JP Morgan's core banking processes to India. He then moved to ABN Amro as lead Financial Analyst covering projects in Amsterdam, United Kingdom and India. Furthermore, Mr. Subramanian has significant risk consulting experience having worked with E&Y and KPMG advising large multinational banks in India and regional banks in Bahrain.

Mr. Subramanian is a qualified Chartered Accountant (ACA) from the Institute of Chartered Accountants of India (ICAI) and has graduated from the University of Mumbai in India, with a Bachelor of Commerce degree. He also holds an international risk certification from Global Association of Risk Professionals (GARP).

Salem Patel
Head of Corporate Investment

Salem Patel, Head of Corporate Investment at GFH, joined in 2007 and is responsible for the sourcing, structuring and management of a number of the firm's most prominent investments across the GCC, UK and US, including Queens Gate Gardens, Diversified US Residential Portfolio, Leeds United Football Club, Injazat Technology Fund and Al Basha'er GCC Equity Fund.

Mr. Patel is also a member of the group's Executive Management Team (EXCOM) that is responsible for approving all key decisions related to investments and operations.

Prior to joining GFH, Mr. Patel worked in the Financial Services Division with Accenture in London. Before this, he worked as a Financial Analyst with Longview Partners in London where he held roles in Equity Research at UBS and Societe Generale.

Mr. Patel currently holds a number of Directorships including Leeds United Football Club, the Al Khaleej Funds and Investment Company (Al Basha'er GCC Equity Fund) and the Injazat Technology Fund. He graduated from the City University Business School in London (1998) with a B.S.C (Hons) in Business Studies specializing in Finance. He subsequently obtained a number of certifications including: the Islamic Finance Qualification (IFQ) and the Securities and Futures Authorities Registered Representative (SFA). Mr. Patel has also passed all three levels of the Chartered Financial Analyst (CFA) exams.

A strategic shift
Historically GFH has been a real estate-centric investment bank, whereby a large proportion of its holdings was centred on land-based investment dealings. With its strategic shift towards finance, the bank is looking to reduce its holdings in this class from its current position of 50%, to a more even distribution of under 40%, in the mid term, and closer to 30% in the long term.

New exiting strategy
With the creation of long term projects, the focus of GFH is now to deliver, hand over and exit its numerous and well recognised projects. The previous strategy has been largely unbiased but sought opportunities with strong capital appreciation potential. In the future GFH will look towards investments in this class but will maintain its mandate to fully and develop and exit parcels of the projects with JV partners.

Senior Leadership

Dr. Mohamed Abdulsalam
Head of Sharia & Corporate Secretary

As Head of Sharia and Corporate Secretary at GFH, Dr. Mohamed Abdulsalam ensures that all agreements and deals made by GFH are compliant and in accordance with the teachings of Islamic Sharia.

Prior to joining GFH in 2006, Dr. Abdulsalam worked with some of the most prestigious Islamic financial institutions in Bahrain. He was a Sharia Auditor at Kuwait Finance House (KFH) and an Internal Auditor at Bahrain Islamic Bank (BisB).

Passionate about his field, Dr. Abdulsalam regularly attends specialized courses covering topics such as: Sharia Auditing, Sharia Standards, Sharia Products and many others in order to expand his knowledge of Islamic finance on an ongoing basis.

Dr. Abdulsalam received his Islamic Accounting Bachelorette from Al-Imam Mohammed Ibn Saud University in 2003. He is also the holder of an Accounting and Financial Control MBA from AMA International University and a Ph.D in Accounting and Auditing from the US. He also pursued additional qualifications including a Masters of Sharia and Accounting Standards for AAOIFI and the Sharia Control Fatwa of Islamic banks.

Bahaa Al Marzooq
Head of Internal Audit

Bahaa Al Marzooq, Head of Internal Audit at GFH, is responsible for supporting the bank in accomplishing its objectives by bringing a systematic and disciplined approach to internal control, risk management and governance processes. He joined GFH in February 2006 and has more than 15 years of auditing experience in the Islamic and investment banking sectors.

Prior to joining GFH, Mr. Al Marzooq worked with E&Y, one of the 'Big Four' global auditing firms, as Audit Manager in the Islamic Banking Group.

He graduated from the University of Bahrain in 2000 with a B.Sc. in Accounting and obtained his Certified Public Accountant (CPA) accreditation in California - USA in 2001. Mr. Marzooq is also a holder of an Executive MBA, which he obtained in 2004 from the University of Bahrain. Additionally, he has a number of specialized professional qualifications, including: Certified Internal Auditor, Chartered Global Management Accountant and Certification in Risk Management Assurance. Moreover, he is a member of the American Institute of Certified Public Accountants and the American Institute of Internal Auditors.

Mohammed Bukamal
Head of HR Management & Development

As Head of Human Resources and Development of GFH Mr. Mohammed Bukamal is tasked to cover a broad spectrum of HR activities that include pro-actively advising, coaching and influencing senior stakeholders on policy, talent-management and people strategies. Acting as strategic business partner and an employee advocate of the group, Mr. Bukamal is responsible for driving challenging change management projects, delivering complex business strategies and owning multiple initiatives to parallelize HR strategy with the group's broader objectives. He is also the group HR for GFH's project companies and serves as a board member in Leadership Corporation in Kuwait.

Prior to GFH Mr. Bukamal worked with Arab Banking Corporation B.S.C. ('ABC') providing strategic and operational support to the management and assisted with driving leadership development, talent management and succession planning across the organization in order to ensure all HR initiatives were aligned with business objectives and corporate goals.

Mr. Bukamal holds a Bachelors degree in Management and Marketing from University of Bahrain and holds an Associate Diploma in Human Resource Management from the Chartered Institute of Personnel and Development (CIPD), of which he is a member.

Elias Karaan
Head of Infrastructure Development

Elias Karaan was appointed in November 2012 as Senior Executive Director of Infrastructure Development. In his position Mr. Karaan is responsible for managing, conceptualizing and developing the infrastructure and real estate investment projects for the group and its associates. Mr. Karaan has more than 35 years of accumulated experience in Infrastructure and Real Estate projects in the United States and the GCC countries.

Previously, Mr. Karaan was Chief Executive Officer for the Reef Island Project in the Kingdom of Bahrain. Mr. Karaan earned an M.Sc. degree in Engineering Science from the University of Toledo in Ohio in 1985. He completed his undergraduate studies from Clemson University in South Carolina (USA) in 1980 where he received a B.Sc. in Electrical and Computer Engineering.

Gaby El-Hakim
Head of Legal Department

Mr. Gaby El-Hakim heads the Group's Legal Department, a role he assumed with the approval of the Central Bank of Bahrain and to which he brings more than 11 years of experience practicing law in areas including corporate and investment banking, Islamic finance, structured finance, capital markets, trade finance, cash management, private equity, and litigation/dispute resolutions.

In his capacity at GFH, Mr. El-Hakim is responsible for a wide range of general corporate, commercial and financing matters, as well as working with external local and international counsel on regulatory and litigation matters as required by the Group and its subsidiaries. Prior to joining GFH, Mr. El-Hakim was at BNP Paribas's Regional Bahrain Head Office, where he was Deputy Head of Legal for the Middle East and Africa Region managing and supervising a team of lawyers. He holds an LLM in Banking & Finance/Master of Laws from Osgood Hall Law School, York University, Toronto, Canada and a LLB (Licence en Droit Libanais) from Sagesse University School of Law, Beirut, Lebanon. He is also a Certified Arbitrator at the GCC Commercial Arbitration Centre, Bahrain and Vice Chairman of the Lawyer's Committee of ICC Bahrain (Chamber of Industry and Commerce) since February 2013.

Mr. El- Hakim was appointed in January 2015.

Mohammed Abdulmalik
Acting Head of Wealth Management

Mohammed Abdulmalik is the Acting Head of Wealth Management at GFH, a role he has held since 2013. In this capacity, Mr. Abdulmalik is responsible for setting up strategies and objectives for the Investment Relationship Management team. He develops appropriate business models to capitalize on current market dynamics and potential.

Having joined GFH in 2002, his previous role at the bank as an Executive Director included marketing the group's products and services to markets in Qatar, UAE, Oman and KSA, where he has a diverse client base of high net worth individuals, financial institutions and sovereign wealth funds. Through his activities he contributed to the growth of liquidity and the group's investment placement business.

Prior to his tenure at GFH, Mr. Abdulmalik held a number of roles in financial control and auditing, including three years with Arthur Anderson and Ernst & Young as an Auditor as well as one year in HSBC's Financial Control Department.

Mr. Abdulmalik is a board member of Capital Real Estate Projects and holds a B.Sc. in Accounting from the University of Bahrain (1998).

Considered change, considerable progress

GFH is transforming from investment bank into a financial group designated to offer a unique financial portfolio and maximise value potential to its shareholders.

Wealth Management
Commercial Banking
Asset Management
Real Estate Development

GFH

GFH's business lines and shareholders cover key aspects of the financial service business chain, from high-end financial products and investments, to high street commercial banking operations.

$160 mil

Total consolidated income for 2014 is US$160.0 million as compared to US$ 13.5 million in 2013.

$27.6 mil

Operating profit before provisions for the year was at US$ 27.6 million compared to a loss of US$ 14.6 million in 2013.

Dr. Ahmed Al-Mutawa, Chairman, Non-Executive

Insights have inspired and guided our evolution

In the name of Allah, the beneficent, the merciful, prayers and peace be upon the last apostle and messenger, our Prophet Mohammed.

Dear Shareholders, on behalf of the Board of Directors of GFH, I am pleased to present the group's financial results for the fiscal year ended 31st December 2014, a year of significant progress, transformation and profitability.

Despite ongoing challenges in the global markets and geopolitical turmoil in our region and beyond, we have stayed the course, continuing our financial and operational restructuring, as well as the implementation of our new strategy; and the results have paid off.

In 2014 we delivered on our promise to shareholders of putting GFH on the path to greater profitability, as demonstrated by the year's financial performance and strong results. For the year the group posted a consolidated net profit of US$ 17 million, when compared to a net loss of US$ 18 million for the previous year. The profit attributable to shareholders for 2014 is US$ 11 million, as compared to a loss of US$ 18 million for 2013.

Total consolidated income for 2014 is US$ 160 million, as compared to US$ 13.5 million in 2013. Excluding income of US$ 94.3 million from non-banking operations, this reflected a sharp 387% rise in investment banking income, compared with the previous year. This was the result of a significant increase in placements and recoveries made during the year.

Operating profit before provisions for the year was at US$ 27.6 million compared to a loss of US$ 14.6 million in 2013. Total provisions for 2014 included US$ 12.8 million associated with losses from the group's exposure in Leeds United FC and regional real estate. These were offset by US$ 2.2 million of reversal of provisions in industrial business. Operating expenses for the year were US$ 133.8 million. Excluding costs related to non-banking income, expenses were US$ 42.0 million, compared with US$ 34.6 million in the prior year.

Improvements were also made to the group's overall financial position. During the year we took steps to recapitalize our balance sheet, the success of which underscores deep market confidence in GFH, our strategy and prospects. As a result, we currently have a very strong capital adequacy of above 32%, which will help us further our strategy of transforming GFH into a fully fledged financial group and support the acquisition of other operating businesses in 2015.

It is the beginning of a new era where GFH adopts a new strategy and transforms from an investment bank into a financial group. This transformation began during the year when we announced a new structure, which has seen us embark upon a path to further diversify our activities to include the full spectrum of Asset Management, Wealth Management, Commercial Banking and Real Estate Development.

The changes we have made to GFH's brand are a reflection of the change in our strategy, leadership and management of the bank. We work hard to enhance the potential of our current investments and seek out new opportunities for growth of the group and our co-investors. We look forward to concluding a number of acquisitions to enhance the balance sheet, implement our strategy and realize more returns that allow us to make distributions to the shareholders.

It is the beginning of a new era where GFH adopts a new strategy and transforms from an investment bank into a financial group.

Our focus has continued on **maximising the performance** and prospects for the group's existing investments, securing profitable exits and undertaking new opportunities.

$70 mil

During the year, the Tunis Bay Project Company agreed a US$ 70 million deal with a consortium of well-renowned French companies

70%

The bank's fully owned subsidiary and investment arm GFH Capital also acquired a 70% stake in Philadelphia Private School.

We would like to acknowledge that the successes of the past year are deeply rooted in the support we continue to receive.

Looking at the year, our focus has continued on maximizing the performance and prospects for the group's existing investments, securing profitable exits and undertaking new opportunities to generate income and create long term value for our investors and shareholders.

During 2014, we made progress on each of these fronts and we successfully concluded a number of new strategic transactions.

In the third quarter, we announced the completion of a deal that saw the group acquire a US$ 27 million diversified US residential portfolio consisting of three multi-family residential properties with nearly 1,300 apartments located in close proximity to expanding commercial and industrial infrastructure and benefiting from supply limitation, increasing tenant demand and potential for a solid upside at exit. The investment was fully subscribed by investors looking for exposure to a rebounding US market and the opportunity for diversification and consistent returns.

GFH also invested in the NurolLife residential project currently under construction in Istanbul, Turkey, which is being developed by the leading Turkish developer Nurol Real Estate Investment Trust. The group partnered with Nurol REIT to offer this opportunity, with an equity investment size of approximately US$ 35 million, to its investors in the GCC. Through the unique structure of this investment, GFH offered investors the chance to participate for either investment purposes, whereby they can benefit from potential expected capital appreciation of the residential units, or as ultimate owners of the residences.

The group also signed an agreement with Dubailand Co. to establish a multi-purpose project in the area of Dubailand opposite to the Arabian Ranches Project. The agreement involves the development, over a five-year period, of a total area of approximately 1,200,000 square feet, and will see the establishment of a new standard of luxury residential, commercial and retail space and facilities.

Further to this the group, through its fully owned subsidiary and investment arm GFH Capital, also acquired a 70% stake in Philadelphia Private School. This is a leading provider of primary, elementary and secondary education in Dubai, UAE with a current enrolment of 1,400 students. The opportunity was well received by investors. Subscription was completed by September 2014 and GFH Capital already dispersed the first half yearly dividend in January 2015.

During 2014 the group also completed the exit of our prime central London residential property, which had been acquired in 2013 for US$ 25 million by GFH Capital. The investment, which had been fully subscribed due to strong demand for exposure to the prime central London market, delivered a return of 21% return per annum to investors. The group continues to look at additional investment opportunities in the London real estate market.

Khaleeji Commercial Bank (KHCB), where GFH has a significant investment, also continued to maintain strong performance and build its brand in the market. In line with the group's new structure and expansion which is to include Commercial Banking, we are looking to further increase our equity share in KHCB, subject to regulatory approvals in the periods ahead.

Cemena Holding, a company founded and developed by GFH in 2008 for the purpose of investing in the industrial and building materials sector across the MENA region, also made strides during the year. Key subsidiaries of Cemena, Bahrain based Falcon Cement and Balexco, the first Aluminum extrusion production plant in the Gulf region, both produced at high capacity and continued to effectively deliver for the needs of a major share of the local market. Both are undertaking capital expansion plans which will see them having increased volumes and turnover in 2015.

New milestones were also achieved at the group's real estate development projects. Our investment in the Tunis Bay project witnessed significant progress on several fronts. This included timely advancement on infrastructure work and the signing of new development partners. During the year, the Tunis Bay Project Company agreed a US$ 70 million deal with a consortium of well-renowned French companies for the development of more than 120 hectares of land in Phase I of the project. The deal is anticipated to increase the value of the project and to yield lucrative returns. Two additional MOUs were also signed. The first with a local developer for the development of Phase II of the project, the Marina, and another with three leading US universities, who will work with a local Tunisian university to establish a new US$ 103 million American University at the Tunis Financial Harbour.

GFH's Gateway to Morocco project also witnessed positive momentum during the year. The project company reached a rescheduling agreement with financiers with favourable terms that would further support the project, including converting part of their debt into equity and encouraging the facilitation of joint development arrangements through the release of land. To further adhere to market changes, the project company has engaged a new concept designer to undertake the modification of components of the master plan to fit current market requirements in Marrakech, where the project is based, in order to ensure enhancement of future value and returns.

The Mumbai Economic Development Zone (MEDZ) project also reported advancement. Its development company signed and registered a joint development agreement for Phase 1 with Wadhwa Group. Site preparation work has begun and infrastructure works have advanced on one parcel of the land. The MEDZ has also renegotiated its agreement with Adani Group to include both the land of Phase II and Phase III of the projected. Accordingly, the commercial terms have now been linked to revenue sharing.

Together our new transactions and the progress made on existing investments helped make 2014 a productive year, and one which led to enhanced financial performance for the benefit of the group, our shareholders and investors. Our strategy is working and we will further its implementation throughout 2015. Going forward we have an active pipeline of opportunities available to us, including those to generate strong, steady streams of income. Our efforts will continue to be concentrated in our core GCC and MENA markets, as well as those further afield, like the UK and US, where our track record and reach have continued to grow.

As we look ahead, we would like to acknowledge that the successes of the past year are deeply rooted in the support we continue to receive, year-after-year, from the markets in which we operate and their institutions, leaders and strong economic policies in place.

In particular and on behalf of the Board of Directors, I would like to express our deep appreciation to the Rulers and the Government of the Kingdom of Bahrain for their vision and ongoing support of GFH, as well to the governments and regulators in each of the other geographies in which we operate. A special thanks is also extended to the Central Bank of Bahrain for their unwavering assistance and guidance. It has been instrumental during this period of significant change and positive development at GFH.

In concluding I would also like to take this opportunity to convey our gratitude to our shareholders, lenders, co-investors and strategic partners. Their commitment and confidence in GFH have, and continue to be, invaluable. I would also like to commend the management team and employees of the group whose hard work and dedication is no better reflected than in the many achievements of 2014.

We have entered 2015 as a stronger and more diversified group and are confident that our efforts over the past year have positioned us to deliver even greater value and enhanced results for our shareholders and co-investors in the year ahead. We will continue to keep you appraised of our activities and look forward to reporting further progress throughout 2015.

Sincerely,

Ahmed Al Mutawa
Chairman

22nd February 2015

$30 mil

KHCB was established in 2004 by GFH with a paid up capital of BD 30 million and is now a Public Bahraini Shareholding Company listed on the Bahrain Stock Exchange.

$20 bil

The group had successfully launched a number of key infrastructure projects across the MENASA region with a total estimated development value exceeding US$ 20 billion.

A review of our business activities

GFH is transforming from an investment bank into a financial group designated to offer distinctive financial products and maximize value potential to its shareholders.

GFH's business lines cover key aspects of the financial services value chain, from high-end financial products and investments, to high street commercial banking operations. The group offers products in the following investment classes:

Real Estate Development

The group has successfully launched a number of key infrastructure projects across the MENASA region with a total estimated development value exceeding US$ 20 billion. GFH takes a unique view in the investment world when approaching these large scale economic infrastructure projects and this has played an instrumental role in encouraging a paradigm change in the economic landscape of the GCC, North Africa and other parts of the world. The GFH approach focuses on delving into the details of an investment, following due diligence, conceptualising the project, securing land and injecting cash into the project to start the ball rolling. Some of these projects are coordinated in partnership with various governments and aim to contribute positively to the socio-economic development of countries hosting the bank's initiatives.

To name a few of the region's leading real estate development projects initiated by GFH in the MENA and Asian regions include:

- Royal Ranches Marrakech
- Energy City Qatar
- GFH Mumbai Economic Development Zone
- Energy City Libya
- Tunis Financial Harbor
- Bahrain Financial Harbour

GFH's focus now is to complete and hand over its numerous recognized projects and fully exit its current holdings. The previous strategy has been largely unbiased but has sought opportunities with a strong capital appreciation potential. In future the bank will look towards investments in this class but will maintain its mandate to fully exit any holding it creates or enters into.

Commercial Banking

Khaleeji Commercial Bank (KHCB) is an Islamic bank, headquartered in the Kingdom of Bahrain and operating under a Retail Islamic Banking license granted by the Central Bank of Bahrain (CBB). KHCB was established in 2004 by GFH with a paid up capital of BD 30 million and is now a Public Bahraini Shareholding Company listed on the Bahrain Stock Exchange.

KHCB offers a range of banking and investment products and services to retail clients, high-net-worth individuals, corporate entities and financial institutions. These include commercial and corporate banking, wealth management, structured investment products and project financing facilities. GFH currently owns 47% of KHCB.

KHCB was established in 2004 by GFH with a paid up capital of BD 30 million and is now a Public Bahraini Shareholding Company listed on the Bahrain Stock Exchange.

GFH's business lines cover key aspects of the financial services value chain, from **high-end financial products and investments**, to high street commercial banking operations.

Asset Management

GFH prides itself on the level and quality of service that the bank's Asset Management Department provides to clients that are interested in Islamic asset management services. GFH's objective is to create an investment portfolio that is highly diversified yet shares at least one unifying factor; exceptional performance.

After due diligence and careful assessment of the prospective assets, the bank will take a position in the targeted investment with a specific and agreed exit strategy. Insights into an asset's sector come from a process of understanding the macro economic conditions, market and societal trends as well as detailed investigation into the performance data of the investment in focus.

GFH splits its asset management activities into two areas:

1) Corporate Investment:
The Corporate Investment team is responsible for identifying and managing investments in companies that are growing and profitable as well as other equity based and alternative investments. The aim is always to find investments which can generate a healthy yield for investors and can also provide capital appreciation.
The assets managed by the Corporate Investment Team include:

- Philadelphia Private School, Dubai
- Leeds United Football Club
- Cemena Investment Company
- Al Basha'er GCC Equity Fund
- Injazat Technology Fund

2) Real Estate Investment
The Real Estate Investment team is responsible for identifying and managing investments in yielding real estate in the target markets of the GCC, Europe and the US. The objective in this team is to find leveraged real estate investments which will produce strong cash on cash returns for investors, whilst minimizing overall risk.
The assets managed by the Corporate Investment Team include:

- Diversified US Residential Portfolio, US
- 42 Queens Gate Gardens. UK
- Gulf Atlantic Real Estate, UK

Wealth Management

The bank's core offerings have centred largely on its wealth management capabilities. The bank seeks to create portfolio growth for its clients by first understanding the specific risk profile that best meets the aspirations of the investor.

With a valued client base of loyal high net worth individuals and institutional investors, GFH is one of the recognized leaders in the region for fund raising and Sharia compliant investment offerings. GFH's pioneering and innovative approach to market opportunities and to tailored Islamic compliant financial solutions is unique and difficult to replicate, enabling it to successfully place, originate, structure and participate in opportunities in several growing sectors, including Islamic finance, infrastructure, energy, industrial assets and real estate.

GFH is one of the recognized leaders in the region for fund raising and Sharia compliant investment offerings.

A Khaleeji Commercial Bank branch in Bahrain Financial Harbour, Bahrain. The company has eight branches across the country and offers a range of retail and commercial financial products.

$17 mil

GFH recorded a consolidated net profit of US$ 17.0 million for the year, compared to a net loss of US$ 17.7 million in 2013.

$160 mil

Total consolidated income for 2014 is US$ 160.0 million as compared to US$ 13.5 million in 2013.

A report by our executive management

5-Year Financials Highlights

Year	Return on Ave Equity	Return on Ave Assets	Cost to Income*
2010	-127.15%	-25.62%	N/A
2011	0.16%	0.04%	79.20%
2012	3.26%	1.17%	53.90%
2013	-4.00%	-1.99%	-651.92%
2014	1.62%	1.01%	53.60%

*Cost does not include provision for impairment. Income is net of Finance Expenses

Executive Management Review

Despite volatile economic conditions in the GCC, due to plunging oil prices and geopolitical tensions in the MENA markets, GFH recorded an improved performance across its various operating parameters. GFH launched a revised business strategy during the year, targeting various operating parameters; prime amongst them is to evolve as a 'Financial Group' having operations across a range of financial service businesses, thereby having a stable and recurring income, profitability and cash flows.

Financial Review

In 2014, GFH recorded a consolidated net profit of US$ 17.0 million for the year, compared to a net loss of US$ 17.7 million in 2013. The profit attributable to shareholders is US$ 11.1 million as compared to a loss of US$ 17.7 million in 2013. GFH recorded a total consolidated income of US$ 160.1 million for the year, compared to total income of US$ 13.5 million in 2013.

Excluding income from industrial business of US$ 94.4 million, income from investment banking business of US$ 65.7 million for the year was 387% higher than the previous year. The most important parameter for GFH was the restart of its revenue operations.

GFH's income from investment banking services was US$ 16.2 million during the year, as compared to US$ 1.9 million last year.

Despite volatile economic conditions in the GCC, due to plunging oil prices and geopolitical tensions in the MENA markets, GFH recorded an improved performance across its various operating parameters.

In 2015 GFH aims to invest its substantial resources to acquire companies in the financial services sector to **grow as a financial group.**

2014 has seen GFH launch and successfully place its investment products with its investors.

Operating income for 2014 also comprised of US$ 39 million recoveries made during the year. Revenue from industrial business amounted to US$ 94.3 million, representing operations of our accounting subsidiary Cemena Investment Company (Cemena). Cemena has profitable operations primarily in Bahrain, viz. Falcon, a cement manufacturing operation and Balexco an Aluminum extrusion plant. GFH total expenses for the year amounted to US$ 133.8 million, excluding industrial business operating expenses of US$ 91.8 million. GFH's investment banking business expenses amounted to US$ 42 million as compared to US$ 34.6 million for last year. The expenses are higher primarily due to increased business activity during the year. During the year GFH booked impairment allowances of US$ 10.6 million in the year as compared to US$ 3 million last year.

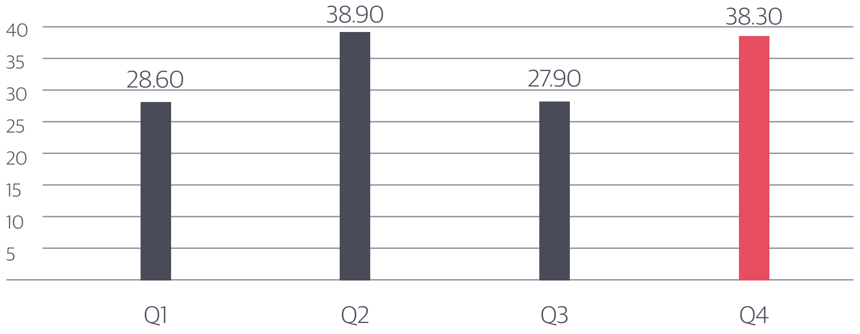
GFH is fortunate to have continued support from its shareholders and stock market participants who have fuelled GFH's recovery during the financial crisis. During 2014, GFH further strengthened its balance sheet. GFH's net equity increased by 35% from US$ 500.9 million in 2013 to US$ 678.5 million. This resulted in GFH capital adequacy to increase from 27.20% in 2013 to 32.31% in 2014 (refer page 131 for further details). The principal factors contributing to the increase in the total assets was due to the accounting consolidation of Cemena with GFH.

The reported capital adequacy ratio of 32.31% does not reconcile to the ratio as disclosed in note 41 of the consolidated financial statements of 32.24%, as certain adjustments were made to the capital adequacy ratio based on reporting by subsidiaries and associates after the date of adoption of the consolidated financial statements.

Operational Review

After stabilizing GFH's balance sheet and operations, the key focus for 2014 was to focus on our business activities. During 2014 GFH successfully launched and placed three investment products, namely Philadelphia Private School in Dubai, Diversified US residential portfolio and Nurolife residential project in Turkey. Overall GFH placed a total of US$ 89 million in 2014. These projects are in line with GFH's revised strategy of investing in existing profitable and dividend paying projects. We expect to launch such additional innovative products for our investors in 2015, especially based in the GCC.

Operational Cost 2014 - US$ million



GFH also focused on extracting value on its legacy assets for itself and its investors. To this effect GFH signed with local developers for part of our Tunis project, and on similar concepts like our India project, which will lead to cash flows over a period of time as development happens for our investors.

GFH is also looking to launch projects on its own lands in Dubailand and Bahrain Financial Harbor developments in 2015, in joint venture with strategic local developers. During the year, our sale transaction for Khaleeji Commercial Bank (KHCB) fell through. However, with the revised strategy of evolving as a wider financial group, GFH is now looking to retain its investment in and grow the operations and businesses of KHCB. Whilst Cemena is looking to expand its operations by investing in capital expansion plans for both Falcon and Balexco, part of its business is expected to be listed in 2015.

Continuing aims

2014 has seen GFH launch and successfully place its investment products with its investors. In 2015 GFH aims to invest its substantial resources available (with itself) to acquire companies in the financial service industry to grow as a financial group, so as to balance its operations and revenues with stable recurring cash flows and income. GFH will also be launching additional investment opportunities in line with its strategy of investing in existing profitable businesses for growth of these companies and its investors.

Tunis Financial Harbour (TFH) will be delivering North Africa's first offshore financial centre at Tunis Bay in a project with an expected end development value of US$ 3 billion. TFH is expected to be a world class banking centre designed to capitalize on Tunisian economic growth over the past decade.

GFH aims to create an investment portfolio that is highly diversified yet shares at least one unifying factor, **exceptional performance.**

1999

Gulf Finance House is an Islamic investment bank that was established in the Kingdom of Bahrain in 1999.

2007

In 2007, GFH listed its GDR's in the UK on the London Stock Exchange.

Governing with careful oversight

Gulf Finance House is an Islamic investment bank that was established in the Kingdom of Bahrain in 1999.

Gulf Finance House is an Islamic investment bank that was established in the Kingdom of Bahrain in 1999. The bank carries on its business activities in accordance with the principles of Islamic Sharia, including financial services, investment and commercial transactions, negotiable financial instruments, real estate and infrastructure; in addition to structured finance, securities and liquidity management designed to achieve profitable returns for investors.

Gulf Finance House was transferred to a Public Shareholding Company in 2004 with its shares being listed on the Bahrain Stock Exchange, Kuwait Stock Exchange and Dubai Financial Market. In 2007, GFH listed its GDR's on the London Stock Exchange.

As a Public Shareholding Company, GFH's corporate governance framework is based on the guidelines of corporate governance of Islamic banks and financial banks and institutions issued under the Bahrain Commercial Companies Law promulgated by Decree No. (21) for the year 2001 ('Companies Law'), and the regulations of corporate governance of companies in the Kingdom of Bahrain ('Governance Regulations'), and the instructions issued by the Central Bank of Bahrain and the Bahrain Stock Exchange Law ('the Regulations').

GFH's Corporate Governance Philosophy

The corporate governance framework – the way in which the Board and management are organized and how they operate in practice – is focused on assisting GFH to successfully meet its strategic objectives and maintain steady growth, whilst remaining fully cognisant of our clients and shareholders interests.

GFH believes that compliance with corporate governance principles enhances its value by providing a suitable framework for the Board of Directors, board committees and executive management to perform their duties in a manner that serves the interests of the bank and its shareholders. For this reason, GFH strives to achieve the highest levels of transparency, accountability and management by adopting and executing the strategy, goals and policies that are aimed at complying with the bank's regulatory and supervisory responsibilities.

The Board of Directors are accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. To achieve this, the Board approves and monitors the bank's strategy and financial performance, within a framework of sound corporate governance.

The Chairman of the board is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the CEO, and maintaining a dialogue with the bank's stakeholders. The Internal Audit, Risk Management and Compliance & MLRO functions report directly to the Board Audit and Risk Committee.

Gulf Finance House was transferred to a Public Shareholding Company in 2004 with its shares being listed on the Bahrain Stock Exchange, Kuwait Stock Exchange and Dubai Financial Market.

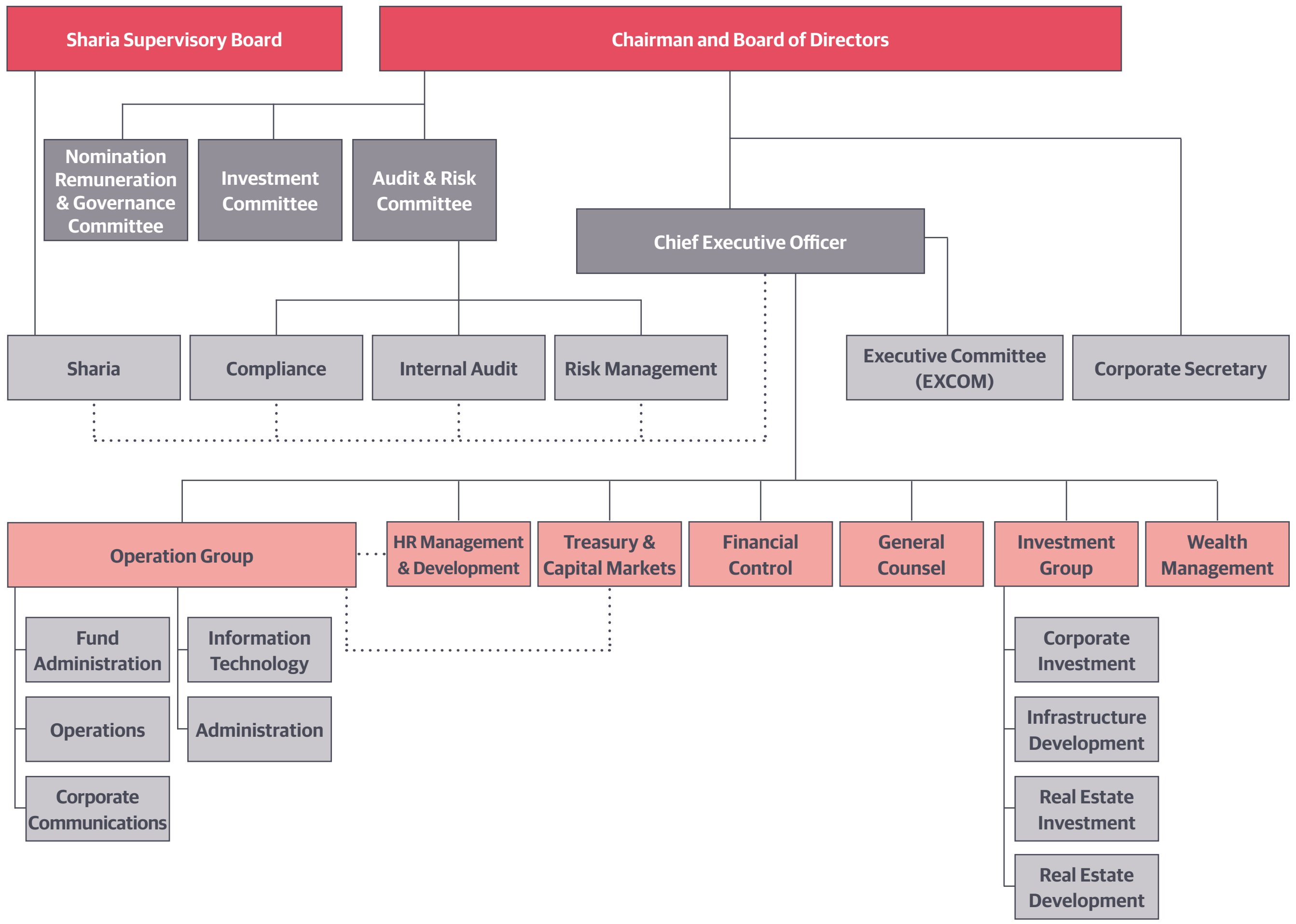
Compliance with Regulations (HC Module – CBB Rulebook, Vol.2)

In 2014, GFH continued the implementation of the Corporate Governance Law and compliance with the requirements of the 'High Level Control Module of the CBB Rulebook (Vol. 2)'.

As per rule HC-A.1.8 and HC-8.2.1 (c) of the HC Module (CBB Rulebook-Vol.2) with reference to the disclosure of the non-compliance events (Comply or Explain Principle), which stipulates the need to elucidate the non-compliance cases and provide clarification on the same in event non-compliance with the rules and guidelines of the HC Module, Gulf Finance House wishes to clarify the following:

- The Risk Committee has been merged with the Audit Committee to form one committee called the 'Audit and Risk Committee' because this merger poses no conflict of interest.
- The Nomination Committee and the Remuneration Committee are merged accordingly to form one committee called the 'Nomination, Remuneration & Governance Committee' because the merger poses no conflict of interest.

Organisational Structure



Notes:

* EXCOM consists of the following Members: CEO, Head of Corporate Investment, Chief Administrative Officer, Chief Financial Officer and Head of Risk Management.

** ALCO matters will be discussed within EXCOM.

GFH's Corporate Governance framework:

GFH's Corporate Governance framework remains in line with the High Level Control (HC) Module of the CBB Rulebook (Volume 2) along with the Bahrain's Commercial Companies Laws of 2001. GFH's Board of Director's Charter, Conflict of Interest for the Directors, Code of Conduct for the Directors, Code of Business Ethics & Conduct for the Management & staff, Appointment agreement of Board Members, Mechanism of Performance Evaluation of Board of Directors, Board Committees and Individual Board members, as well as the other internal policies of the bank are in line with the new and revised regulation and guidelines issued by the CBB.

As part of the disclosure requirements indicated in HC Module issued by the CBB, GFH presents the following facts:

A. Ownership of shares

A.1. Distribution of shareholdings according to nationality

As at 31st December 2014, the shareholders Register shows that there are 12,666 shareholders who own 4,730,665,467 shares at a nominal value of US$ 0.265 per share, as follows:

Nationality	No. of Shareholders	No. of Shares	%
Bahraini	592	108,643,621	2.30
Emarati	3,159	2,002,426,626	42.33
Kuwaiti	4,782	1,068,477,863	22.59
Omani	58	17,729,223	0.37
Qatari	40	12,197,725	0.26
Saudi	262	114,191,033	2.41
Others	3,766	1,406,999,376	29.74
Total	**12,659**	**4,730,665,467**	**100.00**

A.2. Distribution of ownership according to the percentage of shareholding:

The below table shows the distribution of ownership according to the percentage of shareholding as at 31 December 2014:

Particulars	Number of shares	%	No. of shareholders
Less than 1%	4,463,218,358	94.35%	12,656
1% to less than 5%	267,447,109	5.65%	3
5% to less than 10%	-	-	-
Total	**4,730,665,467**	**100.000**	**12,659**

A.3. Names of shareholders who own 5% or more:

As of 31st December 2014, none of the shareholders holds 5% or above of GFH's total outstanding shares.

Corporate Governance (contd.)

B. GFH Board of Directors and the Executive Management

B.1. Formation of the Board of Directors

1. At the AGM of year 2013 held on the 14TH April 2014, the Board was reformed and accordingly the following eight members were elected/re-elected for the next three years period i.e., 2014-2017.

I. Dr. Ahmed Khalil Al Mutawa
II. Mosabah Saif Al Mutairy
III. Faisal Abdulla Fouad Abubshait
IV. Bashar Mohammed Al Mutawa
V. Yousef Ibrahim Al Ghanim
VI. Dr. Khalid Mohammed Al Khazraji
VII. Sh. Mohammed Duaij Al Khalifa
VIII. Mohamed Ali Taleb

In compliance with the CBB requirements, which mandates at-least one third of the members of the Board of Directors to be Independent Directors; as of 31st December 2014 the Board was having 'Six' Independent Directors which includes the Chairman of the Audit and Risk Committee and the Chairman of the Nomination, Remuneration and Governance Committee.

B.2. Separation between the position of Chairman and Chief Executive Officer

In compliance with the CBB requirements, the position of the Chairman and that of the Chief Executive Officer are segregated and there is no amalgamation of responsibilities in these two positions.

B.3. Function of BOD and responsibilities of the Board Members

The Articles of Association of Gulf Finance House stipulate the responsibilities of the Chairman and members of the BOD as well as the guidelines of corporate governance with respect to the distribution of responsibilities between the Board of Directors and executive management. The BOD oversees all the business activities in consultation with the executive management team. The BOD also discusses and agrees Gulf Finance House's business strategy. Additionally, the BOD is responsible for risk management and the preparation of consolidated financial statements in accordance with AAOIFI standards and corporate governance issues. The matters which require the approval of the Board includes long term strategic and annual business plan, matters pertaining to corporate governance, acquisition and disposal of investments, exit of projects. This is along with the main role of the Board which is to ensure adherence to the values of Gulf Finance House, including the values set forth in its internal regulations.

When appointed, Board members are provided with the necessary detailed information to enable them to effectively perform their main role of overseeing the strategic, operational, financial and compliance affairs as well as corporate governance controls in Gulf Finance House. The corporate governance framework allows a member of the BOD to seek independent advice when necessary.
With respect to the channels of communication between the BOD and executive management, the Board members can contact and request information from the executive management at all times.

B.4. Independence of Board Members

Independent members represent the majority of board members. To ensure independence of members, all Board members are required to inform the Board of Directors about any changes or additions that occur on their positions and executive functions and may affect the assessment of their independence by the BOD. They should also ensure that their membership of the Board of Directors is not in conflict with any of their other interests and enable them to devote time and attention to the BOD. Before starting any Board meeting, the Chairman of the BOD instructs the Board members not to participate in the vote on the resolutions that may involve a conflict of interest; this is in addition to the annual disclosure submitted by the Board members in compliance with the conflict of interest policy.

The Nomination, Remuneration and Governance Committee of the BOD is responsible, along with its role in the identification, assessment and selection of candidates for membership of the Board of Directors, for the verification of the independence of members through the controls established by the regulations in this regard. In the selection process, the Committee ensures that the executive and non-executive candidates have a wide expertise in different fields of business and support services. Independent members are chosen from different sectors to ensure diversity of views and experiences in the BOD, as the current independent members come from financial, commercial and government sectors.

The following table shows the classification of members of the BOD as at December 31, 2014:

Classification of members	No.	% of Representation
Independent	6	75%
Non-Executive	2	25%
Total	**8**	**100%**

B.5. Letter of Appointment of Board Members

Upon appointment, the Board Members are required to sign a written agreement (letter of appointment) with GFH. The agreement contains details of the responsibilities and powers of the member as well as the information required by the regulations. Upon appointment, Board members are presented with a comprehensive official introduction specifically designed for this purpose. It includes, among other things, review of the BOD's role in general and the duties and roles of the Board members in particular, in addition to meeting with the executive management, presentation of GFH's strategy, financial performance, risks and legal issues and other related matters.
During the term of membership, a member of the BOD must be fully aware of all aspects of the business, including the bank's policies relating to corporate governance.

B.6. The Right of Shareholders to appoint Members of the Board

Under Article 175 of the Companies Law and Article 27-a of the Articles of Association of the bank, each shareholder who owns 10% or more of the capital is entitled to appoint his representative in the BOD in proportion to the number of members of the BOD. As at 31st Dec 2014, no shareholder holds 10% or above of GFH shares.

Corporate Governance (contd.)

B.7. GFH Board Members and their other memberships

The table below shows the composition of the BOD, the other memberships of the Board member and membership of committees as at December 31, 2014:

Name and position of Board member	Date of first appointment in BOD	Independent / Non-Executive/ Executive	Representation	Date of resignation	Number of memberships in other Boards of Directors	Number of memberships in other Boards of Directors in Bahrain	Number of memberships in other Boards of Directors of banks in Bahrain	Number of memberships in Board Committees
Dr. Ahmed Khalil Al-Mutawa (Chairman)	May 2011	Non-Executive	NA	NA	7	2	1	1
Mosabah Saif Al-Mutairy (Vice- Chairman)	March 2009	Non-Executive	NA	NA	9	1	1	1
Bashar Mohammed Al-Mutawa	April 2013	Independent	NA	NA	7	7	0	2
Sh. Mohammed Duaij Al Khalifa	April 2013	Independent	NA	NA	0	-	-	1
Dr. Khalid Mohd Al-Khazraji	April 2013	Independent	NA	NA	3	0	0	1
Mohammed A. Talib	April 2013	Independent	NA	NA	0	4	0	1
Yousef Ibrahim Al Ghanim	April 2014	Independent	NA	NA	2	0	0	1
Faisal Abdulla Fouad Abubshait	April 2014	Independent	NA	NA	18	0	0	1

Note: None of the Independent Director has any financial relationship or dealings with Gulf Finance House, with the exception of the relationship arising from being a member of the Board of Directors.

B.8. Ownership of the Members of the Board in GFH shares

The table below shows the change in the ownership of members of the Board of Directors of the shares of Gulf Finance House, as at December 31, 2014 compared to that of December 31, 2013:

Member's name	Shares owned as at Dec 31, 2013	Shares owned as at 31 Dec, 2014	Percentage of ownership as at 31 Dec, 2013
Dr. Ahmed Khalil Al-Mutawa	NIL	NIL	N/A
Mosabah Saif Al-Mutairy	NIL	NIL	N/A
Bashar Mohammed Al-Mutawa	NIL	NIL	N/A
Sh. Mohammed Duaij Al-Khalifa	NIL	NIL	N/A
Dr. Khalid Mohd Al-Khazraji	NIL	NIL	N/A
Mohammed Ali Talib	NIL	NIL	N/A
Faisal Abdulla Fouad Abubshait	NIL	NIL	N/A
Yousef Ibrahim Al Ghanim	NIL	NIL	N/A
Total	**NIL**	**NIL**	**0.0%**

B.9. Director's and Senior Manager's trading of the bank's shares and distribution of ownership on an individual basis during the year:

Name and position of Board member	Total no. of shares held as at 31st Dec 2013	Transactions – within the period 1st Jan – 31st Dec 2014			Total no. of shares held as at 31st Dec 2014	%Ownership
		Bought	Sold	Transfer		
Dr. Ahmed Khalil Al-Mutawa	–	–	–	–	–	–
Mosabah Saif Al-Mutairy	–	–	–	–	–	–
Faisal Abdulla Fouad Abubshait	–	–	–	–	–	–
Bashar Mohammed Al-Mutawa	–	–	–	–	–	–
Yousef Ibrahim Al Ghanim	–	–	–	–	–	–
Dr. Khalid Mohd Al-Khazraji	–	–	–	–	–	–
Mohammed A. Talib	–	–	–	–	–	–
Sh. Mohammed Duaij Al Khalifa	–	–	–	–	–	–

Name and position of Board member	Total no. of shares held as at 31st Dec 2013	Transactions – within the period 1st Jan – 31st Dec 2014			Total no. of shares held as at 31st Dec 2014	%Ownership
		Bought	Sold	Transfer		
Hesham Ahmed N. A. Alrayes	10,102	–	–	–	10,102	0.00020
Ajay Shivram Subramanian	2,194	–	–	–	2,194	0.00004
Chandan Gupta	–	–	–	–	–	–
Mohammed Amin Ahmed Ali Hassan	–	–	–	–	–	–
Salem Patel	–	–	–	–	–	–

B.10. Meetings of the Board of Director during the year 2014

The meetings of the Board of Directors and the Board committees are held whenever the need arises, but under the regulations, the BOD should meet at least four times during a single fiscal year. The BOD held seven (7) meetings during 2014. The AGM was held on 14th April 2014.

Date & location of meeting	Names of directors present	Names of directors who participated by phone/video link	Names of directors not present
Date: 23 February 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain	1. Dr Ahmed Khalil AlMutawa 2. Mosabah Saif Al Mutairy 3. Dr Khaled Mohamed Al Khazraji 4. Mohammed Ali Taleb 5. Sh Mohamed Duaij AlKhalifa 6. Bashar Mohamed AlMutawa		
Date: 22 April 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain	1. Dr Ahmed Khalil AlMutawa 2. Mosabah Saif Al Mutairy 3. Dr Khaled Mohamed Al Khazraji 4. Mohammed Ali Taleb 5. Sh Mohamed Duaij AlKhalifa 6. Bashar Mohamed AlMutawa 7. Yousif Ebrahim AlGhanim 8. Faisal Abdulla Abubshait		
Date: 14 May 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain		1. Dr Ahmed Khalil AlMutawa 2. Mosabah Saif Al Mutairy 3. Dr Khaled Mohamed AlKhazraji 4. Mohammed Ali Taleb 5. Sh Mohamed Duaij AlKhalifa 6. Bashar Mohamed AlMutawa 7. Yousif Ebrahim AlGhanim 8. Faisal Abdulla Abubshait	
Date: 3 June 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain	1. Dr Ahmed Khalil AlMutawa 2. Mosabah Saif Al Mutairy 3. Mohammed Ali Taleb 4. Sh Mohamed Duaij AlKhalifa 5. Bashar Mohamed AlMutawa 6. Faisal Abdulla Abubshait		1. Dr Khaled Mohamed AlKhazraji 2. Yousif Ebrahim AlGhanim
Date: 13 August 2014 **Location:** Gulf Finance House; Bahrain Financial Harbour East Tower - 37th Floor; Manama- Kingdom of Bahrain		1. Mosabah Saif Al Mutairy 2. Dr Khaled Mohamed Al Khazraji 3. Mohammed Ali Taleb 4. Sh Mohamed Duaij AlKhalifa 5. Yousif Ebrahim AlGhanim	1. Dr Ahmed Khalil AlMutawa 2. Bashar Mohamed AlMutawa 3. Faisal Abdulla Abubshait
Date: 3 September 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain	1. Dr Ahmed Khalil AlMutawa 2. Mosabah Saif Al Mutairy 3. Dr Khaled Mohamed Al Khazraji 4. Mohammed Ali Taleb 5. Sh Mohamed Duaij AlKhalifa 6. Bashar Mohamed AlMutawa 7. Yousif Ebrahim AlGhanim		1. Faisal Abdulla Abubshait
Date : 11 November 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain	1. Dr Ahmed Khalil AlMutawa 2. Mosabah Saif Al Mutairy 3. Mohammed Ali Taleb 4. Sh Mohamed Duaij AlKhalifa 5. Bashar Mohamed AlMutawa 6. Yousif Ebrahim AlGhanim		1. Dr Khaled Mohamed Al Khazraji 2. Faisal Abdulla Abubshait

In addition to official meetings, a number of urgent resolutions were also passed by circulation in 2014 through e-mails to Board members. As for the agenda of the meetings of the BOD, it is sent to the members at a suitable time before the date of the meeting, to provide the members with all the necessary information, reports and documents for their information and review. The BOD is also notified of all the topics and key events that arise and need approvals. The executive management is responsible for informing the BOD on the performance of GFH in each meeting.

Dates of Board meetings held during the fiscal year 2014 are as follows:

I. 23 February 2014
II. 22 April 2014
III. 14 May 2014
IV. 3 June 2014
V. 13 August 2014
VI. 3 September 2014
VII. 11 November 2014

Note: Faisal Abdulla Abubshait did not attend at least 75% of the Board Meetings during 2014.

B.11. Quorum required for adoption of Board resolutions

The required quorum for the meetings of the BOD and AGM shall be in accordance with the provisions of the Articles of Association of GFH. The BOD may pass its resolutions by post, e-mail, fax, conference calls, video calls or any other means of audio or video communication pursuant to the provisions of Article 33-e of the Articles of Association of the bank.

C. Board Committees

The BOD has established three subordinate committees and has delegated specific powers to each committee as follows:

C.1. The Audit and Risk Committee

The Audit and Risk Committee (ARC) is responsible for following up on the internal and external audit, risk management as well as compliance and anti-money laundering matters.

The Committee must meet at least four times a year; during the fiscal year 2014, the Committee held four meeting which took place on 14th May, 2nd June, 2nd September and 10th November 2014 respectively.

	ARC members present	ARC members who participated by phone/ video link	ARC members not present
Date: 14 May 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain	1. Mohammed Ali Taleb 2. Sh Mohamed Duaij AlKhalifa		1. Bashar Mohamed AlMutawa
Date: 2 June 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain	1. Mohammed Ali Taleb 2. Sh Mohamed Duaij AlKhalifa 3. Bashar Mohamed AlMutawa		
Date: 2 September 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain	1. Mohammed Ali Taleb 2. Bashar Mohamed AlMutawa		1. Sh Mohamed Duaij AlKhalifa
Date: 10 November 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain	1. Mohammed Ali Taleb 2. Sh Mohamed Duaij AlKhalifa 3. Bashar Mohamed AlMutawa		

Corporate Governance (contd.)

C.2. Investment Committee (BIC)

The Investment Committee's (BIC) responsibility is to approve the investment and funding requests, prepare the investment policies and controls, determine the credit limits of the bank, manage assets and liabilities, organize banking relationships, as well as oversee the items that are not included in the budget.

The Committee must meet at least two times a year. The Committee met five times during the fiscal year 2014 i.e., 29th April, 15th July, 24th July, 20th October and 30th October 2014.

BIC Meeting date & location	BIC members present	BIC members who participated by phone/ video link	BIC members not present
Date: 29 April 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain		1. Dr Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Yousif Ebrahim AlGhanim	
Date: 15 July 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain		1. Mosabah Saif Al Mutairy 2. Yousif Ebrahim AlGhanim	1. Dr Ahmed Khalil AlMutawa
Date: 24 July 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain		1. Mosabah Saif Al Mutairy 2. Yousif Ebrahim AlGhanim	1. Dr Ahmed Khalil AlMutawa
Date: 20 October 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain		1. Dr Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy	1. Yousif Ebrahim AlGhanim
Date: 30 October 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain		1. Dr Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Yousif Ebrahim AlGhanim	

C.3. Nomination, Remuneration & Governance Committee

The Nomination, Remuneration & Governance Committee is responsible for recruitment, rewards, incentive compensation of employees and the preparation of internal policies to manage human resources and other administrative matters. It is also responsible for overseeing the governance framework of Gulf Finance House.

The Committee must meet at least two times a year. The Committee met three times during the fiscal year 2014 i.e. 23rd February, 9th March, 2nd September 2014.

NRGC Meeting date & location	NRGC members present	NRGC members who participated by phone/ video link	NRGC members not present
Date: 23 February 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain	1. Mosabah Saif Al Mutairy 2. Dr Khaled Mohamed Al Khazraji 3. Sh Mohamed Duaij AlKhalifa		
Date: 9 March 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain	1. Mosabah Saif Al Mutairy 2. Dr Khaled Mohamed Al Khazraji 3. Sh Mohamed Duaij AlKhalifa		
Date: 2 September 2014 **Location:** GFH, Bahrain Financial Harbour East Tower, 37th Floor, Manama, Kingdom of Bahrain	1. Dr Khaled Mohamed Al Khazraji 2. Bashar Mohamed AlMutawa		1. Faisal Abdulla Abubshait

D. Audit fees and other services provided by the external auditor

Details will be available at the request of the regulatory authorities of the CBB. It will also be available for the shareholders upon an official written request to GFH provided that such matters shall not affect the interests of the bank or its competitiveness in the market.

E. Other topics

E.1 Compensation of the Board of Directors and Executive Management

Compensation of the Board of Directors and Executive Management is recommended to the Board of Directors by the Nomination, Remuneration & Governance Committee and the Board of Directors then makes the recommendation to the shareholders at the annual general meeting.

The Board of Director's remuneration takes into consideration the performance of the bank as well as an assessment of compliance of individual members with their performance agreement and individual responsibilities. During the year 2014, the Board was paid fees as stated in note 28 of consolidated financial statements.

Executive Management is entitled to a fixed remuneration as per their contractual agreements and any other performance-related incentives/bonuses must be approved by the Board.

Refer to note 28 (Key management personnel) of the consolidated financial statements for details of the remuneration to Board of Directors and Executive Management.

During 2014, the total remuneration paid to Sharia Supervisory Board was US$ 154,000/-.

Corporate Governance (contd.)

E.2 Continuous development of the Board and Board Committees

The Board approved Charter of the Board of Directors has been prepared to serve as a reference point for Board activities. The Charter outlines the demarcation of the roles, functions, responsibilities and powers of the Board, various Board committees of GFH and matters reserved for final decision –making or pre approval by the Board and the policies and practices of the Board in respect of matters such as conflicts of interest and convening of Board meetings.

The Board Charter sets up a detailed Board Training guide which provides a framework for induction/orientation of new Board members. The new Board of Directors are provided with a presentation pack containing overview/highlights of GFH.

All the members of the Board at the time of appointment should sign a Non-Executive Directors contract, which contains the terms of the appointment, duties and responsibilities of the members, membership and time commitment, conflicts of interest, resignation and termination, confidentiality of information and other details which the members have to abide by during their tenure of being member of the Board.

E.3 Board's Performance Evaluation

At GFH, a comprehensive Board Performance Evaluation Pack (framework for the annual self-assessment process by the Board, the Board Committees and Individual Directors) is in place which is in line with the CBB guidelines (HC Module).
The evaluation is to be used to assess Board effectiveness and support in identifying the need for:

- A revised mix of skills / experience on the Board.
- Board training and/or professional support
- Replacement of Individual Directors whose contribution is deemed inadequate.

The Board Performance Evaluation Framework is based on the following - Principles:

- The Board shall, through the Nomination, Remuneration and Governance Committee (NRGC), undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and Individual Directors.
- The Chairman will act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of the Board and, where appropriate, proposing new members be appointed to the Board or seeking the resignation of Directors.
- The Chairman of the NRGC will be responsible for the performance evaluation of the Chairman, taking into account the views of other Board Members.
- The evaluation process will be used constructively as a mechanism to improve Board effectiveness, maximize strengths and tackle weaknesses.
- The results of Board evaluation will be shared with the Board as a whole whilst the results of individual assessments will remain confidential between the Chairman and the Director concerned.
- Key results indicators, derived from the strategic plans and objectives, should be used to measure the Board's performance.

The Board Performance Evaluation Framework is based on the following - Methodology:

1) Each Board Member is required to complete the 'Board Performance Evaluation Form' and the "Individual Director's Self Evaluation Form".
2) The Chairman of the Board will also individually evaluate each of the Board Members.
3) NRGC will collate the ratings of the Board (Board Performance Evaluation Form) done by each of the Board Member accordingly; in order to arrive to mean results.
4) Each Committee Members will also perform rating of their respective committee(s).
5) Similarly, NRGC will collate the ratings of each of the Committee (NRGC/BIC/ARC); in order to arrive to mean results of that specific committee.

E.4 Transactions with Related Parties

Details of transactions with related parties are indicated in detail in Note 28 of the consolidated financial statements for the fiscal year ended 31 December, 2014.

E.5 Approval process for Related Party Transactions

All connected party exposures (within the CBB defined limits) will be approved by the appropriate approving authority as per the Delegate Authority Limit (DAL). Where the approving authority as per DAL is connected / interested, the approval authority shall move to the next level. All connected party exposures will be submitted to the BARC quarterly for their ratification.
In determining whether to approve a Connected Party Transaction, the requesting and approving authority will consider, among other factors, the following factors to the extent relevant to the Connected Party Transaction:

- Exposures to connected counterparties may be justified only when undertaken for the clear commercial advantage of the bank, when negotiated and agreed on an arm's length basis and when included in the policy statement agreed with the Central Bank.
- No Islamic facilities provided by a bank to its own external auditors shall be permitted (External auditors include firm/ partnership, the partners, the directors and managers of the audit firm). In addition, unless provided for in the contract, off-balance sheet restricted investment accounts will not be permitted to participate in on-balance sheet corporate funding and vice versa and movement within restricted investment accounts is not permitted without the Central Bank's prior written approval.
- Whether the terms of the Connected Party Transaction are fair to the bank and on the same basis as would apply if the transaction did not involve a Connected Party;
- Whether there are business reasons for the bank to enter into the Connected Party Transaction;
- Whether the Connected Party Transaction would impair the independence of an outside director and;
- Whether the Connected Party Transaction would present an improper conflict of interests for any director or executive officer of the bank, taking into account the size of the transaction, the overall financial position of the director, executive officer or Connected Party, the direct or indirect nature of the director's, executive officer's or Connected Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the BARC deems relevant.
- Shareholders with significant ownership of the bank's capital (i.e. 10% and above) are not allowed to obtain financing facilities from the bank (i.e. a 0% limit), however smaller shareholders will be subject to the normal exposure limits outlined in section CM-4.4.5. Directors who are also shareholders (or their appointed board representatives) with significant ownership (i.e. above 10% or above) are subject to the 0% limit mentioned above.
- The Central Bank's prior written consent should be obtained for any credit facilities provided to an employee where the amount of such facility, either singly or when added to an existing facility/existing facilities outstanding to that employee at that date, would be equal to or in excess of BD 100,000 (Bahrain Dinars One Hundred Thousand), or its equivalent in foreign currency. Banks must notify the Central Bank in writing of any senior employee who fails to discharge his repayment obligations.

Reciprocal cross-holdings of capital between a bank and its "controllers", which artificially inflate the capital of licensee concerned, are not permitted. Any cross-holdings that occur due to acquisitions or takeovers must be deducted from the concerned bank's capital. Any member of the Board Audit & Risk Committee who has an interest in the transaction under discussion will abstain from voting on the approval of the Connected Party Transaction, but may, if so requested by the Chairperson of the Committee, participate in some or all of the committee's discussions of the Connected Party Transaction. Upon completion of its review of the transaction, the BARC may determine to permit or to prohibit the Connected Party transaction.

E.6. Ownership of shares by government entities
None of the government entities holds shares of GFH.

E.7. Review of internal control and processes
Internal control is a process affected by the Board of Directors, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the bank. The Board of Directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on an ongoing basis; however, each individual within an organization must participate in the process.
The main objectives of the internal control process can be categorized as follows:

1. Efficiency and effectiveness of activities (performance objectives);
2. Reliability, completeness and timeliness of financial and management information (information objectives); and
3. Compliance with applicable laws and regulations (compliance objectives).

Also, the internal control system of the bank consists of five (5) interrelated elements:

I. Management oversight and the control culture;
II. Risk recognition and assessment;
III. Control activities and segregation of duties;
IV. Information and communication; and
V. Monitoring activities and correcting deficiencies.

E.8. GFH Complaint Handling Process
Gulf Finance House is committed to providing the highest standard of service to its customers. However, should there ever be an occasion when you feel that we have failed to honour our promise and that you need to complain, we will do everything possible to ensure that your complaint is dealt fairly, promptly and effectively.
A comprehensive Guide on Complaint Handling Process is available on Bank's website; the Guide educates the customers, as how to:

- Make a complaint
- Escalate if you are not satisfied with the response of your complaint
- Take further action if you are unhappy with the outcome

It defines the process which needs to be followed in order to log a Complaint or other grievances:

a) Once you have submitted your complaint, we will acknowledge within 5 "Five" business days.
b) Your complaint will be referred to the concerned person/department which will investigate it thoroughly and a written response letter detailing the outcome of our investigation and our decision shall be provided to you within 4 weeks of receiving your complaint.
c) In the unlikely event that your complaint has not been answered within the timeframes mentioned in point (b), we will write and let you know the reasons why and the further action that we will take including when we anticipate to have concluded our investigation.
d) In the unlikely event that your complaint has not been resolved or that you are not satisfied with the solution provided by us, you have the right to escalate your complaint to the 'Compliance Director' of GFH. Your escalation will be acknowledged as per (a) above and a written answer shall be provided within 4 weeks from the date of your escalation.
e) After receiving the final response to your escalated complaint and if you are still not satisfied, you can write directly to the Compliance Directorate of the Central Bank of Bahrain or you can submit the case through the "complaint form" on the Central Bank of Bahrain website www.cbb.gov.bh within 30 calendar days from the date of receipt of our final response.

E.9. Systems and controls for compliance with Sharia and AAOIFI standards
In pursuance with the provisions of its Articles of Association, Gulf Finance House has always carried out its banking activities in compliance with Islamic Sharia principles that constitute an integral part of the entire policies of the bank. Tasks managed by Sharia Department of GFH include the followings:

1. Ensuring that the necessary approvals of the SSB have been obtained for each project.
2. Ensuring compliance of projects with the Sharia provisions indicated in the Prospectus and the approved structure of the project.
3. Reviewing the financial statements and other issues related to the projects and ensuring that they are in compliance with the Sharia principles.
4. Ensuring that the projects are in compliance with Fatwas and recommendations of the SSB of GFH and the other Sharia Boards, if any.
5. Ensuring that the approval of the SSB is obtained for each financial instrument (such as sale transactions, financing, currency conversion, Sukuks, deposits, etc.), including the approved and concluded contracts and agreements.
6. Reviewing the financial statement to ensure full compliance with the Sharia principles and the requirements and provisions of the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).
7. Ensuring that all the products and the structures thereof are in compliance with AAOIFI's standards.

Refer note 2(w) and note 32 of the consolidated financial statements for the fiscal year ended 31 December 2014 for earnings prohibited by Sharia.

E.10. Remuneration related disclosures
The bank's total compensation approach, which includes the variable remuneration policy, sets out the bank's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

During the year, the bank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain and has proposed revisions to its variable remuneration framework. The revised policy framework and incentive components are subject to the approval of the shareholders in the upcoming Annual General Meeting. Once approved, the policy will be effective for the 2014 annual performance incentives and will be fully implemented for future periods.

The key features of the proposed remuneration framework are summarised below.

Remuneration strategy
It is the bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the bank. These elements support the achievement of our objectives through balancing rewards for both short-term results and long-term sustainable performance. Our strategy is designed to share our success and to align employees' incentives with our risk framework and risk outcomes.

The quality and long-term commitment of all of our employees is fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the bank and who will perform their role in the long-term interests of our shareholders. The bank's reward package is comprised of the following key elements:

1. fixed pay;
2. benefits;
3. annual performance bonus; and
4. the long term performance incentive plan

A robust and effective governance framework ensures that the bank operates within clear parameters of its compensation strategy and policy. All compensation matters and overall compliance with regulatory requirements, are overseen by the Nomination, Remuneration and Governance Committee of the Board (NRGC).

Corporate Governance (contd.)

The bank's remuneration policy in particular considers the role of each employee and has set guidance on whether an employee is a Material Risk Taker and/ or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the bank and an employee is considered a Material Risk Taker if they are the Head of a significant business line or any individuals within their control who has a material impact on the bank's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in our performance management system. This assessment also takes into account adherence to the bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the NRGC believes the latter contributes to the long-term sustainability of the business.

NRGC role and focus

The NRGC has oversight of all reward policies for the bank's employees. The NRGC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRGC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the bank.

The responsibilities of the NRGC with regards to the bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:-

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the bank.
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRGC will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial control and compliance functions the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

As outlined in the Corporate Governance section of the Annual Report, the Board is satisfied that all non-executive Directors are independent including the NRGC members. The NRGC comprises of the following members:

From January to April 2014

NRGC Member Name	Appointment date	Number of meetings attended
Mosabah Saif Al Mutairy	9 May 2013	2
Khaled Mohamed Al Khazraji	9 May 2013	3
Mohamed Duaij AlKhalifa	9 May 2013	2

From 22 April 2014 to December 2014

NRGC Member Name	Appointment date	Number of meetings attended
Khaled Mohamed Al Khazraji	22 April 2014	1
Bashar Mohamed AlMutawa	22 April 2014	1
Faisal Abdulla Bubsheet	22 April 2014	0

The aggregate remuneration paid to NRGC members during the year in the form of sitting fees amounted to US$ 8K (2013: US$ 6K).

External consultants

Consultants were appointed during the year to advise the bank on amendments to it's variable remuneration policy to be in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in designing an appropriate Share-based Incentive Scheme for the bank. The NRC also appointed consultants during the year to perform a pay benchmarking exercise to assist them in reviewing the total compensation offered by the bank.

Scope of application of the remuneration policy

The principles of this remuneration policy apply on a group-wide basis. However, application of deferral requirements and issue of non-cash instruments for each subsidiary of the bank will be determined by applicable local regulations and market norms.

Board remuneration

The bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Director's remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 5% of the bank's net profit after all required deductions as outlined in Article 188 of the Companies law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets and their contribution to delivering the bank's strategic objectives.

The bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRGC aims to balance the distribution of the bank's profits between shareholders and employees.

Key performance metrics at the bank level include a combination of short term and long term measures and include profitability, solvency, liquidity, Risk diversification, strategy implementation and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the quantum of variable remuneration, the bank has implemented a hybrid model by defining a Top Down (profit based) bonus pool funding for control and support staff and bottom-up (maximum earning opportunity based) pools for Risk Takers. The total bonus pool is capped at a percentage of profit before being assessed for risk. This approach is a starting position and the NRGC may choose to implement a discretionary award for a given year based on affordability for the bank and its assessment of the bank's current and future resource requirements. The bonus pool is adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The NRGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRGC demonstrates that its decisions are consistent with an assessment of the bank's financial condition and future prospects. The bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the bank's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRGC.

For the overall Bank to have any funding for distribution of a bonus pool; threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the bank to employ qualified and experienced personnel in these functions. The bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favour of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not be determined by the financial performance of the business areas they monitor.
The bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

Variable compensation for business units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the bank are treated differently by the remuneration system.

Risk assessment framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the bank. In its endeavour to do so, the bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

The bank's NRGC considers whether the variable remuneration policy is in line with the bank's risk profile and ensures that through the bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the strategic measures. The bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the bank's current capital position and its ICAAP. The bonus pool takes into account the performance of the bank which is considered within the context of the bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the bank takes into account the full range of current and potential risks, including:

a) The cost and quantity of capital required to support the risks taken;
b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRGC keeps itself abreast of the bank's performance against the risk management framework. The NRGC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

Risk adjustments

The bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the bank suffers material losses in its financial performance, the risk adjustment framework will consider the following:

- Need for a considerable contraction of the bank's total variable remuneration.
- At an individual level, poor performance by the bank will mean individual KPIs are not met and hence employee performance ratings may be lower
- Reduction in the value of deferred shares or awards
- Possible changes in vesting periods and additional deferral applied to unvested rewards
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The NRGC, with the Board's approval, can rationalize and make the following discretionary decisions:

- Take no action
- Increase/ reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of non-cash awards
- Recovery through malus and clawback arrangements

Malus and Clawback framework

The bank's malus and clawback provisions allow the bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/ adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the bank during the concerned performance year.

Any decision to take back an individual's awards can only be taken by the bank's NRGC. The bank's NRGC takes into account the advice of the CEO, Risk, Finance and HR Departments as appropriate.

The bank's malus and clawback provisions allow the bank's Board to determine that, if appropriate, vested /unvested elements under the deferred bonus plan can be adjusted/ cancelled in certain situations. These events include the following:

- Reasonable evidence of misbehaviour or material error by the employee causing harm to the bank's reputation or where his/her/her actions have amounted to misconduct, incompetence or negligence
- The employee's business unit suffers a material downturn in its financial performance or a material restatement of the financial statements of the bank
- The employee's business unit suffers a material risk management failure
- An employee deliberately misled the market and/or shareholders in relation to the financial performance of the bank
- A significant deterioration in the financial health of the bank
- Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of Variable remuneration

Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
Deferred annual bonus (DAB) share awards	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years
Future performance awards	The portion of variable compensation which is awarded to select employees. The awards are contingent on the delivery of future performance targets for the bank as well as service conditions on part of employees. These could comprise individually or a combination of the following: • Long term Incentive Plan Shares, where the employees are compensated in form of shares as a percentage of fixed salary on achievement of some future performance conditions. • Profit share, where the employees are compensated based on a specified percentage of targeted profit for a transaction. • Carried Interest, where the employees are compensated a specified percentage of fair value gain on investments once it achieves a specified hurdle rate on realisation. • Co-investment, wherein as portion of variable remuneration is awarded in the form of an investment made by the bank which is encashable by employee on Bank's exit from the investment. • Sales commission, where the employee is compensated on the basis of a specified percentage of a sales value of an investment on successful exit.

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six month retention period from the date of vesting. The number of equity share awards is linked to the bank's share price as per the rules of the bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

Deferred compensation

All employees earning over BHD 100,000 in total compensation shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	CEO, his deputies and other 5 most highly paid business line employees	Other covered staff	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	50%	immediate	-	-	Yes
Upfront shares	-	10%	immediate	6 months	Yes	Yes
Deferred cash	10%	-	Over 3 years	-	Yes	Yes
Deferred share awards	10%-50%	10%-40%	Over 3 years	6 months	Yes	Yes
Other Non-Cash Awards	0%-40%	0%-30%	Performance linked	6 months	Yes	Yes

The NRGC, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements.

Details of remuneration paid

(a) Board of Directors

	2014 (US$ '000)	2013 (US$ '000)
Sitting Fees	242	104
Remuneration*	225	-
Others	-	-

*Represents remuneration from subsidiaries of the bank.

(b) Employee remuneration

Following the approval by shareholders at the AGM of the bank, GFH will be finalising the final allocation of the payouts and shares awards that will be allotted to the employees based on the new remuneration guidelines mentioned above. Bank's Remuneration Committee will be entrusted with the finalizing the allocation. The detailed disclosure in accordance with CBB requirement about the current year (2014) remuneration along with previous year comparison will be made available on the website in due course.

Consolidated Financial Statements

Sharia Supervisory Board Report on The activities of Gulf Finance House B.S.C.

For the financial year ending 31st December 2014
17th February 2015

In the name of Allah, the Beneficent, the Merciful

Prayers and Peace Upon the Last Apostle and Messenger, Our prophet Mohammed, His Comrades and Relatives.

The Executive Committee of the Sharia Supervisory Board of Gulf Finance House have reviewed the Bank's investment activities and compared them with the previously issued fatawas and rulings during the financial year 31st December 2014 and found them compatible with the already issued fatawas and rulings.

The Sharia Committee believes that it has expressed its opinion in respect of the activities carried on by the Bank and it is the responsibility of the management to ensure the implementation of such decisions. It is the duty of the Sharia Board to express an independent opinion on the basis of its control and review of the Bank's operations and to prepare a report about them.

A representative of the Bank's management explained and clarified the contents of consolidated Balance Sheet. Attached notes and Consolidated Income Statement for the financial year ended on 31st December 2014 to our satisfaction. The report of the Committee has been prepared based on the contents provided by the bank.

The Committee is further satisfied that any income which is not in compliance with the Glorious Islamic Sharia has been dispersed to charitable organizations and that the responsibility of the payment of the Zakah lies with the shareholders in their shares, as per the Zakah guide

The Executive Committee of the Sharia Supervisory Board is satisfied that the investment activities and banking services are in compliance with the Glorious Islamic Sharia.

Praise be to Allah, Lord of the Worlds.

Prayer on Prophet Mohammed (Peace Be Upon Him), all his family and Companions.

Sh. Nidham Mohammed Yaquby

Dr. Fareed Mohammed Hadi

Dr. Abdulaziz AlQassar

Independent Auditors' Report to the Shareholders Gulf Finance House BSC

Manama, Kingdom of Bahrain

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of Gulf Finance House BSC (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of income, changes in owners' equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors
These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the board of directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion
We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by Accounting and Auditing Organisation for Islamic Financial Institutions. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2014, and of its consolidated results of operations, its consolidated cash flows, its pconsolidated changes in owners' equity, its consolidated changes in restricted investment accounts and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on other regulatory requirements
As required by the Bahrain Commercial Companies Law and Volume 2 of the Central Bank of Bahrain (CBB) Rule Book, we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;

c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration No. 137
22 February 2015

Consolidated statement of financial position

as at 31 December 2014

US$ 000's

	note	31 December 2014	31 December 2013 (restated – note10)
ASSETS			
Cash and bank balances	5	46,147	21,847
Placements with financial institutions		45,753	–
Investment securities	6	248,418	196,141
Investment properties	7	259,404	259,404
Development properties	8	45,501	–
Assets held-for-sale	9	–	23,824
Equity-accounted investees	10	158,804	209,739
Property, plant and equipment	11	141,301	299
Intangible assets	12	125,176	–
Other assets	13	234,603	172,669
Total assets		**1,305,107**	883,923
LIABILITIES			
Investors' funds	14	14,885	19,166
Placements from financial and other institutions	15	90,145	93,511
Financing liabilities	16	231,124	207,767
Other liabilities	17	101,560	60,408
Total liabilities		**437,714**	380,852
Equity of investment account holders	18	**1,663**	2,155
OWNERS' EQUITY			
Share capital	19	1,253,626	972,281
Treasury shares		(912)	(912)
Capital adjustment account		(475,582)	(229,656)
Statutory reserve		69,251	68,146
Accumulated losses		(165,851)	(310,185)
Fair value reserve		(2,345)	–
Foreign currency translation reserve		(780)	–
Share grant reserve	20	1,129	1,242
Total equity attributable to shareholders of the Bank		**678,536**	500,916
Non-controlling interests		187,194	–
Total owners' equity		**865,730**	500,916
Total liabilities, equity of investment account holders and owners' equity		**1,305,107**	883,923

The consolidated financial statements consisting of pages 68 to 131 were approved by the Board of Directors on 22 February 2015 and signed on its behalf by:

Ahmed Al Mutawa
Chairman

Mosabah Saif Al Mautairy
Vice Chairman

Hisham Alrayes
Chief Executive Officer

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated income statement

for the year ended 31 December 2014

US$ 000's

	note	2014	2013 (restated – note10)
Continuing operations			
Income from investment banking services		16,152	1,862
Management and other fees		1,045	7,316
Income from placements with financial institutions	25	286	473
Share of profit / (loss) of equity-accounted investees	10	10,363	(22,207)
Income from investment securities, net	21	(5,795)	1,433
Foreign exchange gain, net		57	1,018
Other income	22	43,600	23,565
Income from investment banking business		**65,708**	13,460
Revenue from industrial business	23 (i)	94,350	–
Total income		**160,058**	13,460
Staff cost	24	11,643	8,597
Investment advisory expenses		4,224	1,575
Finance expense	25	13,032	16,270
Other expenses	26	13,094	8,147
Total expenses of investment banking business		**41,993**	34,589
Cost of sales	23 (ii)	80,333	–
Other operating expenses	23 (iii)	11,505	–
Total expenses of industrial business		**91,838**	–
Total expenses		**133,831**	34,589
Profit / (loss) from continuing operations before impairment allowances		**26,227**	(21,129)
Impairment allowances	27	(10,585)	(3,000)
Profit / (loss) from continuing operations		**15,642**	(24,129)
Profit from assets held-for-sale, net	9	1,392	6,466
Profit / (loss) for the year		**17,034**	(17,663)
Attributable to:			
Shareholders of the Bank		11,059	(17,663)
Non-controlling interests		5,975	–
		17,034	(17,663)
Earnings per share	30		
Basic and diluted earnings per share (US cents)		**0.46**	(0.60)
Earnings per share – continuing operations	30		
Basic and diluted earnings per share (US cents)		**0.43**	(0.82)

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated statement of changes in owners’ equity

for the year ended 31 December 2014

US$ 000’s

2014	Share Capital	Treasury share	Capital adjustment account	Statutory reserve	Accumulated losses	Fair value reserve	Foreign currency translation reserve	Share grant reserve (note 24)	Total	Non -controlling interests	Total owners’ equity
	Attributable to shareholders of the Bank										
Balance at 1 January 2014	972,281	(912)	(229,656)	68,146	(310,185)	–	–	1,242	500,916	–	500,916
Profit for the year (page 69)	–	–	–	–	11,059	–	–	–	11,059	5,975	17,034
Fair value changes	–	–	–	–	–	(2,345)	–	–	(2,345)	–	(2,345)
Foreign currency translation differences	–	–	–	–	–	–	(780)	–	(780)	(1,080)	(1,860)
Total recognised income and expense	**–**	**–**	**–**	**–**	**11,059**	**(2,345)**	**(780)**	**–**	**7,934**	**4,895**	**12,829**
Transfer to statutory reserve	–	–	–	1,105	(1,105)	–	–	–	–	–	–
Conversion of Murabaha to capital (note 19)	415,725	–	(245,325)	–	–	–	–	–	170,400	–	170,400
Share issue related expenses	–	–	(601)	–	–	–	–	–	(601)	–	(601)
Capital reduction	(134,380)	–	–	–	134,380	–	–	–	–	–	–
Share grants vesting expense, net of forfeitures (note 24)	–	–	–	–	–	–	–	(113)	(113)	–	(113)
Acquisition of subsidiaries (note 4)	–	–	–	–	–	–	–	–	–	182,299	182,299
Balance at 31 December 2014	**1,253,626**	**(912)**	**(475,582)**	**69,251**	**(165,851)**	**(2,345)**	**(780)**	**1,129**	**678,536**	**187,194**	**865,730**

2013 (restated – note 10)	Share Capital	Treasury share	Capital adjustment account	Share premium	Statutory reserve	Accumulated losses	Share grant reserve (note 24)	Total
Balance at 1 January 2013	595,087	(2,995)	–	13,235	66,356	(291,280)	903	381,306
Loss for the year (page 69)	–	–	–	–	–	(17,663)	–	(17,663)
Total recognised income and expense	–	–	–	–	–	(17,663)	–	(17,663)
Transfer to statutory reserve	–	–	–	–	1,630	(1,630)	–	–
Conversion of Murabaha to capital (notes 16 & 19)	377,194	(8,528)	(229,656)	(13,235)	–	–	–	125,775
Purchase of treasury shares	–	(1,192)	–	–	–	–	–	(1,192)
Sale of treasury shares	–	10,997	–	–	–	–	–	10,997
Gain on sale of treasury shares	–	–	–	–	286	–	–	286
Share grants vesting expense, net of forfeitures (note 24)	–	806	–	–	(126)	–	339	1,019
Gain on partial disposal of assets of subsidiary held-for-sale	–	–	–	–	–	388	–	388
Balance at 31 December 2013	972,281	(912)	(229,656)	–	68,146	(310,185)	1,242	500,916

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2014

US$ 000's

	2014	2013
OPERATING ACTIVITIES		
Profit / (loss) for the year	**17,034**	(17,663)
Adjustments for:		
Impairment allowances	10,585	3,000
Income from investment securities	3,687	(1,433)
Gain from assets held-for-sale	(1,392)	(6,466)
Share of profit of equity-accounted investees	(10,363)	22,207
Foreign exchange gain	(57)	(1,018)
Management and other fees	75	–
Finance expenses	7,163	16,270
Other income	(41,963)	(23,565)
Depreciation and amortisation	4,514	1,164
Investment banking income	(16,252)	–
	(26,969)	(7,504)
Changes in:		
Placement with / from financial institutions	(9,146)	(27,052)
Investor's funds	(4,281)	(7,262)
Other assets	8,946	(11,578)
Other liabilities	(82)	(8,463)
Net cash used in operating activities	**(31,532)**	(61,859)
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(11,280)	–
Proceeds from assets held-for-sale	14,559	–
Purchase of investment securities	(122,988)	(30,153)
Dividends received	418	156
Proceeds from sale of investment securities	106,485	3,546
Acquisition of development property	(1,329)	–
Payment for acquisition of properties	(21,977)	–
Net cash flow on acquisition of subsidiaries	7,341	9,776
Dividends received from equity-accounted investees	2,257	–
Advance for acquisition of investment	1,954	(1,954)
Net cash used in investing activities	**(24,560)**	(18,629)
FINANCING ACTIVITIES		
Financing liabilities, net	(33,568)	(20,345)
Finance expense paid	(14,243)	(15,039)
Proceeds from issue of convertible murabaha	170,400	115,775
Proceeds from sale of treasury shares	–	11,283
Dividends paid	(10)	(1,748)
Payment to investment account holders	–	(198)
Net cash generated from financing activities	**122,579**	89,728
Net increase in cash and cash equivalents during the year	**66,487**	9,240
Cash and cash equivalents at 1 January	21,847	5,105
CASH AND CASH EQUIVALENTS at 31 December	**88,334**	14,345
Cash and cash equivalents comprise:		
Cash and balances with banks	42,581	14,345
Placements with financial institutions	45,753	–
	88,334	14,345

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated statement of sources and uses of zakah and charity funds

for the year ended 31 December 2014

US$ 000's

	2014	2013
Sources of zakah and charity fund		
Non-Islamic income (note 32)	2	4
Total sources	**2**	4
Uses of zakah and charity fund		
Utilisation of zakah and charity fund	(3)	(7,659)
Total uses	**(3)**	(7,659)
Deficit of uses over sources	**(1)**	(7,655)
Undistributed zakah and charity fund at 1 January	2,772	10,427
Undistributed zakah and charity fund at 31 December (note 17)	**2,771**	2,772
Represented by:		
Zakah payable	2,770	2,772
Charity fund	1	–
	2,771	2,772

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Statement of changes in restricted investment Accounts

for the year ended 31 December 2014

2014	Balance at 1 January 2014 No of units (000)	Average value per share US$	Total US$ 000's	Movements during the year Investment/ withdrawal / impairment 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	Balance at 31 December 2014 No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	53	–	(1)	–	–	–	–	150	0.35	52
Al Basha'er Fund	93	8.39	780	–	(46)	–	–	–	–	93	7.89	734
			833	**–**	**(47)**	**–**	**–**	**–**	**–**			**786**

2013	Balance at 1 January 2013 No of units (000)	Average value per share US$	Total US$ 000's	Movements during the year Investment/ withdrawal / impairment 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	Balance at 31 December 2013 No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	53	–	–	–	–	–	–	150	0.35	53
Al Basha'er Fund	93	6.99	650	–	142	–	–	(12)	–	93	8.39	780
Oman Development Company	522.50	3.115	1,628	(1,628)	–	–	–	–	–	–	–	–
			2,331	(1,628)	142	–	–	(12)	–			833

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statement

for the year ended 31 December 2014

1. REPORTING ENTITY

Gulf Finance House BSC ("the Bank") was incorporated in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 and operates as an Islamic Wholesale Investment Bank under a license granted by the Central Bank of Bahrain ("CBB"). The Bank's shares are listed on the Bahrain, Kuwait and Dubai Financial Market Stock Exchanges. The Bank's Global Depository Receipts ('GDR') are listed in the London Stock Exchange. Subsequent to the year end, the Bank initiated process for delisting of GDR.

The Bank's activities are regulated by the CBB and supervised by a Religious Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Bank's Shari'a Supervisory Board.

Consolidated financial statements
The consolidated financial statements for the year comprise the results of the Bank and its subsidiaries (together referred to as "the Group"). The principal subsidiaries of the Bank consolidated in these financial statements are:

Investee name	Country of incorporation	Parent / Owning Company	Effective ownership interests	Activities
GFH Capital Limited	United Arab Emirates	Gulf Finance House BSC	100%	Shari'a compliant investment management
Cemena Investment Company (CIC)	Cayman Islands	Gulf Finance House BSC	38.89%	Investment holding company
Subsidiaries of CIC				
Cemena Holding Company BSC (c)	Bahrain	CIC	100%	Holding Company
BCC Building Materials BSC (c)	Bahrain	Cemena Holding Company BSC (c)	100%	Import, export and sale of building materials
United Arab Cement Company PJSC	Syria	Cemena Holding Company BSC (c)	90%	Cement manufacturing
Libya Investment Company	Libya	Cemena Holding Company BSC (c)	100%	License for cement operations
Balexco House Limited	British Virgin Islands	Cemena Holding Company BSC (c)	88.17%	Investment holding company
Falcon Cement Company BSC (c)	Bahrain	BCC Building Materials BSC (c)	80%	Manufacturing and packaging of cement and concrete
Bahrain Aluminium Extrusion Company BSC (c) ('Balexco')	Bahrain	Balexco House Limited	44.22%	Manufacturing of aluminium extrusions and sale of aluminium profiles
Saudi Bahraini Aluminium Company WLL	Kingdom of Saudi Arabia	Balexco	40%	Trading of aluminium products

The Bank has other SPE holding companies and subsidiaries which are set up to supplement the activities of the Bank and its principal subsidiaries.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been consistently applied by Group.

(a) Statement of compliance
The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and in conformity with Bahrain Commercial Companies Law. 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 Standard (IFRS).

New standards, amendments and interpretations issued but not effective
The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015 and are expected to be relevant to the Group.

FAS 27 – Investments Accounts
FAS 27 Investments accounts was issued in December 2014 replacing FAS 5 – 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 – 'Equity of Investment Account Holders and their Equivalent' is effective for accounting periods on or after 1 January 2015. The adoption of this standard would lead to enhancing certain disclosures and is not expected to have any significant impact on the financial statements of the Group.

(b) Basis of preparation
The consolidated financial statements are prepared on the historical cost basis except for the measurement at fair value of certain investment securities. The Group presents its consolidated income statement, by segregating the banking and industrial business. Fo each business, the Group classifies its expenses in the consolidated income statement by the nature of expense method. The consolidated financial statements are presented in United States Dollars (US$), being the functional currency of the Group's operations. All financial information presented in US$ has been rounded to the nearest thousands, except when otherwise indicated.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

(c) Basis of consolidation
(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated income statement.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

(c) Basis of consolidation (contd.)

(ii) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control commences until when control ceases.

(iii) Non controlling interest

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

(iv) Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the risks and rewards transferred by the SPE, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE.

Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are usually not included in these consolidated financial statements. Information about the Group's fiduciary assets under management is set out in note 27.

(v) Loss of control

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity. Any surplus or deficit arising on the loss of control is recognised in consolidated income statement. Any interest retained in the former subsidiary, is measured at fair value when control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for investment securities depending on the level of influence retained.

(vi) Investment in associates (Equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exits when the Group holds between 20% and 50% of the voting power of another entity.

On initial recognition of an associate, the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 – Investment in Associates for venture capital organisation and designates certain of its investment in associates, as 'investments carried at fair value through income statement'. These investments are managed, evaluated and reported on internally on a fair value basis (refer to note 2 (u)).

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investees reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an equity-accounted investees, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees. Equity accounting is discontinued when an associate is classified as held-for-sale (note 2 (q))

(vii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency translation gains or losses) from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and equity- accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Foreign currency transactions

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at the date.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items carried at their fair value, such as certain equity securities measured at fair value through equity, are included in investments fair value reserve.

(iii) Other group companies

The other Group companies functional currencies are either denominated in US dollars or currencies which are effectively pegged to the US dollars, and hence, the translation of financial statements of the group companies that have a functional currency different from the presentation currency do not result in exchange differences.

(iv) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into US$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US$ at the exchange rates at the date of the transactions. Foreign currency differences are accumulated into foreign currency translation reserve.

When foreign operation is disposed of in its entirety such that control is lost, cumulative amount in the translation reserve is reclassified to consolidated income statement as part of the gain or loss on disposal.

(e) Offsetting of financing instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expense are presented on a net basis only when permitted under AAOIFI, or for gains and losses arising from a group of similar transactions.

(f) Investment securities

Investment securities may comprise of debt and equity instruments, but exclude investment in subsidiaries and equity-accounted investees (note 2 (c) (v)).

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

(d) Foreign currency transactions (contd.)

(i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments.

Debt-type instruments

Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Investments in debt-type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

These investments are either not managed on contractual yield basis or designated on initial recognition as FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. Currently, the Group does not have any investment under this category.

At amortised cost

This classification is for debt-type instruments which are not designated as FVTIS and are managed on contractual yield basis.

Equity-type instruments

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

Equity-type instruments classified and measured at FVTIS include investments held-for-trading or designated on initial recognition at FVTIS.

Investments are classified as held-for-trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealers margin or that form part of a portfolio where there is an actual pattern of short-term profit taking. The Group currently does not have any of its investments classified as investments held-for-trading purposes.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported on internally by the management on a fair value basis. This category currently includes investment in quoted equity and funds.

At fair value through equity (FVTE)

Equity-type instruments other than those designated at FVTIS are classified as at fair value through equity. These include investments in certain quoted and unquoted equity securities.

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group commits to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

(iii) Measurement

Investment securities are measured initially at fair value plus for an item not at fair value through income statement, transaction cost that are directly attributable to its acquisition or issue.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. The fair value gains / (losses) are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

Investments at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

(iv) Measurement principles

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through use of an allowance account) for impairment or uncollectibility. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

(g) Placements with and from financial and other institutions

These comprise placements made with financial and other institutions or received under shari'a compliant contracts. Placements are usually short term in nature and are stated at their amortised cost.

(h) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and short-term highly liquid assets (placements with financial institutions) with original maturities of three months or less when acquired that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Bank balances that are restricted and not available for day to day operations of the Group are not included in cash and cash equivalents.

(i) Investment property

Investment property comprises land plots. Investment property is property held to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is measured initially at cost, including directly attributable expenses. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation (where applicable) and accumulated impairment allowances (if any).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the property is derecognised.

(j) Development properties

Development properties are properties held for sale or development and sale in the ordinary course of business. Development properties are measured at the lower of cost and net realisable value.

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

(k) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projection if the recognition criteria are met. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight line method over their estimated useful lives, and is generally recognised in the consolidated income statement.

The estimated useful lives of property, plant and equipment of the industrial business assets are as follows:

Buildings and infrastructure on lease hold	15 – 30 years
Plant and machinery	8 – 40 years
Tools and dies	3 years
Computers	3 – 5 years
Furniture and fixtures	5 – 8 years
Motor vehicles	4 – 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts, being the higher of the fair value less costs to sell and their value in use.

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in the consolidated statement of income in the year of derecognition.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if appropriate.

(l) Intangible assets

Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Subsequently, intangible assets are recognised at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the consolidated income statement in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life of ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expenses category consistent with the function if intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Intangible assets with indefinite useful life consists of a license to construct and operate a cement plant in the Kingdom of Bahrain.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are reocognised in the consolidated statement of income when the asset is derecognised.

(m) Inventories

Inventories are measured at lower of cost and net realisable value. The cost of inventories is based on a weighted average basis. In the case of manufactured inventories and work-in-process, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(n) Impairment of assets

The Group assesses at each reporting date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement.

Investments carried at fair value through equity (FVTE)

In the case of equity type instruments carried at fair value through equity, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss. If any such evidence exists for equity type instruments, the unrealised re-measurement loss is transferred from equity to the consolidated income statement. Impairment losses recognised in consolidated income statement for an equity investment are reversed directly through equity.

For equity type instruments carried at cost due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the expected recoverable amount is assessed to be below the carrying amount of the investment. All impairment losses are recognised in the consolidated income statement and is not reversed.

Other non-financial assets

The carrying amount of the Group's assets or its cash generating unit, other than financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement.

Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

(o) Financing liabilities

Financing liabilities represents facilities from financial institutions, and financing raised through Sukuk. Financing liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing cost, dividends and losses relating to the financial liabilities are recognised in the consolidated income statement as finance expense. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

If any financing liability is extinguished by issuing the Bank's ordinary shares, the Group recognises the difference between the carrying amount of the financing liability extinguished and fair value of the shares issued in the consolidated income statement.

Financing liabilities include compound financial instrument in the form of 'convertible murabaha' issued by the Group that can be converted to share capital at the option of the holder. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole nd the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the convertible murabaha is measured at amortised cost using the effective profit rate method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

(p) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment to settle the liability, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (refer note 38 for details).

(q) Dividends and board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

(r) Share capital and reserves

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares and equity component of share-based payments and convertible instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised on the Group's income statement on the sale of treasury shares.

Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital. Appropriation to statutory reserve is made when approved by the shareholders.

Capital adjustment account

Capital adjustment account represents the difference between the par value and the effective conversion price on issue of convertible notes and the related share issue expenses (refer note 19 for details).

(s) Equity of investment account holders

Equity of investment account holders are funds held by the Group, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Group charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves and deducting the Group's share of income. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts. Equity of Investment account holders are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves.

Profit equalisation reserve is the amount appropriated by the Bank out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Bank out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of these reserves results in an increase in the liability towards the pool of investment accounts holders.

Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

(t) Assets held-for-sale and discounted operations

(i) Classification

The Group classifies non-current assets or disposal groups as held-for-sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use within twelve months. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A subsidiary acquired exclusively with a view to resale is initially recognised at its fair value less costs to sell and is classified as disposal group and income and expense from its operations are presented as part of discontinued operation.

If the criteria for classification as held- for- sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held- for- sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, amortisation, equity accounting adjustments or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

(ii) Measurement

Non-current assets or disposal groups classified as held-for-sale, other than financial instruments, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and 'held-for-sale' continue to be measured in accordance with their stated accounting policies. On classification of equity-accounted investee as held-for-sale, equity accounting is ceased at the time of such classification as held-for-sale.

Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets and investment property carried at fair value, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in the consolidated income statement. Gains are not recognised in excess of any cumulative impairment loss.

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

(t) Assets held-for-sale and discounted operations (contd.)

(iii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

(u) Revenue recognition

Revenue is recognised to the extent that it is possible that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue earned by the Group and gain / loss on assets are recognised on the following basis:

Banking business

Management and other fees are recognised as income when earned and the related services are performed.

Income from placements with / from financial institutions are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.
Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Fair value gain / (loss) on investment securities (unrealised gain or loss) is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 2 (f)).

Gain on sale of investment securities (realised gain) is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration receive or receivable.

Finance income / expenses are recognised using the amortised cost method at the effective profit rate of the financial asset / liability.

(v) Industrial business

Revenue from industrial business represents sale of cement and aluminum products. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer (i.e. customer takes delivery of the goods), recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

(w) Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means.

(x) Zakah

Pursuant to the decision of the shareholders', the Group is required to pay Zakah on its undistributed profits. The Group is also required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Group's Shari'a Supervisory Board.

(y) Employees benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(ii) Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature under, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in consolidated income statement when they are due.

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the income statement.

The Bank also operates a voluntary employees saving scheme under which the Bank and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by a board of trustees who are employees of the Bank. The scheme is in the nature of a defined contribution scheme and contributions by the Bank are recognised as an expense in the income statement when they are due.

(iii) Share-based employee incentive scheme

The Bank operates a share-based incentive scheme for its employees (the "Scheme") whereby employee are granted the Bank's shares as compensation on achievement of certain non-market based performance conditions and service conditions (the 'vesting conditions').

The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards.

Non-vesting conditions are taken into account when estimating the fair value of the equity instrument but are not considered for the purpose of estimating the number of equity instruments that will vest. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value but are considered for the purpose of estimating the number of equity instruments that will vest. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Amount recognised as expense are not trued-up for failure to satisfy a market condition.

(z) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(aa) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(bb) Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Judgements

(i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (note 2 (f)).

(ii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

(iii) Classification as held-for-sale

The Group classified non-current assets (or disposal group) are held-for-sale when the carrying amount will be recovered principally through a sale transaction rather than continuing use. In such case, the asset is available for immediate sale in its present condition subject to only to terms that are usual and customary for sale of such assets and the sale is highly probable. Further, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value.

Estimations

- *Fair value of investments*

  The Group determines fair value of investments designated at fair value that are not quoted in active markets by using valuation techniques such as discounted cash flows and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of investee companies, and based on the latest available audited and un-audited financial statements. The basis of valuation have been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

- *Impairment on investments carried at fair value carried through equity*

  The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group considers a decline in value below cost of 30%, or a decline that persists for more than 6 months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of the investee companies' financial health, industry and sector performance.

  Equity-type instruments classified as investments at FVTE but carried at cost less impairment due to the absence of reliable measure of fair value are tested for impairment. A significant portion of the Group's equity-type investments comprise investments in real estate and infrastructure development projects. In making an assessment of impairment, the Group evaluates among other factors, liquidity of the project, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. The Group has exposures to investments and projects that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions are adequate and reflect prevailing conditions and available information. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

- *Investment property*

  The Group conducts valuation of its investment property periodically using external independent valuers to assess for impairment. The fair value is determined based on the market value of the property through the residual value basis of valuation to assess the market value of the sites, for the development plan in its current physical condition. All of the Group's investment property is situated in Bahrain. Given the dislocation in the local property market and infrequent property transactions, it is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

(iv) Impairment of receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department.

(v) Impairment of other non financial assets and cash generating units

Investment in associates and recognised goodwill and intangible assets are subject to an impairment based on indicators of performance and market conditions. Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy note 2 (n). For equity-accounted investees with indicators of impairment, the recoverable amounts have been determined based on fair value less costs to sell (FVLCTS).

FVLCTS for the equity-accounted investees was determined by using a combination of income and market approach of valuations.

For intangible assets, a value in use assessment has been performed to determine the recoverable amount. Value-in-use for intangibles was determined by discounting the future cash flows expected to be generated from continuing operations, comparison to similar instruments for which market observable prices exist and other valuation models.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

For key assumptions used for the impairment assessment of equity accounted investee and intangible assets, refer note 10 and note 12 respectively.

4 BUSINESS COMBINATION

During the year, the Group obtained management control over 51.82% of voting rights of Cemena Investment Company (CIC), a company incorporated in Cayman Islands. CIC was previously an equity accounted investee where the Group held 38.89% stake. Management control was obtained through assignment of voting rights by certain investors to the Group resulting in the Group obtaining control over operating and financial policies of CIC. Accordingly, the Group has consolidated Cemena Investment Company and its subsidiaries (together "CIC Group") effective 1 January 2014, being the deemed date of exercise of control.

The following investee companies are being consolidated as part of CIC and the Group's effective percentage shareholdings and the nature of activities of the investee companies has been presented below:

Investee name	Country of incorporation	Parent / Owning Company	Effective ownership interests	Nature of activities
Subsidiaries of CIC				
Cemena Holding Company BSC (c)	Bahrain	CIC	100%	Holding Company
BCC Building Materials BSC (c)	Bahrain	Cemena Holding Company BSC (c)	100%	Import, export and sale of building materials
United Arab Cement Company PJSC	Syria	Cemena Holding Company BSC (c)	90%	Manufacturing of cement. No commercial operations yet.
Libya Investment Company	Libya	Cemena Holding Company BSC (c)	100%	Manufacturing of cement. No commercial operations yet.
Balexco House Limited	British Virgin Islands	Cemena Holding Company BSC (c)	88.17%	Holding Company.
Falcon Cement Company BSC (c)	Bahrain	BCC Building Materials BSC (c)	80%	Manufacturing of cement and concrete reinforcement materials.
Bahrain Aluminium Extrusion Company BSC (c) ('Balexco')	Bahrain	Balexco House Limited	44.22%	Extrusion and sale of aluminium profiles.
Joint ventures				
Technal Middle East WLL	Bahrain	Balexco	50%	Marketing, distribution, providing technical assistance relating to aluminium and other materials.
Balexco Doha Trading WLL	Qatar	Balexco	44%	Trading in aluminium profiles systems and accessories.

Consideration transferred and non-controlling interests

As there was no consideration transferred in the business combination, the Group had used the acquisition-date fair value of its interest in the CIC Group for the acquisition accounting. The stake held by investors other than the Group along with the non-controlling interests in the subsidiaries of CIC is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets.

Identifiable assets acquired and liabilities assumed

The fair value of assets, liabilities, equity interests have been reported as per requirements of IFRS 3 "Business Combination".

The fair values of assets and liabilities acquired were as follows:

	US$ 000's
Property, plant and equipment	136,474
Intangible assets	125,350
Equity-accounted investees	17,263
Statutory deposit	1,036
Total non-current assets	**280,123**
Inventories	23,230
Trade and other receivables	33,685
Cash, bank balances and term deposits	12,296
Total current assets	**69,211**
Total assets	**349,334**
Liabilities	
Bank borrowings	14,709
Payable to a contractor	955
Employees' end of service benefits	686
Total non-current liabilities	**16,350**
Trade and other payables	37,125
Bank borrowings	34,271
Accrued expenses	3,237
Total current liabilities	**74,633**
Total liabilities	**90,983**
Total net identifiable assets and liabilities	**258,351**
Consideration of Group's interest in CIC	76,052
Non-controlling interests recognised	182,299
Total consideration	**258,351**

Notes to the consolidated financial statement (contd.)

for the year ended 31 December 2014

5 CASH AND BANK BALANCES

	31 December 2014	31 December 2013
Cash on hand	8	21
Bank balances (in current account and deposits)	46,139	21,826
	46,147	21,847
Less: Restricted cash	(2,658)	(7,502)
Deposits (with maturity of more than 3 months)	(908)	–
Cash and cash equivalents as per consolidated statement of cash flows	**42,581**	14,345

6 INVESTMENT SECURITIES

	31 December 2014	31 December 2013
Equity type investments		
At fair value through income statement:		
– Quoted securities	506	972
– Managed funds	9,878	30,824
– Unquoted funds	3,679	3,679
– Unquoted securities	44,875	–
	58,938	35,475
At fair value through equity:		
– Quoted securities (at fair value)	3,060	–
– Managed funds (at fair value)	20,854	–
– Unquoted securities (at cost)	165,566	160,666
	189,480	160,666
	248,418	196,141

a) At fair value through income statement

	2014	2013
At 1 January	35,475	6,416
Acquisitions during the year	129,875	30,000
Fair value changes	(588)	634
Disposals during the year, at carrying value	(105,824)	(1,575)
At 31 December	**58,938**	35,475

b) At fair value through equity

	2014	2013
At 1 January	160,666	167,601
Acquisitions during the year	73,568	3,503
Fair value changes	(2,345)	–
Disposals during the year, at carrying value	(32,770)	(9,438)
Provision for impairment during the year	(9,639)	(1,000)
At 31 December	**189,480**	160,666

Unquoted equity securities classified at fair value through equity are primarily unlisted equities in various real estate and infrastructure development projects in different countries and include private equity investments managed by external investment managers or investments in projects promoted by the Group. Investments carried at fair value through equity of US$ 165,566 thousand (31 December 2013: US$ 160,666 thousand) are carried at cost less impairment in the absence of a reliable measure of fair value. The Group plans to exit these investments principally by means of strategic sell outs, sale of underlying assets or through initial public offerings.

Impairment allowance has been established based on management's assessment of the current market conditions, the marketability of the investments and the assessment of recoverable amounts.

7 INVESTMENT PROPERTY

Investment property of carrying amount of US$ 203 million (2013: US$ 203 million) is pledged against a Wakala facility (note 16) and any proceeds from the investment property would be first applied towards the repayment of the facility. The remaining investment property of carrying value US$ 56 million (31 December 2013: US$ 56 million) is pledged against other financing liabilities (note 16).

The fair value of the Group's investment property at 31 December 2014 was US$ 265,732 thousand (31 December 2013: US$ 268,198 thousand) based on a valuation carried out by an independent third party external valuer.

8 DEVELOPMENT PROPERTIES

Development properties represent land received as part of a settlement agreement with a master developer in Dubai. The land has been initially recognised at its fair value on the date of the transfer determined based on an independent external valuation.

9 ASSETS HELD-FOR-SALE

	31 December 2014	31 December 2013 (restated – note 10)
Investment in		
LCHL	–	23,824
	–	23,824

9 ASSETS HELD-FOR-SALE (contd.)

LCHL
In 2013, assets held-for-sale also included the Group's investment in Leeds City Holdings Limited (LCHL), a holding company for a number of trading entities whose activities form the operations of Leeds United Football Club (LUFC) in the United Kingdom. During the year, the Group sold its investment in LCHL and retained a stake of 24.62%. The retained investment in LCHL is classified as "investment securities carried at fair value through income statement". There was no significant gain/ loss on the disposal of the investment.

Investment property
During the year the Bank acquired certain properties in US using a special purpose vehicle (SPV). The Bank had acquired the SPV with an intention to sell down to investors and had successfully sold down the entire investment to the investors before the year end. The net profit from the SPV, from the date of acquisition to the date of loss of control, has been classified as Profit from assets-held-for-sale in the consolidated income statement.

10 EQUITY-ACCOUNTED INVESTEES

Equity-accounted investees represents investments in:

Name	Country of incorporation	% holding	Nature of business
Khaleeji Commercial Bank BSC (KHCB)	Bahrain	46.965%	Islamic retail bank
Technal Middle East WLL	Bahrain	50%	Marketing, distribution, providing technical assistance relating to aluminium and other materials.
Balexco Doha Trading W.L.L.	State of Qatar	44%	Trading in aluminium profiles, systems and accessories

In 2013, the Group was in final stages of negotiations to merge its investment in KHCB with another local bank and accordingly the Group's investment in KHCB amounting to US$ 160,252 was classified as held-for-sale. During the year, the sale did not materialize and the Group has now discontinued its plan for an immediate sale of KHCB. Accordingly the investment has been reclassified to "held-for-use" from its previous classification of "held-for-sale". In line with the requirements of IFRS 5 Non-Current Assets held-for-sale and Disposal Group, the Group has restated its prior period financial statements to reflect the continuation of equity accounting for its investment in KHCB as if the asset had never been classified as held-for-sale. This has resulted in restating the previously reported profit, asset-held-for-sale, investment in associate, accumulated losses, earnings per share and related disclosures of the Bank.

The effect of restatement on the 2013 previously reported amounts is given below:

	Previously reported	Adjustments	Restated
Assets held-for-sale	184,076	(160,252)	**23,824**
Equity accounted investees	73,417	136,322	**209,739**
Share of profit /(loss) of equity-accounted investees	1,723	(23,930)	**(22,207)**
(Loss) / profit for the year	6,267	(23,930)	**(17,663)**
Basic and diluted earnings per share (US cent)	(0.24)	(0.36)	**(0.60)**
Basic and diluted earnings per share – continuing operations (US cent)	(0.01)	(0.81)	**(0.82)**

The movement in equity-accounted investees is given below:

	2014	2013 (Restated)
At 1 January	209,739	231,946
Acquired in a business combination (note 4)	17,263	–
Share of profit / (loss) of equity-accounted investees	10,363	(22,207)
Dividends received	(2,511)	–
Derecognition on acquisition of control (note 4)	(76,050)	–
At 31 December	**158,804**	209,739

The Group's investment in KHCB is pledged against a Murabaha financing facility (note 16).

Impairment assessment
The investment in KHCB has a carrying value of US$ 140,119 thousand (31 December 2013: US$ 136,322 thousand) and a fair value based on a quoted price of US$ 61,870 thousand (31 December 2013: US$ 66,187 thousand). The management has assessed that the market price per share is not reflective of a fair value due to its low trading volumes and that it does not factor the block premium that may be realised on sale of the associate by the Bank. Accordingly, fair value less cost to sell of KHCB was determined by using a combination of income and market approaches. The income approach was applied by discounting the future cash flows expected to be generated from continuing operations and comparison to similar instruments for which market observable prices exist. The market approach factored the market multiples of active and highly traded comparable banks in the same sector and region. The objective of valuation techniques is to arrive at a fair value determination that reflects the price at the reporting date that would have been determined by market participants acting at arm's length.

Key assumptions used in the calculation of fair value were the following: cash flows were projected based on 3-5 year business plans, after ensuring consistency with historical operating results and forecasted growth rates for mature companies. Terminal growth rates of 3% were determined based on forecast growth rate in 3 years' time. The forecast period is based on the Group's long term perspective with respect to the operations of the investee companies.

Discount rates of approx. 15% were based on a CAPM formula, with the risk-free rate obtained from the yield on 10-year bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally, as well as liquidity and control factors.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonable possible changes in these assumptions are not expected to cause the recoverable amount to decline below the carrying amount.

Summarised financial information of associates that have been equity-accounted not adjusted for the percentage ownership held by the Group (based on most recent audited financial statements):

	2014	2013
Total assets	1,614,064	1,806,744
Total liabilities	1,303,337	1,262,755
Total revenues	74,597	107,810
Total net profit / (loss)	15,435	(36,135)

Notes to the consolidated financial statement (contd.)

for the year ended 31 December 2014

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings and infrastructure on leasehold land	Plant and machinery	Tools and dies	Computers	Furniture and fixtures	Motor vehicles	Capital work-in-progress	2014 Total	2013 Total
Cost:									
At 1 January	–	450	–	8,964	90	–	–	9,504	9,504
Acquired in a business combination (note 4)	4,775	95,723	1,817	20	687	179	33,273	136,474	–
Additions	72	730	768	117	321	784	7,677	10,469	–
Foreign exchange difference	–	–	–	(1)	(1)	(11)	(1,588)	(1,601)	–
At 31 December	**4,847**	**96,903**	**2,585**	**9,100**	**1,097**	**952**	**39,362**	**154,846**	9,504
Accumulated depreciation:									
At 1 January	–	390	–	8,815	–	–	–	9,205	8,041
Charge for the year (note 23)	304	3,008	664	76	169	129	–	4,350	1,164
Foreign exchange difference	–	–	–	(1)	(1)	(8)	–	(10)	–
At 31 December	**304**	**3,398**	**664**	**8,890**	**168**	**121**	**–**	**13,545**	9,205
Net book value:									
At 31 December	**4,543**	**93,505**	**1,921**	**210**	**929**	**831**	**39,362**	**141,301**	299

Certain of the Group's property, plant and equipment with a carrying value of US$ 82,587 thousand (2013: US$ Nil) are mortgaged towards financing liabilities of industrial business (note 16). Depreciation US$ 3,878 and US$ 327 thousand relating to assets of industrial business has been charged to cost of sales and other operating expense respectively (note 23).

Capital work-in-progress represents the under construction aluminium extrusion and anodising plants yet to be commissioned.

As at 31 December 2014, capital work-in-progress includes borrowing costs on financing liabilities obtained for the construction of plant, amounting to US$ 286 thousand (2013: Nil).

The Group's buildings are constructed and plant and equipment are installed on leasehold land.

Notes to the consolidated financial statement (contd.)

for the year ended 31 December 2014

12 INTANGIBLE ASSETS

	Industrial business		
	Commercial licences	Customer relationship	Total
Cost			
At 1 January 2014	–	–	–
Acquired in a business combination (note 4)	123,620	1,730	125,350
At 31 December 2014	**123,620**	**1,730**	**125,350**
Accumulated amortisation			
At 1 January 2014	–	–	–
Amortisation for the year (note 23 (iii))	–	174	174
At 31 December 2014	**–**	**174**	**–**
Net carrying value	**123,620**	**1,556**	**125,176**
At 31 December 2013	–	–	–

Impairment testing of intangible assets

Commercial licences acquired through business combinations and direct acquisitions have been allocated to three individual cash generating units, for impairment testing as follows:

	31 December 2014	31 December 2013
Cash generating units		
GCC	23,620	–
Other Middle East	60,000	–
North Africa	40,000	–
	123,620	–

The recoverable amounts of the cash generating units (CGU) have been determined based on value in use method for greenfield cement plants in Middle east North Africa region (MENA) and an existing cement plant in Bahrain. The forecasts use cash flow projections based on approved financial budgets covering 5 years, excluding three years construction period of greenfield cement plants, and have been determined on the basis of management's expectation of the businesses, taking into account the prevailing global and MENA region economic conditions in general and the cement industry in particular. The Group also owns commercial licences and mining rights in countries where there is currently political turmoil and unrest.

For impairment analysis, the Group uses the following significant assumptions for the determination of recoverable amount based on value in use method:

	Average growth rate from 1 year to 5 years	Terminal growth rate	Discount rate	Time period to commence construction
Bahrain	7.5%	3.6%	11%	Immediate
Other Middle East	6.0%	2.0%	17%	12-18 months
North Africa	3.0%	1.0%	15%	12-18 months

Discount rates

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the profit-bearing borrowings, the Group is obliged to service. Industry and country specific risks are incorporated in the calculation of discount rates which are mainly associated with political turmoil and unrest.

Growth rates

Rates are based on published industry research adjusted to reflect the uncertainty in MENA related to political turmoil and unrest.

Time to commence construction

The Group has commenced construction of an additional production line in Bahrain. Given the political turmoil and unrest in MENA, the Group has assumed that it would be able to initiate construction of cement plants in MENA region within 12 to 18 months and this is the period used for impairment testing.

Sensitivity to changes in assumptions

The key assumptions described above may change as political, economic and market conditions changes. The Group estimates that reasonably possible change in these assumption would not cause recoverable amount of either CGU to decline below the carrying amount

13 OTHER ASSETS

	31 December 2014	31 December 2013
Financing to projects*	95,007	101,275
Reimbursement right (note 39)	35,000	35,000
Inventories (i)	28,381	–
Trade receivables (ii)	36,491	–
Prepayments and other receivables	39,724	36,394
	234,603	172,669

* Financing to projects represents working capital and other funding facilities provided to projects managed by the Group. The financing is expected to be recovered from the operating cash flows of the underlying project assets (refer note 40 (a) for details of impairment assessment).

Notes to the consolidated financial statement (contd.)

for the year ended 31 December 2014

13 OTHER ASSETS (contd.)

(i) Inventories

	31 December 2014	31 December 2013
Raw materials	10,454	–
Work-in-process	3,895	–
Finished goods	8,085	–
Accessories, production materials and consumables	5,947	–
	28,381	–

* Financing to projects represents working capital and other funding facilities provided to projects managed by the Group. The financing is expected to be recovered from the operating cash flows of the underlying project assets (refer note 40 (a) for details of impairment assessment).

(ii) Trade and Other receivables

	31 December 2014	31 December 2013
Trade receivables, net	34,257	–
Advance to suppliers	1,730	–
Accessories, production materials and consumables	504	–
	36,491	–

Terms and conditions of the above financial assets are as follows:

- Trade receivables are non-profit bearing and are generally on 30–120 day terms;
- For terms and conditions relating to trade receivables – related parties and amounts due from related parties, refer to note 28; and
- Other receivables are non-profit bearing and have terms ranging between one and three months.

For explanations on the Group's credit risk management processes, refer to note 40 (a).

During the year, a net reversal of impairment allowance of US$ 2,280 thousand was made towards trade and other receivables.

14 INVESTORS' FUNDS

These represent funds of projects set-up and promoted by the Group and placed with the Group pending disbursement to the projects concerned.

15 PLACEMENTS FROM FINANCIAL AND OTHER INSTITUTIONS

These comprise placements in the form of murabaha and wakala contracts accepted from financial and other institutions (including corporates) as part of the Group's treasury activities. This includes US$ 84 million of funds placed by a non-financial entity originally in Euro currency in 2010, which is currently subject to regulatory sanctions. Accordingly, the funds have been frozen until such sanctions are formally lifted and are re-denominated into US$.

16 FINANCING LIABILITIES

	31 December 2014	31 December 2013
Murabaha financing	46,401	59,987
Wakala financing	42,588	47,739
Sukuk liability	85,277	100,041
Financing of industrial business:		
Short term loans	24,023	–
Ijarah financing	11,460	–
Term loans	19,663	–
Murabaha financing (ii)	1,712	–
	231,124	207,767

Murabaha financing

Murabaha financing comprise medium-term financing from a syndicate of banks to be repaid over 6 years on semi annual basis commencing from August 2014. The revised profit rate on the facility is 6 months LIBOR plus margin (subject to a minimum of 5%). The Murabaha financing facilities are secured by a pledge over the Group's investment in an associate of carrying value of US$ 140 million and investment property of carrying value of US$ 24.6 million.

Wakala financing

Wakala financing is a syndicate facility from a number of financial institutions. Walaka financing is repayable over a period of six years till April 2018 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$ 203 million.

Sukuk liability

The Sukuk are 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's Gilt Edged and Fixed Interest Market. Currently the Sukuk are suspended from trading.

The sukuk is repayable over a period of 6 years with periodic 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$ 99.3 million (31 December 2013: US$ 87.56 million) and an investment property of carrying value of US$ 31.5 million (31 December 2013: US$ 31.5 million)

Financing of Industrial Business

Short term loans

These loans were obtained by Balexco to finance the purchase of raw materials and are revolving in nature. The profit rate on these facilities range from 2.8% to 3% and are secured by a pledge over finished goods.

Ijarah financing

Ijarah financing was obtained by Falcon Cement Company BSC (c) for construction of cement plant in the Kingdom of Bahrain. The financing is secured by a mortgage over property, plant and equipment with a carrying value of US$ 59 million and carries a profit rate of higher of BIBOR plus 4.25% or 7.5% per annum with final repayment on 1 February 2017.

16 FINANCING LIABILITIES (contd.)

Financing of Industrial Business (contd.)

Term loans

These facilities were obtained by Balexco for capital expenditure relating to "Extrusion Line", "Anodising Line" and "Press revamp". The loan is secured by a mortgage over machinery, equipment of Extrusion Line and Anodising Line with a carrying value of US$ 14,172,414. The loans carries a profit rate of three months LIBOR plus 5.5% and is repayable in 16, 16 and 18 quarterly instalments commencing from 30 September 2011, 31 March 2011 and 31 March 2014 respectively.

Murabaha financing (ii)

The murabaha financing has been obtained by Falcon Cement Company BSC (c) for import of raw materials and repayable at a profit rate of 9% per annum for facility availed up to 30 April 2012 and at the rate of BIBOR plus 4.25% per annum (with minimum floor of 7%) for facility availed after 1 May 2012.

	31 December 2014	31 December 2013
Financing liabilities		
Current portion	76,864	36,725
Non-current portion	154,260	171,042
	231,124	207,767

17 OTHER LIABILITIES

	31 December 2014	31 December 2013
Employee related accruals	846	480
Unclaimed dividends	5,784	5,794
Provision for employees' leaving indemnities	1,878	758
Zakah and Charity fund (page 73)	2,771	2,772
Provision against financial guarantees (note 39)	35,000	35,000
Accounts payable	50,645	13,925
Accrued expenses and other payables	4,636	1,679
	101,560	60,408

18 EQUITY OF INVESTMENT ACCOUNT HOLDERS

Unrestricted investment accounts comprise Mudarabah deposits accepted by the Bank. The average gross rate of return in respect of unrestricted investment accounts was 0.98% for 2014 (2013: 0.25%). Approximately 0.22% / US$ 15 thousand (2013: 0.22% / US$ 20 thousand) was distributed to investors and the balance was either set aside for provisions and/or retained by the Bank as a Mudarib fee. Unrestricted investment accounts include profit equalisation reserve of US$ 7 thousand (2013: US$ 7 thousand) and investment risks reserve of US$ 3 thousand (2013: US$ 3 thousand). The funds received from equity of investment account holders have been commingled and jointly invested with the Group in bank balances.

19 SHARE CAPITAL

	31 December 2014	31 December 2013
Authorised		
5,660,377,358 shares of US$ 0.265 each (2013: 4,878,048,780 shares of US$ 0.3075 each)	1,500,000	1,500,000
Issued and fully paid up:		
4,730,665,467 shares of US$ 0.265 each (2013: 3,161,889,967 shares of US$ 0.3075 each)	1,253,626	972,281
The movement in the share capital during the year is as follows:		
At 1 January	972,281	595,087
Conversion of murabaha to share capital	415,725	377,194
Capital reduction	(134,380)	-
At 31 December	**1,253,626**	972,281

During the year, the paid up capital of the Bank was increased from US$ 972,281 thousand to US$ 1,253,626 thousand as a result of exercise of conversion option by the holders of the convertible murabaha and by reduction of share capital by reducing the share's nominal value from US$ 0.3075 per share to US$ 0.265 per share and adjustment of accumulated losses by US$ 134,380 thousand after approval by the shareholders on 14 April 2014. As per the terms of the convertible murabaha, 1,568,776 thousand shares of par value US$ 0.265 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 capital adjustment account.

At 31 December 2014, the Bank held 5,204,536 (31 December 2013: 5,233,272) treasury shares.

Additional information on shareholding pattern

(i) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.

(ii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	4,463,218,358	12,656	94.35
1% up to less than 5%	267,447,109	3	5.65
	4,730,665,467	**12,659**	**100**

* Expressed as a percentage of total outstanding shares of the Bank.

(iii) As at 31 December 2014, there were no shareholders who hold more than 5% of the total outstanding shares.

Notes to the consolidated financial statement (contd.)

for the year ended 31 December 2014

20 SHARE GRANT RESERVE

	2014	2013
At 1 January	1,242	903
Vesting expense, net of forfeiture (note 24)	(113)	339
At 31 December	**1,129**	1,242

21 INCOME FROM INVESTMENT SECURITIES

	2014	2013
Dividend income	418	151
(Loss) / profit on disposal of investment securities	(5,625)	648
Fair value changes of investments carried at fair value through income statement	(588)	634
	(5,795)	1,433

22 OTHER INCOME

During the period, the Group recognized a net amount of US$ 38 million on recovery from a previously discontinued project with one of the major developers in Dubai. The settlement was in the form of land and is net of associated liabilities and has been recognized as a recovery of a previously impaired project and included under "other income".

23 REVENUE AND EXPENSES OF INDUSTRIAL OPERATIONS

(i) Revenue

	2014	2013
Sale of aluminium products	68,417	–
Sale of cement	25,718	–
Income from mudaraba deposits	215	–
	94,350	**-**

(ii) Cost of Sales

	2014	2013
Materials	61,974	–
Consumables	1,659	–
Staff costs	4,311	–
Gas and electricity	4,302	–
Depreciation (note 11)	3,878	–
Repairs and maintenance	1,414	–
Others	2,795	–
	80,333	–

(iii) Other Operating Expenses

	2014	2013
Staff costs	5,346	–
Rent	540	–
Legal and professional fees	1,315	–
Marketing expenses	193	–
Depreciation (note 11)	327	–
Repair and maintenance costs	370	–
Amortisation of intangible assets (note 12)	174	–
Finance expenses	2,093	
Others	1,147	–
	11,505	–

24 STAFF COST

	2014	2013
Salaries and benefits	11,137	8,246
Social insurance expenses	506	351
	11,643	8,597

The Bank operates a share incentive scheme for its employees. The share awards granted under the scheme have an initial lock-in period of 3 years and shall vest rateably over varied vesting periods of up to 10 years as per the terms of the scheme. At 31 December 2014, 2.29 million (31 December 2013: 2.29 million) share awards are outstanding to be exercised at a price of US$ 0.65 per share in future periods on satisfaction of the vesting conditions. A vesting charge amounting to US$ 49 thousand (2013: US$ 16 thousand) was recognised during the year (note 20).

During 2013, the Group issued employee share awards (9,185,391 shares at a share price of US$ 0.125 per share) with vesting conditions over a period of 2 years based on fulfilment of performance and service conditions. During the year, the Group had recognised a charge of US$ 64 thousand (31 December 2013: US $ 323 thousand) towards the new employee share awards. As at 31 December 2014, 2.03 million shares (31 December 2013: 4.09 million shares) were pending vesting under the new employee share awards scheme and during the period 294 thousand shares were forfeited.

During the year, the Group issued employee share awards (2,352,632 shares at a share price of US$ 0.19 per share) with vesting conditions over a period of 3 years based on fulfilment of performance and service conditions. During the period, the Group had recognised a charge of US$ 447 thousand towards the new employee share awards. As at 31 December 2014, 2.35 million shares were pending vesting under the new employee share awards scheme.

Notes to the consolidated financial statement (contd.)

for the year ended 31 December 2014

25 TOTAL FINANCE INCOME AND EXPENSE

	2014	2013
FINANCE INCOME		
Banking business		
Income from placements with financial institutions	286	473
Industrial business		
Income from mudaraba deposits (note 23 (i))	215	–
Total finance income	**501**	473
FINANCE EXPENSE		
Banking business		
Placements from financial and other institutions	919	2,858
Financing liabilities	12,098	13,392
Equity of investment account holders (note 18)	15	20
	13,032	16,270
Industrial business		
Finance expense (note 23 (iii))	2,093	–
Total finance expense	**15,125**	16,270
Net finance expense	**(14,624)**	(15,797)

26 OTHER EXPENSES

	2014	2013
Rent	1,661	1,603
Professional and consultancy fee	2,371	763
Legal expenses	4,056	1,110
Depreciation	145	1,164
Other operating expenses	4,861	3,507
	13,094	8,147

27 IMPAIRMENT ALLOWANCES

	2014	2013
Investment securities (note 6)	9,639	1,000
Financing to projects (note 13)	3,206	2,000
Trade and other receivables (note 13)	(2,280)	–
Inventories	20	–
	10,585	**3,000**

28 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.

A significant portion of the Group's management fees are from entities over which the Group exercises influence (assets under management). Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The transactions with these entities are based on agreed terms.

The significant related party balances and transactions (excluding compensation to key management personnel) included in these consolidated financial statements are as follows:

2014	Associates / Joint venture	Key management personnel	Shareholders / entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Cash and bank balances	20,098	–	–	–	**20,098**
Equity-accounted investees	158,804	–	–	–	**158,804**
Investment securities	21,836	–	14,149	145,433	**181,418**
Other assets	24,992	–	–	97,177	**122,169**
Liabilities					
Investors' funds	–	–	–	7,847	**7,847**
Placements from financial and other institutions	28	–	–	–	**28**
Other liabilities	–	–	–	35,000	**35,000**
Income					
Investment banking income	–	–	–	16,152	**16,152**
Management fees	175	–	–	685	**860**
Share of profit of equity-accounted investees	10,363	–	–	–	**10,363**
Income from investment securities, net	(466)	–	–	250	**(216)**
Other income	–	–	28	3,000	**3,028**
Expenses					
Impairment allowances	2,206	–	–	9,000	**11,206**

28 RELATED PARTY TRANSACTIONS (contd.)

2013	Associates / Joint venture	Key management personnel	Shareholders / entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Cash and bank balances	16,681	–	–	–	16,681
Equity-accounted investees	209,739	–	–	–	209,739
Investment securities	4,651	–	27,382	105,563	137,596
Assets held-for-sale	23,824	–	–	–	23,824
Other assets	36,380	–	–	80,749	117,129
Liabilities					
Investors' funds	–	–	–	16,400	16,400
Placements from financial and other institutions	29	–	–	–	29
Other liabilities	–	–	5,690	35,000	40,690
Income					
Income from investment banking services	–	–	–	1,862	1,862
Management fees	3,800	–	–	908	4,708
Share of loss of equity- accounted investees	(22,207)	–	–	–	(22,207)
Income from investment securities, net	–	–	(189)	–	(189)
Other income	226	1,000	–	–	1,226
Gain from discontinued operations	–	–	5,690	–	5,690
Expenses					
Impairment allowances	–	–	–	3,000	3,000

Key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

Board of Directors do not hold any interests in the Bank's ordinary shares as at 31 December 2014 (2013: Nil).

Details of material contracts involving directors' or entities where they are interested include:

	2014	2013
Directors' participation in convertible murabaha	–	3,985

During the year, there were no participation of directors in investments promoted by the Group.

The key management personnel compensation is as follows:

	2014	2013
Board member fees	467	–
Salaries, other short-term benefits and expenses	2,924	2,516
Post-employment benefits	874	635

29 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US$ 2,033,909 thousand (31 December 2013: US$ 2,170,601 thousand). During the year, the Group had charged management fees amounting to US$ 685 thousand (2013: US$ 7,316 thousand) to its assets under management.

30 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year.

The weighted average number of ordinary equity shares for the comparative periods presented are adjusted for the issue of shares during the year without corresponding change in resources.

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share. The Bank has two categories of dilutive potential ordinary shares: convertible murabaha notes (note 16) and share awards granted to employees (note 24).

	2014	2013
In thousands of shares		
Weighted average number of ordinary shares	3,586,867	2,624,241
Effect of shares vesting under new employee scheme (note 24)	2,353	4,592
Weighted average number of ordinary shares (diluted)	**3,589,220**	2,628,833

During the year, all the note holders of the convertible murabaha have exercised their rights to convert the notes to equity shares of the Bank. Further, in case of the share awards granted to employees prior to 2013, as the average market value of shares during the current year was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2014. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above.

31 ZAKAH

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders for the year ended 31 December 2014 is US$ 285 thousand (2013: US$ 162 thousand) subject to approval of shareholders.

32 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds.

The Group receives interest from deposits placed with the Central Bank of Bahrain and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amounts to US$ 2 thousand (2013: US$ 4 thousand).

33 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of four Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

34 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and social organisations.

35 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and liabilities and unrecognised commitments on the basis of their expected realisation/ payment and the Group's contractual maturity and amount of cash flows on these instruments may vary significantly from this analysis. For contractual maturity of financial liabilities refer note 40.

31 December 2014	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	46,147	–	–	–	–	–	46,147
Placements with financial institutions	45,753	–	–	–	–	–	45,753
Investment securities	1,600	30,732	18,117	197,969	–	–	248,418
Investment property	–	–	–	–	259,404	–	259,404
Development properties	–	–	–	45,501	–	–	45,501
Equity-accounted-investees	–	–	–	158,804	–	–	158,804
Property, plant and equipment	–	–	–	–	–	141,301	141,301
Intangible assets	–	–	–	–	1,556	123,620	125,176
Other assets	28,953	67,435	26,801	110,588	826	–	234,603
Total assets	**122,453**	**98,167**	**44,918**	**512,862**	**261,786**	**264,921**	**1,305,107**
Financial liabilities							
Investors' funds	14,885	–	–	–	–	–	14,885
Placements from financial and other institutions	4,715	28	–	–	85,402	–	90,145
Financing liabilities	24,197	38,949	36,634	131,344	–	–	231,124
Other liabilities	63,962	–	35,000	2,598	–	–	101,560
Total liabilities	**107,759**	**38,977**	**71,634**	**133,942**	**85,402**	**–**	**437,714**
Equity of investment account holders	1,663	–	–	–	–	–	**1,663**
Off-balance sheet items							
Commitments	–	297	4,031	1,975	111,736	–	**118,039**
Restricted investment accounts	–	–	–	–	786	–	**786**

35 MATURITY PROFILE (contd.)

31 December 2013	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	21,847	–	–	–	–	21,847
Investment securities	–	30,824	–	165,317	–	196,141
Investment property	–	–	–	259,404	–	259,404
Assets held-for-sale	–	23,824	–	–	–	23,824
Equity-accounted investees	–	–	–	209,739	–	209,739
Property, plant and equipment	–	–	–	–	299	299
Other assets	48,227	3,008	50,131	68,703	2,600	172,669
Total assets	70,074	57,656	50,131	703,163	2,899	883,923
Financial liabilities						
Investors' funds	19,166	–	–	–	–	19,166
Placements from financial and other institutions	7,696	29	785	85,001	–	93,511
Financing liabilities	3,000	3,375	30,350	136,226	34,816	207,767
Other liabilities	23,978	–	–	36,430	–	60,408
Total liabilities	53,840	3,404	31,135	257,657	34,816	380,852
Equity of Investment account holders	2,155	–	–	–	–	2,155
Off-balance sheet items						
Commitment	–	–	–	–	–	–
Restricted investment accounts	–	–	–	833	–	833

36 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDER

(a) Industry sector

31 December 2014	**Trading and manufacturing**	**Banks and financial institutions**	**Development Infrastructure**	**Technology**	**Others**	**Total**
Assets						
Cash and bank balances	3,997	42,147	–	–	3	46,147
Placements with financial institutions	5,780	39,973	–	–	–	45,753
Investment securities	–	17,067	177,753	3,679	49,919	248,418
Investment properties	–	–	259,404	–	–	259,404
Development properties	–	–	45,501	–	–	45,501
Equity-accounted investees	18,683	140,121	–	–	–	158,804
Property, plant and equipment	140,711	–	–	–	590	141,301
Intangible assets	125,176	–	–	–	–	125,176
Other assets	66,253	4,367	137,228	–	26,755	234,603
Total assets	**360,600**	**243,675**	**619,886**	**3,679**	**77,267**	**1,305,107**
Liabilities						
Investors' funds	77	15	14,793	–	–	14,885
Placements from financial and other institutions	–	4,764	–	–	85,381	90,145
Financing liabilities	56,858	174,266	–	–	–	231,124
Other liabilities	38,087	–	35,000	–	28,473	101,560
Total liabilities	**95,022**	**179,045**	**49,793**	**–**	**113,854**	**437,714**
Equity of Investment account holders	**–**	–	–	–	1,663	**1,663**
Off-Balance sheet items						
Commitments	118,039	–	–	–	–	**118,039**
Restricted investment accounts	–	–	–	–	786	**786**

Notes to the consolidated financial statement (contd.)

for the year ended 31 December 2014

36 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDER (contd.)

(a) Industry sector (contd.)

31 December 2013	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	–	21,844	–	–	3	21,847
Placements with financial institutions	–	–	–	–	–	–
Investment securities	–	38,861	147,554	3,679	6,047	196,141
Investment property	–	–	259,404	–	–	259,404
Assets held-for-sale	–	–	–	–	23,824	23,824
Equity-accounted investees	209,739	–	–	–	–	209,739
Property, plant and equipment	–	–	–	–	299	299
Other assets	297	4,655	128,753	–	38,964	172,669
Total assets	210,036	65,360	535,711	3,679	69,137	883,923
Liabilities						
Investors' funds	160	–	19,006	–	–	19,166
Placements from financial and other institutions	–	7,745	–	–	85,766	93,511
Financing liabilities	–	207,767	–	–	–	207,767
Other liabilities	–	2,983	35,684	–	21,741	60,408
Total liabilities	160	218,495	54,690	–	107,507	380,852
Equity of Investment account holders	–	–	–	–	2,155	2,155
Off-Balance sheet items						
Commitments	–	–	–	–	–	–
Restricted investment accounts	–	–	–	–	833	833

(b) Geographic region

31 December 2014	GCC countries	Other MENA	Other Asia	UK	Europe (excluding UK)	USA	Total
Assets							
Cash and bank balances	28,594	3	–	705	8,479	8,366	46,147
Placements with financial institutions	45,753	–	–	–	–	–	45,753
Investment securities	101,911	60,133	56,779	18,117	9,878	1,600	248,418
Investment properties	259,404	–	–	–	–	–	259,404
Development properties	45,501	–	–	–	–	–	45,501
Equity-accounted investees	158,804	–	–	–	–	–	158,804
Property, plant and equipment	141,301	–	–	–	–	–	141,301
Intangible assets	40,000	85,176	–	–	–	–	125,176
Other assets	150,114	21,740	8,342	24,992	11,047	18,368	234,603
Total assets	**971,382**	**167,052**	**65,121**	**43,814**	**29,404**	**28,334**	**1,305,107**
Liabilities							
Investors' funds	792	14,093	–	–	–	–	14,885
Placements from financial and other institutions	4,744	85,401	–	–	–	–	90,145
Financing liabilities	183,911	–	–	47,213	–	–	231,124
Other liabilities	89,960	–	–	–	11,600	–	101,560
Total liabilities	**279,407**	**99,494**	**–**	**47,213**	**11,600**	**–**	**437,714**
Equity of investment account holders	1,663	–	–	–	–	–	**1,663**
Off-Balance sheet items							
Commitments	118,039	–	–	–	–	–	**118,039**
Restricted investment accounts	786	–	–	–	–	–	**786**

Concentration by location for financial assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

36 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDER (contd.)

(b) Geographic region (contd.)

31 December 2013	GCC countries	Other MENA	Other Asia	UK	Europe (excluding UK)	USA	Total
Assets							
Cash and bank balances	20,958	3	–	190	–	696	21,847
Placements with financial institutions	–	–	–	–	–	–	–
Investment securities	91,102	46,178	36,572	–	22,289	–	196,141
Investment property	259,404	–	–	–	–	–	259,404
Assets held-for-sale	–	–	–	23,824	–	–	23,824
Equity-accounted investees	209,739	–	–	–	–	–	209,739
Property, plant and equipment	299	–	–	–	–	–	299
Other assets	64,974	30,429	29,099	48,167	–	–	172,669
Total assets	646,476	76,610	65,671	72,181	22,289	696	883,923
Liabilities							
Investors' funds	1,319	17,847	–	–	–	–	19,166
Placements from financial and other institutions	8,509	85,002	–	–	–	–	93,511
Financing liabilities	147,780	–	–	59,987	–	–	207,767
Liabilities related to assets held-for-sale	–	–	–	–	–	–	–
Other liabilities	60,408	–	–	–	–	–	60,408
Total liabilities	218,016	102,849	–	59,987	–	–	380,852
Equity of investment account holders	2,155	–	–	–	–	–	2,155
Off-Balance sheet items							
Commitments	–	–	–	–	–	–	–
Restricted investment accounts	833	–	–	–	–	–	833

37 OPERATING SEGMENTS

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

The following summary describes the operations in each of the Group's operating reportable segments:

- **Development infrastructure**: This business unit primarily is involved in origination and management of large scale economic infrastructure projects. The business unit also covers the Group's investment in real estate and related assets.

- **Banking:** The Banking segment of the Group is focused on private equity, commercial and investment banking domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The commercial banking activities focuses on establish new banks in the MENA region, and exploring external partnerships or acquisitions to extend GFH's capabilities. The investment banking activities focuses on providing structuring capabilities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions.

- **Industrial business:** This unit represents operations of cement and aluminum extrusion manufacturing business (refer note 4).

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

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level.

The Group has primary operations in Bahrain and the Group does not have any significant independt overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 36 (b) to the consolidated financial statements

37 OPERATING SEGMENTS (contd.)

Information regarding the results of each reportable segment is included below:

2014	Industrial business Cement	Industrial business Aluminium	Development infrastructure	Banking	Unallocated / Elimination	Total
Segment revenue	83,788	10,562	43,813	22,310	977	161,450
Segment expenses	86,196	5,642	27,191	19,670	5,717	144,416
Segment result	(2,408)	4,920	16,622	2,640	(4,740)	17,034
Segment assets	245,899	114,233	624,786	318,801	1,388	1,305,107
Segment liabilities	40,003	54,942	231,822	73,887	37,060	437,714
Other segment information						
Property, plant and equipment	95,436	45,279	–	–	586	141,301
Intangible assets (commercial license and customer relationship)	123,620	1,556	–	–	–	125,176
Inventories	6,169	22,212	–	–	–	28,381
Trade receivables	1,584	34,907	–	–	–	36,491
Financing liabilities	13,171	43,687	–	174,266	–	231,124
Other liabilities	26,832	11,255	37,716	11,600	14,157	101,560
Share of profit of equity-accounted investees	–	3,931	–	6,432	–	10,363
Impairment allowances	(2,447)	188	10,638	2,206	–	10,585
Commitments	116,461	1,578	–	–	–	118,039

Banking segment includes assets, liabilities and results of discontinued operations (refer note 9)

2013	Development infrastructure	Banking	Unallocated	Total
Segment revenue	13,735	5,207	984	19,926
Segment expenses	11,779	16,373	9,437	37,589
Segment result	1,956	(11,166)	(8,453)	(17,663)
Segment assets	535,309	345,522	3,092	883,923
Segment liabilities	249,405	109,520	21,927	380,852
Other material items:				
Finance income	–	473	–	473
Finance expense	1,844	14,426	–	16,270
Share of loss of equity-accounted investees	–	(22,207)	–	(22,207)
Depreciation	–	–	1,164	1,164
Impairment allowances	3,000	–	–	3,000
Equity-accounted investees	–	209,739	–	209,739
Off-balance sheet				
Commitments	–	–	–	–

38 FINANCIAL INSTRUMENTS

(a) Fair values of financial instruments

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 December 2014 and 31 December 2013, 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.

Other than certain investments carried at cost of US$ 165,556 thousand (31 December 2013: US$ 160,666 thousand) (note 6), the estimated fair values of the Group's other financial assets are not significantly different from their book values as at 31 December 2014.

Investments amounting to US$ 165,556 thousand (31 December 2013: US$ 160,666 thousand) in unquoted equity securities are carried at cost less impairment in the absence of a reliable measure of fair value. Such investments are either private equity investments managed by external investment managers or represent investments in development infrastructure projects promoted by the Group for which a reliable estimate of fair value cannot be determined. The Group intends to exit these investments principally by means of strategic sell outs, sale of underlying assets or through initial public offerings.

As at 31 December 2014, the fair value of financing liabilities was estimated at US$ 202,787 thousand (carrying value US$ 231,124 thousand) (31 December 2013: fair value US$ 153,630 thousand (carrying value US$ 207,767 thousand) based on recent transactions for repurchase of liability instruments by the Bank. 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.

Notes to the consolidated financial statement (contd.)

for the year ended 31 December 2014

38 FINANCIAL INSTRUMENTS (contd.)

(b) 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).

	Level 1	Level 2	Level 3	Total
31 December 2014				
Investment securities carried at fair value through::				
income statement	9,878	-	49,060	58,938
equity	23,914	-	-	23,914
	33,792	**-**	**49,060**	**82,852**
31 December 2013				
Investment securities carried at fair value through:				
income statement	30,824	-	4,651	35,475
equity	-	-	-	-
	30,824	-	4,651	35,475

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

	2014	2013
At 1 January	4,651	4,841
Additions during the year	44,875	-
Total gains or losses		
- In income statement	(466)	(190)
At 31 December	**49,060**	4,651

39 COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group are as follows:

	31 December 2014	31 December 2013
Capital commitments relating to construction of cement plant	111,736	-
Operating lease commitments		
Within one year	297	-
1 - 5 years	1,378	-
Over 5 years	1,975	-
Guarantees issued by banks on behalf of the Group	2,653	-

The Group potentially has a commitment under a constructive obligation to extend finance to one of its projects of up to US$ 8 million (31 December 2013: US$ 26.5 million).

Also, the Group has issued a financial guarantee of US$ 35 million to a project promoted by the Group. Based on the assessment of the financial position of the project company, the Group has recognized a provision of US$ 35 million (31 December 2013: US$ 35 million) which is included in other liabilities and recognised an equivalent amount of 'reimbursement right' receivable included in 'other assets' (note 13). The Group is currently in discussion with the lenders and in the opinion of the management, as at the reporting date, the guarantee stands expired and it is unlikely that the amounts would need to be funded.

In the opinion of the management, the 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 / participate with 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 2014 due to the performance of any of its projects.

Litigations, claims and contingencies

The Group is defending a number of claims and litigations in connection with projects promoted by the Bank in the past and with certain transactions. Based on the advice of the Bank's external legal counsel, it is premature to quantify the amount or timing of liability, if any. The external legal counsels have advised that the Bank has strong grounds to successfully defend itself against these claims. Accordingly, no provision for these claims has been made in the consolidated financial statements.

The Bank has filed several cases and counterclaims against counterparties for recoveries which are pending in various courts in the GCC. The Bank is also pursuing several legal cases in courts in the Kingdom of Bahrain against the former chairman of the Bank. The Bank has received favourable judgement against some of them while the outcome of the remaining litigations are contingent on obtaining a favourable outcome or settlement which are wholly not within the control of the Group.

No further disclosures regarding contingent liabilities or recoveries arising from any of such cases are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial and detrimental to the Bank's position.

40 FINANCIAL RISK MANAGEMENT (contd.)

Overview

Financial assets of the Group comprise bank balances, placements with financial and other institutions, investment securities and other receivable balances. Financial liabilities of the Group comprise investors' funds, placements from financial and other institutions, financing liabilities and other payable balances. Accounting policies for financial assets and liabilities are set out in note 2.

The Group has exposure to the following risks from its use of financial instruments:
- credit risk;
- liquidity risk;
- market risks; and
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports to the Board Audit and Risk Committee.

The Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board has delegated its authority to the Board Audit and Risk Committee (ARC), which is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

The RMD submits a quarterly Risk Overview Report along with a detailed Liquidity Risk Report to the Board of Directors. The Risk Overview Report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The Liquidity Risk Report measure the Group's liquidity risk profile against policy guidelines and regulatory benchmarks. An additional report is prepared by the respective investment units that give updated status and impairment assessment of each investment, a description of significant developments on projects or issues as well as an update on the strategy and exit plan for each project.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's, placements with financial institutions, financing assets and other receivables from project companies. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of investment and credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board Investment Committee (BIC). This committee establishes operating guidelines and reviews and endorses the Management Investment and Credit Committee recommendations for investment strategies, products and services. Its actions are in accordance with the investment policies adopted by the Board of Directors.

The RMD is responsible for oversight of the Group's credit risk, including:

- Ensuring that the Group has in place investment and credit policies, covering credit assessment, risk reporting, documentary and legal procedures, whilst the Compliance Department is responsible for ensuring compliance with regulatory and statutory requirements.

- Overseeing the establishment of the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are governed by the Board approved Delegated Authority Limits (DAL) Matrix.

- Reviewing and assessing credit risk. Risk Management department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.

- Ongoing review of credit exposures. The risk assessment approach is used in determining where impairment provisions may be required against specific investment / credit exposures. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Risk profile of exposures are subject to regular reviews.

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment / credit risk.

The Risk Management Department works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A fair evaluation of investments takes place periodically with inputs from the Investment department. Quarterly updates of investments are presented to the Board of Directors or their respective committees. Regular audits of business units and Group credit processes are undertaken by Internal Audit.

40 FINANCIAL RISK MANAGEMENT (contd.)

The Group's maximum exposure to risk at 31 December 2014 is as follows:

Exposure to credit risk

31 December 2014	Bank balances	Placement with financial institutions	Trade and other receivables	Other financial assets
Neither past due nor impaired – Carrying amount	**46,139**	**45,753**	**17,010**	**77,462**
Impaired				
Gross amount	–	–	17,501	441,976
Allowance for impairment	–	–	(254)	(382,473)
Carrying amount – Impaired	**–**	**–**	**17,247**	**59,503**
Carrying amount	**46,139**	**45,753**	**34,257**	**136,965**

31 December 2013	Bank balances	Placement with financial institutions	Other financial assets
Neither past due nor impaired – Carrying amount	21,786	–	93,491
Impaired			
Gross amount	–	–	441,976
Allowance for impairment	–	–	(381,473)
Carrying amount – Impaired	–	–	60,503
Carrying amount	21,786		153,994

Impaired receivables

Impaired receivables are those for which the Group determines that it is probable that it will be unable to collect all or a portion of payments due according to the contractual terms of the receivables agreement(s). These exposures are graded "Impaired" in the Group's assessment process.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its receivables. This allowance is a specific loss component that relates to individually significant exposures based on individual assessment for impairment.

The movement in the impairment allowances for investment securities and trade and other receivables are given in note 6 and note 13 respectively. The movement in impairment allowance for other financial assets are as given below:

	Financing receivables	Financing to projects	Receivable from investment banking services	Other receivables	Total
2014					
At 1 January 2014	70,150	83,382	153,630	74,311	381,473
Impairment allowance during the year	–	2,206	–	1,000	3,206
At 31 December 2014	**70,150**	**85,588**	**153,630**	**75,311**	**384,679**
2013					
At 1 January 2013	70,150	81,382	153,630	74,311	379,473
Impairment allowance during the year	–	2,000	–	–	2,000
At 31 December 2013	70,150	83,382	153,630	74,311	381,473

Receivables with renegotiated terms

During the year, the Group has renegotiated certain financing receivables and financing to projects due to changes in the financial position of the borrower. The financing receivables were renegotiated for terms and condition similar to original terms. Financing to projects of US$ 56.8 million (31 December 2013: US$ 65.19 million) were renegotiated for an extended period and do not have specified terms of repayment. The Group assesses the recoverability and timing of collection based on underlying stream of cash flows that will be generated by its projects.

Write-off policy

The Group writes off a receivable (and any related allowances for impairment losses) when it is determined that the receivables are uncollectible and after obtaining approval from the CBB where required. This determination is reached after considering information such as the occurrence of significant changes in the payee / issuer's financial position such that the payee / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.
The geographical and industry wise distribution of assets and liabilities are set out in notes 36 (a) and (b).

40 FINANCIAL RISK MANAGEMENT (contd.)

b) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then aims to maintain a portfolio of short-term liquid assets, largely made up of short-term placements with financial and other institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units are met through treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board of Directors. Daily reports cover the liquidity position of the Bank and is circulated to Executive Committee (ExComm). Moreover, quarterly reports are submitted to the Board of Directors on the liquidity position by RMD.

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 35 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows						
31 December 2014	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying Amount**
Financial liabilities							
Investors' funds	14,885	–	–	–	–	14,885	14,885
Placements from financial and other institutions	4,753	–	–	85,401	–	90,154	90,145
Financing liabilities	28,325	11,136	35,160	133,965	52,827	261,413	231,124
Other liabilities	64,222	149	–	37,189	–	101,560	101,560
Total liabilities	**112,185**	**11,285**	**35,160**	**256,555**	**52,827**	**468,012**	**437,714**
Equity of investment account holders	1,663	–	–	–	–	**1,663**	**1,663**
Off-balance sheet							
Commitments	–	297	4,031	1,975	111,736	**118,039**	**118,039**

To manage the liquidity risk arising from financial liabilities, the Group aims to hold liquid assets comprising cash and cash equivalents, investment in managed funds and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

Further, the Group is focussed on developing a pipeline of steady revenues and has undertaken cost reduction exercises that would improve its operating cash flows.

	Gross undiscounted cash flows						
31 December 2013	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	Carrying Amount
Financial liabilities							
Investors' funds	19,166	–	–	–	–	19,166	19,166
Placements from financial and other institutions	7,753	–	741	85,001	–	93,495	93,511
Financing liabilities	3,000	4,965	31,411	86,023	114,966	240,365	207,767
Other financial liabilities	23,980	–	–	36,428	–	60,408	60,408
Total financial liabilities	53,899	4,965	32,152	207,452	114,966	413,434	380,852
Equity of investment account holders	2,155	–	–	–	–	2,155	2,155

Measures of liquidity

The Group has recently introduced new measures of liquidity. These revised metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for the Group. These are liquidity coverage ratio, net stable funding ratio and stock of liquid assets.

For this purpose, the liquidity coverage ratio identifies the amount of unencumbered, high quality liquid assets the Group holds that can be used to offset the net cash outflows it would encounter under an acute short-term stress scenario (30, 60 and 90 days time horizon). The net stable funding ratio measures the amount of long-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

	2014	2013
Liquidity coverage ratio		
30 days	12.27	1.70
60 days	8.74	1.99
90 days	7.03	2.27

The Group also holds certain listed equities and treasury shares which can be sold to meet the liquidity requirements.

	2014	2013
Net stable funding ratio	1.55	1.28

40 FINANCIAL RISK MANAGEMENT (contd.)

b) Liquidity risk (contd.)

Details of the ratio of liquid assets to total assets at the reporting date and during the year were as follows:

	Liquid asset / Total asset	
	2014	2013
At 31 December	6.73%	2.39%
Average for the year	3.82%	4.47%
Maximum for the year	6.73%	8.99%
Minimum for the year	1.63%	2.39%

c) Market risks

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

As a matter of general policy, the Group shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. All foreign exchange risk within the Group is transferred to Treasury. The Group seeks to manage currency risk by continually monitoring exchange rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. Overall authority for market risk is vested in the Board Audit and Risk Committee. RMD is responsible for the development of detailed risk management policies (subject to review and approval of the Board Audit & Risk Committee of Directors).

Exposure to profit rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Majority of the Group's profit based asset and liabilities are short term in nature, except for certain long term liabilities which have been utilised to fund the Group's strategic investments in its associates.

A summary of the Group's profit rate gap position on non-trading portfolios is as follows:

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
31 December 2014						
Assets						
Placements with financial institutions	45,753	–	–	–	–	45,753
Total assets	**45,753**	**–**	**–**	**–**	**–**	**45,753**
Liabilities						
Investors' funds	14,885	–	–	–	–	14,885
Placements from financial and other institutions	4,715	28	–	85,402	–	90,145
Financing liabilities	24,197	38,949	36,634	131,344	–	231,124
Total liabilities	**43,797**	**38,977**	**36,634**	**216,746**	**–**	**336,154**
Equity of investment account holders	**1,663**	**–**	**–**	**–**	**–**	**1,663**
Profit rate sensitivity gap	**293**	**(38,977)**	**(36,634)**	**(216,746)**	**–**	**(292,064)**
31 December 2013						
Assets	–	–	–	–	–	–
Liabilities						
Investors' funds	19,166	–	–	–	–	19,166
Placements from financial and other institutions	7,696	29	785	85,001	–	93,511
Financing liabilities	3,000	3,375	30,350	136,226	34,816	207,767
Total liabilities	29,862	3,404	31,135	221,227	34,816	320,444
Equity of investment account holders	2,155	–	–	–	–	2,155
Profit rate sensitivity gap	(32,017)	(3,404)	(31,135)	(221,227)	(34,816)	(322,599)

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

100 bps parallel increase / (decrease)	**2014**	2013
At 31 December	±2,920	±3,226
Average for the year	±3,346	±3,390
Maximum for the year	±3,649	±3,646
Minimum for the year	±2,921	±3,226

Overall, profit rate risk positions are managed by Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

40 FINANCIAL RISK MANAGEMENT (contd.)

c) Market risks (contd.)

The effective average profit rates on the financial assets, liabilities and unrestricted investment accounts are as follows:

	2014	2013
Placements with financial institutions	0.28%	–
Placements from financial and other institutions	5.77%	7.65%
Financing liabilities	5.99%	5.78%
Equity of investment account holders	0.21%	0.22%

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Groups major exposure is in GCC currencies, which are primarily pegged to the US Dollar. The Group had the following significant net exposures denominated in foreign currency as of 31 December from its financial instruments:

	2014 US$ '000 Equivalent	2013 US$ '000 Equivalent
Sterling Pounds	53,049	71,507
Euro	1,103	963
Jordanian Dinar	2,131	2,031
Other GCC Currencies (*)	3,451	(6,612)

(*) These currencies are pegged to the US Dollar.

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2014 US$ '000 Equivalent	2013 US$ '000 Equivalent
Sterling Pounds	±2,652	±3,575
Euros	±55	±48
Jordanian Dinar	±106	±101

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. A 5% change in the underlying value of the managed funds would have an impact on the income statement and equity by US$ 494 thousand (2013: US$ 1,541 thousand). The Group's equity type instruments carried at cost are exposed to risk of changes in equity values. The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 3 (ii). The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

d) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department facilitates the management of Operational Risk by way of assisting in the identification of, monitoring and managing of operational risk in the Group.

41 CAPITAL MANAGEMENT

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Group does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Group is required to comply with the provisions of the Capital Adequacy Module of the CBB (which is currently based on the Basel II and IFSB framework) in respect of regulatory capital. The Group has adopted the standardised approach to credit risk and market risk and basic indicator approach for operational risk management under the revised framework.

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board of Directors.

The Group's regulatory capital position at 31 December was as follows:

	2014	2013
Total risk weighted assets	**2,102,293**	1,934,849
Tier 1 capital	677,692	523,884
Tier 2 capital	–	–
Total regulatory capital base	**677,692**	523,884
Total regulatory capital expressed as a percentage of total risk weighted assets	**32.24%**	27.08%

The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

Future requirements

During the year, CBB issued the final regulations to give effect to the Basel III framework which is effective from 1 January 2015. Basel III introduces capital components like core equity tier I (CET1), and additional tier I (AT1), it also requires maintenance of certain capital buffers. Computation of CET1 is subject to certain regulatory deductions. These deductions would be effective in a phased manner through the transitional arrangements under the revised regulations over the period from 2015 to 2018. The revised regulations prescribe higher risk weight for certain type of exposures and for the significant investments in financial institutions, significant investments in commercial entities and large exposures that exceed materiality thresholds. The Group is currently assessing the full impact of the revised regulations and believes that the current capital position is sufficient to meet the new regulatory capital requirements.

42 COMPARATIVES

Certain prior year amounts have been regrouped to conform to the current year's presentation. Such regrouping did not affect previously reported profit or equity.

Except for the effect of reclassification of certain non-current assets for held-for-sale to held-for-use during the year resulting in retrospective restatement of previously reported numbers (refer note 10), no other restatements have been carried out that would affect the previously reported profit for the year or total equity. During the year, the Bank acquired control over certain industrial businesses that are consolidated(refer note 4). Accordingly, current year reported amounts and categories of assets, liabilities, income and expense are not fully comparable with the prior period.

Risk and Capital Management

1 EXECUTIVE SUMMARY

Gulf Finance House BSC ("GFH/ the Bank") was incorporated in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136. The Bank operates as an Islamic Wholesale Bank under a license granted by the Central Bank of Bahrain ("CBB"). The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles.

The CBB Basel II guidelines became effective on 1 January 2008 as the common framework for the implementation of Basel II capital adequacy framework for Banks incorporated in the Kingdom of Bahrain. The disclosures in this report have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports, CBB Rule Book, Volume II for Islamic Banks. The requirements of Section PD 1.3 follow the requirements of Basel II – Pillar 3 and the Islamic Financial Services Board's (IFSB) recommended disclosures for Islamic banks. Capital Adequacy Ratio in this report refers to the consolidated CAR (hereafter "CAR").

This report contains a description of the Bank's risk management and capital adequacy practices and processes, including detailed information on the capital adequacy process.

As at 31 December 2014 the Group's CAR stood at a healthy 32.31%. The Bank is in constant discussion with its regulator in relation to its capital position & its plan to further improve its regulatory capital ratio.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31 December 2014, presented in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). To avoid any duplication, information required under PD module but already disclosed in other sections of Annual Report has not been reproduced. These disclosures should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2014.

2 INTRODUCTION

The Basel II framework introduced by CBB with effect from 2008, provides a more risk sensitive approach to assessment of risk and the calculation of regulatory capital i.e. the minimum capital that a bank is required to maintain. The framework intends to strengthen the risk management practices and processes within financial institutions. GFH has accordingly taken steps to comply with these requirements. The CBB's capital management framework, consistent with the Basel II accord, is built on three pillars:

- **Pillar 1:** calculation of the risk weighted amounts and capital requirement.
- **Pillar 2:** the supervisory review process, including the Internal Capital Adequacy Assessment Process.
- **Pillar 3:** rules for the disclosure of risk management and capital adequacy information.

2.1 Pillar 1

Pillar 1 prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar 1 defines the regulatory minimum capital requirements for each bank to cover the credit risk, market risk and operational risk inherent in its business model. It also defines the methodology for measurement of these risks and the various elements of qualifying capital. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total Risk Weighted Assets (RWAs).

The resultant ratio is to be maintained above a predetermined and communicated level. The CBB also requires banks incorporated in Bahrain to maintain a buffer of 0.5 per cent above the minimum capital adequacy ratio. In the event that the capital adequacy ratio falls below 12.5 per cent (consolidated), additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB. Consequently, the CBB requires GFH to maintain an minimum capital adequacy ratio of 12.5 per cent (consolidated).

The table below summarizes the Pillar 1 risks and the approaches used by the Bank to calculating the RWAs in accordance with the CBB's Basel II capital adequacy framework.

Risk Type	Approach used by GFH
Credit risk	Standardised Approach
Market risk	Standardised Approach
Operational risk	Basic Indicator Approach

2.2 Pillar 2

Pillar 2 deals with the Supervisory Review and Evaluation Process (SREP). It also addresses the Internal Capital Adequacy Assessment Process (ICAAP) to be followed by Banks to assess the overall capital requirements to cover all relevant risks (including those covered under Pillar 1).

Under the CBB's Pillar II guidelines, each bank is to be individually assessed by the CBB and an individual minimum capital adequacy ratio is to be determined for each bank.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. GFH has developed an ICAAP around its economic capital framework which involves identification and measurement of risks to maintain an appropriate level of internal capital in alignment to the Bank's overall risk profile and business plan. An ICAAP document has been developed to address major components of the Bank's risk management, from the daily management of material risks including risk types which are not covered under Pillar I including liquidity risk, profit rate risk in the banking book, concentration risk, and reputational risk. The Bank has been through several structural changes since 2009 / 2010 and has focused on the ongoing recapitalization program and restructuring its term debts in order to enhance its capital base and liquidity which continued in 2014 as well. Additionally, the ICAAP document is being reviewed internally to ensure adherence to Basel 3 requirements.The Bank plans to commence the implementation of ICAAP in 2015.

2.3 Pillar 3

In the CBB's Basel II framework, the Pillar III prescribes how, when, and at what level information should be publicly disclosed about an institution's risk management, governance and capital adequacy practices. The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar III disclosure requirements is to complement the first two Pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move towards more advanced forms of risk management.
The current regulations require partial disclosure consisting mainly of quantitative analysis during half year reporting and fuller disclosure during year end to coincide with the financial year-end reporting.

2.4 Recent developments

During the year, CBB issued the final regulations to give effect to the Basel III framework which is effective from 1 January 2015. Basel III introduces capital components like core equity tier 1 (CET 1) and additional tier 1 (AT 1), it also requires maintenance of certain capital buffers. Computation of CET 1 is subject to certain regulatory deductions. These deductions would be effective in a phased manner through the transitional arrangements under the revised regulations over the period from 2015 to 2018. The Group is currently assessing the full impact of the revised regulation and believes that the current capital position is sufficient to meet the new regulatory capital. The Group is currently assessing the full impact of the revised regulation and believes that the current capital position is sufficient to meet the new regulatory capital,

3 OVERALL RISK AND CAPITAL MANAGEMENT

3.1 Risk management charter

GFH perceives strong risk management capabilities to be the foundation in delivering results to customers, investors and shareholders. The Bank will continue to endeavor to enhance its existing framework and adopt international best practices of risk management, corporate governance and the highest level of market discipline.

Risk and Capital Management (contd.)

The primary objectives of the risk management charter of the Bank are to:

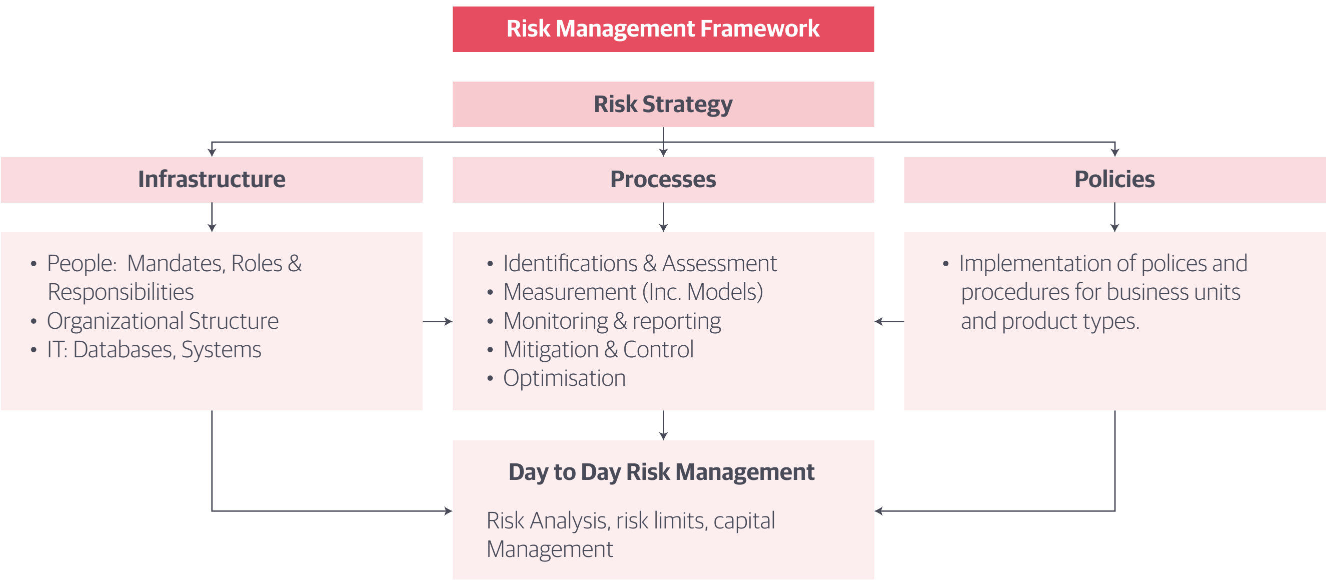
- Manage risks inherent in the Bank's activities in line with the risk appetite of the Bank;
- Strengthen the Bank's risk management practices to reflect the industry best practices; and
- Align internal capital requirements with risk materiality.

The risk strategy is articulated through the limit structures for individual risks. These limits are based on the Bank's business plans and guided by regulatory requirements and guidance in this regard. The risk limits reflects the level of risk that GFH is prepared to take in order to achieve its objectives. The Bank reviews and realigns its risk limits as per the evolving business plan of the Bank with changing economic and market scenarios. The Bank will also assess its tolerance for specific risk categories and its strategy to manage these risks. The limits outlines the Bank's risk exposures and defines its tolerance levels towards accepting or rejecting these risks. Tolerance levels are reflected in the limits defined by the Bank for each risk area.

3.2 Risk management framework

Our Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place.

The diagram below represents the Bank's overall risk management framework and its components:



The risk management framework of the Bank encapsulates the spirit of the following key principles for Risk Management as articulated by Basel II:

- Management oversight and control
- Risk culture and ownership
- Risk recognition and assessment
- Control activities and segregation of duties
- Information and communication
- Monitoring Risk Management activities and correcting deficiencies.

3.3 Risk governance structure

The Risk Governance structure of the Bank is depicted by the following diagram:

Risk Governance Structure of GFH

Level 1	Board Sharia'a Board	Internal Audit
Level 2	Board Committiees • Board Nomination, Remuneration and Governance Committee • Board Investment Committee • Board Audit & Risk Committee	
Level 3	Senior Management Committees • Executive Committee (ExComm)	
Level 4	Risk Management Department • Operational Risk • Credit Risk • Liquidity Risk • Market & Investment Risk	
Level 5	Desktop level procedured system and controls in day to day business	

Our Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board of Directors approves and periodically reviews our risk management policies and strategies. The Board Audit & Risk Management Committee is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place.

The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports to Board Audit & Risk Committee and administratively to the CEO.

The RMD plays a pivotal role in monitoring the risks associated with various activities of the Bank. The principal responsibilities of the department are:

- Determining the Bank's appetite for risk is in line with the limits and submitting the same to the RMC and Board for approval.
- Developing and reviewing risk management policies in accordance with the risk management guidelines issued by the CBB, Basel II, IFSB and international best practices.
- Acting as the principal coordinator in Basel II implementation as required by the CBB and facilitating the performance of key Basel II activities.
- Identifying and recommending risk analysis tools and techniques as required under Basel II, guidelines issued by the CBB and IFSB.
- Reviewing the adequacy of the risk limits and providing feed back to the relevant approving authorities.
- Preparing quarterly Risk Packs for review by the Board Audit & Risk Committee.
- Preparing MIS Reports for review by the Board Audit & Risk Committee, where necessary.
- Developing systems and resources to review the key risk exposures of the Bank and communicating the planned/ executed corrective actions to the Board Risk Committee.

3.4 Capital management

The Bank's policy is to maintain a strong capital base and meet the capital requirements imposed by the regulator (CBB), so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on capital while satisfying all the regulatory requirements.

The Bank has put in place a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) that includes Board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non Pillar 1 risks covered under the ICAAP process include concentration risk, liquidity risk, profit rate risk in the banking book and other miscellaneous risks. The Bank continued to focus on its recapitalization program to enhance its capital base and improve the liquidity position in 2014. The Bank will begin the implementation of ICAAP in 2015 in line with Basel II & III requirements. Post implementation, RMD will monitor and report on the Bank's ICAAP to the Board Audit & Risk Committee (ARC) on a quarterly basis.

As at 31 December 2014, the Group's consolidated CAR stood at 32.31%.

3.5 Risk types

The Bank is exposed to various types of risk.

Risks in Pillar 1	Credit risk Market risk Operational risk
Risks in Pillar 2	Liquidity risk Concentration risk Profit rate risk in banking book Reputational risk (earnings at risk) Other risks – including strategic risk, regulatory risk etc.

The details of components of risks and how they are managed are discussed in the following sections of this document.

3.6 Monitoring and reporting

The RMD, together with the Internal Audit, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors. The RMD submits a quarterly Risk Overview Report (ROR) to the Board Audit & Risk Committee. The ROR describes the potential issues for a wide range of risk categories and classifies the risk from low to high. The ROR also provides comments as to how risk factors are being addressed and mitigated by the Bank. The Bank has established an adequate system for monitoring and reporting risk exposures and capital adequacy requirements. These reports include periodic risk reviews, quarterly risk reports etc. These reports aim to provide the senior management with an up-to-date view of the risk profile of the Bank. Moreover, external consultants are also engaged where deemed necessary to enhance and improve the risk management standard procedures.

4 GROUP STRUCTURE

The consolidated financial statements for the year comprise of the financial statements of the Bank and its subsidiaries (together referred to as "the Group") as at 31 December 2014. The Group's financial statements are prepared and published on a full consolidation basis, with all material subsidiaries being consolidated in accordance with AAOIFI. Please refer to notes 2(c) and 2(f) in the consolidated financial statements for more details on the accounting policies for investments, including subsidiaries and associates of the Bank.

For capital adequacy purposes, all subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology and prudential consolidation and deduction (PCD) module of the CBB rule book accommodates both full consolidation and aggregation treatment for certain financial subsidiaries and requires risk weighting and deduction treatment for certain significant commercial entity subsidiaries.

The PCD module also requires pro-rata consolidation for significant financial entities which qualify as associates under AAOIFI which are usually 'equity accounted' or 'designated at fair value through income statement in the consolidated financial statements. In case of significant equity holdings of 20% or more of the Bank's capital in insurance entities, the PCD module requires a full deduction from the Bank's regulatory capital. For investments in significant commercial entities (subsidiaries and associates), the PCD module prescribes a risk weighting treatment for each investment and requires deduction of investment amounts in excess of 15% of the capital base of the Bank. The regulatory treatment for each of the investments discussed in the below mentioned table has been agreed with CBB.

The principal subsidiaries and associates as at 31 December 2014 and their treatment for capital adequacy purposes are as follows:

Entity name and accounting classification	Domicile	Entity classification as per PCD for capital adequacy	Regulatory treatment (consolidated)
Subsidiaries			
Cemena Investment Company	Cayman Islands	Significant commercial entity	Risk weighting of investment exposure
GFH Sukuk Limited	Cayman Islands	Financial entity	Fully consolidated
GFH Capital Limited	UAE	Financial entity	Fully consolidated
KHCB Asset Company	Cayman Islands	Financial entity	Fully consolidated
Harbour East 3 Real Estate S.P.C Harbour North1 Real Estate S.P.C Harbour North 2a Real Estate S.P.C Harbour North 2b Real Estate S.P.C Harbour North 3 Real Estate S.P.C Harbour Row 1 Real Estate S.P.C Harbour Row 2 Real Estate S.P.C Harbour Row 3 Real Estate S.P.C Harbour Row 4 Real Estate S.P.C	Bahrain	Commercial entities	Fully consolidated
Associates			
Khaleeji Commercial Bank BSC	Bahrain	Significant financial entity	Pro-rata consolidated
Injazat Technology Fund BSC (c)	Bahrain	Commercial entity	Risk weighted of investment exposure
Al Barakah Takaful	Jordan	Insurance entity	Full deduction
Morocco Holding Company	Morocco	Commercial entity	Risk weighted of investment exposure
Leeds United Football Company	United Kingdom	Commercial entity	Risk weighted of investment exposure

The investments in subsidiaries and associates are subject to large exposure and connected counter party limits and guidelines set by the CBB. These guidelines are considered for transfer of funds or regulatory capital within the Group. The investment in subsidiaries should be deducted from the capital of the Bank. In the opinion of the Bank, these are pass-through entities and hence the underlying investments are risk weighted. There are also no restrictions for transfer of capital.

5 CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIO

5.1 Capital adequacy

The Bank's regulator CBB sets and monitors capital requirements for the Bank as a whole (i.e. at a consolidated level). In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of 12% and 8% of total regulatory capital to total risk-weighted assets on consolidated and solo basis respectively. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The CBB also requires banks incorporated in Bahrain to maintain a buffer of 0.5 per cent above the minimum capital adequacy ratio.

The Bank's policy is to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Bank is required to comply with the provisions of the revised Capital Adequacy Module of the CBB (which is based on the Basel II and IFSB framework) in respect of regulatory capital. The Bank has adopted the standardised approach to credit and market risk and basic indicator approach for operational risk management under the revised framework.

As at 31 December 2014, the Group's CAR stood at 32.31%.

The Bank's regulatory capital position at 31 December 2014 was as follows:

US$ 000's

	Tier 1	Tier 2	Total
Share capital	1,253,626	–	1,253,626
Treasury shares	(912)	–	(912)
Share premium	–	–	–
Statutory reserve	69,251	–	69,251
Other reserves	(475,582)	–	(475,582)
Accumulated losses	(165,851)	–	(165,851)
Unrealized gain arise from fair valuing equities	–	–	–
Investments fair value reserve	–	–	–
Profit equalization reserves	–	7	7
Investment risk reserves	–	4	4
Tier 1 and Tier 2 capital before general deductions	**680,532**	**11**	**680,543**
Excess amount over materiality thresholds in case of investment in commercial entities	–	–	–
Investment in insurance entity greater than or equal to 20%	(253)	(253)	(506)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	(242)	242	-
Total eligible capital base	**680,037**	**-**	**680,037**

US$ 000's

Risk weighted exposure	**Risk weighted exposure**	**Capital requirement @ 12%**
Credit Risk	1,878,015	225,362
Market risk	115,908	13,909
Operational	110,769	13,292
Tier 1 and Tier 2 capital base	**2,104,692**	**252,563**

Capital Adequacy ratio	32.31%
Tier 1 capital adequacy ratio	32.31%
Tier 2 capital adequacy ratio	–

The Bank's paid up capital consists only of ordinary shares which have proportionate voting rights.

The Bank's regulatory capital is analysed into two tiers:

Tier 1 capital includes ordinary share capital, disclosed reserves including share premium, general reserves, legal / statutory reserve as well as retained earnings after deductions for goodwill and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. The eligible reserves in Tier 1 exclude revaluation gains arising on the re-measurement to fair value of available-for-sale investments.

Tier 2 capital comprises 45 per cent of unrealised gains arising on the re-measurement to fair value of equity investments classified as available-for-sale and the profit equalization and investment risk reserve attributable to unrestricted investment accounts. Under the CBB rules, the aggregate amount of Tier 2 capital eligible for inclusion in the regulatory capital is limited to no more than 100% of Tier 1 Capital.

The limit on Tier 2 capital is based on the amount of Tier 1 capital after all deductions of investments pursuant to PCD Module of the CBB. The PCD Module sets out the regulatory rules for prudential consolidation and pro-rata consolidation for banks where they own controlling or significant minority stakes in regulated financial entities and have significant exposures to investment in commercial entities. It also sets out the framework for the prudential deductions from capital for various instances including exposures to counterparties exceeding the large exposure limits as set out by CBB.

5.2 ICAAP considerations

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. GFH has developed an ICAAP around its economic capital framework which involves identification and measurement of risks to maintain an appropriate level of internal capital in alignment to the Bank's overall risk profile and business plan. An ICAAP document has been developed to address major components of the Bank's risk management, from the daily management of material risks including risk types which are not covered under Pillar I including liquidity risk, profit rate risk in the banking book, concentration risk, and reputational risk. The Bank continued to focus on its recapitalization program to enhance its capital base and improve the liquidity position in 2014. The ICAAP document is being reviewed internally and amended to ensure compatibility with the new Basel 3 requirements. The Bank will begin the implementation of ICAAP in 2015. Post implementation, RMD will monitor and report on the Bank's ICAAP to the Board Audit & Risk Committee (ARC) on a quarterly basis.

6 CREDIT RISK

6.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's, placements with financial institutions, financing receivables, and other receivables balances. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank does not have a trading book and hence all of its equity investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include investments carried at fair value through equity, investments designated at fair value through profit or loss, significant and majority investments in commercial entities/approved insurance entities and associate investments in non-significant financial and non-financial entities (as significant financial entities which qualify as associates are treated separately for regulatory purposes).

6.2 Credit risk management

The Bank is not involved in the granting of credit facilities in the normal course of its business activities. The Bank is primarily exposed to credit risk from its own short term liquidity related to placements with other financial institutions, receivables from its investment banking services and in respect of funding made (both in the form of financing and short-term liquidity facilities) to its projects. These exposures arise in the ordinary course of its investment banking activities and are generally transacted without any collateral or other credit risk mitigants.

The Bank has an established internal process for assessing credit risk. The Bank has established investment and credit policies developed in consultation with business units, covering credit assessment, risk reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. The policies are supplemented by an internal authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits for credit facilities are as per the Board approved Delegated Authority Limits (DAL). The RMD assesses all investment and credit proposals prior to investments / facilities being committed. RMD lists down its concerns and comments on all applications prior to circulation for sign off. Renewals and reviews of investments / facilities are subject to the same review process. Investment updates are periodically reviewed by the Board of Directors. Regular audits of business units and credit processes are undertaken by Internal Audit.

Please refer Note 40 to the consolidated financial statements for additional details on the processes for measuring and managing credit risk.

6.3 Capital requirements for credit risk

To assess its capital adequacy requirements for credit risk in accordance with the CBB requirements, the Bank adopts the standardized approach. According to the standardized approach, on and off balance sheet credit exposures are assigned to various defined categories based on the type of counterparty or underlying exposure. The main relevant categories are claims on banks, claims on investment firms, investment in equities, holdings in real estate, claims on corporate portfolio and other assets. Risk Weighted Assets (RWAs) are calculated based on prescribed risk weights by CBB relevant to the standard categories and counterparty's external credit ratings, where available.

Rating of exposures and risk weighting

As the Bank is not engaged in granting credit facilities in its normal course of business, it does not use a detailed internal credit "grading" model. The use of external rating agencies is limited to assigning of risk weights for placements with financial institutions. The Bank uses ratings by Standards & Poors Moody's, Fitch and Capital Intelligence to derive risk weights for the purpose of capital adequacy computations. However, preferential risk weight of 20% is used which is applicable to short term claims on locally incorporated banks where the original maturity of these claims are three months or less and these claims are in Bahraini Dinar or US Dollar. The other exposures are primarily classified as 'unrated exposure' for the purposes of capital adequacy computations.

As per CBB guidelines, 100% of the RWA's financed by owners' equity (i.e. self financed) are included for the purpose of capital adequacy computations whereas only 30% of the RWA's financed by unrestricted investment account holders are required to be included.

Following is the analysis for credit risk as computed for regulatory capital adequacy purposes:

US $000's

Exposure class	Gross Credit exposures	Average Risk weights	Total Credit risk Weighted exposure
Self financed assets			
Cash items	3,199	0%	–
Total claims on sovereign	6,717	0%	–
Standard Risk Weights for Claims on Banks	47,150	21%	9,724
Preferential Risk Weight for Claims on Locally Incorporated Banks	30,072	20%	6,014
Short-Term Claims on Banks	3,196	20%	639
Claims on Corporates	264,446	100%	264,446
Mortgage	53,323	75%	39,993
Past Due Facilities	65,060	139%	90,355
Investments in Securities and Sukuk	203,412	149%	303,305
Holding of Real Estate	534,411	198%	1,059,891
Others Assets	7,095	100%	7,095
Total self financed assets (A)	**1,218,082**	**146%**	**1,781,462**
Total regulatory capital required (A x 12%)		**12%**	**213,775**
Financed by EIAH			
Cash item	–	0%	–
Total claims on sovereign	31,813	0%	–
Standard Risk Weights for Claims on Banks	43,730	49%	21,355
Preferential Risk Weight for Claims on Locally Incorporated Banks	62,954	20%	12,591
Claims on Corporates	250,593	100%	250,593
Investments in Securities and Sukuk	24,870	150%	37,305
Total financed by EIAH (B)	**413,959**	**78%**	**321,843**
Considered for credit risk (C) = (B x 30%)		**30%**	**96,553**
Total regulatory capital required (C x 12%)		**12%**	**11,586**
TOTAL RISK WEIGHTED ASSETS			**2,103,305**
TOTAL REGULATORY CAPITAL REQUIRED			**225,361**

6.4 Quantitative information on credit risk

6.4.1 Gross and average credit exposure

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations of the Bank classified as per disclosure in the consolidated financial statements:

US $000's

Balance sheet items	Funded exposure	Unfunded exposure#	Total gross credit exposure	Average gross credit exposure*
Bank balances	44,495	1,651	46,147	44,282
Placements with financial and other institutions	45,753	–	45,753	16,066
Asset held for sale	–	–	–	128,921
Equity-accounted investees	158,804	–	158,804	53,115
Investment securities	248,418	–	248,418	211,236
Investment property	259,404	–	259,404	259,404
Development property	45,501	–	45,501	33,794
Property, Plant and Equipment	141,301	–	141,301	136,869
Intangible assets	125,176	–	125,176	125,209
Other assets	234,603	–	234,603	236,636
Total credit exposure	**1,303,456**	**1,651**	**1,305,107**	**1,245,530**

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the year ended 31 December 2014.

Certain unfunded exposures reported in the consolidated financial statements do not qualify for consideration as Risk Weighted exposures for CAR calculation purposes.

6.4.2 Credit exposure by geography

The classification of credit exposure by geography, based on the location of the counterparty, was as follows:

	GCC countries	Other MENA	Other Asia	UK	Europe (excluding UK)	USA	Total
Assets							
Bank balances	28,594	3	–	705	8,479	8,366	46,147
Placements with financial institutions	45,753	–	–	–	–	–	45,753
Equity-accounted investees	158,804	–	–	–	–	–	158,804
Investment securities	101,911	60,133	56,779	18,117	9,878	1,600	248,418
Investment property	259,404	–	–	–	–	–	259,404
Development property	45,501	–	–	–	–	–	45,501
Intangible assets	40,000	85,176	–	–	–	–	125,176
Property, plant and equipment	141,301	–	–	–	–	–	141,301
Other assets	150,114	21,740	8,342	24,992	11,047	18,368	234,603
	971,382	**167,052**	**65,121**	**43,814**	**29,404**	**28,334**	**1,305,107**
Off-Balance sheet items							
Commitments and guarantees	118,039	–	–	–	–	–	118,039
Restricted investment accounts	786	–	–	–	–	–	786

6.4.3 Credit exposure by industry

The classification of credit exposure by industry was as follows:

US $000's

	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	3,997	42,147		–	3	46,147
Placements with financial institutions	5,780	39,973	-	–	–	45,753
Equity-accounted investees	18,683	140,121	–	–	–	158,804
Investment securities	–	17,067	177,753	3,679	49,919	248,418
Investment property	–	–	259,404	–	–	259,404
Development property	–	–	45,501	–	–	45,501
Property, plant and equipment	140,711	–	–	–	590	141,301
Intangible assets	125,176	–	–	–	–	125,176
Other assets	66,253	4,367	137,228	–	26,755	234,603
	360,600	**243,675**	**619,886**	**3,679**	**77,267**	**1,305,107**
Off-Balance sheet items						
Restricted investment accounts	–	–	–	–	786	786
Commitments and guarantees	118,039	–	–	–	–	118,039

6.4.4 Credit exposure by maturity

The maturity profile of credit exposures based on expected maturity was as follows:

US $000's

	Up to 3 months	3 to 6 months	6 months – 1 year	1 to 3 years	Over 3 years	Maturity not stated	Total
Assets							
Cash and bank balances	46,147	–	–	–	–	–	46,147
Placement with financial and other institutions	45,753	–	–	–	–	–	45,753
Equity-accounted investees	–	–	–	158,804	–	–	158,804
Investment in securities	1,600	30,732	18,117	197,969	–	–	248,418
Investment property	–	–	–	–	259,404	–	259,404
Development property	–			45,501			45,501
Property, plant and equipment						141,301	141,301
Intangible assets					1,556	123,620	125,176
Other financial assets	28,953	67,435	26,801	110,588	826		234,603
Total assets	**122,453**	**98,167**	**44,918**	**512,862**	**261,786**	**264,921**	**1,305,107**
Off balance sheet items							
Equity of investment account holders	1,663	–	–	–	–	–	**1,663**
Commitments	–	297	4,031	1,975	111,736	–	**118,039**
Restricted investment accounts	–	–	–	–	786	–	**786**

6.5 Exposures in excess of 15% of capital base

The CBB has set single exposure limit of 15 % of the Bank's capital base on exposures to individual or a group of closely related counterparties and as per the prudential rules prior approval of the CBB is required for assuming such exposures, except in cases of certain categories of exposure which are exempted by CBB. In case of non-exempt exposures, a deduction from capital is required for the amount in excess of the single exposure limits.

There were no exposures in excess of 15% of capital base as at 31 December 2014.

6.6 Impaired facilities and past due exposures

As the Bank is not engaged in granting credit facilities in its normal course of business, it does not use a detailed internal credit "grading" model. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Currently the Bank does not have any exposures that are collateralized. The Bank does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Credit and investment exposures are subject to regular reviews by the Investment units and RMD. Quarterly updates on the investments / facilities are prepared by the investment unit reviewed by management and sent to the Board for review.

The definition and details of impaired assets, past due but not impaired exposures and policy for establishing an allowance account and write-off of an exposure is provided for in Note 40 to the consolidated financial statements. The details of changes in impairment allowances for financial assets are provided for in the notes to the consolidated financial statements.

All impaired and past due credit exposures at 31 December 2014 mainly relate to the real estate and development infrastructure sectors.

6.7 Credit risk mitigation

The credit risk exposures faced by the Bank are primarily in respect of its own short term liquidity related to placements with other financial institutions, and in respect of investment related funding made to its project vehicles. The funding made to the project vehicles are based on the assessment of the underlying value of the assets and the expected streams of cash flows. Since these exposures arise in the ordinary course of the Bank's investment banking activities and are with the project vehicles promoted by the Bank, they are generally transacted without any collateral or other credit risk mitigants.

6.8 Related party and intra-group transactions

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties in the normal course of its business. For the purpose of identification of related parties the Bank strictly follows the guidelines issued by Central Bank of Bahrain and definitions as per FAS issued by AAOIFI. Detailed break up of exposure to related parties has been presented in Note 28 to the consolidated financial statements.

6.9 Exposure to highly leveraged and other high risk counterparties

The Bank has no exposure to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24.

6.10 Restructured facilities

As at 31 December 2014, other assets which are neither past due nor impaired include certain short-term financing to projects which were renegotiated during the year (refer note 40 to the consolidated financial statements). In certain cases, on a need basis, the Bank supports its project vehicles by providing short-term liquidity facilities. These facilities are provided based on assessment of cash flow requirements of the projects and the projects ability to repay the financing amounts based on its operating cash flows. The assessment is independently reviewed by the management of the Bank. Although no specific collateral is provided, such exposures are usually adequately covered by the value of the underlying project assets. The terms of the renegotiation primarily include extension of the repayment period. The facilities are provided for as viewed necessary based on periodic impairment assessments.

6.11 Equity investments held in banking book

The Bank does not have a trading book and hence all of its equity investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include available-for-sale investments, significant and majority investments in commercial entities and associate investments in non-significant financial and non-financial entities (i.e. significant financial entities which qualify as associates are treated separately for regulatory purposes).

Please refer to the notes to the consolidated financial statements for policies covering the valuation and accounting of equity holdings, including the accounting policies and valuation methodologies used, key assumptions and practices affecting valuation.

The RMD provides an independent review of all transactions. A fair evaluation and impairment assessment of investments takes place every quarter with inputs from the Investment department and RMD. Investment updates are periodically reviewed by the Board of Directors. Regular audits of business units and processes are undertaken by Internal Audit.

The Bank's equity investments are predominantly in its own projects, which include venture capital, private equity and development infrastructure investment products. The intent of such investments is a later stage exit along with the investors principally by means of sell outs at the project level or through initial public offerings. The Bank also has a strategic financial institutions investment portfolio which is aligned with the long term investment objectives of the Bank.

Information on equity investments	US$ 000's
Privately held	314,020
Quoted in an active market	144,252
Managed funds	6,204
Realised gain/ (loss) during the year	(5,625)

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

US$ 000's

	Gross exposure	**Risk weight**	**Risk weighted exposure**	**Capital charge**
Quoted equity investment	3,625	100%	3,625	435
Unquoted equity investment	183,593	150%	275,390	33,047
Investments in managed funds	16,194	150%	24,291	2,915
Premises occupied by the bank	8,931	100%	8,931	1,072
Real estate holdings	525,480	200%	1,050,960	126,115
Total	**737,823**		**1,363,197**	**163,584**

7 MARKET RISK

7.1 Introduction

Market risk is the risk that changes in market prices, such as foreign exchange rates, profit rates, equity prices, and commodity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. As a matter of general policy, the Bank shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio (banking book). The Bank has adopted a standardized approach for measurement of market risk under the CBB capital adequacy framework. The CBB's standardized approach capital computation framework requires risk weighted assets to be computed for price risk, equities position risk, Sukuk risk, foreign exchange risk and commodities risk. Hence, from a capital computation perspective the Bank's market risk measurement is limited to foreign exchange risk in the banking book. The Bank is also exposed to profit rate risk on the banking book which is managed separately.

7.2 Foreign exchange risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. All foreign exchange (FX) risk within the Bank is transferred to Treasury. The Bank seeks to manage currency risk by continually monitoring exchange rates. The Board of Directors approves policies and strategies related to the management of FX risk. The Executive Committee ('ExComm') supports the Board in managing FX risk by recommending policies, setting limits and guidelines and monitoring the FX risk of the Bank on a regular basis. The ExComm provides guidance for day to day management of FX risk and also approves hedging programs. The management of the day-to-day FX position of the Bank is the responsibility of the Treasury/Liquidity Management Department. The department shall ensure adequate FX liquidity to meet the maturing obligations and growth in assets while ensuring that all limits and guidelines set by the Board and ExComm are complied with; and shall implement hedging and other approved strategies for managing the risk. The Risk Management Department on an ongoing basis reviews the limits set and ensure that the concerned department(s) is complying with all limits set as per this policy. The Group is exposed to foreign currency translation risk from its subsidiaries which is from the industrial business segment, which is currently not significant (refer to Note 40(c) in the Financials section).

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Bank's net foreign exchange position and its sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) has been presented in Note 40 to the consolidated financial statements.

7.3 Capital requirements for market risk

To assess its capital adequacy requirements for market risk in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the standardised approach. Foreign exchange risk charge is computed based on 8% of overall net open foreign currency position of the Bank.

US$ '000's

Self Financed	Risk weighted assets	Capital requirement @ 8%	Maximum during the year	Minimum during the year
Foreign exchange risk	113,325	9,066	9,066	6,594

Unrestricted investment accounts	Risk weighted assets	Capital requirement @ 8%	Maximum during the year	Minimum during the year
Sukuk risk	8,611	689	794	689

8 OPERATIONAL RISK

8.1 Introduction

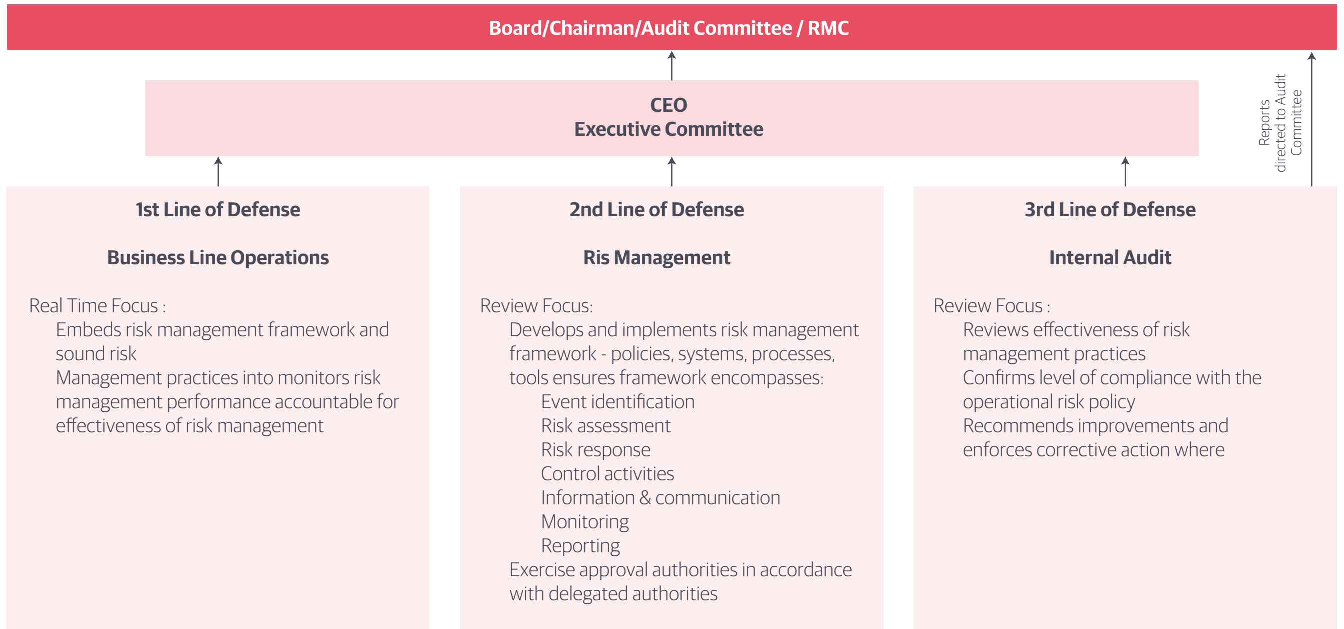
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is an inherent part of normal business operations. The Bank has adopted the Basic Indicator Approach for measurement of operational risk under the Basel II and CBB capital computation framework.

8.2 Operational risk management

Whilst operational risk cannot be eliminated entirely, the Bank endeavors to minimize it by ensuring that a strong control infrastructure is in place throughout the organization. Various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. The Risk Management Department manages the framework and facilitates the process of operational risk management.

The Bank has an operational risk management framework manual which includes components such as Key Risk Indicators (KRIs), operational loss data and Risk & Control Self Assessment (RCSA) across the Bank. The Bank has completed the process of conducting RCSA of operational risk in all departments of the Bank to identify the important KRIs and key risk triggers. The Bank has completed reviewing the risk registers of its key departments to reflect the operational risk profile post the restructuring exercise.

To ensure effective governance across all processes and functions, GFH has adopted a 'Three Lines of Defense' approach, as illustrated below. The structure clearly reflects the requisite independence between the three functions.



The rationale behind the 3 Lines of Defense sees that the CEO is ultimately accountable for all 3 Lines of Defense. In addition:

- The Business Unit heads are ultimately accountable for the 1st Line of Defense in their business areas;
- The Risk Management function is ultimately accountable for the 2nd Line of Defense for the Bank; and
- The Head of Internal Audit is ultimately accountable for the 3rd Line of Defense for the Bank.

The Bank's definition of operational risk incorporates legal and Sharia'a compliance risk. This is defined as an operational risk facing Islamic banks which can lead to, loss of reputation, non-recognition of income and loss of revenue. This definition excludes strategic, liquidity, credit, market and reputational risks. However, operational risk that has a direct impact upon reputation (and by default a subsequent impact on profit and / or performance) is formally considered and reported upon. Whilst operational risk excludes losses attributable to traditional banking risk (credit, market and liquidity), the Bank recognises that operational risk is attached to the management of those traditional risks. For example operational risk includes legal and compliance related risks attached to the management of credit and market risk. Operational risks are attached to the management of business as usual as well as to changes such as the introduction of new products, projects or program activities.

8.3 Legal compliance and litigation

The Bank has an in-house legal counsel who is consulted on all major activities conducted by the Bank. All contracts, documents, etc have to be reviewed by the legal department as well. For information on contingencies, refer note 39 to the consolidated financial statements.

8.4 Shari'a compliance

The Shari'a Supervisory Board (SSB) is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'a. The Bank also has a dedicated internal Shari'a reviewer, who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'a standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shari'a rules and principles.

8.5 Capital requirements for operational risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the approach agreed with the CBB. The Bank's average gross income for the last three financial years is multiplied by a fixed coefficient alpha of 15% set by CBB and a multiple of 12.5 is used to arrive at the risk weighted assets that are subject to capital charge.

	Average gross income	Risk weighted assets	Capital charge at 12%
Operational risk	59,077	110,769	13,292

9 OTHER TYPES OF RISK

9.1 Introduction

Apart from the risks listed in the previous sections, the Bank is also exposed to other types of risks which it identifies and manages as part of its risk management framework. Although these risks do not directly form part of the Tier 1 risks, they are identified and captured by the ICAAP.

9.2 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.. Though the liquidity position of the Bank has significantly improved, focus has continued to be to further enhance the liquidity by way of looking to raise additional capital in the form of debt or equity.

The Bank has a liquidity risk policy in place, which describes the roles and responsibilities of ExComm, Treasury and other concerned departments in management of liquidity. It also stipulates various liquidity ratios to be maintained by the Bank, as well as gap limits under each time bucket of the maturity ladder. The Bank embarked on a successful recapitalization program and managed to significantly enhance its capital base.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board Audit & Risk Committee. Daily reports cover the liquidity position of the Bank. Moreover, periodic reports are submitted to the Board of Directors on the liquidity position. For maturity profile of assets and liabilities refer Note 35 of the consolidated financial statements.

The following are the key liquidity ratios which reflect the liquidity position of the Bank:

Liquidity ratios	31 December 2014	Maximum	Minimum
Liquid assets : Total assets	7.04%	7.04%	2.51%
Liquid assets : Total deposits	87.50%	87.50%	16.07%
Short-term assets : Short-term liabilities	163.5%	253.7%	141.8%
Illiquid assets : Total assets	92.96%	97.49%	92.96%

9.3 Management of profit rate risk in the banking book

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of funding. Majority of the Bank's profit based asset and liabilities are short-term in nature, except for certain long term liabilities which have been utilised to fund the Bank's strategic investments in its associates.

The ExComm is responsible for the overall management of the profit rate risk. ExComm also determines the borrowing and funding strategy of the Bank in order to optimize risk return trade off. It supports the Board in managing profit rate risk by recommending policies, setting limits and guidelines and monitoring the risk on a regular basis.

The objective of profit rate risk measurement is to maintain the Bank's profit rate risk exposure within self-imposed parameters over a range of possible changes in profit rates. The process of establishing profit rate risk limits and describing the risk taking guidelines provides the means for achieving the objective. Such a process defines the boundaries for the level of profit rate risk for the Bank and, where appropriate, also provides the capability to allocate limits to individual portfolios, activities, or business units. The limit structure also ensures that positions that exceed certain predetermined levels receive prompt management attention. The limit system enables management to control profit rate risk exposures, initiate discussion about opportunities and risks, and monitor actual risk taking against predetermined risk tolerance. As part of ICAAP, thresholds for exposure concentrations will be set up which will trigger additional capital requirements.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in yield curves. For details of the Bank's profit rate gap position as at 31 December 2014 and analysis of the Bank's sensitivity to an increase or decrease in market profit rates, refer Note 40 to the consolidated financial statements. An analysis of the Group's sensitivity to an increase or decrease in market profit rates for a 200bps parallel increase / (decrease) is as below:

200 bps parallel increase / (decrease)	US$'000's
At 31 December	±5,841
Average for the year	±6,692
Maximum for the year	± 7,298
Minimum for the year	±5,841

9.4 Concentration risk

This risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business. Concentration risk can arise from exposure to specific classes of assets, sector, country, revenue streams, counterparty, a group of counterparties, etc. Concentration risk is mitigated by limits, diversification by assets, geography counterparty quality etc. As part of ICAAP, thresholds for exposure concentrations will be set up which will trigger additional capital requirements. The industry sector and geographical concentration of credit exposures has been disclosed in Notes 36(a) and 36 (b) of the consolidated financial statements respectively.

9.5 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. In addition to the identified credit risk exposures the Bank's counterparty credit risk from markets as such is limited to the fair value of contracts of foreign exchange risk management instruments the overall exposure to which is usually not significant. For other credit market transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks for counterparty, sector and geography. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank. As at 31 December 2014, the Bank did not have any open positions on foreign exchange contracts.

9.6 Reputational risk (non-performance risk)

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base, lead to costly litigation that could have an adverse impact on liquidity or capital of the Bank. Being an Islamic Investment Bank, reputation is an important asset and among the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments and poor communication to investors. A well developed and coherently implemented communication strategy helps the Bank to mitigate reputational risks. Additionally, the RMD has put together an Internal Capital Adequacy Assessment Process (ICAAP) Policy to effectively assess and measure all non Pillar 1 risks. The implementation of ICAAP is planned for during 2015.

Risk and Capital Management (contd.)

9.7 Displaced commercial risk
Displaced Commercial Risk (DCR) refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates. The Bank's DCR primarily arises from the funds accepted in the form of Investment Account Holders (IAH) which is currently not very significant in terms of its size and in comparison to the overall activities of the Bank. The returns to investors on the funds are based on returns earned from short-term placements and hence the Bank is not exposed to a significant repricing risk or maturity mismatch risk in relation to these accounts. In relation to the DCR that may arise from its investment banking and restricted investment account products, the risk is considered limited as the Bank does not have any obligation to provide fixed or determinable returns to its investors. The Bank constantly monitors all potential risks that may arise from all such activities as part of its reputational risk management.

9.8 Other risks
Other risks include strategic, fiduciary risks, regulation risks etc. which are inherent in all business activities and are not easily measurable or quantifiable. However, the Bank has policies and procedure to mitigate and monitor these risks. The Bank's Board is overall responsible for approving and reviewing the risk strategies and significant amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank. The Bank as a matter of policy regularly reviews and monitors financial and marketing strategies, business performance, new legal and regulatory developments and its potential impact on the Bank's business activities and practices.

10 PRODUCT DISCLOSURES

10.1 Product descriptions and consumer awareness
The Bank offers a comprehensive mix of Shari'a compliant investment banking products primarily to high net worth and sophisticated investors. This includes a range of innovative structured investment products like funds, repackaged products and structured restricted investment accounts. The investment department of the Bank has expertise in creating innovative high end and value added products offering a wide range of structures, expected returns, tenors and risk profiles.

Proposal for any new product is initiated by individual business lines within the Bank. The Management Committee of the Bank reviews such proposal to ensure that the new product/ business is in line with the Bank's business and risk strategy. All new products will need the approval of the respective authorities as per the Delegated Authority Limits (DAL) as well as the Board of Directors and the Shari'a Supervisory Board of the Bank.

10.2 Customer complaints
GFH is dedicated to providing a high standard of service and to maintaining its reputation for honesty and integrity in all its dealings. The Bank takes all disputes and complaints from its customers and business partners very seriously. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy. The complaint handling process is disclosed in the Bank's website and also in all printed prospecting materials. Complaints are normally investigated by persons not directly related to the subject matter of the complaint.

10.3 Equity of Investment Account Holders (EIAH)
The Bank does not have significant amount under EIAH and does not use EIAH as a main source of its funding. The Bank does not, as a focused product proposition, offer EIAH products to its clients. The current EIAH deposits have been accepted on a case-by-case basis considering the Bank's relationship with its customers.

The EIAH holder authorises the Bank to invest the funds in any investments approved by the Bank's Shari'a Board without any preconditions. All EIAH accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. In accordance with the principles of Shari'a, the entire investment risk is on the investor. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence. The Bank charges a Mudarib fee as its share of profit. Early withdrawal is at the discretion of the Bank and is subject to the customer giving reasonable notice for such withdrawal and agreeing to forfeit a share of the profit earned on such account.

Currently, the Bank comingles the EIAH funds with its funds for investments only into interbank placements and hence is not subject to any significant profit re-pricing or maturity mismatch risks. The Bank has an element of displaced commercial risk on EIAH which is mitigated by setting up and maintaining an appropriate level of Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) to smoothen return to EIAH holders. Profit Equalisation Reserve (PER) is created by allocations from gross income of the Mudarabah before adjusting the Mudarib (Bank) share. Investment Risk Reserves (IRR) comprises amounts appropriated out of the income of investment account holders after deduction of the Mudarib share of income. Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts. All terms of the EIAH are agreed upfront with the customers and form part of the agreement with the customer. Till date, the Bank has not made any withdrawals on PER or IRR. Any movements on these accounts are therefore only on account of additional reserves added.

The historical returns data on EIAH is as follows:

	2014 (US$ 000's)	2013 (US$ 000's)
Total EIAH as at 31 December	1,663	2,155
Average EIAH balance	1,657	2,172
Average rate of return earned (%)	0.22%	0.25%
Total profits on EIAH assets earned	16.2	22.30
Distributed to investor	12	19.71
Allocated to IRR	5	4
Allocated to PER	7	7
Bank's share of profits	0.8	0.50
Average declared rate of return (%)	0.22%	0.22%

The information disclosed above pertains to EIAH products directly promoted by the Bank and does not include the historical return data of similar products of its subsidiaries which are no longer consolidated since 2008 and prior years due to sale of controlling interests.

10.4 Restricted investment accounts
The Bank offers Restricted Investment Accounts ("RIAs") to both financial institutions and high net worth individuals in the GCC. All RIA product offering documents ("Offering Document") are drafted and issued with input from the Bank's Investment Banking, Shari'a, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors. The Bank has guidelines for the development, management and risk mitigation of its' RIA investments and for establishment of sound management and internal control systems to ensure that the interests of the investment account holders are protected at all times. Wherever it is necessary for the Bank establishes Special Purpose Vehicles (SPVs) for management of the investment. The Bank has a Board approved SPV Governance framework in place to equip the Board in ensuring that the management of such SPVs are conducted in a professional and transparent manner.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank considers the following in discharge of its fiduciary responsibilities:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Shari'a principles and the CBB regulations;
- Appropriately highlighting to the Investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the Investor before accepting the investment funds;
- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the Investors with the same level of rigor as the Bank requires for its' own investments;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;

Risk and Capital Management (contd.)

- Preparing and disseminating periodical investment updates to Investors on a regular basis during the tenor of the investment;
- Distributing the capital and profits to the Investor in accordance with the terms of the offering document; and
- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the abovementioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Shari'a, Financial Control, Legal, Investment Administration and the Risk Management Departments with Internal Audit oversight.

The restricted investment accounts primarily represent the investments in the projects promoted by the Bank and managed on a portfolio basis on behalf of investors.

There were no annual distributions made in RIA for the past five years.

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