Developing Our Diversity

Annual Report & Accounts 2017

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

One diverse financial group
One unified performance

Diversification of the GFH Financial Group's activities continues to reflect positively on our balance sheet. Our increasingly diverse portfolio consists of assets and activities across Commercial Banking, Investment Banking, Real Estate, Infrastructure Investments and Direct Investments.

Financial Profile
A strategic review of our group's diversification

GFH lives by its 'Pioneering' value in its approach to its own business as well as the intellectual property it creates throughout the group and within its recent creations. The innovative nature of the GFH brand has been lauded both regionally and internationally at a number of award shows for banking and brand development.

Gulf Financial Group BSC (GFH) together with its subsidiaries "the Group", is a well renowned financial group in the GCC region, with a diversified offering and pioneering track record. Headquartered in Bahrain, GFH's innovative approach to investment banking services has been recognised internationally for over a decade. GFH has developed a strong and consistent ability to identify, successfully bring to market and capitalise on a wide range of solid investment opportunities in some of the world's most dynamic markets and sectors. This approach signifies the Group's investment insights and commitment to increase the value of its assets, and financial returns to its investors and shareholders.

Since the Group's inception in 1999, GFH has raised over US$5 billion in equity from its strong client base in four main activities:

1. Commercial Banking;
2. Wealth Management & Private Equity;
3. Real Estate Development and
4. Asset Management.

GFH is listed on three stock exchanges in the GCC, including the Bahrain Bourse, Boursa Kuwait (BK) and Dubai Financial Market (DFM) where it is one of the most liquid and actively traded stocks. GFH's operations are principally focused across the GCC, North Africa and India, along with strategic investments in the U.S. and U.K.

+6.2 billion

Since the Group's inception in 1999, GFH has raised over US$ 6.2 billion in fund raising from its strong client base in four main activities; Commercial Banking, Wealth Management & Private Equity, Real Estate Development and Asset Management and Investment Banking.

Recognition

GFH is consistently recognised, year after year, by key industry stakeholders for its outstanding approach, investment prudence and overall achievements in Islamic finance, wealth management and investment banking. In 2017, the Group once again received a number of accolades including:

Banker Middle East Industry Awards 2017
'Best Investment Bank MENA'
'Investment Banker of the Year'

BME 100 Awards 2017
'Fastest Growing Bank in the Middle East'
'Fastest Growing Bank in Bahrain'
'Best Bank in Bahrain'

Islamic Business & Finance - CPI Financial
Best Investment Bank in the Middle East.

Arabian Business - ITP Media Group
Top CEO Middle East Award 2017.

Best Employer Brand Awards 2017
GCC Best Employer Brand.

18 Awards

GFH Financial Group has won 18 international awards for excellence in banking and finance as well as for the work in developing intellectual property in several key brands such as California Village and Harbour Row.

GFH has a diverse Asset Management, Private Equity and Direct Investments portfolio which provides risk adjusted investment opportunities, including one of the Kingdom's leading private schools, the British School of Bahrain, which has been exited during 2017.

Our Board of Directors provide a singular vision with diversified guidance

GFH Financial Group's Board of Directors provides the firm with a diversified platform whereby insights gleaned from decades of experience inform our decision making, our prosperity and our growth. In combination, our Board's remarkable breadth of experience and provides us with a steady hand and wise counsel for our bold strategic moves and expansive diversification.

Shaikh Ahmed Bin Khalifa Bin Salman Al Khalifa *
Chairman, Independent

Shaikh Ahmed Bin Khalifa Al Khalifa is the Chairman of GFH and has served as a member of the Group's Board of Directors since March 2017. He is an Advisor at the Crown Prince's Court in the Kingdom of Bahrain (rank Minister), a position he has held since 2009, and has 23 years of diverse diplomatic, business and financial experience.

Previously, he was the Kingdom of Bahrain's Ambassador to the United Arab Emirates from 2006 to 2009 and served as the Secretary General of the Supreme Council for Defence (rank Minister) from 2000 to 2006. He began his career in banking, heading the Arab Banking Corporation's Abu Dhabi office.

He holds a B.Sc. in Computer Science and Accounting from the University of Bahrain and a Certificate from the College of Science, King Fahad University of Petroleum and Minerals. He has also undertaken executive training at BPP Training and Consultancy, London and Colombia University.

** Shaikh Ahmed has been re-elected as Vice Chairman effective 25th February 2018.*

GFH's highly respected Board of Directors enjoys diversified expertise, covering a wide range of sectors and international markets, including local and International business, law, finance, economy, engineering, construction, and administration.

GFH's Board of Directors (contd.)

Dr. Ahmed Khalil Al Mutawa *
Member, Independent

Dr. Ahmed Al Mutawa has served as a member of GFH's Board of Directors since May 2011. He is the Managing Director and Advisor to the Board of the Khalifa Fund for Development and has 36 years of experience in economics and finance.

Previously, he has held prominent executive roles in business and academia serving as Secretary General of the Gulf Organisation for Industrial Consulting and Deputy Vice Chairman for Planning and Chairman of the Economics Department at the United Arab Emirates University.

Currently, Dr. Al Mutawa is also a member of the board of directors of: Dubai University, Dunia Finance, Summit Bank, Khaleeji Commercial BankB.S.C, GFH Financial Group B.S.C. , National Qualification Authority and GFH Capital.

He holds a Ph.D. in Economics from Georgetown University, an M.A. in Economics from the University of North Carolina and a B.A. in Economics from Cairo University.

** Dr. Al Mutawa served the Group's Board of Directors until 13th February 2018.*

Jassim Al Seddiqi
Member, Executive

Mr. Jassim Al Seddiqi has served as a member of GFH's Board since April 2016 and was appointed Chairman of the board in February 2018. Mr. Al Seddiqi is the Chief Executive Officer of ADFG. He has been at the helm of the company since its establishment in 2011, transforming it into one of the leading and fastest growing investment management companies in the MENA region.

Mr. Al Seddiqi is the Chairman of SHUAA Capital, GFH Financial Group, Eshraq Properties and Khaleeji Commercial Bank. He also serves on the boards of First Abu Dhabi Bank (FAB), the Tourism & Development Investment Company (TDIC), Abu Dhabi Capital Group and ADNOC Distribution.

Mr. Al Seddiqi holds a BSc in Electrical Engineering from the University of Wisconsin - Madison and an MSc in Electrical Engineering from Cornell University. He has also served as a noted lecturer at the Abu Dhabi-based Petroleum Institute.

Kamal Bahamdan
Member, Independent

Mr. Kamal Bahamdan has served as a member of GFH's Board of Directors since March 2017. He is the Founder and CEO of Safanad Limited, a global principal investment firm focused predominantly on healthcare, education and real estate, and CEO of the Saudi-based Bahamdan Group. He has 20 years of investment and transaction experience across multiple sectors, asset classes and geographies. Previously, he Co-Founded Al-Khabeer Capital and was a Co-Founder and Managing Partner of BV Group.

Currently, Mr. Bahamdan is also is member of the board of directors of: Safanad Limited, Arcola Global Investments Limited, Arcola Holdings Group, Limited, Amanat Holdings PJSC, Badad International Company Ltd., Bahamdan Holding International Co., Hyde Park International Holdings Ltd., Health Water Bottling Co. Ltd. (Nova), KB Group Holdings Ltd., Osoul Trading Investment Co., Sara Good News Co., Sara Holding Limited, Samena Capital Investments Limited, Tashelat Marketing Limited and Tadrees Holding Co..

He holds a B.S. in Manufacturing Engineering from Boston University.

Mazen Bin Mohammed Bin Abdulrahman Al Saeed
Member, Independent

Mr. Mazen Al Saeed has served as a member of GFH's Board of Directors since March 2017. He is the Chairman and CEO of the Al-Khobar-based Mazen M. Al Saeed Holding Company ("MASHCO") and has 25 years of diverse investment, business and financial expertise.

Previously, he was a partner at Maher and Mazen Al Saeed Co. and served as Chairman of Mazen Mohammed Saeed Development Group between 2000-2006.

Currently, Mr. Al Saeed is also a member of the board of directors of: Mazen Mohammed Al Saeed Holding Company, Saudi International Construction Company, Al Saeed Holding Company, Eastern Region Council, Friends of Patients, Savings Company Limited.

GFH's Board of Directors (contd.)

Mosabah Bin Saif Bin Mosabah Al Mutairy
Member, Non-Executive

Mr. Mosabah Al Mutairy has served as a member of GFH's Board of Directors since February 2009. He is the Royal Guard of Oman Accounts Manager and Acting Portfolio Manager at the Royal Guard of Oman Pension Fund. He has 32 years of financial, investment and accounting expertise and was previously an Accountant at the Royal Guards of Oman Pension Fund.

Currently, he is also a member of the board of directors of: Bank Nazwa, Qatar First Investment, RGO Pension Fund, Bank Muscat Money Fund, Hotel Management Company - Chedi Hotel, Oman National Investment Development Company, United Security GCC Fund and Takaful Oman Insurance.

Mr. Al Mutairy holds an M.B.A. (Finance) from the University of Lincolnshire & Humberside, a Degree in Accounting from South West London College and a postgraduate qualification from South Bank University London in Accounting.

Rashid Nasser Sraiya Al Kaabi
Member, Non-Executive

Mr. Rashid Al Kaabi has served as a member of GFH's Board of Directors since March 2017 and has 19 years of legal, business and investment experience.

Currently, Mr. Al Kaabi is also a member of the board of directors of: Al Sraiya Holding Group and Qatar Chamber of Commerce and Industry.

He holds a B.A. in Law from Beirut Arab University and Honourary Degrees in Literature and Business Management from the Open International University for Complementary Medicine and Medicina Alternativa.

Bashar Mohammed Ebrahim Al Mutawa
Member, Non-Executive

Mr. Bashar Al Mutawa has served as a member of GFH's Board of Directors since March 2012. He is the Managing Director of Noon Investment Company and has 16 years of experience in real estate, investment and advisory.

Previously, Mr. Al Mutawa was an Advisor to the Board of GFH and 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 began his career at Citibank Bahrain in Treasury and Corporate Finance.

Currently, Mr. Al Mutawa is also a member of the board of directors of: Al Jazeera Tourism, Naseej R.S.C, AMA University, Bahrain Film Production Company, Sanad Investment Company, Noon Investment and Vaidyaratnam A Yurvedic J Health Centre.

He holds a B.S. in Finance and Economics from Babson College.

Ghazi Faisal Ebrahim Al Nasser Al Hajeri
Member, Independent

Mr. Ghazi Al Hajeri has served as a member of GFH's Board of Directors since March 2017. He is currently the CEO for Recreational Affairs at Tourism Enterprises Company. He served both as Managing and Regional Director of Wafra InterVest Corp based in Kuwait. He has 17 years of experience in regional business strategy, product development, asset allocation and relationship management for large scale clients including sovereign wealth and pension funds.

Previously, Mr. Al Hajeri was a Portfolio Manager at Wafra New York where he was also a member of the Alternative Investments Division Committee responsible for reviewing and monitoring external investment managers while directing departmental strategies. Prior to that, he served as Assistant to Financial Consultant at Merrill Lynch.

Mr. Al Hajeri holds a B.S. in Business Administration from the University of Denver and has completed executive training at New York University.

GFH's Board of Directors (contd.)

Hisham Alrayes
Member, Executive

Hisham Alrayes is the Chief Executive Officer as well as the member of the Board of Directors of GFH Financial Group, one of the regional leading financial groups with USD 6 billion assets and funds under management and shares listed in the Kingdom of 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 group offering a remarkable platform for Wealth Management, Real Estate, Commercial Banking and Asset Management.

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

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.

Alrayes is the chairman of Balexco, Gulf Holding Company and holds directorship in GFH Financial Group, Khaleeji Commercial Bank, Falcon Cement Company and GFH Capital.

During 2017, Mr. Alrayes was named Bank CEO of the Year at the CEO Middle East 2017 awards, as well as being honoured by Top CEO Awards to recieve third place among the top one hundred CEOs in the region.

Mr. Alrayes holds a master's degree with honors in Business Administration from the University of DePaul, Chicago (USA), and a bachelor's degree in Engineering with honors from the University of Bahrain.

Under the considered guidance of our Chairman and CEO, our Board and Executive Management team's provide GFH with diverse experienced, clear purpose and strategic direction.

We thank God's grace and advice from our 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.

Shaikh Nidham bin Mohammed Saleh Yaquby, Executive Member
Sh. Nidham 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. 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.

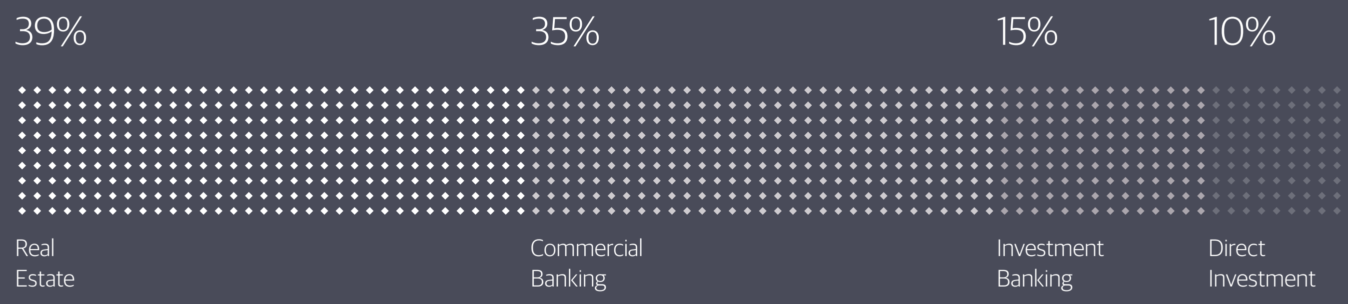
Dr. Abdulaziz Khalifa Al Qassar, Member
Dr. Abdulaziz is a Professor in the department of Sharia at the University of Kuwait. He is also a Sharia Consultant and a member of the Sharia Supervisory Board of a number of Islamic banks.

Financial Highlights

Diversification resulted in a positive performance

GFH is a dynamic financial group with a clear vision to develop a high growth, diversified investment and commercial portfolio.

In 2017, the Group continued to strengthen its financial position, taking further steps to optimize overall revenue streams in order to improve profitability, enhance the balance sheet and raise its overall investment ratings and risk profile. Due to GFH's strong execution and performance, the Group's credit rating was improved during the year with Fitch upgrading GFH to "B" with a positive outlook.



Assets and Funds under Management of

6 billion US$

+79% Turnover

Total group turnover, US$ 211.6 million
(excluding income from recoveries 2016)

+24% Assets

Total group assets, US$ 4,110 million

+20% Liabilities

Total liabilities, US$ 2,615 million

Our Executive Team

Delivering on our strategy for enhanced diversity

GFH Financial Group's Executive Management and Senior Leadership Team represent a distinguished group of financial and managerial experts. A combination of both international experience and regional knowledge provides the group with a solid foundation with which to reveal insights that drive our diversification.

Hisham Alrayes is the Chief Executive Officer as well as the member of the Board of Directors of GFH Financial Group, one of the regional leading financial groups with USD 6 billion assets and funds under management and shares listed in the Kingdom of 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 group offering a remarkable platform for Wealth Management, Real Estate, Commercial Banking and Asset Management.

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Alrayes is the chairman of Balexco, Gulf Holding Company and holds directorship in GFH Financial Group, Khaleeji Commercial Bank, Falcon Cement Company and GFH Capital.

During 2017, Mr. Alrayes was named Bank CEO of the Year at the CEO Middle East 2017 awards, as well as being honoured by Top CEO Awards to recieve third place among the top one hundred CEOs in the region.

Mr. Alrayes holds a master's degree with honors in Business Administration from the University of DePaul, Chicago (USA), and a bachelor's degree in Engineering with honors from the University of Bahrain.

Hisham Alrayes
Chief Executive Officer

Executive Management (contd.)

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 and additionally is in charge of the Group's projects in India. 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 Financial Group in 2005 in the Financial Control department.

Prior to joining GFH, Mr. Gupta has worked at HSBC, 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 20 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 Bachelor's degree of Commerce from the distinguished University of Mumbai.

Mohamed Ameen Ahmed Ali Hasan
Chief Administrative Officer

Mohamed Ameen Ahmed directs and manages the corporate functions of GFH including Administration, Operations, Information Technology, Human Resources Management and Development and other functions as required.

Being a member of the Senior Management team, he is actively involved in the overall strategy and investments of the Bank. He also serves as a Board Member in many Operating Companies, Special Purpose Vehicles and Holding Companies.

Mohamed Ameen is a seasoned banker and a management professional with more than 36 years of experience in financial markets and investment sectors of conventional as well as Islamic banking. Prior to his appointment at GFH in September 2005, Mohamed Ameen served Investcorp for more than 7 years where he led the Quality Assurance Department. He started his career with Gulf International Bank (GIB) and served over 16 years. Before leaving the institution, he was working as the Vice President and Unit Head of the Product Processing Division.

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

Ajay Subramanian
Head of Risk Management

Head of Risk Management at GFH, Mr. Ajay Subramanian, has a 17 year track record of service in leading multinational banks and "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 joined the Group in April 2008 and is a core member of the Executive Management Committee and works closely with the Group's 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 a Process Manager with JP Morgan Chase based in Singapore, and later in Hong Kong. He was a part of the key group responsible for migrating JP Morgan's core banking processes from the aforementioned locations 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 Ernst & Young (E&Y) and KPMG where he has advised 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).

Luay Ahmadi
Chief Placement Officer

Mr. Luay Ahmadi is the Chief Placement Officer at GFH Financial Group since March 2017, where he is responsible for the placement of the Group's diverse investment offering across sectors, asset classes and geographies to investors across the Gulf region.

Mr. Ahmadi brings 20 years of experience across the Islamic financial and investment arena with nearly two decades of experience with industry leading Islamic institutions in the GCC as well as key roles with top-tier international banks. His areas of expertise include private banking and wealth management as well as private equity.

He joined GFH Group from Emirates NBD, where he was the Managing Director and Head of the Northern Gulf based out of Dubai from December 2014 -2017 after having served as the bank's Managing Director and Head of Private Banking in Riyadh from October 2012.

Prior to that, Mr. Ahmadi was a Founding Partner and Chief Marketing Officer at Bahrain-based Energy Capital Group, a private equity firm focused on investments in the regional and global oil and gas sector. Previously, he held other senior roles at Unicorn Investment Bank, Deutsche Bank, NORIBA/UBS and Citibank in Bahrain with broad regional remits.

Mr. Ahmadi holds a Master of Science (EgMt) and a Bachelor of Business Administration (BBA) with a specialisation in Finance and Accountancy both from The George Washington University, Washington DC, USA.

Executive Management (contd.)

Hammad Younas
Head of Investment Management

Hammad Younas is the Head of Investment Management in GFH since November 2016 and leads the overall investment business of the Group including Private Equity, Corporate Investment and Asset Management.

Hammad has more than 20 years of experience in corporate finance, investment banking, private equity, real estate, and asset management. During his career, he has led various regional and cross-border transactions in MENA, US, Europe and South Asia across multiple sectors and asset classes. Hammad's transaction experience includes mergers and acquisitions, IPOs, listings, secondary offerings, private placements and debt raising. In addition, he is a growth strategy and business development expert.

Prior to joining GFH, Hammad was a Partner at Ernst & Young MENA and their Transaction Advisory Leader for Bahrain. He was also the CEO of Ernst & Young Corporate Finance, Bahrain. Hammad spent more than 13 years with Ernst & Young advising a wide range of clients including financial institutions, sovereign wealth funds, private equity and real estate investment firms, governments, family businesses and high net worth individuals on their investment, capital raising, performance improvement, restructuring and strategy.

Hammad is a CFA charterholder from the CFA Institute USA, an ACCA from the Association of Chartered Certified Accountants of the UK, and ACA from the Institute of Chartered Accountants of Pakistan.

Senior Leadership

Bahaa Al Marzooq
Chief Internal Audit

Bahaa Al Marzooq, Chief Internal Audit at GFH, is responsible for supporting the Group 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 18 years of auditing experience in the Islamic and Investment banking sectors. Over the past three years, he was delegated to support the recovery efforts that were remarkably concluded in 2016 with gained assets of total value of $470 million.

Prior to joining GFH Financial Group, 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. Al Marzooq is also the holder of an Executive MBA, which he obtained in 2004 from the University of Bahrain. Additionally, he has a number of specialised 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.

Dr. Mohamed Abdulsalam
Head of Sharia & Corporate Secretary

As Head of Sharia and Corporate Secretary at GFH, Dr. Mohamed Abdulsalam supervises all Group transactions to ensure they are conducted in compliance and in accordance with the teachings of Islamic Sharia. Furthermore, Dr. Abdulsalam assumes the fiduciary duty of maintaining all records, meetings and minutes of GFH's Board and its committees in addition to moderating meetings, and managing all record keeping activities for GFH's project companies.

He joined the Group in 2006 with 16 years of Sharia experience. Prior to GFH, Dr. Abdulsalam worked with other Islamic financial institutions in Bahrain. He was a Sharia Auditor at Kuwait Finance House (KFH) and an Internal Auditor at Bahrain Islamic Bank (BisB).

Dr. Abdulsalam obtained his bachelor's degree in Islamic Accounting in 2003 from Al-Imam Mohammed Ibn Saud University. He also holds an MBA in Accounting and Financial Control and a Ph.D. in Accounting from the United States, California. He has also pursued additional qualifications including a Masters of Sharia and Accounting Standards from AAOIFI, courses in Sharia Control Fatwa for Islamic banks as well as successfully completing the third module of the International Arbitration Certificate from Bahrain Chamber for Dispute Resolution (BCDR-AAA) in 2014.

Passionate about his field, Dr. Abdulsalam regularly attends specialised 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.

Senior Leadership (contd.)

Elias Karaan
Head of Infrastructure Development

Elias Karaan joined GFH in November 2012 as a Senior Executive Director of Infrastructure Development. In his position, Mr. Karaan is responsible for creating a real estate entity to manage and develop GFH's existing real estate portfolio, to create value in the existing infrastructure projects, and to pursue other new real estate opportunities.

Mr. Karaan has more than 37 years of accumulated experience in construction, project management, and development of small to large real estate projects in the United States, Middle East, and Bahrain. Mr. Karaan past experience includes working with large corporations such as FLUOR and ABB and prior to joining GFH he held the position of Managing Director at LTC, the company which created Reef Island in Bahrain. In that capacity, Mr. Karaan created one of the best integrated residential and leisure developments in the GCC.

Mr. Karaan earned a M.Sc. degree in Engineering Science from the University of Toledo, Ohio in 1985 and completed his undergraduate studies from Clemson University in South Carolina in 1980 where he received a B.Sc. in Electrical and Computer Engineering.

Salem Patel
Senior Executive Director
Corporate Investment & Debt

Salem Patel, 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 AMA, The Sheffield School, Queens Gate Gardens, Diversified US Residential Portfolio, Leeds United Football Club, Injazat Technology Fund and Al Basha'er GCC Equity Fund.

Mr. Patel brings over 19 years of experience. 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 Al Khaleej Funds and Investment Company (Al Basha'er GCC Equity Fund) and Sheffield School. 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 also passed all three levels of the Chartered Financial Analyst (CFA) exams.

Salah Sharif
Senior Executive Director

Mr. Salah Sharif is a Senior Executive Director at GFH and Head of Administration and Operations at the Group. In this capacity, Mr. Sharif is responsible for the day-to-day oversight of all core operations of the Group and its operating companies.

Mr. Sharif brings to his role at GFH more than 33 years of international exposure and experience in the best industry practices in all aspects of commercial, wholesale banking, and industrial/infrastructure advisory sector, having worked with both conventional and Islamic financial institutions.

He has worked within the Group since 2007. Most recently between 2012 to 2016, he served as the CEO of Cemena Holding Company (CHC), an industrial subsidiary of the Group, which is one of the largest cement holding companies in the MENA region. There he oversaw all operating activities of the projects/companies under CHC, managing and monitoring their overall performance. He currently also serves as a Board member in several project/operating companies under the Group.

Prior to that he held a number of senior roles at leading global financial institutions. This included serving as Operations and Facilities Manager, Middle East & North Africa at American Express in Bahrain where he was responsible for extending services for the entire MENA and provision of wide reaching centralised support services to country offices across the region. Previously, he spent nearly 20 years at Standard Chartered Bank in Bahrain in various managerial and executive positions including Head of Operations.

Mr. Sharif holds a Master of Business Administration with a Distinction from University of South Wales, U.K.

Senior Leadership (contd.)

Mohammed Abdulmalik
Senior Executive Director
Placement & Relationship Management
Deputy Chief Placement Officer

Mohammed Abdulmalik is the Senior Executive Director of Placement & Relationship Management and the Deputy Chief Placement Officer at GFH, a role he has held since 2017. With 20 years of experience, in this capacity, Mr. Abdulmalik, in collaboration with the Chief Placement Officer, is responsible for setting up strategies for the placement team and developing appropriate business models to capitalise on current market dynamics and potential. In addition to his current role, Mr. Abdulmalik is also a Board Member of Capital Real Estate Projects and Sheffield Private School. Having joined GFH in 2002, his previous role at the Group 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 holds a B.Sc. in Accounting from the University of Bahrain (1998).

Nicholas Polley
General Counsel

Mr. Nicholas Polley is the General Counsel for GFH. In this capacity, Mr. Polley is responsible for a wide range of corporate, commercial, investment and financing matters, in addition to working with external, local and international counsel.

Mr. Polley brings to his role in GFH over 20 years extensive experience in the legal field including multi jurisdictional expertise from working with reputed international organisations. Mr. Polley holds a Bachelor Degree with Honours in Development Economics, International Politics and Law from the University of Bristol – United Kingdom. Additionally he has various Postgraduate qualifications.

Prior to joining GFH in May 2017, Mr. Polley served as the Chief Legal Officer of the SEDCO Group and prior to that he was a Partner and the Head of the MENA International Banking & Finance Practice with the international law firm, Charles Russel Speechlys LLP. As a senior executive, Mr. Polley has particularly relevant expertise in Private Equity and in the structuring of successful investment platforms internationally. Mr. Polley has at different times been recognized as a leading lawyer by Legal 500, IFLR 1000 and Chambers, and the Islamic Finance News Awards, in addition to being selected as one of the top 100 influential legal counsel in the Middle East by Legal 500.

Hazim Abdulkarim
Executive Director – Placement Support & Corporate Communications

As Executive Director of Placement Support & Corporate Communications, Mr. Hazim Abdulkarim oversees all aspects of client servicing process including administration of client funds, managing funds' share registers and prompt client reporting process and communication. With over 23 years of experience, he is responsible for sustaining and improving the relationships with the investors and shareholders.

Hazim supervises the Corporate Communications Department for creating and implementing a world class internal and external communications strategy across the Group's regional and global businesses, whilst promoting and enhancing the brand messages to the market through a wide range of channels.

Since his appointment in 2000, Hazim has held several positions within the Group over the last 18 years in Operations and Fund Administration Departments including directorships in many project companies and Special Purpose Vehicles. Prior to joining the Group, he was working in the corporate banking division of Bank of Bahrain and Kuwait.

Hazim holds an MBA from University of Glamorgan UK, and an Advanced Diploma in Islamic Banking. He has also passed Investment Representative Certification Series 7.

Muneera Isa
Head of Human Resources

Ms. Muneera Mohammed Isa is the Head of Human Resources (HR) at GFH. With 16 years of experience, Ms. Isa is responsible for managing employee strategies, recruitment, development and retention in addition to career progression and performance management. She is also in charge of compliance, policy making and the overall implementation of HR regulations.

Prior to leading the Human Resources department, Ms. Isa joined GFH in September 2014 acting as the HR Senior Manager. She brings to her role more than a decade of HR experience working with regional and international financial institutions in the Kingdom of Bahrain such as Bahrain Mumtalakat Holding Company, Capivest and BNP Paribas.

She holds a Bachelor's degree in English Literature from the University of Bahrain and attained a level 5 Chartered Institute of Personal Development Certificate (CIPD) in 2014.

Our Chairman's Report provides insights on our growth and diversification

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 Financial Group, I am pleased to present the Group's financial results for the fiscal year ended 31 December 2017. The year was once again marked by significantly enhanced performance and levels of profitability resulting from a successful transformation that has seen GFH firmly establish itself as a highly-diversified and financially sound banking and investment group.

We are especially pleased with the strong results we have delivered despite macroeconomic and geopolitical challenges that have persisted in the MENA region and other global markets where GFH invests. Our ability to effectively navigate turbulent circumstances and continue to identify promising areas of opportunity is grounded in the deep knowledge imbedded across the Group and the sharp and focused approach we take to developing the right strategies for value creation and executing them. In doing so, we look to leverage our expertise and track record in order to continue to grow each of our business lines and to maximize our investments and asset, across the multiple sectors and geographies in which we are active including the GCC, North Africa, India, Europe and the US. We are also hopeful that with the strong foundations we have built, and the strategies adopted, we will be well placed to capitalize on rising oil prices and forecasts that have provided the region with greater optimism during 2018.

For the year, GFH reported net profit attributable to shareholders of US$104.2 million compared with US$217.12 million for the previous year and a consolidated net profit of US$103.2 million for the year as compared with US$233.05 million for the prior-year. These results, in real terms, reflect year-on-year growth in all areas of the business when excluding US$464 million in one-off income from the settlement of litigation by the Group in the fourth quarter of 2016. All business lines across the Group have delivered strong performances during the year, with further details on the major developments achieved within each division noted below.

Investment Banking: Real Estate Investments

GFH's real estate equity investments continued to perform soundly in 2017 providing steady returns for the Group and our investors. This year again, the US real estate market provided us with both strong results from existing assets as well as new opportunities for investment and exits.

Our Chairman's Report (contd.)

In April 2017, GFH acquired a $105 million US data center portfolio which consists of two selected state-of-the- art, build-to-suit data center facilities located in high technology business parks in Chester and Lebanon, Virginia.

The portfolio is fully leased to a single tenant (investment grade rated) on a triple net basis. GFH has entered a very attractive market for data centers in Virginia which is one of the nation's top ranked data center markets due to multiple favourable factors including the region's dense fiber network, highly reliable and low-cost power, low risk of natural disasters and targeted data center tax incentives. Exposure to the data centers portfolio has

given Investors the opportunity to become a part of an industry that is in high demand, in continuous development, and has demonstrated immense growth on a national scale and globally.

In September, GFH also took advantage of strong market conditions in the US and demand to achieve an exit comprising of the sale of one of the properties included in its Diversified US Residential Portfolio (DURP). Acquired in 2014, the portfolio consisted of two multifamily residential property complexes in two US residential markets - Atlanta and Houston. GFH investors made an IRR of 11% over the approximate. three years investment period.

During the last quarter of 2017, GFH further invested nearly US$100 million in two large US commercial property investments. GFH launched a US$60 million portfolio of 10 suburban office properties in Philadelphia, Chicago and Washington DC metropolitan areas. The transaction was a joint venture with Exeter Property Group to acquire the portfolio with GFH holding a 95% stake and Exeter co-investing 5%. The portfolio, which is 95% occupied with long-term, diversified, credit-rated tenants, is expected to generate a yield of 9% and an IRR of 10% for our investors. Another transaction undertaken in December 2017, which involves a joint-venture investment with Lincoln Property Company, was the acquisition of a trophy asset located in suburban Chicago. It is currently underwritten by GFH and will be provided to our investors in 2018.

Other existing investments in US real estate similarly delivered strong returns in 2017 with our industrial asset portfolio generating a weighted average cash-on-cash return exceeding 9% for our investors. We remain bullish on the US real estate market as we see value opportunities in various sub sectors of investing therein.

Private Equity

2017 also saw continued strong activity and sound performance in GFH's private equity business line. Looking at the Group's education investments, the year continued with strong momentum. The portfolio, which was established in 2014, enables GFH and its investors to leverage positive demographic trends and the growing need from international standard education in the GCC region. During the year, we took further steps to build and add value to our portfolio across the UAE and Bahrain comprising of both high quality international K-12 and university level institutions. We also continued to work hard to enhance performance and results at our schools while maintaining steady cash flows and attractive returns.

Later in December, the Group concluded another major education transaction valued at up to $150 million with Inspired, a leading global group of premium schools operating in Europe, Africa, Latin America and Australia. The deal saw Inspired acquire a part of GFH's US$300 million educational portfolio in the GCC. GFH undertook this partnership to add even greater value to its education assets by leveraging Inspired's vast international experience and network. Continued progress was also made throughout the year in the enhancement of performance at several of its key schools including The British School of Bahrain, which boasts over 2,600 students and is only one of five schools in Bahrain to gain an "Outstanding" ranking.

Similarly, GFH's Dubai-based Sheffield Private School, a provider of UK curriculum at the foundation, primary and secondary school levels and with more than 1600 international students at the start of the academic year, continued to go from strength to strength. During 2017, the School succeeded in upgrading its rankings from both government and private sector organisations as a result of its focus on providing world-class education. The School's annual review and inspection by the Government of Dubai's Knowledge and Human Development Authority (KHDA) saw its ratings raised to "Good" from "Acceptable".

We have built a strong pipeline of transactions which we will launch in 2018 and are confident that given the unique characteristics and partnerships that we have developed, these will be very successful investments for the Group and our investors.

Commercial Banking

Khaleeji Commercial Bank (KHCB), GFH's commercial banking subsidiary, achieved a significant milestone in 2017, successfully listing in December on the Dubai Financial Market with which the Bank's shares now trade in Dubai and Bahrain. For the year, KHCB reported profit before impairment of US$ 22 million, and is looking for further growth during 2018.

During 2017, GFH has further invested in US high yield investments. GFH has launched a portfolio of 10 properties in Philadelphia, Chicago and Washington DC metropolitan areas, in addition to a Data Center building in Virginia.

Real Estate Development

GFH Properties, which was launched in 2016 as the dedicated real estate development arm of the Group, also continued to advance key landmark projects across the GCC, MENA region and India in 2017 and build and enhance the value of its assets.

In August, the Group completed the acquisition of US$1.2bn infrastructure portfolio in Africa and the Middle East. The acquisition came as part of GFH's new strategy approved in the last shareholders' Extraordinary General Meeting in March 2017. The acquisition was funded by a US$315 million capital increase taking GFH's issued and paid up capital to US$975 million. The acquisition has made GFH one of the select companies in the region that control a very large developable land bank, with a development capacity in excess of 200 million square feet across Africa, GCC and India.

Looking at the Group's Bahrain projects, the Harbour Row project located in the Bahrain Financial Harbour, made significant progress in 2017. Onsite works reached approximately 30% completion and the first phase of sales saw more than 40% of offered stocks sold within an eight-month period. Villamar, the iconic US$700 million residential and commercial complex spread over 35,900 square meters at the Bahrain Financial Harbour, progressed according to plan. During the year, Gulf Holding Company, the project's owner, successfully entered an operational stage following a five-year adjournment. It effectively rebuilt its legal standing with the offering of its shareholders an exit option. Importantly, the project's contractor, in January of 2017, fully mobilized to site with a labor force exceeding 600. By year end, structural works were completed for Towers A and B lifestyle apartments and more than 70% of the internal works of Tower B units are targeted to be handed over as planned by the end of 2018. The project is also in the final stages of announcing a 5-star internationally acclaimed operator to run a 400+ key hotel, a step that comes in line with will the Bahraini government's plans to reposition the Kingdom as a key regional tourism market.

The Bahrain-based Al Areen project, which was acquired in late 2016, progressed considerably in 2017 as a result of efforts on several fronts to enhance the overall development and remove the mother company from liquidation. Settlements have been reached with most creditors and it is expected that in the 1st quarter of 2018, the project company will be out of sequester and will be able to resume its functions. GFH has developed a plan to upgrade the development and, as such, has completed a new design for the landscaping, which includes soft and hard landscaping, street lighting, and the completion of a new access road. Works are anticipated to commence during the 1st quarter of 2018. Additionally, a MOU has been signed with an international luxury hotel chain, for the operation of the existing Al Areen Palace and SPA. An agreement was also reached with them to produce a new concept design for the water park "The Lost Paradise of Dilmun Water Park" along with the adjacent hotel.

In the UAE, California Village, a mixed-use development and gated community located in Dubailand, further progressed in 2017. Following mobilization, which commenced in 2016, site work has moved swiftly ahead. A full marketing strategy has been developed in 2017 and is now being finalized in support of the offering of built units for sale in 2018.

Our Chairman's Report (contd.)

In North Africa, the Tunis Bay project also achieved new milestones in 2017. This included further development of the Joint Venture agreement for the project's golf course and surrounding villas. Works commenced on the golf course and associated infrastructure and sample villas have been built. This is in addition to the commencement of infrastructure works for Phase 1 as a result of the signing of an agreement with a well-known contractor for the infrastructure works for Phases 1 and 2. Additionally, a framework agreement was signed with a consortium of Tunisian investors to develop the mall within Phase 1. The final agreement is to be concluded in the 1st quarter 2018 with works commencing a year later.

The 'Gateway to Morocco' project also pushed ahead in 2017. Although the Investment Agreement is still pending with the Ministerial Committee, tenders for Phase 1 construction works have been developed and prices received from four well-known contractors. Additionally, building permit applications have been submitted to the local authorities.

The Mumbai Economic Development Zone (MEDZ) took notable steps forward in 2017. The Wadhwa Group, has started site preparation works, which are in progress. This includes the associated roads for the township. Permissions have also been obtained from the Railways Department for construction of a rail-underbridge, which ensures connectivity to the National Highway with work under progress on the same. The project is expected to be launched for sales in 2018. The Adani Group, the joint development partner, has received initial planning approvals, and is in process to clear local government regulations for planning permission on the site.

Distributions to Fund Investors

Throughout 2017, GFH delivered record distributions and dividend payments to investors in line with the Group's progressive dividend policy. Dividends amounting to US$ 21.52 million was paid across all our managed investments to our investors. GFH also focused on exits during the period, and accordingly achieved a record exit during the year, amounting to US$ 1.2 billion from various projects.

Debts and Liabilities

In 2017, the Group continued to strengthen its financial position, taking further steps to optimize overall financing liabilities in order to improve liquidity, enhance the balance sheet and raise its overall investment ratings and risk profile. Due to GFH's strong execution and performance, the Group's credit rating was improved during the year with Fitch upgrading GFH to "B" with a positive outlook, based on the strengthening of GFH capital position and the reduction of associated legacy uncertainties.

Related Parties

During the year, we have worked with our directors, partners and associates in several projects and transactions that are listed in note 25 of the consolidated financial statements.

Conclusion

In line with these results and the Group's progressive dividend policy, we are happy to announce the Board's recommendation for the distribution of a 8.7% cash dividend (US$85 million) to shareholders, subject to approval at the General Assembly and by our regulators. The Group's continued strong shareholder returns underscores our commitment to delivering value on which we will remained focused throughout 2018. We enter 2018 better positioned than ever to continue to invest, grow and prosper across the Group. As we go forward, I would like to take this opportunity to acknowledge the hard work and deep dedication of GFH's management team and staff to ensuring the success of the Group and our ability to continue to deliver on our promises and achieve new heights year after year.

We remain highly confident of what the future holds for GFH and of the strong value and returns that we will continue to bring to our shareholders, partners and investors. We look forward to keeping you apprised of our activities, progress and anticipated successes in the months and year ahead.

I would also like to extend our great appreciation to our shareholders and investors. It is their belief in GFH that serves as our foundations and allows us to go from strength to strength. Likewise, we are extremely grateful for the continued support and guidance provided to us throughout the year by the Central Bank of Bahrain, the Government of the Kingdom of Bahrain and our visionary leaders: His Royal Majesty King Hamad bin Isa Al Khalifa, His Royal Highness the Prime Minister Prince Khalifa bin Salman Al Khalifa and His Royal Highness the Crown Prince and Deputy Supreme Commander Prince Salman bin Hamad Al Khalifa.

We remain highly confident of what the future holds for GFH and of the strong value and returns that we will continue to bring to our shareholders, partners and investors. We look forward to keeping you apprised of our activities, progress and anticipated successes in the months and year ahead.

Sincerely,

Shaikh Ahmed Bin Khalifa Al Khalifa
Chairman

GFH's Financial Group is headquartered in its successfully completed Bahrain Financial Harbour project. This prime downtown location plays host to two new developments in GFH's portfolio including The Harbour Row (Below)

GFH's Business Activities are united by their diversity and growth potential

GFH is 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'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. Here following are the details of GFH's diverse business activities:

Commercial Banking

Khaleeji Commercial Bank BSC (KHCB) is a Retail Bank, headquartered in the Kingdom of Bahrain, and operating under a Retail Banking license granted by the Central Bank of Bahrain (CBB). KHCB was established in 2004 by GFH and is now a Public Bahraini Shareholding Company listed on the Bahrain Stock Exchange as well as being cross-listed on the Dubai Financial Market during 2017, with a current paid up capital of BD 105m. 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, retail banking, wealth management, project financing facilities. GFH currently owns 55.41% of KHCB.

Asset Management

The Asset Management 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 Asset Management Team currently include:

- Two US Industrial Portfolios, US
- Diversified US Residential Portfolio, US
- Event Mall, Jeddah
- US Data Centre
- Diversified US Office Portfolio

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.

Private Equity

The Private Equity ("PE") 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 PE Team works with investee companies and their management teams to fully realise and maximise future returns. 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 PE Team include:

- AMA International University, Bahrain
- The Sheffield Private School, Dubai
- Philadelphia Private School, Dubai
- Falcon Cement Company, Bahrain
- Bahrain Aluminium Extrusion Company, Bahrain

Real Estate Development

The Group is targeting expanding its operations and income from the existing and potential infrastructure developments and leisure designated plots and developing and managing income generating hospitality assets in the GCC region, North Africa and Asia.

GFH Infrastructure Development & Hospitality:

The group had historically 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 Parks Marrakech
- Energy City Qatar
- GFH Mumbai Economic Development Zone
- Tunis Financial Harbour
- Bahrain Financial Harbour

GFH Properties:

The Group has a rich land bank for development. Through GFH Properties the Group sought the development of its existing land bank in order to further stimulate value creation and generate healthy returns from its existing real estate portfolio. With that it further implements its strategy to develop high growth, diversified real estate investment, and development portfolio. GFH actively seeks unique opportunities to create landmark projects and through its specialised arm, GFH will encompass project development, project & facility management, project advisory, managing and developing income generating portfolios, and other specialised services. GFH Properties is building on the Group's legacy and presence in the real estate market by first launching the projects listed blow and with the aspiration to expand and develop further.

- Harbour Row, Bahrain
- California Residences, Dubai
- The Harbour Walk

Wealth Management

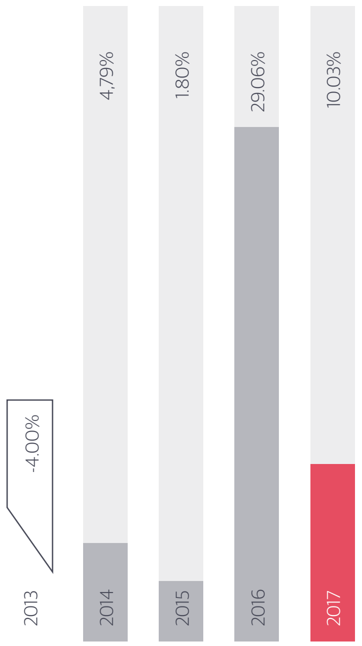
The banks' core offerings have centred largely on its wealth management capabilities.

The bank seeks to create sustained portfolio growth for its clients by first understanding the specific risk profile that best meets the aspirations of the investor.

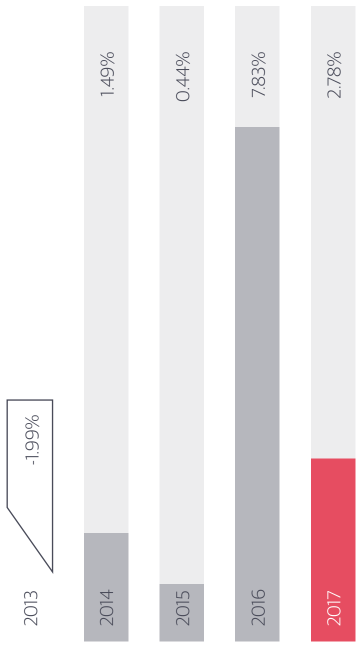
With a valued client base of loyal high net worth individuals and institutional investors, GFH is one of the recognized leaders in the region for fund raising and Sharia compliant investment offerings. GFH's pioneering and innovative approach to market opportunities and to tailored Islamic compliant 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.

Our growth is reflected throughout our Financial Prosperity

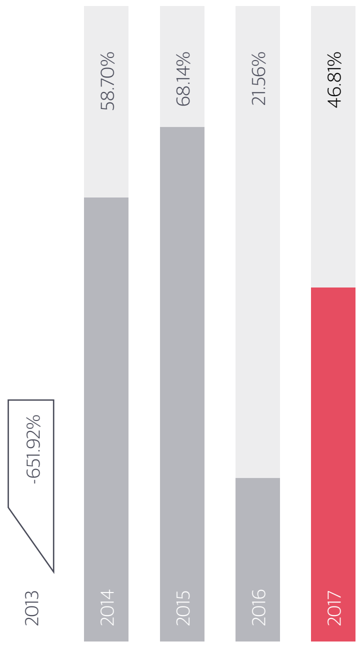
GFH has focused on yielding real estate assets as part of its new business strategy and has launched new transactions over the past 5 years with total deal values of approximately US$1 billion.



Return on Ave Equity#



Return on Ave Assets



Cost to Income*

Cost does not include impairment allowances. Income is net of Finance Expenses.

 # Profit/Average Total Equity.

Note: 2016 includes income from settlement of litigations of US$465 million.

Executive Management Report

GFH started 2017 with a new three year strategy of significant growth across all our existing business lines, both organically and inorganically. GFH results for 2017 show solid execution from GFH management, especially considering the challenging macroeconomic environment.

Financial Review

In 2017, GFH recorded a consolidated net profit of US$ 103.2m for the year, compared to a net profit of US$ 233.1m in 2016. The net profit attributable to shareholders is US$104.2m as compared to a net profit of US$ 217.1m in 2016.

GFH recorded a total consolidated income of US$ 211.6m for the year, compared to US$ 578.96m in 2016. Excluding one off income from settlement of litigation of US$ 464.57m in 2016, GFH income for 2017 showed an increase of 85% year on year. Total income in 2017 was higher primarily because of increased income from our Commercial Banking and Investment Banking businesses. GFH total consolidated expenses for the year amounted to US$ 99.1m as compared to US$ 124.79 for last year. The expenses for 2016 were higher because of higher legal and diligence expenses incurred on the one off recoveries done in 2016. Profit before impairment was US$ 105.3m in 2017, as compared to US$ 454.15m in 2016.

GFH reported a capital adequacy ratio (CAR) of 17.36% for December 2017 as compared to 23.77% in December 2016. The drop in capital adequacy is because of higher single exposures towards few real estate assets, which were acquired during the year in 2017 and are explained in detail herein below.

Operational Review

At GFH Capital Limited, our Investment banking business of private equity and asset management grew during the year, with assets under management increasing to US$ 2.27bn in 2017 from US$ 2.17bn in 2016. During the year 2017, we successfully completed fund raising for a number of projects, namely a structured finance transaction of US$ 60m of AMA International University, Bahrain; US$ 48m for US Data Centres; US$ 100m for ADcorp, jointly with Abu Dhabi Financial Group. GFH focused on US commercial real estate assets in the fourth quarter and have started fund raising for a US$ 60m portfolio of assets and at the same time also underwritten another for US$ 50m trophy asset in Chicago suburban commercial property market. GFH has exclusivity for a few unique transactions which it will bring for its investors to co-invest in early 2018.

20 billion

GFH Financial Group had historically successfully launched a number of key infrastructure projects across the MENASA region with a total estimated development value of over US$ 20 billion.

2017 has been a record year for GFH, as the Group has achieved exits amounting to $1.5 billion, including exiting investors from projects in India, Tunis, Morocco and the US.

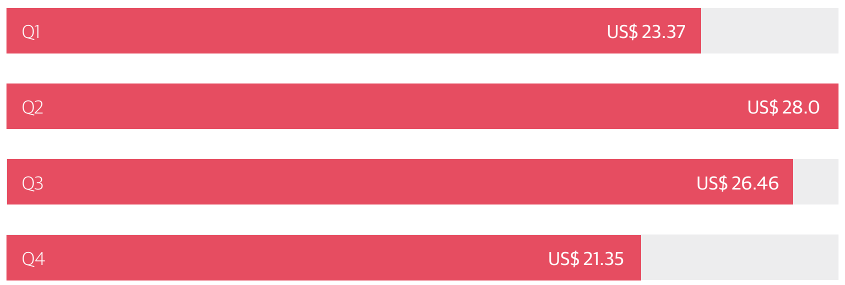
As part of its strategy, GFH has focused on profitable exits for various investments owned directly by GFH as well as clients. This has been a record year as GFH has achieved exits amounting to US$1.5bn in the year, including exiting investors from projects in India, Tunis and Morocco. In addition, GFH exited its clients from Diversified US Residential portfolio and provided investors an IRR of 11%. Also, GFH has sold the British School of Bahrain to Inspired UK, a leading chain of international schools.

KHCB, our commercial banking subsidiary continued to expand in Bahrain, with 11 branches in Bahrain. KHCB reported a modest 2.7% growth in total assets from US$ 2.02bn to US$ 2.08bn currently. Given the challenging environment for commercial banking in Bahrain, KHCB reported a net profit of US$ 2.9m in 2017, as compared to US$ 14.1m in 2016.

GFH Properties was launched in 2016 as a dedicated entity that is now engaged in a range of real estate project development and management activities. Significant milestones were reached during 2017, with work on in full swing at our US$ 700m Villamar project, US$ 150m Harbour Row project in Bahrain and US$ 300m California Village project in Dubai, UAE. Tower B of Villamar project is expected to be completed by end 2018, with Harbour Row & Dubailand projects nearing completion in end 2019. Progress has been made with our projects in Tunisia and India with our joint venture partners, with sales expected to start in 2018 and Morocco project progressing on receiving the regulatory approvals.

Our ability to effectively navigate turbulent circumstances while continuing to identify promising opportunities is deeply embedded into the GFH brand. Our strategic approach to developing and executing value creation is sharply focussed on opportunities with inheirant diversity.

Operational Cost 2017 - US$ Million



Continuing Aims

With the launch of our new strategy for 2018, GFH is looking to expand aggressively in our existing businesses, by increasing business volumes across all business lines. Additionally, GFH will look to expand inorganically by way of acquisitions in financial services industry.

GFH's insightful investment opportunities include the entrance to a very attractive market for data centres in the USA. This exposure to such a yielding portfolio has given investors the chance to become part of an industry that is in high demand exhibiting immense growth locally and globally.

GFH strives to achieve the highest levels of transparency, accountability and management by adopting and executing the strategy, goals, policies that are aimed at complying with the Bank's regulatory and supervisory responsibilities.

Diverse governance and careful oversight ensures full compliance

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 Financial Group BSC ("GFH") is an Islamic investment bank that was established in the Kingdom of Bahrain in 1999. GFH 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, infrastructure, in addition to structured finance, securities and liquidity management designed to achieve profitable returns for investors.

GFH Financial Group was transferred to a Public Shareholding Company in 2004 with its shares being listed on the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market. 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 (BCCL) 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 (CBB) and the Bahrain Bourse ("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 through providing a suitable framework for the Board of Directors, board committees and management committee 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, policies that are aimed at complying with the Bank's regulatory and supervisory responsibilities.

The Board of Directors are accountable to 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.

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

In 2017, 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, GFH 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 (ARC)' because this merger poses no conflict of interest.
- The Nomination Committee, Remuneration Committee and the Corporate Governance Committee are merged accordingly to form one committee called the 'Nomination, Remuneration & Governance Committee (NRGC)' because the merger poses no conflict of interest. The arrangement is in line with the rule HC-1.8.5.
- The NRGC committee does not includes a Sharia Scholar (a member of Sharia Supervisory Board) as required under guidance note HC-9.2.4 (b).
- As per guidance note HC-5.3.2, majority of the NRGC members should be independent directors, however, the NRGC committee was comprised of two independent directors and two non-executive directors. Nonetheless, the Chairman of NRGC is an independent director as per rule HC-4.2.2.
- Two of the Board Members, 'Mr. Kamal Bahamdan' and 'Mr. Bashar Al Mutawa', were not able to attend the minimum of 75% of the Board Meetings as per rule HC-1.3.4. Mr. Bahamdan attended 3/5 or 60% and Mr. Al Mutawa attended 4/6 or 67% of the board meeting respectively; since both members had been travelling (abroad) during the convene of the Board meetings.

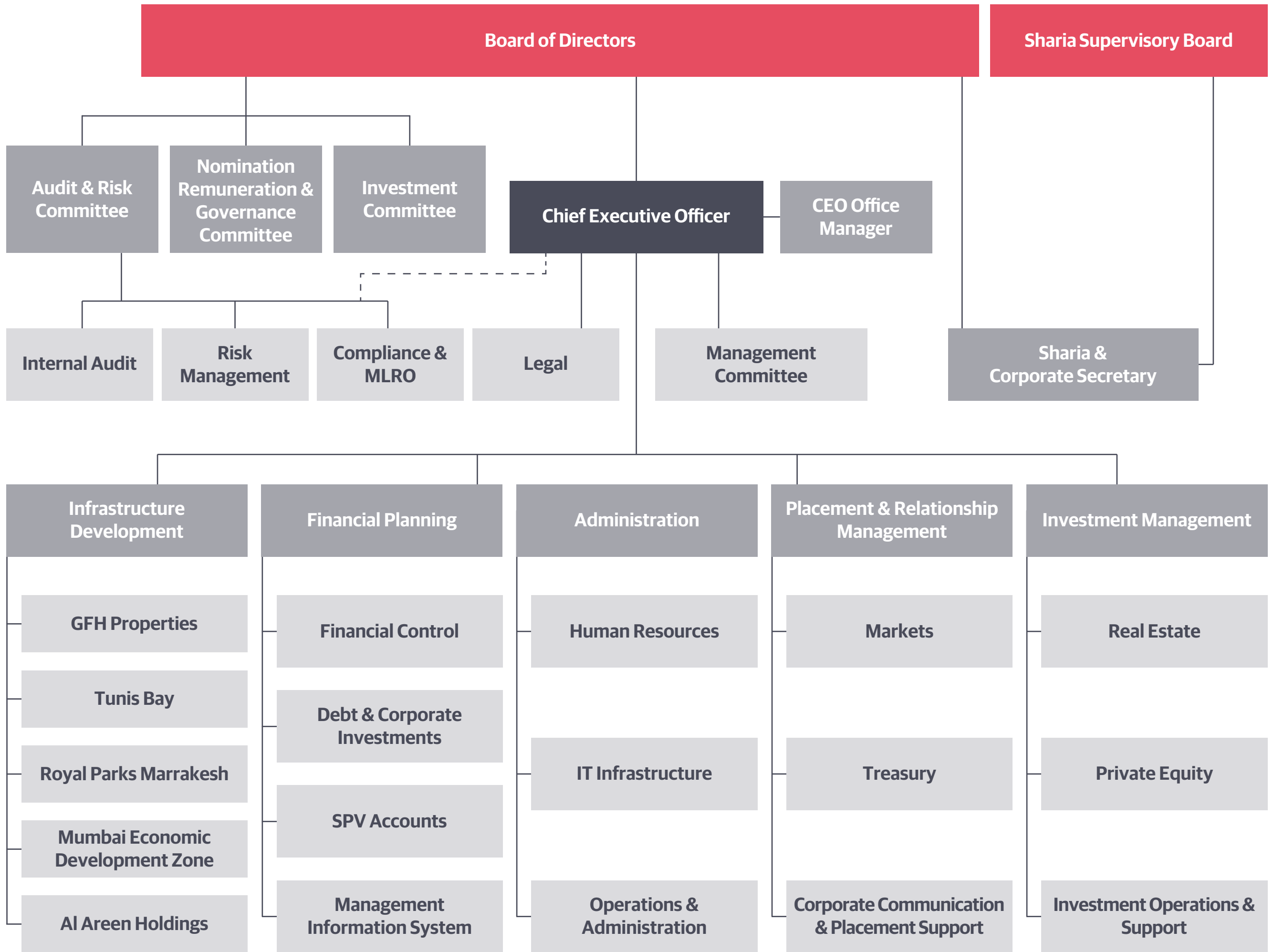
Changes to the Board within Q1-2018:

The Board of Directors in its meeting held on the 25th February 2018, resolved the re-composition of GFH's Board and the Board Committees. Accordingly, in line with rule HC-A.1.8 and HC-8.2.1 (c), we wish to clarify the following to the shareholders:

- The Chairman of the Board is an Executive Director, in contrary to rule HC 1.4.8.
- Similar to year 2017:
  - The Risk Committee has been merged with the Audit Committee to form one committee called the 'Audit and Risk Committee (ARC)' because this merger poses no conflict of interest; the arrangement is in line with the rule HC-1.8.5.
  - The Nomination Committee, Remuneration Committee and the Corporate Governance Committee have been merged accordingly to form one committee called the 'Nomination, Remuneration & Governance Committee (NRGC)' because the merger poses no conflict of interest; the arrangement is in line with the rule HC-1.8.5.
  - The NRGC committee does not include a Sharia Scholar (a member of Sharia Supervisory Board) as required under guidance note HC-9.2.4 (b).
  - The rule HC-4.2.2 and guidance note HC-5.3.2, requires majority of the NRGC members to be independent directors, while the NRGC is comprised of two independent directors and two non-executive directors.
- The Board has considered and approved the above arrangements for the remaining term of the Board.

Corporate Governance (contd.)

Organisational Structure



*Notes: *MANCOM consists of the following Members: CEO, Head of Investment Management, Chief Administrative Officer, Chief Financial Officer, Head of Risk Management and Chief Placement Officer.*

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 Directors' 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 regulations 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 2017, the shareholders Register shows that there are 8,344 shareholders who own 3,681,650,441 shares at a nominal value of US$ 0.265 per share, as follows:

Nationality	No. of Shareholders	No. of Shares	% of outstanding shares
Bahraini	577	227,393,824	6.176
Kuwaiti	3,468	429,857,009	11.676
Omani	48	49,844,590	1.354
Qatari	82	62,169,138	1.689
Saudi	314	264,875,477	7.194
Emirati	1,941	2,224,414,505	60.419
Others	1,914	423,095,898	11.492
Total	**8,344**	**3,681,650,441**	**100**

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 31st December 2017:

Particulars	No. of Shareholders	No. of Shares	% of outstanding shares
Less than 1%	8,332	2,656,254,008	72.149
1% to less than 5%	11	730,518,683	19.842
5% to less than 10%	1	294,877,750	8.009
10% to less than 20%	0	–	–
20% to less than 50%	0	–	–
Total	**8,344**	**3,681,650,441**	**100.000**

A.3. Names of shareholders who own 5% or more:
As of 31st December 2017, the ownership of 'Integrated Capital P.J.S.C.' (a UAE based investment firm) was 8.009% (294,877,750 shares) of the total outstanding shares of GFH.

Note: As of 31st January 2018, the ownership of Integrated Capital P.J.S.C. was reduced to 4.302% (158,377,750 shares).

Corporate Governance
(contd.)

B. GFH Board of Directors and the Executive Management

B.1. Formation of the Board of Directors

At the AGM of year 2016 held on the 1st March 2017, the Board was reconstituted and accordingly the following ten members were elected/re-elected for the next three years period i.e., 2017-2020.

I.	Dr. Ahmed Khalil Al Mutawa	(Re-elected, Independent Director)
II.	Mr. Mosabah Saif Al Mutairy	(Re-elected, Non-Executive Director)
III.	Mr. Bashar Mohammed Al Mutawa	(Re-elected, Non-Executive Director)
IV.	Mr. Hisham Ahmed Alrayes	(Re-elected, Executive Director)
V.	Mr. Jassim Mohammed Al Seddiqi	(Re-elected, Executive Director)
VI.	Sh. Ahmed Khalifa Salman Al Khalifa	(New Elected, Independent Director)
VII.	Mr. Kamal Bahamdan	(New Elected, Independent Director)
VIII.	Mr. Mazen Al Saeed	(New Elected, Independent Director)
IX.	Mr. Rashid Al Kaabi	(New Elected, Non-Executive Director)
X.	Mr. Ghazi Al Hajeri	(New Elected, Independent Director)

The following five members served the Board until the first 2 months of 2017, and completed their tenor on 28th February 2017:

I.	Mr. Faisal Abdulla Fouad Abubshait	(Independent Director)
II.	Mr. Yousef Ibrahim Al Ghanim	(Independent Director)
III.	Dr. Khalid Mohammed Al Khazraji	(Independent Director)
IV.	Sh. Mohammed Bin Duaij Al Khalifa	(Independent Director)
V.	Mr. Mohamed Ali Taleb	(Independent Director)

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 2017 the Board was comprised of 'five' 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 GFH 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 GFH's business strategy. Additionally The Board is also responsible for risk management of the Group and Corporate Governance issues, as well the preparation of consolidated financial statements in accordance with AAOIFI and BCCL. 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 GFH, 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 GFH. 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 31st December 2017:

Classification of members	No.	% of Representation
Independent	5	50%
Non-Executive	3	30%
Executive	2	20%
Total	**10**	**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.

Corporate Governance (contd.)

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. However, as at 31st December 2017, no shareholder was holding more than 10% of GFH's total outstanding shares.

B.7. System for Election and Termination of Directors

The system for the election and termination of Directors is governed by the Bahrain Commercial Companies Law and GFH's Articles of Association (Articles 34, 39 & 48).

As per the contract signed with the Directors, GFH may terminate the Director's appointment with immediate effect if the Director has:

1. Committed any serious or repeated breach or non-observance of his obligations to GFH (which includes an obligation not to breach any fiduciary duties) including those arising under this agreement; or
2. Been guilty of any fraud or dishonesty or acted in any manner which, in the opinion of GFH, brings or is likely to bring the Director or GFH into disrepute or is materially adverse to the interests of GFH; or
3. Been declared bankrupt or have made an arrangement with or for the benefit of his creditors, or any similar or analogous act or event; or
4. Been disqualified from acting as a director for any reason; or
5. Been absent without a valid reason for more than four (4) consecutive board meetings; or

Furthermore, in line with the Article 179 of Bahrain's Commercial Companies Law and Article 31 of GFH's Articles of Association, in case of vacancy for one or more Board members, the Board shall elect by a secret ballot or otherwise, a substitute amongst certain number of candidates, proposed by at least two Board members until the first General Meeting is held.

B.8. 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 31st December 2017:

Name and position of Board member	Date of first appointment in BOD/ Re-appointment	Independent/ Non-Executive/ Executive	Representation	Date of resignation/ Term completed	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/ Mar 2017	Independent	NA	Feb 2018	5	2	1	1
Mosabah Saif Al Mutairy (Vice- Chairman)	March 2009/ Mar 2017	Non-Executive	NA	NA	9	1	1	1
Bashar Mohammed Al Mutawa	April 2013/ Mar 2017	Non-Executive	NA	NA	8	8	1	1
Hisham Ahmed Alrayes	April 2016/ Mar 2017	Executive	NA	NA	11	11	1	1
Jassim Mohammed Al Seddiqi	April 2016/ Mar 2017	Executive	NA	NA	7	–	–	1
Sh. Ahmed Khalifa Al Khalifa	Mar 2017	Independent	NA	NA	1	–	1	1
Kamal Bahamdan	Mar 2017	Independent	NA	NA	15	–	–	1
Mazen Al Saeed	Mar 2017	Independent	NA	NA	9	–	–	1
Rashid Al Kaabi	Mar 2017	Non-Executive	NA	NA	4	–	–	1
Ghazi Al Hajeri	Mar 2017	Independent	NA	NA	–	–	–	2
Sh. Mohammed Duaij Al Khalifa	April 2013	Independent	NA	Feb 2017	1	1	–	1
Dr. Khalid Mohd Al Khazraji	April 2013	Independent	NA	Feb 2017	3	–	–	1
Mohammed A. Talib	April 2013	Independent	NA	Feb 2017	–	–	–	1
Yousef Ibrahim Al Ghanim	April 2014	Independent	NA	Feb 2017	2	–	1	1
Faisal Abdulla Fouad Abubshait	April 2014	Independent	NA	Feb 2017	21	–	–	1

Note: None of the Independent Director had any financial relationship or dealings with GFH Financial Group, with the exception of the relationship arising from being a member of the Board of Directors.

Corporate Governance (contd.)

B.9. 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 GFH Financial Group, as at 31st December 2017 compared to that of 31st December 2016:

Member's name	Shares owned as at 31st December 2016	Shares owned as at 31st December 2017	Percentage of ownership as at 31st December 2017
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
Jassim Mohammed Al Seddiqi	NIL	50,000	0.00135%
Hisham Ahmed Alrayes	4,040	4,444	0.00012%
Sh. Ahmed Khalifa Al Khalifa	NIL	NIL	N/A
Kamal Bahamdan	NIL	NIL	N/A
Mazen Al Saeed	NIL	NIL	N/A
Ghazi Al Hajeri	NIL	NIL	N/A
Rashid Al Kaabi	NIL	NIL	N/A
Total	**4,040**	**54,444**	**0.00147%**

B.10. Directors' and Senior Manager's trading of the Bank's shares and distribution of ownership on an individual basis during the year 2017:

Name of Board member	Total no. of shares held as at 31st Dec 2016	Transactions – within the period 1st Jan – 31st Dec 2017			Total no. of shares held as at 31st Dec 2017	% of Ownership
		Bought	Sold	Transfer/ Bonus Share		
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	–	–	–	–	–	–
Jassim Mohammed Al Seddiqi	–	2,000,000	1,950,000	–	50,000	0.00135
Hisham Ahmed Alrayes	4,040	–	–	404	4,444	0.00012
Sh. Ahmed Khalifa Al Khalifa	–	–	–	–	–	–
Kamal Bahamdan	–	–	–	–	–	–
Mazen Al Saeed	–	–	–	–	–	–
Ghazi Al Hajeri	–	–	–	–	–	–
Rashid Al Kaabi	–	–	–	–	–	–

Name of Management Committee Member	Total no. of shares held as at 31st Dec 2016	Transactions – within the period 1st Jan – 31st Dec 2017			Total no. of shares held as at 31st Dec 2017	% of Ownership
		Bought	Sold	Transfer/ Bonus Share		
Hisham Ahmed N. A. Alrayes	4,040	–	–	404	4,444	0.00012
Ajay Shivram Subramanian	877	–	–	87	964	0.00003
Chandan Gupta	–	–	–	–	–	–
Luay Ahmadi	–	–	–	–	–	–
Mohammed Amin Ahmed Ali Hassan	–	–	–	–	–	–
Hammad Younis	–	–	–	–	–	–

Corporate Governance (contd.)

B.11. Meetings of the Board of Director during the year 2017

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 six (6) meetings during 2017. The AGM was held on 1st March 2017.

In addition to official meetings, a number of urgent resolutions were also passed by circulation in 2017 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 2017 are as follows:

I. 5th February 2017
II. 16th March 2017
III. 2nd May 2017
IV. 13th August 2017
V. 25th September 2017
VI. 12th November 2017

Date & location of meeting	Names of Directors present	Names of Directors who participated by phone/video link	Names of Directors not present
Date: 5th February 2017 **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	1. Dr Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Mohammed Ali Taleb 4. Sh Mohamed Duaij Al Khalifa 5. Bashar Mohamed Al Mutawa 6. Jassim Mohammed Al Seddiqi 7. Hisham Ahmed Alrayes	Yousef Ebrahim Al Ghanim	1. Dr Khalid Mohamed Al Khazraji 2. Faisal Abdulla Abubshait
Date: 16th March 2017 **Location:** Four Seasons Hotel, Maria Island, Abu Dhabi, UAE	1. Dr Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Jassim Mohammed Al Seddiqi 4. Hisham Ahmed Alrayes 5. Sh. Ahmed Khalifa Al Khalifa 6. Kamal Bahamdan 7. Mazen Al Saeed 8. Rashid Al Kaabi 9. Bashar Mohamed Al Mutawa	Ghazi Al Hajeri	
Date: 2nd May 2017 **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	1. Dr Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Jassim Mohammed Al Seddiqi 4. Hisham Ahmed Alrayes 5. Sh. Ahmed Khalifa Al Khalifa 6. Kamal Bahamdan 7. Mazen Al Saeed 8. Ghazi Al Hajeri 9. Rashid Al Kaabi		Bashar Mohamed Al Mutawa
Date: 13th August 2017 **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain		1. Dr Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Jassim Mohammed Al Seddiqi 4. Hisham Ahmed Alrayes 5. Sh. Ahmed Khalifa Al Khalifa 6. Mazen Al Saeed 7. Ghazi Al Hajeri 8. Rashid Al Kaabi 9. Bashar Mohamed Al Mutawa	Kamal Bahamdan
Date: 25th September 2017 **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	1. Dr Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Jassim Mohammed Al Seddiqi 4. Hisham Ahmed Alrayes 5. Sh. Ahmed Khalifa Al Khalifa 6. Kamal Bahamdan 7. Mazen Al Saeed 8. Ghazi Al Hajeri 9. Rashid Al Kaabi		Bashar Mohamed Al Mutawa
Date: 12th November 2017 **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	1. Dr Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Jassim Mohammed Al Seddiqi 4. Hisham Ahmed Alrayes 5. Sh. Ahmed Khalifa Al Khalifa 6. Mazen Al Saeed 7. Bashar Mohamed Al Mutawa	1. Rashid Al Kaabi 2. Ghazi Al Hajeri	Kamal Bahamdan

Note:

'Mr. Kamal Bahamdan' and 'Mr. Bashar Al Mutawa', were not able to attend the minimum of 75% of the Board Meetings as per rule HC-1.3.4.
Mr. Bahamdan attended 3/5 or 60% and Mr. Al Mutawa attended 4/6 or 67% of the board meeting respectively.

B.12. 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.

Corporate Governance (contd.)

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 2017, the Committee held five meetings which took place on 29th January, 9th February, 10th August, 13th September and 12th November 2017 respectively.

ARC meeting date & location	ARC members present	ARC members who participated by phone/video link	ARC members not present
Date: 29th January 2017 **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	Mohammed Ali Taleb	1. Sh Mohamed Duaij Al Khalifa 2. Bashar Mohamed Al Mutawa	
Date: 9th February 2017 **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	1. Mohammed Ali Taleb 2. Sh Mohamed Duaij Al Khalifa 3. Bashar Mohamed Al Mutawa		
Date: 10th August 2017 **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	Bashar Mohamed Al Mutawa	1. Dr Ahmed Khalil Al Mutawa 2. Ghazi Al Hajeri	
Date: 13th September 2017 **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	1. Dr Ahmed Khalil Al Mutawa 2. Bashar Mohamed Al Mutawa	Ghazi Al Hajeri	
Date: 12th November 2017 **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	1. Dr Ahmed Khalil Al Mutawa 2. Bashar Mohamed Al Mutawa	Ghazi Al Hajeri	

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 seven times during the fiscal year 2017 i.e., 26th February, 9th April, 9th June, 12th October, 29th November, 10th December and 27th December 2017 respectively.

BIC meeting date & location	BIC members present	BIC members who participated by phone/video link	BIC members not present
Date: 26th February 2017 **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain		1. Dr Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Yousef Ebrahim Al Ghanim	
Date: 9th April 2017 **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain		1. Sh. Ahmed Khalifa Al Khalifa 2. Jassim Mohammed Al Seddiqi 3. Hisham Ahmed Alrayes 4. Mazen Al Saeed	
Date: 9th June 2017 **Location:** Four Seasons Hotel, Bahrain Bay Manama, Kingdom of Bahrain	1. Sh. Ahmed Khalifa Al Khalifa 2. Jassim Mohammed Al Seddiqi 3. Hisham Ahmed Alrayes 4. Mazen Al Saeed		
Date: 12th October 2017 **Location:** GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain		1. Sh. Ahmed Khalifa Al Khalifa 2. Jassim Mohammed Al Seddiqi 3. Hisham Ahmed Alrayes 4. Mazen Al Saeed	
Date: 29th November 2017 **Location:** GFH Capital Ltd 402, Level 4 Precinct Building 3, Gate District, Dubai International Financial Centre, Dubai, UAE	1. Sh. Ahmed Khalifa Al Khalifa 2. Hisham Ahmed Alrayes 3. Mazen Al Saeed		
Date: 10th December 2017 **Location:** GFH Capital Ltd 402, Level 4 Precinct Building 3, Gate District, Dubai International Financial Centre, Dubai, UAE	1. Sh. Ahmed Khalifa Al Khalifa 2. Hisham Ahmed Alrayes 3. Mazen Al Saeed		
Date: 27th December 2017 **Location:** GFH Capital Ltd 402, Level 4 Precinct Building 3, Gate District Dubai International Financial Centre, Dubai, UAE		1. Sh. Ahmed Khalifa Al Khalifa 2. Hisham Ahmed Alrayes 3. Mazen Al Saeed	

Corporate Governance (contd.)

C. 3. Nomination, Remuneration & Governance Committee

The Nomination, Remuneration & Governance Committee ("NRGC") 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 GFH Financial Group.

The Committee must meet at least two times a year. The Committee met four times during the fiscal year 2017 i.e. 5th February, 23rd February, 25th September and 12th November 2017 respectively.

NRGC meeting date & location	NRGC members present	NRGC members who participated by phone/video link	NRGC members not present
Date: 5th February 2017 Location: GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	1. Dr Khalid Mohamed Al Khazraji 2. Bashar Mohamed Al Mutawa		Faisal Abdulla Abubshait
Date: 23rd February 2017 Location: GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	1. Dr Khalid Mohamed Al Khazraji 2. Bashar Mohamed Al Mutawa		Faisal Abdulla Abubshait
Date: 25th September 2017 Location: GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	1. Kamal Bahamdan 2. Mosabah Saif Al Mutairy 3. Ghazi Al Hajeri	Rashid Al Kaabi	
Date: 12th November 2017 Location: GFH Financial Group Bahrain Financial Harbour East Tower 37th Floor, Manama, Kingdom of Bahrain	Mosabah Saif Al Mutairy	1. Ghazi Al Hajeri 2. Rashid Al Kaabi	Kamal Bahamdan

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

Details will 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. Remuneration of the Board of Directors and Executive Management

Remuneration of the Board of Directors 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 Directors' 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 2017, the Board was paid fees as stated in note 25 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 25 (Key management personnel) of the consolidated financial statements for details of the remuneration to Board of Directors and Executive Management.

During 2017, the total remuneration paid to Sharia Supervisory Board was US$ 139,000/-.

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 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, requirement for the completion of professional development trainings and other details which the members have to abide by during their tenure of being member of the Board.

Corporate Governance (contd.)

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. 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 Requiring Board Approval

As part of their central leadership and designated authority, the Board of Directors discuss and approve matters pertaining to Strategic Planning, Business Plan, Policies and Procedures, Annual Report, Financial Statements, Appointment of External Auditors and Strategic Partnerships. Furthermore, other matters such as strategic decisions, investment fund proposals, provisions and write-off limits or credit and exposure limits may require the Board's approval as per the internal designated authority limits.

E.5. Transactions with Related Parties

Details of transactions with related parties are indicated in detail in Note 25 of the consolidated financial statements for the fiscal year ended 31st December, 2017.

E.6. 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 counter-parties 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.

Corporate Governance (contd.)

E.7. Ownership of shares by government entities
None of the government entities holds shares of GFH.

E.8. 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 organisation 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.9. GFH's Client Charter
In line with the CBB requirements, GFH has developed a client's charter which outlines the commitments made by GFH in respect of the quality of services and products delivered to its clients and shareholders. The client's charter, which is available on the bank's website, is an assurance that services provided by the Bank will comply with quality standards. Generally, quality standards are standards that will fulfil clients' and shareholders' needs and expectations.

The client charter also incorporates GFH's Complaints handling procedures and encourages the clients and its shareholders to report any alleged wrongful conduct, malpractice or an improper/ unethical behaviour of an employee of the bank.

E.9.1. Dealing with Complaints
GFH is committed to providing its clients with the highest standard of service. However, should a client complain because he/she feels GFH has failed to deliver what it has promised, GFH will do everything possible to ensure that such a complaint is dealt with fairly, promptly and effectively. The information provided here will show you how to:

i. Make a complaint.
ii. Escalate if you are not satisfied with the response provided by GFH in response to your complaint.
iii. Take further action if you are still dissatisfied with the outcome.

- *Mechanism for submitting Complaints:*
  The complaint must be in writing and should be addressed to the Investors' Relations Department and must be marked to the GFH's Complaint Handling Officer.

  In compliance with the directives of the Central Bank of Bahrain, GFH has appointed a Complaints Handling Officer, who is responsible for ensuring that the client complaint is acknowledged, properly investigated, and that the Bank's response is adequately communicated to the client.

- *Options for submitting Complaint:*
  a) Hand delivery to GFH's Office (reception) located at 28th Floor, East Tower, Bahrain Financial Harbour, Manama
  b) Via Fax to the following number +973 17 540006
  c) Courier or post to the following address:

     Compliant Handling Officer
     GFH Financial Group B.S.C.,
     28th Floor, East Tower, Bahrain Financial Harbour,
     PO Box 10006, Manama, Kingdom of Bahrain

  d) Or scan and email the written complaint to: iservice@gfh.com

- *What happens once your complaint is submitted?*
  a) Once a client complaint has been submitted, we will acknowledge within three (3) business days.
  b) The client complaint will be referred to the concerned person/department which will investigate it thoroughly and a written response detailing the outcome of our investigation and our decision shall be provided within four (4) weeks of receiving the complaint.
     In the unlikely event that the complaint is not answered within the time-frame mentioned in point (b), we will write the reasons why there has been a delay and the additional action that we will take including when we anticipate to have concluded our investigation.
  c) In an event that the complaint is not resolved or that the client is not satisfied with the solution provided by us, he/she has the right to escalate the complaint to the 'Compliance Director' of GFH. The escalation will be acknowledged as per (a) above and a written answer shall be provided within four (4) weeks from the date of escalation.
  d) After receiving the final response to the escalated complaint, and if the client is still not satisfied, he/she can write directly to the Compliance Directorate of the Central Bank of Bahrain or he/she can submit the case through the "Complaint form" available on the Central Bank of Bahrain website www.cbb.gov.bh, within 30 calendar days from the date of receipt of our final response.

Corporate Governance (contd.)

E.9.2. Whistle-blowing

- *Report an Incident*

  If the client have observed any alleged wrongful conduct, malpractice or an improper/ unethical behaviour of an employee of the bank, he/ she is encouraged to report the incident to the Bank through the following means:

  - Report to 'Sr. Compliance Director' or 'Head of Internal Audit' by sending an email at whistleblow@gfh.com; alternatively, send a letter by post at the below address:

    Sr. Compliance Director/Head of Internal Audit
    GFH Financial Group B.S.C, 29th Floor, East Tower
    Bahrain Financial Harbour, P.O. Box 10006,
    Manama, Kingdom of Bahrain

- *Protection Rights for Whistleblowers*
  a) GFH is committed to the protection of Whistleblowers against potential actions that may be taken in reprisal for making the protected disclosure.
  b) The Whistleblower's identity, the nature of the report, and the suspected person's identity are strictly confidential.
  c) Retaliation against an individual, who in good faith, had made a complaint, disclosed information relating to a complaint or otherwise participated in an investigation relating to a complaint is prohibited regardless of the outcome of the investigation.
  d) The Board Audit & Risk Committee of the bank will be responsible to assess the incident reported and will decide the course of action.

E.10. Details of penalties paid

In 2017, financial penalties amounting Bahraini Dinar ("BD") 32,000 were imposed by the Central Bank of Bahrain, due to late submission of different date sensitive reports/ publications.

E.11. Systems and controls for compliance with Sharia and AAOIFI standards

In pursuance with the provisions of its Articles of Association, GFH Financial Group 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 Organisation for Islamic Financial Institutions (AAOIFI).
7. Ensuring that all the products and the structures thereof are in compliance with AAOIFI's standards.

For earnings prohibited by Sharia, please refer note 2(x) and note 29 of the consolidated financial statements for the fiscal year ended 31st December 2017.

E.12. Board Code of Conduct

The Board has approved a code of conduct for all staff of the Bank and the Board members. The Code includes guidance on dealing with conflict of interests, insider trading, key person dealing, receiving gifts, system & controls framework, confidentiality etc. It also binds the Directors, Executive Management and staff to the highest standard of professionalism and diligence on discharging their duties. All Board members and senior management of the Bank have affirmed compliance with the Code of Conduct. Board members are excluded from dealings in matters related to an external entity where they hold an appointment at that entity. Any discovered breaches with the code are reported to the Board NRGC by the Corporate Secretary, Compliance Officer or the Head of Human Resources. The Board NRGC is responsible to take the necessary actions.

E.13. Board Conflict of Interest

Any conflict of interest that might arise from the board members is governed by the Board Conflict of Interest Policy. Each board member is required to annually disclose any potential conflict of interest that might arise during the term of their membership. Any transaction that has occurred during their term as a board member must be disclosed to the board through the Board of Conflict Form. Any conflict of interest arising from any board member must be ratified by the board, and the respective board member will be refrained from voting on that matter.

E.14. 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.

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. The variable remuneration policy helps ensure effective alignment of remuneration with prudent risk-taking by senior management in the conduct of business.

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 and Remuneration Committee of the Board (NRGC).

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

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 summarized 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:

a) Review the remuneration policies for the approved persons and material risk-takers, which must be consistent with GFH's corporate values and strategy.

b) The committee should be responsible for retaining and overseeing outside consultants or firms for the purpose of reviewing the remuneration of approved persons and material risk-takers, administering remuneration plans, or related matters.

c) Ensure that the remuneration of approved persons and material risk-takers is sufficient enough to attracts and retain persons of the quality needed to run the bank successfully, but that bank avoids paying more than is necessary for that purpose.

d) Approve the individual remuneration amounts, packages and total compensation for each approved person and material risk-taker and make recommendations to the Board of the total variable remuneration (bonus pool) to be distributed, taking account the total remuneration, including salaries, fees, expenses, bonuses and other employee benefits.

e) Evaluate the performance of approved persons and material risk-takers in light of the bank's corporate goals, agreed strategy, objectives and business plans.

f) The committee shall be responsible to the Board for the overview of any employee benefit trust (EBT) or similar arrangements adopted for the purpose of administering the deferred incentive arrangements (including share schemes) of the Bank.

g) Ensure that variable remuneration for material risk-takers forms a substantial part of the total remuneration of approved persons and material risk-takers (other than the risk management, internal audit, operations, financial controls, internal Sharia review/audit, AML and compliance functions personnel.

h) Ensure that for approved persons in risk management, internal audit, operations, financial controls, internal Sharia review/audit, AML and compliance functions the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.

i) Ensure that the system includes effective controls including stress testing and back testing results of the remuneration policy and that the system's practical operation is regularly reviewed for compliance with regulations, internal policies and bank procedures.

j) Review remuneration outcomes, risk measurements and risk outcomes regularly for consistency with the Board's approved risk appetite, for submission for the Board for its review.

k) Review cases where any ex-ante risk adjustments are to be used to take into account severe but plausible scenarios to the variable remuneration as per the Bank's variable remuneration policy.

l) Review cases where the bonus is diminished by exercise of Malus and Clawback adjustments.

m) Question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payout.

n) Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves to not using personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment affects 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:

		Number of meetings attended 2017	
NRGC member name	**Appointment date**	**2017**	**2016**
Khalid Mohamed Al Khazraji	22 April 2014	2 out of 2	3 out of 3
Bashar Mohamed Al Mutawa	22 April 2014	2 out of 2	3 out of 3
Faisal Abdulla Abubshait	22 April 2014	None	1 out of 3
Kamal Bahamdan	25 April 2017	1 out of 2	Not Applicable
Ghazi Al Hajeri	25 April 2017	2 out of 2	Not Applicable
Mosabah Saif Al Mutairy	25 April 2017	2 out of 2	Not Applicable
Rashid Al Kaabi	25 April 2017	2 out of 2	Not Applicable

The sitting fees paid to NRGC members during the year is amounted to USD 11K (2016: USD 4K).

For details of remuneration to Board members, refer to page 77.

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.

Corporate Governance (contd.)

Board remuneration

The Bank will determine board remuneration in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that variable remuneration in any financial year (sitting fees is not part of variable remuneration) does not exceed 10% of the Bank's net profit, after all required deductions outlined in Article 188 have been made. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits. Remuneration of non-executive directors will 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. A special pool is also considered for recoveries made against any legacy investments and legal cases and is approved on a case-by-case basis by the Board of Directors.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realised 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. In exceptional cases, the approval of the NRGC shall be obtained. 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 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.

Corporate Governance
(contd.)

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 rationalise 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 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
The Bank's variable remuneration framework provides for the following key 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
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year, but released after a retention period of 6 months.
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 and an additional retention period of 6 months
Future performance awards (FPA)	The portion of variable compensation which is awarded to selected 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/ recovery incentive, where the employee or a team is compensated on the basis of a specified percentage of a sales value of an investment on successful exit or recovery of an asset.

Employee Share Ownership Loan Scheme
GFH may also implement an employee share ownership loan scheme (ESOL Scheme) from time to time to be implemented under any of the Share Incentive Scheme it develops. Such ESOL Scheme, if implemented, shall allow employees to increase their participation in GFH Shares through the utilisation of financing advanced by the Bank and the right to acquire GFH shares at the pricing determined in accordance with the ESOL Scheme. The ESOL Scheme is designed to enable eligible participants to increase their holdings of GSH shares on favourable terms but under the funding of the participants themselves.

Establishment of the Trust Instrument:
GFH has established a GFH Employee Benefit Trust instrument to hold and manage its deferred staff benefits related to the Variable Remuneration policy. The Trustees shall undertake all of the duties set out in the Bahrain Trust Law and the Trust Instrument.

Corporate Governance (contd.)

Deferred compensation

All employees earning over BD 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 or FPA	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.

Summary of key changes to the variable remuneration policy

The variable remuneration policy was first presented to the shareholders for approval on 12 April 2015. The shareholders authorised the Board of Directors to make any necessary amendments to the policy to ensure it is aligned with the requirements of the regulations and is aligned with the remuneration requirements of the Bank. Initially, an SPV was established to operate the Share Incentive Scheme. However, based on regulatory advice, a Trust structure was put in place to operate and manage the deferred incentive awards. This process was completed in 2016 and all share issuances and implementation of new policy was effected. The key changes in the variable incentive policies and its implementation were as follows:

- Establishment of employee Trust;
- Introduction of the ESOL Scheme;
- Updating the terms of the Share Incentive Scheme for types of share awards and a variable pricing mechanisms to include the ESOL and to align with the operational requirements of the Trust structure

No other significant changes were made to the policy.

Details of remuneration paid

(a) Board of Directors

US$ 000's

	2017	2015
Board member fees	4,450	2,500
Board member allowances	162	1,048
Total	**4,612**	3,548

(b) Employee remuneration

US$ 000's

Type of employees	Number of staff	Fixed remuneration Cash	Fixed remuneration Others	Variable remuneration Upfront Cash	Variable remuneration Upfront Shares	Variable remuneration Deferred Cash	Variable remuneration Deferred Shares	Variable remuneration Deferred Others	Total
2017									
Approved Persons Business lines	7	2,396	–	2,217	–	540	3,610	–	8,763
Approved Persons Control & support	9	2,390	–	437	–	65	491	–	3,383
Other material risk takers	25	3,224	100	1,161	–	–	401	–	4,886
Other Employees: Bahrain Operations	52	3,541	–	533	–	–	–	–	4,074
Other Employees: Overseas Branches & Subsdiaries1	13	1,366	–	510	–	–	–	–	1,876
	106	**12,917**	**100**	**4,858**		**605**	**4,502**		**22,982**

Notes:

1. *The above disclosures exclude remuneration details of Khaleeji Commercial Bank BSC (KHCB) and Projects of the Bank (India, Tunis and Morocco) that are consolidated and only include staff of GFH Capital Limited (UAE) and GFH Properties SPC, which are integral to the business of the Bank. Information pertaining to KHCB is separately available within their annual report.*

2. *The financial information is presented based on final approvals by the NRGC and Board of Directors and awards communicated to employees subsequent to the issue of the consolidated financial statements.*

3. *The amounts attributed to share awards are based on the final allocation of bonus pool to deferred share awards after the issue of the financial statements. Additional accounting charge arising due to fair value adjustments on share awards will be reflected in the subsequent accounting periods. Accordingly, the information reported in the table above may not necessarily match with the accounting charge reflected for 2017.*

Corporate Governance (contd.)

US$ 000's

Type of employees	Number of staff	Fixed remuneration		Variable remuneration					Total
				Upfront		Deferred			
		Cash	Others	Cash	Shares	Cash	Shares	Others	
2016									
Approved Persons Business lines	6	2,877	434	3,027	–	750	3,750	–	10,838
Approved Persons Control & support	10	2,983	–	2,238	–	470	2,540	–	8,231
Other material risk takers	23	3,193	369	869	–	–	163	–	4,594
Other Employees: Bahrain Operations	42	2,808	–	1,119	–	50	425	–	4,402
Other Employees: Overseas Branches & Subsdiaries1	37	2,456	–	104	–	–	–	–	2,560
	118	14,317	803	7,357	–	1,270	6,878	–	30,625

Notes:

1. *The above disclosures exclude remuneration details of Khaleeji Commercial Bank BSC (KHCB). Information pertaining to KHCB is separately available within their annual report.*
2. *The 2016 amounts has been updated for actual awards allocated subsequel to annual report of previous period.*
3. *No sign on bonus, guaranteed bonus on severance pay was made during 2016 or 2017.*

Deferred awards

US$ 000's

2016	**Cash**	**Shares**		**Total**
		Number	**USD'000s**	
Opening balance	1,554	39,645,185	9,678	11,232
Awarded during the period	605	10,073,641	4,502	5,107
Paid out/released during the period	(109)	(8,776,842)	(1,012)	(1,121)
Service, performance and risk adjustments	–	–	–	–
Bonus share and other corporate events	–	2,714,064	–	–
Closing balance	**2,050**	**43,656,048**	**13,168**	**15,218**

US$ 000's

2015	Cash	Shares		Total
		Number	USD'000s	
Opening balance	328	52,269,290	4,457	4,785
Awarded during the period	1,270	12,504,545	6,878	8,148
Paid out/released during the period	(44)	(25,128,650)	(1,657)	(1,701)
Service, performance and risk adjustments	–	–	–	–
Bonus share and other corporate events	–	–	–	–
Closing balance	1,554	39,645,185	9,678	11,232

Notes:

The total number of shares include additional employee participation through ESOL approved by the NRGC. However, the value reported above only reflects the fair value benefit that has accrued to the benefit of the employee on award/ modification dates. These are not necessarily reflective of issue price of share awards.

These above disclosures exclude information related to KHCB which is available separately in their annual report.

The 2016 table reflects adjustments and modifications made to award terms in 2017 and has been prepared assuming that the amendments were made at the respective performance years. This was done to reflect comparability of remuneration information for two performance periods. Accordingly, the information reported in the table above may not necessarily match with the accounting charge reflected for each reported periods.

E.15. External Consultants' advise on Board Remuneration

The legal department of the bank arranged to obtain external legal advice from 'Haya Rashed Al Khalifa Attorneys at law & legal Consultants' on Board remuneration with regards to the application of Article 188 of BCCL.

Consolidated Financial Statements

Sharia Supervisory Board Report on The activities of GFH Financial Group B.S.C

for the financial year ending 31 December 2017

13 February 2018

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

The Sharia Supervisory Board of GFH Financial Group have reviewed the Bank's investment activates and compared them with the previously issued Fatawa and rulings during the financial year 31st December 2017 and found them compatible with the already issued Fatawa and rulings.

The Board 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 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 2017 to our satisfaction. The report of the Board has been prepared based on the contents provided by the bank.

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

The 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 Khalifa Al Qassar**

Independent Auditors' Report to the Shareholders

GFH Financial Group B.S.C, Manama, Kingdom of Bahrain

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of GFH Financial Group BSC (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2017, 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 Sharia 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 2017, and of its consolidated results of operations, its consolidated cash flows, its consolidated 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 Sharia rules and principles as determined by the Sharia 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, 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 Fakhro
Partner Registration No. 137
13 February 2018

Consolidated statement of financial position

as at 31 December 2017

US$ 000's

	Note	31 December 2017	31 December 2016
ASSETS			
Cash and bank balances	4	216,445	156,448
Placements with financial institutions		95,569	213,898
Financing assets	5	992,502	961,490
Investment securities	6	521,408	527,203
Assets acquired for leasing		257,806	246,257
Investment property	7	616,263	488,436
Development properties	8	893,037	280,972
Equity-accounted investees	9	81,440	79,010
Intangible assets		–	54,891
Property, plant and equipment	10	117,135	169,153
Other assets	11	318,852	125,643
Total assets		**4,110,457**	3,303,401
LIABILITIES			
Investors' funds		39,413	44,565
Placements from financial institutions, other entities and individuals	12	858,496	570,515
Customer current accounts		189,607	192,783
Financing liabilities	13	365,062	168,992
Other liabilities	14	255,733	182,649
Total liabilities		**1,708,311**	1,159,504
Equity of investment account holders	15	**906,353**	1,022,190
OWNERS' EQUITY			
Share capital	16	975,638	597,995
Share premium		3,058	–
Treasury shares	16	(58,417)	(340)
Capital adjustment account		–	24,320
Statutory reserve		105,893	93,768
Retained earnings		122,825	191,379
Share grant reserve	17	1,026	902
Total equity attributable to shareholders of Bank		**1,150,023**	908,024
Non-controlling interests		345,770	213,683
Total owners' equity (page 86)		**1,495,793**	1,121,707
Total liabilities, equity of investment account holders and owners' equity		**4,110,457**	**3,303,401**

The consolidated financial statements consisting of pages 84 to 151 were approved by the Board of Directors on 13 February 2018 and signed on its behalf by:

H.E. Shaikh Ahmed Bin Khalifa Al Khalifa
Chairman

Ahmed Al Mutawa
Vice Chairman &
Chairman of the Audit Committee

Hisham Alrayes
Chief Executive Officer & Board Member

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated income statement

for the year ended 31 December 2017

US$ 000's

	Note	2017	2016
Continuing operations			
Income from investment banking activities	19	121,294	3,322
Fees and commission income		6,631	15,399
Income from placements with financial institutions		3,177	1,818
Income from financing assets and assets acquired for leasing		73,377	70,148
Share of profits of equity-accounted investees	9	(248)	846
Income from investment securities, net	20	11,313	3,888
Foreign exchange gain/(loss), net		4,050	(2,424)
Gain on sale of investment property		–	46,082
Other income, net	21	48,211	8,820
Operating income before return to investment account holders and finance expense		**267,805**	147,899
Return to investment account holders before Group's share as Mudarib		(39,480)	(43,200)
Bank's share as Mudarib		19,726	24,219
Return to investment account holders	15	**(19,754)**	(18,981)
Less: Finance expense		(43,692)	(23,437)
Operating income		**204,359**	105,481
Income from settlement of litigations	18	–	464,567
Total income		**204,359**	570,048
Staff cost	22	40,914	53,964
Investment advisory expenses		8,778	16,504
Other operating expenses	23	49,387	49,072
Total expenses		**99,079**	119,540
Profit before impairment allowances		**105,280**	450,508
Less: Impairment allowances	24	(9,381)	(221,112)
Profit for the year from continuing operations		**95,899**	229,396
Discontinued operations			
Profit from operations of non-banking subsidiaries, net	19	7,289	3,652
Profit for the year		**233,048**	103,188
Profit for the year attributable to:			
Shareholders of the Bank		104,182	217,125
Non-controlling interests		(994)	15,923
		103,188	233,048
Earnings per share			
Basic and diluted earnings per share (US cents)		**3.58**	8.80
Earnings per share – continuing operations			
Basic and diluted earnings per share (US cents)		3.30	8.65

H.E. Shaikh Ahmed Bin Khalifa Al Khalifa
Chairman

Ahmed Al Mutawa
Vice Chairman &
Chairman of the Audit Committee

Hisham Alrayes
Chief Executive Officer & Board Member

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated statement of changes in owners' equity

for the year ended 31 December 2017

US$ 000's

2017	Share capital	Share premium	Treasury share	Capital adjustment account	Statutory reserve	Retained earnings	Share grant reserve	Total	Non-controlling interests	Total owners' equity
	Attributable to shareholders of the Bank									
Balance at 1 January 2017	597,995	–	(340)	24,320	93,768	191,379	902	908,024	213,683	1,121,707
Profit for the year (page 85)	–	–	–	–	–	104,182	–	104,182	(994)	103,188
Total recognised income and expense	**–**	**–**	**–**	**–**	**–**	**104,182**	**–**	**104,182**	**(994)**	**103,188**
Issuance of share capital (note 16)	314,530	2,896	–	(24,320)	–	–	–	293,106	176,754	469,860
Bonus shares issued (note 16)	59,799	–	–	–	–	(59,799)	–	–	–	–
Dividends declared (note 16)	–	–	–	–		(59,799)	–	(59,799)	–	(59,799)
Transfer to Zakah and charity fund (note 16)	–	–	–	–		(3,509)	–	(3,509)	–	(3,509)
Acquisition of additional interests in subsidiaries and resulting changes in non-controlling interests, net (note 18)	–	–	–	–	1,707	(39,211)	(40)	(37,544)	(34,816)	(72,360)
Transfer to statutory reserve	–	–	–	–	10,418	(10,418)	–	–	–	–
Issue of shares under incentive scheme, net of forfeitures (note 22)	3,314	3,564	–	–	–	–	164	7,042	–	7,042
Derecognition of a subsidiary on loss of control	–	–	–	–	–	–	–	–	(8,857)	(8,857)
Purchase of treasury shares	–	–	(82,839)	–	–	–	–	(82,839)	–	(82,839)
Sale of treasury shares	–	(3,402)	24,762	–	–	–	–	21,360	–	21,360
Balance at 31 December 2017	**975,638**	**3,058**	**(58,417)**	**–**	**105,893**	**122,825**	**1,026**	**1,150,023**	**345,770**	**1,495,793**

US$ 000's

2016	Share capital	Treasury share	Capital adjustment account	Statutory reserve	Retained/earnings	Investment fair value reserve	Share grant reserve	Total	Non-controlling interests	Total owners' equity
	Attributable to shareholders of the Bank									
Balance at 1 January 2016	597,995	(4,053)	22,420	72,055	(4,033)	(230)	893	685,047	197,760	882,807
Profit for the year (page 85)	–	–	–	–	217,125	–	–	217,125	15,923	233,048
Transfer to income statement on disposal	–	–	–	–	–	230	–	230	–	230
Total recognised income and expense	–	–	–	–	217,125	230	–	217,355	15,923	233,278
Purchase of treasury shares	–	(6,878)	–	–	–	–	–	(6,878)	–	(6,878)
Sale of treasury shares	–	10,591	–	–	–	–	–	10,591	–	10,591
Gain on sale of treasury shares	–	–	1,900	–	–	–	–	1,900	–	1,900
Transfer to statutory reserve	–	–	–	21,713	(21,713)	–	–	–	–	–
Share grants vesting expense, net of forfeitures	–	–	–	–	–	–	9	9	–	9
Balance at 31 December 2016	597,995	(340)	24,320	93,768	191,379	–	902	908,024	213,683	1,121,707

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2017

US$ 000's

	2017	2016
OPERATING ACTIVITIES		
Profit for the year	103,188	233,048
Adjustments for:		
Income from investment banking activities	(80,511)	–
Income from investment securities	(11,313)	(3,888)
Share of loss/(profit) of equity-accounted investees	248	(846)
Foreign exchange (gain)/loss	(4,050)	2,424
Other income	(18,000)	(14,073)
Gain on sale of investment and development properties	–	(46,082)
Income from settlement of litigations	–	(464,567)
Profit from operations of non-banking subsidiaries	(7,289)	(3,655)
Finance expense	43,692	23,437
Depreciation and amortisation	6,279	3,784
Impairment allowances	9,381	221,112
	41,625	(49,306)
Changes in:		
Placements with financial institutions	3,193	(5,108)
Financing assets	(21,912)	(102,069)
Asset acquired for leasing	(11,549)	(66,387)
Other assets	(97,437)	90,405
Investors' funds	(5,152)	16,837
Placements from financial institutions, other entities and individuals	287,981	230,425
Customer current accounts	(3,176)	38,731
Other liabilities	9,049	(64,457)
Equity of investment account holders	(115,837)	77,275
CBB reserve account	6,354	(2,613)
Net cash generated from operating activities	**93,139**	163,733
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(921)	(1,118)
Purchase of investment securities	(220,030)	(93,546)
Proceeds from sale of investment securities	51,875	91,531
Dividend and income from investment securities	14,857	9,422
Proceeds from sale of investment and development properties	1,857	7,353
Proceeds from sale of private equity subsidiaries	53,694	–
Net cash (used in)/generated from investing activities	**(98,668)**	13,642

US$ 000's

	2017	2016
FINANCING ACTIVITIES		
Financing liabilities, net	126,255	(42,310)
Finance expense paid	(36,245)	(20,666)
(Purchase)/sale of treasury shares, net	(65,139)	3,713
Dividends paid	(59,799)	–
Acquisition of additional shares in a subsidiary	(15,228)	–
Net cash used in financing activities	**(50,156)**	(59,263)
Net (decrease)/increase in cash and cash equivalents	**(55,685)**	118,112
Cash and cash equivalents at 1 January	312,572	194,460
CASH AND CASH EQUIVALENTS at 31 December	**256,887**	312,572
Cash and cash equivalents comprise:		
Cash and balances with banks (excluding CBB reserve account and restricted bank balances)	169,619	103,782
Placements with financial institutions (with original maturity of three months or less)	87,268	208,790
	256,887	312,572

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated statement of changes in restricted investment accounts

for the year ended 31 December 2017

31 December 2017	**Balance at 1 January 2017**			**Movements during the year**						**Balance at 31 December 2017**		
Company	**No of units (000)**	**Average value per share US$**	**Total US$ 000's**	**Investment/ (withdrawal) US$ 000's**	**Revaluation US$ 000's**	**Gross income US$ 000's**	**Dividends paid US$ 000's**	**Group's fees as an agent US$ 000's**	**Administration expenses US$ 000's**	**No of units (000)**	**Average value per share US$**	**Total US$ 000's**
Mena Real Estate Company KSCC	150	0.35	52	–	–	–	–	–	–	150	0.35	52
Al Basha'er Fund	93	6.85	637	(532)	(12)	–	–	–	–	13	7.03	93
Safana Investment (RIA 1)	6,304	2.65	16,721	(133)	–	–	–	–	–	6,254	2.65	16,588
Shaden Real Estate Investment WLL (RIA 5)	3,652	2.65	9,686	(300)	–	–	–	–	–	3,529	2.65	9,386
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	–	–	–	–	–	–	2,633	1.00	2,633
			29,729	**(965)**	**(12)**	**-**	**-**	**-**	**-**			**28,752**

31 December 2016	Balance at 1 January 2016			Movements during the period						Balance at 31 December 2016		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	–	–	–	–	–	–	150	0.35	52
Al Basha'er Fund	93	6.95	646	–	(9)	–	–	–	–	93	6.85	637
Safana Investment (RIA 1)	8,313	2.65	22,050	(5,329)	–	–	–	–	–	6,304	2.65	16,721
Janayen Holding Limited (RIA 4)	48,082	0.47	22,546	(22,610)	–	64	–	–	–	–	–	–
Shaden Real Estate Investment WLL (RIA 5)	3,728	2.65	9,888	(202)	–	–	–	–	–	3,652	2.65	9,686
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	–	–	–	–	–	–	2,633	1.00	2,633
			57,815	(28,141)	(9)	64	–	–	–			29,729

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated statement of sources and uses of Zakah and charity fund

for the year ended 31 December 2017

US$ 000's

	2017	2016
Sources of Zakah and charity fund		
Contributions by the Group	4,468	-
Non-Islamic income (note 29)	45	95
Total sources	**4,513**	95
Uses of Zakah and charity fund		
Utilisation of Zakah and charity fund	(3,833)	(610)
Total uses	**(3,833)**	(610)
Surplus/(Deficit) of uses over sources	680	(515)
Undistributed Zakah and charity fund at 1 January	2,160	2,675
Undistributed Zakah and charity fund at 31 December (note 14)	**2,840**	2,160
Represented by:		
Zakah payable	13	267
Charity fund	2,827	1,893
	2,840	**2,160**

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2017

1. REPORTING ENTITY

GFH Financial Group BSC ("the Bank") was incorporated as Gulf Finance House BSC in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 and operates under an Islamic Wholesale Investment Banking license issued 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 activities are regulated by the CBB and supervised by a Religious Sharia 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 Sharia 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 2017	Activities
GFH Capital Limited	United Arab Emirates	GFH	100%	Investment management
Khaleeji Commercial Bank BSC ('KHCB') *	Kingdom of Bahrain	GFH	55.41%*	Islamic retail bank
Morocco Gateway Investment Company ('MGIC') *	Cayman Islands	GFH	89.26%	Real estate development
Tunis Bay Investment Company ('TBIC') *	Cayman Islands	GFH	51.41%	Real estate development
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects") *	Cayman Islands	GFH	77.20%	Real estate development
Al Areen Hotels SPC	Kingdom of Bahrain	GFH	100%	Hospitality management
Al Areen Project companies	Kingdom of Bahrain	GFH	100%	Real estate development
Al Areen Leisure and Tourism Company The Lost Paradise of Dilmun SPC ('LPOD')	Kingdom of Bahrain	GFH	100%	Amusement and theme park
GCL CPOL Management Company	Cayman Islands	GFH	100%	Acquire commercial office asset in USA
Surooh Company ('Surooh')	Cayman Islands	KHCB	10.00%	Construct and sell properties at "Oryx Hills".
Eqarat Al Khaleej ('Eqarat')	Cayman Islands	KHCB	19.80%	Buy, sell and rent income producing properties across the GCC.

** Refer note 18*

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

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 effective from 1 January 2017

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017 and are expected to be relevant to the Group.

No new standards, amendments to standards and interpretations that are effective for annual periods beginning 1 January 2017.

New standards, amendments and interpretations issued but not yet effective

FAS 30 – Impairment, credit losses and onerous commitments

AAOIFI has issued FAS 30 Impairment, Credit losses and onerous commitments in 2017. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions. FAS 30 will replace FAS 11 Provisions and Reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments that deals with impairment.

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets 1) Credit Losses approach, 2) Net Realizable Value approach ("NRV") and 3) Impairment approach.

For the purpose of this standard, the assets and exposures shall be categorized, as under:

a. Assets and exposures subject to credit risk (subject to credit losses approach):
   i. Receivables; and
   ii. Off-balance sheet exposures;

b. Inventories (subject to net realizable value approach)

c. Other financing and investment assets and exposures subject to risks other than credit risk (subject to impairment approach) , excluding inventories; and

Credit losses approach for receivables and off-balance sheet exposures uses a dual measurement approach, under which the loss allowance is measured as either a 12-month expected credit loss or a lifetime expected credit loss.

Expected credit losses

FAS 30 introduces the credit losses approach with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets which are subject to credit risk. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted. As mandated by the regulator in Bahrain, all Islamic banks are required to early adopt FAS 30 from 1 January 2018.

The Group will adopt FAS 30 on 1 January 2018 and will not restate the comparative information. The Group has assessed that the estimated impact of credit losses approach on the date of initial application of FAS 30 will reduce total assets by approximately US$ 25 million and shareholders' equity by approximately US$ 14 million as at 1 January 2018. The estimated impact relates primarily to the increase in the allowance for credit losses under the new impairment requirements. The Group continues to revise, refine and validate the impairment models and related process controls which may change the actual impact on adoption.

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 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.

(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.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

c) Basis of consolidation (contd.)

(iii) Non-controlling interests (NCI)

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

(iv) Special purpose entities

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. 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 is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist, when the Bank owns majority of voting rights in an investee.

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 and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. 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 25.

(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 (f)).

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.

(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 reporting 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) 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 in owners' equity, except to the extent the translation difference is allocated to NCI.

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 consolidated 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)(ii) and (vi)).

(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:

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

f) Investment securities (contd.)

(i) Classification (contd.)

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 internally by the management on a fair value basis.

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, except for investment securities carried at FVTIS, transaction costs 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 owners equity and presented in a separate investment fair value reserve in 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 owners' 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) Financing assets

Financing assets comprise Sharia compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Istisna and Wakala contracts. Financing assets are recognised on the date at which they are originated and are carried at their amortised cost less impairment allowances, if any.

h) Assets acquired for leasing

Assets acquired for leasing (Ijarah Muntahia Bittamleek) comprise finance lease assets which are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease instalments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the consolidated income statement.

i) Placements with and from financial and other institutions

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

j) 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.

k) Investment property

Investment property comprise land plots and buildings. 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 and accumulated impairment allowances (if any). Land is not depreciated.

A property is transferred to investment property when, there is change in use, evidenced by:

(i) end of owner-occupation, for a transfer from owner-occupied property to investment property; or

(ii) commencement of an operating Ijara to another party, for a transfer from a development property to investment property.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

k) Investment property (contd.)

Further, an investment property is transferred to development property when, there is a change in use, evidenced by:

(i) commencement of own use, for a transfer from investment property to owner-occupied property;

(ii) commencement of development with a view to sale, for a transfer from investment in real estate to development property.

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.

l) 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.

m) 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 annually and adjusted prospectively if appropriate.

n) Intangible assets

Goodwill

Goodwill that arises on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other 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.

OIntangible 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 recognised in the consolidated statement of income when the asset is derecognised.

o) 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 are not reversed subsequently.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

o) Impairment of assets (contd.)
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.

p) 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 and carried at amortised cost.

q) Customers' current accounts
Balances in current (non-investment) accounts are recognised when received by the Group. The transactions are measured at the cash equivalent amount received by the Group at the time of contracting. At the end of the accounting period, the accounts are measured at their book value.

r) Financing liabilities
Financing liabilities represents facilities from financial institution, 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 Bank 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 and 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.

s) 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 (note 35).

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

u) 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 consolidated 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.

v) 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.

w) Revenue recognition
Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised to the extent that it is probable that future economic benefits associated with the item of revenue will flow to the Group, the revenue can be measured with reliability and specific criteria have been met for each of the Group's activities as described below:

Banking business
Commission income
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.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

w) Revenue recognition (contd.)
Banking business (contd.)
Commission income (contd.)
Finance income/expenses are recognised using the amortised cost method at the effective profit rate of the financial asset/liability.

Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

Income from Murabaha and Wakala contracts are recognised on a time-apportioned basis over the period of the contract using the effective profit method.

Profit or losses in respect of the Bank's share in **Musharaka financing** transaction that commence and end during a single financial period is recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the Musharaka agreement.

Income from assets acquired for leasing (Ijarah Muntahia Bittamleek) are recognised proportionately over the lease term.

Income from Sukuk and income/expenses on placements is recognised at its effective profit rate over the term of the instrument.

Non banking business
Revenue from the sale of goods is recognised when customer takes possession.

Revenue from rendering of services is recognised when services are rendered.

x) Earnings prohibited by Sharia
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.

y) 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 Sharia Supervisory Board.

z) 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 consolidated income statement.

The Group also operates a voluntary employees saving scheme under which the Group 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 Group. The scheme is in the nature of a defined contribution scheme and contributions by the Group are recognised as an expense in the consolidated 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.

aa) 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.

bb) 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.

cc) 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.

dd) Investment account holder protection scheme
Funds held with the Group in unrestricted investment accounts and current accounts of its retail banking subsidiary are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010.

ee) Income tax
The Group is exposed to taxation by virtue of operations of subsidiaries in Morocco, Tunis and India. Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

z) Employees benefits (contd.)
(iii) Share-based employee incentive scheme
ee) Income tax (contd.)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Currently, the Group does not have any material current or deferred tax exposure that requires recognition in the consolidated financial statements.

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.

Estimations

(i) 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.

(ii) 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 generally considers a decline in value below cost of 30%, or a decline that persists for more than 9 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, ease of raising liquidity for the project, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, 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, long term asset objectives 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.

(iii) Impairment of investment property

The Group conducts impairment assessment of investment property periodically using external independent property valuers to value the property. The fair value is determined based on the market value of the property either by comparable method or the residual value basis to assess the market value of the sites considering its current physical condition. The Group's investment property are situated in Bahrain, UAE and Morocco. 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 other 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 financing assets

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 and the net realisable value of any underlying assets/collaterals.

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. For the purposes of a collective evaluation of impairment, financing assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The methodology and assumptions used for the grading process and estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In view of the management, the current level of provisioning is adequate and no additional impairment allowances are required on a collective basis.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (contd.)

Estimations (contd.)

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

Investment in associates and recognised goodwill 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 (o). For equity-accounted investees with indicators of impairment, the recoverable amounts is determined based on fair value less costs to sell (FVLCTS).

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

The objective of valuation techniques is to arrive at a fair value 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.

(vii) Estimating net realisable value of development property

Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. 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 development property.

4 CASH AND BANK BALANCES

US$ 000's

	31 December 2017	31 December 2016
Cash	21,513	18,271
Balance with banks	80,365	53,281
Balance with Central Bank of Bahrain		
Current account	68,255	32,230
Reserve account	46,312	52,666
	216,445	156,448

The reserve account with the Central Bank of Bahrain is not available for day-to-day operation of the Group.

5 FINANCING ASSETS

US$ 000's

	31 December 2017	31 December 2016
Murabaha	948,528	924,587
Musharaka	18,350	23,249
Wakala	56,981	77,947
Mudaraba	3,016	3,064
Istisna	–	19
	1,026,875	1,028,866
Less: Impairment allowances – specific	(22,881)	(55,786)
Less: Impairment allowances – collective	(11,492)	(11,590)
	992,502	961,490

Murabaha financing receivables are net of deferred profits of US$ 61,111 thousand (2016: US$ 82,238 thousand).

The movement on impairment allowances are as follows:

US$ 000's

2017	**Specific**	**Collective**	**Total**
At 1 January	55,786	11,590	67,376
Net charge for the year (note 24)	2,183	(98)	2,085
Adjusted on write-off of assets	(35,088)	–	(35,088)
At 31 December	**22,881**	**11,492**	**34,373**

2016	Specific	Collective	Total
At 1 January	27,278	9,241	36,519
Net charge for the year (note 24)	35,951	2,349	38,300
Adjusted on write-off of assets	(7,443)	–	(7,443)
At 31 December	55,786	11,590	67,376

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

6 INVESTMENT SECURITIES

US$ 000's

	31 December 2017	31 December 2016
Equity type investments		
At fair value through income statement:		
– Quoted securities	–	377
– Unquoted securities	34,875	40,180
	34,875	40,557
At fair value through equity:		
– Unquoted managed funds (at fair value)	–	1,973
– Listed securities (at fair value)	103	103
– Unquoted securities (at cost)	185,775	287,180
	185,878	289,256
Debt type investments		
At amortised cost		
– Quoted Sukuk *	300,265	194,809
– Unquoted Sukuk	390	2,581
	300,655	197,390
	521,408	527,203

** Includes Sukuk of US$ 129,676 thousand pledged against medium-term borrowing of US$ 109,570 thousand (note 13).*

6 INVESTMENT SECURITIES (contd.)

a) Equity type Investment - At Fair Value through Income Statement

US$ 000's

	2017	2016
At 1 January	40,557	60,724
Disposals during the year, at carrying value	(5,305)	(18,117)
De-recognition of investment on deconsolidation of subsidiary	(377)	–
Fair value changes	–	(2,050)
At 31 December	**34,875**	40,557

(b) Equity type Investment - At Fair Value through Equity

US$ 000's

	2017	2016
At 1 January	289,256	344,206
Additions during the year	293,729	52,685
Disposals during the year, at carrying value	(6,895)	(33,037)
Write-offs of fully provided investments during the year	(7,926)	(13,557)
Elimination on consolidation of subsidiaries (note 18)	(378,709)	–
Impairment charge for the year (note 24)	(3,577)	(61,041)
At 31 December	**185,878**	289,256

Unquoted equity securities US$ 185,775 thousand (2016: US$ 287,180 thousand) classified at fair value through equity, but measured at cost less impairment in the absence of reliable measure of fair value, are primarily investment in equities of companies carrying out real estate and infrastructure development projects in different countries. The Group plans to exit these investments principally by means of strategic sell outs or sale of underlying assets.

During the year, the Group recognised an impairment of US$ 3,577 thousand (2016: US$ 61,041 thousand) on such assets. 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.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

7 INVESTMENT PROPERTY

US$ 000's

	2017	2016
At 1 January	488,436	257,932
Acquisitions arising from settlement	–	207,707
Additions during the year	137,310	53,827
Disposals	(2,715)	(38,133)
Transfer to development property	-	19,395
Depreciation charge for the year	(194)	(692)
De-recognition on deconsolidation of a subsidiary	(4,479)	-
Impairment charge (note 24)	(2,095)	(11,600)
At 31 December	**616,263**	488,436

Investment property includes land plots and buildings in Bahrain, UAE , Morocco and USA. Investment property of carrying amount of US$ 192.2 million (2016: US$ 192.2 million) is pledged against Wakala facilities, Ijarah facility and Sukuk liability (note 13).

The fair value of the Group's investment property at 31 December 2017 was US$ 624,710 thousand (31 December 2016: US$ 521,187 thousand) based on a valuation carried out by an independent third party external valuers who have recent experience in the location and category of the asset being valued.

8 DEVELOPMENT PROPERTIES

Development properties represents development assets (lands) in UAE, Bahrain and North Africa. The land has been held for development and sale in the normal course of business. Development property of US$ 42.3 million is pledged against a Wakala facility (note 13).

US$ 000's

	2017	2016
At 1 January	280,972	179,577
Acquisitions arising from settlement	–	125,512
Acquisitions arising on consolidation of subsidiaries (note 18)	571,970	-
Additions during the year	40,095	-
Disposals	–	(4,722)
Transfer to investment property	–	(19,395)
At 31 December	**893,037**	280,972

9 EQUITY-ACCOUNTED INVESTEES

Equity-accounted investees represents investments in:

Name	Country of incorporation	% holding 2017	% holding 2016	Nature of business
Falcon Cement Company BSC (c)	Kingdom of Bahrain	31.72%	31.72%	Manufacturing and trading of cement
United Arab Cement Company J.S.C.*	Syrian Arab Republic	38.9%	38.9%	Manufacturing of cement
Libya Investment Company *	Cayman Islands	38.9%	38.9%	Holding company
Amlak II SPV	Cayman Islands	23.51%	23.51%	Purchase and sale of real estate in the Kingdom of Bahrain
Bahrain Aluminium Extrusion Company B.S.C. (c) ('Balexco')	Kingdom of Bahrain	17.32%	17.32%	Extrusion and sale of aluminium products
Global Banking Corporation BSC (c)	Kingdom of Bahrain	20%	20%	Islamic wholesale banking
Ensha Development Company	Kingdom of Bahrain	33.33%	33.33%	Holding plot of land in Kingdom of Bahrain.

** fully impaired*

The movement in equity-accounted investees is given below:

US$ 000's

	2017	2016
At 1 January	79,010	81,274
Acquisitions on settlement	–	27,900
Investment recognised on deconsolidation of subsidiary	5,286	-
Additions during the year	111	5,454
Share of profit for the year, net	(248)	846
Dividends during the year	(2,719)	-
Impairment charge for the year (note 23)	–	(36,464)
At 31 December	**81,440**	79,010

Equity-accounted investees includes the Group's investment of less than 20% in Balexco. As the Group exercises significant influence over the financial institution through contractual terms and by way of its presence on the board of directors, the investment is accounted for as an investment in equity-accounted investee.

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

US$ 000's

	٢٠١٧	٢٠١٦
Total assets	٢٣٣,٦٧٦	٣٤٤,٩٠٨
Total liabilities	١٠٧,٢١٢	١١١,٤٤٨
Total revenues	١٣٢,٥٧٨	٦٦,٥٦٣
Total net profit	١٣,٠٩٥	٥,٩٨١

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

10 PROPERTY, PLANT AND EQUIPMENT

US$ 000's

	Land	Buildings and infrastructure on leasehold land on leasehold land	Computers	Furniture, machinery and other equipment	Motor vehicles	Capital WIP	2017 Total	2016 Total
Cost:								
At 1 January	40,051	105,726	19,804	31,885	5,773	8,487	211,726	64,391
Acquired in a business combination								
(Note 18)	–	2,588	–	–	–	–	2,588	145,875
Additions	–	20	769	668	111	523	2,091	3,614
Disposals	–	–	–	–	(13)	(1,149)	(1,162)	(2,154)
Transfers	–	–	–	–	(49)	–	(49)	–
Capitalisation of WIP	–	66	1,101	13	27	(1,207)	–	–
Derecognition on loss of control	–	(52,115)	–	(4,462)	–	(941)	(57,518)	–
At 31 December	**40,051**	**56,285**	**21,674**	**28,104**	**5,849**	**5,713**	**157,676**	211,726
Accumulated depreciation:								
At 1 January	–	1,454	18,520	21,641	958	–	42,573	38,789
Charge for the year (note 23)	–	3,384	1,039	1,648	208	–	6,279	3,784
Disposals	–	–	–	–	(13)	–	(13)	–
Transfers	–	–	–	–	(36)	–	(36)	–
Derecognition on loss of control	–	(4,645)	–	(3,617)	–	–	(8,262)	–
At 31 December	**–**	**193**	**19,559**	**19,672**	**1,117**	**–**	**40,541**	42,573
Net book value:								
At 31 December	**40,051**	**56,092**	**2,115**	**8,432**	**4,732**	**5,713**	**117,135**	169,153

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

11 OTHER ASSETS

US$ 000's

	31 December 2017	31 December 2016
Investment banking receivables *	123,506	–
Financing to projects, net	20,020	18,003
Receivable on sale of:		
– Investment properties	–	37,952
– Development properties	10,000	10,000
Advances and deposits	38,156	19,835
Employee receivables	18,302	19,786
Profit on Sukuk receivable	5,815	3,902
Lease rentals receivable	22,785	6,825
Prepayments and other receivables	80,268	9,340
	318,852	125,643

** Of this, an amount of US$ 104,591 thousand has been subsequently received in January 2018.*

During the year, the Group recognised Nil (2016: US$ 51,500 thousand), US$ 114 thousand (2016: US$ 20,714 thousand) and US$ 460 thousand (2016: US$ 626 thousand) impairment allowance on financing to projects, other receivables and lease rentals receivable respectively (note 24).

12 PLACEMENTS FROM FINANCIAL INSTITUTIONS, OTHER ENTITIES AND INDIVIDUALS

These comprise placements in the form of Murabaha and Wakala contracts accepted from financial and other institutions (including corporates and individuals) as part of the Group's treasury activities. This includes US$ 84 million of funds placed by a non-financial entity which were subject to regulatory sanctions. During the year, these regulatory sanctions have been formally lifted.

13 FINANCING LIABILITIES

US$ 000's

	31 December 2017	31 December 2016
Murabaha financing	153,899	–
Wakala financing	54,167	66,959
Sukuk liability	25,364	50,059
Ijarah financing	15,607	16,571
Other borrowings	116,025	35,403
	365,062	168,992
Current portion	145,687	45,210
Non-current portion	219,375	123,782
	365,062	168,992

13 FINANCING LIABILITIES (contd.)

Murabaha financing

Murabaha financing (i) (2017)

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

Murabaha financing (ii) (2017)

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

Further, during the year, the Group obtained two medium-term facilities of US$ 109,570 thousand secured by pledge over Sukuk of US$ 129,676 thousand (note 6).

Wakala financing

Wakala financing (i) (2016)

Wakala financing comprise of a facility from a financial institution. The facility is for an amount of US$ 35 million, repayable over a period of 3 years annually from November 2017 till November 2019 at a profit rate of LIBOR plus margin of 7.65% (subject to a minimum of 8%). The facility is secured by a pledge over the Group's investment property of carrying value of US$ 24.7 million (31 December 2016: US$ 24.7 million) (note 7) and development property of carrying value of US$ 44.5 million (31 December 2016: US$ 42.3 million) (note 8).

Wakala financing (ii) (2009)

Wakala financing comprise is a syndicate facility from a number of financial institutions. Wakala financing is repayable over a period of six years till April 2019 at an agreed profit rate of 6%. The Wakala financing facility is secured by a pledge over the Group's investment property having a carrying value of US$ 136 million (31 December 2016: US$ 136 million) (note 7).

Sukuk liability

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

The final Sukuk instalment is payable in July 2018. The Sukuk carry a profit rate of LIBOR plus a margin of 3%, with a minimum profit rate of 5%. The Sukuk Certificates are backed by the Group's investment securities with carrying values of US$ 55.1 million (31 December 2016: 55.1 million) and an investment property with carrying value of US$ 31.5 million (31 December 2016: US$ 31.5 million)

Ijarah facility

Represents facility from a financial institution for acquisition of a property repayable over a period of 8 years at a profit rate of LIBOR plus margin of 5.7% (subject to minimum of 7% p.a.). The Ijarah is for an investment property of the Group with a carrying value of US$ 40.84 million (31 December 2016: US$ 40.84 million)

Other borrowings

These comprise financing availed by subsidiaries relating to project development and working capital requirements. The financing is secured against the investment in real estate and are held through special purpose vehicle that do not have any recourse to the Bank. The Bank is not a party to these financing contracts and has not guaranteed repayment in any form. These balances are reported in the consolidated financial statements as a result of consolidation of the assets related to such financing.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

14 OTHER LIABILITIES

US$ 000's

	31 December 2017	31 December 2016
Employee related accruals	23,205	25,179
Unclaimed dividends	7,530	5,844
Mudaraba profit accrual	7,586	7,812
Provision for employees' leaving indemnities	2,816	3,109
Zakah and Charity fund (page 92)	2,840	2,160
Provision against financial guarantees	3,000	-
Accounts payable	175,768	48,177
Accrued expenses and other payables	32,988	90,368
	255,733	182,649

15 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes as at 31 December:

US$ 000's

	31 December 2017	31 December 2016
Balances with banks	16,813	45,389
CBB reserve account	46,312	52,666
Placements with financial institutions	90,103	157,635
Debt type instruments – Sukuk	300,263	197,390
Financing assets	452,862	569,110
	906,353	1,022,190

The investors' share of the return on jointly invested assets and distribution to investment account holders were as follows:

US$ 000's

	2017	2016
Returns from jointly invested assets	39,480	43,200
Banks share as Mudarib	(19,726)	(24,219)
Return to investment account holders	**19,754**	18,981

The average gross rate of return in respect of unrestricted investment accounts was 4.12% for 2017 (2016: 4.39%). Approximately 2.18% (2016: 1.93%) was distributed to investors and the balance was either set aside for provisions and/or retained by the Group as a Mudarib fee. Unrestricted investment accounts include profit equalisation reserve of US$ 9 thousand (2016: US$ 7 thousand) and investment risks reserve of US$ 5 thousand (2016: US$ 3 thousand).

16 SHARE CAPITAL

US$ 000's

	31 December 2017	31 December 2016
Authorised:		
9,433,962,264 shares of US$ 0.265 each (2016: 5,660,377,358 shares of US$ 0.265 each)	**2,500,000**	1,500,000
Issued and fully paid up:		
3,681,650,441 shares of US$ 0.265 each (2016: 2,256,583,403 shares of US$ 0.265 each)	**975,638**	597,995

The movement in the share capital during the year is as follows: US$ 000's

	2017	2016
At 1 January	597,995	597,995
Investment offering	314,530	-
Issue of bonus shares	59,799	-
Issue of shares under incentive scheme	3,314	-
At 31 December	**975,638**	597,995

Investment offering
After obtaining the requisite approvals, the Group offered to its investors in certain infrastructure projects and investment funds to acquire their holdings in return for pre-determined number of the Bank's shares (note 18). Subscriptions for 1,186,904,148 shares of the Bank were made up to the final closing period of 15 August 2017. Shares were issued to the subscribers resulting in increase in share capital by US$ 314,530 thousand. Excess over the par value of US$ 0.265 per share has been considered as share premium and reflected accordingly under share premium account (including transfer from capital adjustment account).

At 31 December 2017, the Bank held 106,467,804 (31 December 2016: 2,211,891) 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%	2,647,628,504	8,311	71.91
1% up to less than 5%	739,144,187	11	20.08
5% to less than 10%	294,877,750	1	8.01
10% to less than 20%	-	-	
Total	**3,681,650,441**	**8,323**	**100**

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

(iii) As at 31 December 2017, the shareholders who hold more than 5% of the total outstanding shares are as below:

Shareholder name	Number of shares	% of total outstanding shares
Integrated Capital PJSC	294,877,750	8.01

Notes to the consolidated financial statements (contd.)

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16 SHARE CAPITAL (contd.)

Appropriations and changes in capital structure

Appropriations, if any, are made when approved by the shareholders. In the ordinary and extraordinary general meetings held on 1 March 2017, shareholders approved the following:

a) Dividend of 20% of the paid-up share capital amounting to US$ 119.6 million comprising 10% cash and 10% bonus shares;
b) Appropriation of US$ 2 million towards charity reserve;
c) Appropriation of US$ 1.5 million towards Zakah fund; and
d) Authorise board of directors to issue new shares up to 300,000,000 for the benefit of GFH Employee Benefit Trust towards staff performance incentive programme.
e) Increase the authorised share capital of the Bank from US$ 1.5 billion to US$ 2.5 billion divided into 9,433,962,264 shares at par value of US$ 0.265 per share;
f) Issue of up to 1,700,000,000 new shares for acquisition of a number of infrastructure projects and investment funds; and
g) Issue of up to 1,700,000,000 new shares at a nominal value of US$ 0.265 per share and a share premium to be determined by the Board of Directors as per market conditions, to be used for the acquisition of a number of financial institutions and strategic assets.

The Bank is in the process of amending the memorandum and articles of association to reflect the above.

17 SHARE GRANT RESERVE

US$ 000's

	2017	2016
At 1 January	902	893
Issue of share under incentive scheme	164	9
Transfer between interests	(40)	–
At 31 December	**1,026**	902

18 ACQUISITION OF SUBSIDIARIES

i) Acquisitions in 2017

Pursuant to the approval by the shareholders in their Extraordinary General Meeting held on 1 March 2017, the Bank has offered its shares in exchange for the holdings of its investors in various infrastructure projects and investment funds. The Group had acquired additional stake in the following infrastructure projects resulting in the Group obtaining control over these projects as at 30 September 2017, and accordingly, these have been consolidated with the results of the Bank.

The Group's existing stake and additional stake acquired are given below:

	Current Stake	**Additional stake acquired**	**Total stake**
TBIC	13%	38.41%	51.41%
India Projects	7.52%	70.21%	77.73%

Consideration transferred and non-controlling interests

The consideration for the acquisition of assets were in the form of shares of GFH. Given the nature of the repurchase transaction and the basis of determination of swap ratios for each asset by the shareholders, the transaction has been treated similar to a capital increase through transfer of non-cash assets in which the value of the asset received has been considered as the basis of measurement for increase in equity. The Group has used the acquisition-date expected realisable value of assets and settlement amount of liabilities of the entities acquired for the acquisition accounting and as consideration received for shares issued resulting in no gain or loss on initial recognition. The remaining stake held by investors other than the Group in the subsidiaries 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

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

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities as at 30 September 2017, being the effective date of acquisition, and have been reported on a provisional basis as permitted by accounting standards.

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

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

US$ 000's

	TBIC	India Projects
Property, plant and equipment	56	–
Cash and bank balances	184	–
Development properties	206,794	365,176
Other assets	608	40,566
Total assets	**207,642**	405,742
Other payables	1,897	54,617
Total liabilities	**1,897**	54,617
Total net identifiable assets and liabilities	**205,745**	351,125
Carrying value of Group's previously held equity interest in investee companies	30,000	51,207
Value of consideration transferred in shares	75,779	221,723
Non-controlling interests recognised	99,966	78,195
Total consideration	**205,745**	351,125

Also, during the year, the Group has acquired additional interests in the following existing subsidiaries.

	Current Stake	**Additional stake acquired**	**Total stake**
KHCB	46.97%	8.44%	55.41%
MGIC	33.53%	55.89%	89.42%

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

18 ACQUISITION OF SUBSIDIARIES

i) Acquisitions in 2017 (contd.)

The acquisition of additional interests had the following effect on the consolidated financial statements:

Proportionate share of net assets acquired (at book value)	36,223
Consideration	69,100

Consideration for acquisition of additional stake in KHCB was in cash and MGIC was in the form of 203,291,786 shares in the Bank.

ii) Acquisitions in 2016

In 2016, the Group was a plaintiff and defendant in a number of court cases in connection with previous investment transactions and dealings. During the year, the Group's Board of Directors agreed a full and final out of court settlement with the various counterparties involved. Due to contractual restrictions on disclosures, the Board of Directors is unable to disclose any further information.

The settlement has resulted in the Group receiving assets in the form of real estate properties, unquoted equity securities, investment in associates and operating businesses (subsidiaries). The details are set out below:

US$ 000's

	% of interests	Value of assets acquired
Development properties		118,000
Investment properties		207,707
Liabilities associated with acquisition of investment properties		(15,000)
Unquoted equity securities		8,800
Investment in associates (in Bahrain)		27,900
Global Banking Corporation BSC (c)	20%	
Ensha Development Company	33.33%	
Investment in subsidiaries (in Bahrain) *		117,160
Al Areen Leisure & Tourism Company, The Lost Paradise of Dilmun SPC (LPOD)	100%	
Al Areen Hotels SPC (Hotels)	100%	
Al Areen Project companies	100%	
British School of Bahrain (BSB)	100%	
Total		**464,567**

** Investment in subsidiaries were acquired through acquisition of various intermediate holding vehicles. The names disclosed refer to the underlying operating entities.*

The total fair value of real estate properties, unquoted investment securities, investment in equity-accounted investees and businesses acquired were recognised in the consolidated income statement under "Income from settlement of litigations". The fair values were determined by independent external professional firms using a combination of market and income approaches, as appropriate for each asset.

Acquisition of businesses/ subsidiaries

Acquiring control of the businesses/ subsidiaries referred to above resulted in a business combination and accordingly the entities were consolidated with the Group from 1 October 2016, being the effective accounting date of obtaining control.

Consideration

As there was no consideration transferred by the Group in the business combination, the Group has considered the fair value of assets received as consideration for the purpose of acquisition-date fair value of the interests acquired in the above entities.

Assessment of identifiable assets acquired and liabilities assumed

Cash and cash equivalents	2,284
Property, plant and equipment	145,875
Development properties	5,289
Acquisition related intangibles	54,891
Other assets	3,876
Total assets	**212,215**
Liabilities	
Deferred revenue	32,151
Bank borrowings	14,642
Trade and other payable	47,328
Employees' end of service benefits	934
Total liabilities	**95,055**
Total net assets acquired (equivalent of fair value of assets received)	**117,160**

19 Income from investment banking activities

This mainly comprise US$ 80,511 thousand from placement of private equity subsidiaries and US$ 40,783 thousand from other investment products.

In 2016, the Group acquired a Bahrain-based educational institution held through two subsidiaries, one subsidiary holding the operations and another holding the property. During the year, the Group sold its entire stake in the subsidiaries holding the operations and the property resulting in the Group losing control over the subsidiaries. Accordingly, the Group had derecognised the operations of the educational institution and property on loss of control.

The disposal had the following impact on the consolidated financial statements for the year ended 31 December 2017:

	US$ 000's
Gross consideration received	207,919
Less: Net assets derecognised on loss of control	127,408
Gain on disposal of subsidiaries	**80,511**

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

Gross consideration received during the year	55,728
Less: Cash and bank balance deconsolidated on loss of control	(2,034)
Net cash generated from disposal of subsidiaries	**53,694**

Total profit of US$ 7,289 thousand from operations of the subsidiaries till the date of loss of control has been presented as "Discontinued Operations" in the consolidated income statement. The comparative for the previous year includes net profit from industrial business that was discontinued in 2016.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

20 INCOME FROM INVESTMENT SECURITIES

US$ 000's

	2017	2016
Dividend income	2,470	1,728
Gain on exit of investment	1,588	1,417
Changes in the fair value of investments carried at fair value through income statement	(5,305)	(7,220)
Income from Sukuk	12,560	7,963
	11,313	**3,888**

21 OTHER INCOME

Other income includes US$ 18 million relating to a real estate sale transaction with a related party , US$ 5.84 million arising on settlement of liabilities and US$ 18.96 million revenue from operations of non-banking subsidiaries. For the previous year, other income primarily comprises recoveries on previously impaired receivables of US$ 5.98 million and revenue from operations of non-banking subsidiaries of US$ 1.81 million.

22 STAFF COST

US$ 000's

	2017	2016
Salaries and benefits	37,969	51,299
Social insurance expenses	2,945	2,665
	40,914	53,964

As per the Group's Variable Incentive Policy, a portion of the annual performance bonus is issued in the form of share awards to its senior management employees. These awards include deferred incentives in the form of shares, share purchase plans and long-term incentive plans with different conditions. The terms of the award, including the type of plan, extent of funding, pricing and deferral period is determined for each year by the Board Nomination, Remuneration and Governance Committee of the Bank.

Performance year	Nature of award	Staff coverage	Summary of deferral and vesting conditions
Legacy share plan	Share Options	Select Senior Management	Initial lock-in period of 3 years and option exercise period over 10 years ending 2018 at an exercise price of USD 0.65/share.
2013 Award	Deferred Annual Bonus	Select Senior Management	A portion of the annual incentive was awarded in the form of shares. In 2015, on introduction of the new share plan, the old plan was converted to a deferred cash settled incentive over a 3 years period from year of award.
2014 Award	Employee Share Purchase Plan	Covered persons in business and control functions who exceed total compensation thresholds as per CBB Remuneration Regulations and Bank's Variable Remuneration policy	Shares are released rateably over the 3 year deferral period. The issue price is determined based on a defined adjustment to market price on the date of the award. No future performance conditions or service conditions. Shares are entitled for dividends, if any, but released over the deferral period.
2015 & 2016 Awards	Employee Share Purchase Plan & Deferred Annual Bonus		
2017 Award			Allocation not approved until the date of the financial statements

22 STAFF COST (contd.)

Share incentive scheme	2017		2016	
	No. of Shares	US$ 000's	No. of Shares	US$ 000's
Opening balance	29,430,640	3,712	54,559,290	4,489
Awarded during the period	12,504,545	6,878	–	–
Dividends	2,714,064	–	–	–
Forfeiture and other adjustments	–	–	–	880
Transfer to employees/settlement	(8,776,842)	(1,022)	(25,128,650)	(1,657)
Closing balance	**35,872,407**	**9,568**	29,430,640	3,712

In case of the employee share purchase plans, the amounts reported in the table represents the vesting charge or benefit which is charged to the income statement and not the gross value of issued shares.

23 OTHER OPERATING EXPENSES

US$ 000's

	2017	2016
Rent	5,255	5,415
Professional and consultancy fee	4,072	4,529
Legal expenses	259	15,388
Depreciation (note 10)	6,279	3,784
Other operating expenses	33,522	19,956
	49,387	49,072

24 IMPAIRMENT ALLOWANCES

US$ 000's

	2017	2016
Financing assets (note 5)	2,085	38,300
Investment securities		
Equity securities (note 6(b))	3,577	61,041
Debt type securities	1,050	867
Investment property (note 7)	2,095	11,600
Equity accounted investees (note 9)	–	36,464
Financing to projects (note 11)	–	51,500
Other receivables (note 11)	114	20,714
Lease rentals receivable (note 11)	460	626
	9,381	221,112

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

25 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 results of transactions included in these consolidated financial statements are as follows:

US$ 000's

2017	Associates/ Joint venture	Key management personnel	Significant shareholders/ entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Financing assets	–	2,565	15,146	17,865	35,576
Equity-accounted investees	81,440	–	–	–	81,440
Investment securities	–	–	6,058	84,194	90,252
Other assets	914	–	–	62,812	63,726
Liabilities					
Investors' funds	146	–	–	15,339	15,485
Customer current account	146	–	873	3,605	4,624
Financing liabilities	–	–	30,238	–	30,238
Other liabilities	–	–	–	27,148	27,148
Equity of investment account holders	1,570	639	6,581	2,321	11,111
Income					
Investment banking income	–	–	26,867	39,516	66,383
Fee and commission income	–	–	–	1,840	1,840
Share of profit of equity- accounted investees	7,022	–	–	–	7,022
Income from investment securities, net	1,588	–	–	1,481	3,069
Other income	–	–	18,000	–	18,000
Expenses					
Return to investment account holders	80	19	219	66	384
Finance expense	–	–	3,130	–	3,130
Staff cost *	–	6,809	–	–	6,809
Other operating expenses	–	5,475	–	–	5,475

** The amount presented excluded bonus to key management personnel for 2017 as allocation has not been finalised at the date of approval of these consolidated financial statements.*

US$ 000's

2016	Associates	Key management personnel	Entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Financing assets	–	–	–	13,523	13,523
Equity-accounted investees	79,010	–	–	–	79,010
Investment securities	–	–	6,058	205,623	211,681
Other assets	6,889	6,568	588	25,082	39,127
Liabilities					
Investors' funds	162	–	–	10,689	10,851
Customer current account	26	–	233	5,047	5,306
Financing liabilities	–	–	35,271	–	35,271
Other liabilities	–	4,255	20,000	12,695	36,950
Equity of investment account holders	1,183	397	–	2,432	4,012
Income					
Investment banking income	–	–	–	3,321	3,321
Management fees	–	–	6,000	1,807	7,807
Share of profit of equity- accounted investees	846	–	–	–	846
Income from investment securities, net	(2,050)	–	186	338	(1,526)
Expenses					
Return to investment account holders	31	5	411	21	468
Staff cost	–	12,320	–	–	12,320
Other operating expenses	–	3,548	11	233	3,792
Impairment allowances	36,464	–	–	60,604	97,068

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

25 RELATED PARTY TRANSACTIONS (contd.)

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 and its significant banking subsidiary.

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

The key management personnel compensation is as follows:

US$ 000's

	2017	2015
Board members' remuneration, fees and allowance	5,475	3,548
Salaries, other short-term benefits and expenses	6,712	12,154
Post-employment benefits	117	166

26 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$ 1,623 million (31 December 2016: US$ 2,781 million). During the year, the Group had charged management fees amounting to US$ 1,840 thousand (2016: US$ 1,807 thousand) to its assets under management.

27 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.

US$ 000's

	2017	2016
In thousands of shares		
Weighted average number of shares for basic & diluted earnings	**2,888,874**	2,467,700

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.

In case of the legacy share options granted to employees prior to 2014, 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 2017. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above. The Bank does not have any other dilutive instruments.

28 ZAKAH AND SOCIAL RESPONSIBILITY

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 Sharia Supervisory Board and notified to shareholders annually. The Zakah payable by shareholders for 31 December 2017 is US$ 0.00169/share and the current year calculations for Zakah are yet to be approved by the Group's Sharia Supervisory Board and will be provided for in the Bank's website

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

29 EARNINGS PROHIBITED BY SHARIA

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 amount to US$ 45 thousand (2016: US$ 95 thousand).

30 SHARIA SUPERVISORY BOARD

The Group's Sharia Supervisory Board consists of four Islamic scholars who review the Group's compliance with general Sharia 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 Sharia principles.

Notes to the consolidated financial statements (contd.)

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31 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation/settlement profile for assets and liabilities respectively. For undiscounted contractual maturity of financial liabilities, refer note 36.

US$ 000's

31 December 2017	**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	190,863	8,520	12,788	4,210	–	64	216,445
Placements with financial institutions	92,789	–	2,780	–	–	–	95,569
Financing assets	190,800	84,438	144,589	338,208	234,467	–	992,502
Investment securities	170,979	5,288	–	305,021	40,120	–	521,408
Asset acquired for leasing	5,035	4,536	8,788	53,286	186,161	–	257,806
Investment property	–	135,500	–	427,280	53,483	–	616,263
Development properties	–	–	–	204,551	688,486	–	893,037
Equity-accounted-investees	–	–	–	53,277	28,163	–	81,440
Property, plant and equipment	–	–	–	–	117,135	–	117,135
Other assets	143,277	14,969	32,439	118,722	9,445	–	318,852
Total assets	**793,743**	**253,251**	**201,384**	**1,504,555**	**1,357,460**	**64**	**4,110,457**
Liabilities							
Investors' funds	608	5,596	17,896	15,313	–	–	39,413
Placements from financial institutions, other entities and individuals	277,506	74,468	212,150	290,958	3,414	–	858,496
Customer current account	115,771	28,027	17,024	9,973	18,812	–	189,607
Financing liabilities	6,225	101,390	38,072	196,039	23,336	–	365,062
Other liabilities	20,547	13,206	56,587	165,393	–	–	255,733
Total liabilities	**420,657**	**222,687**	**341,729**	**677,676**	**45,562**	**–**	**1,708,311**
Equity of investment account holders	416,408	86,658	126,928	40,297	236,062	–	906,353
Off-balance sheet items							
Commitments	10,247	53,941	70,915	94,583	3	–	229,689
Restricted investment accounts	–	11,995	–	16,757	–	–	28,752

US$ 000's

31 December 2016	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	156,380	–	–	–	–	68	156,448
Placements with financial institutions	208,790	5,108	–	–	–	–	213,898
Financing assets	72,167	46,077	108,180	216,188	518,878	–	961,490
Investment securities	–	–	–	291,340	235,863	–	527,203
Asset acquired for leasing	393	19	34	3,592	242,219	–	246,257
Investment property	–	–	–	455,807	32,629	–	488,436
Development properties	–	–	–	202,374	78,598	–	280,972
Equity-accounted-investees	–	–	–	69,387	9,623	–	79,010
Property, plant and equipment	–	–	–	–	–	169,153	169,153
Intangibles and goodwill	–	–	–	54,891	–	–	54,891
Other assets	9,162	11,738	51,763	52,980	–	–	125,643
Total assets	446,892	62,942	159,977	1,346,559	1,117,810	169,221	3,303,401
Liabilities							
Investors' funds	4,928	–	10,012	29,625	–	–	44,565
Placements from financial institutions, other entities and individuals	168,087	37,125	209,354	151,394	4,555	–	570,515
Customer current account	117,932	28,833	17,103	10,019	18,896	–	192,783
Financing liabilities	1,200	–	44,010	123,782	–	–	168,992
Other liabilities	32,704	2,866	23,878	91,743	31,458	–	182,649
Total liabilities	324,851	68,824	304,357	406,563	54,909	–	1,159,504
Equity of investment account holders	389,628	112,446	141,623	76,812	301,681	–	1,022,190
Off-balance sheet items							
Commitments	84,138	45,793	68,530	87,528	4,363	–	290,352
Restricted investment accounts	–	17,408	–	12,321	–	–	29,729

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

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

(a) Industry Sector

US$ 000's

31 December 2017	Banks and financial institutions	Real Estate	Others	Total
Assets				
Cash and bank balances	215,644	595	206	216,445
Placements with financial institutions	95,569	–	–	95,569
Financing assets	29,207	214,947	748,348	992,502
Investment securities	66,250	143,295	311,863	521,408
Assets acquired for leasing	–	257,626	180	257,806
Investment properties	–	616,263	–	616,263
Development properties	–	893,037	–	893,037
Equity-accounted investees	22,461	17,930	41,049	81,440
Property, plant and equipment	–	18,194	98,941	117,135
Other assets	9,003	140,386	169,463	318,852
Total assets	**438,134**	**2,302,273**	**1,370,050**	**4,110,457**
Liabilities				
Investors' funds	3,425	30,268	5,720	39,413
Placements from financial institutions, other entities and individuals	338,621	–	519,875	858,496
Customer current accounts		28,607	161,000	189,607
Financing liabilities	202,192	124,295	38,575	365,062
Other liabilities	–	175,161	80,572	255,733
Total liabilities	**544,238**	**358,331**	**805,742**	**1,708,311**
Equity of Investment account holders	30,314	43,905	832,134	906,353
Off-Balance sheet items				
Commitments	18,999	99,622	111,068	**229,689**
Restricted investment accounts	–	26,118	2,634	**28,752**

US$ 000's

31 December 2016	Banks and financial institutions	Real Estate	Others	Total
Assets				
Cash and bank balances	151,965	1,138	3,345	156,448
Placements with financial institutions	208,790	12	5,096	213,898
Financing assets	11,460	248,483	701,547	961,490
Investment securities	96,464	419,378	11,361	527,203
Assets acquired for leasing	40,178	196,347	9,732	246,257
Investment properties	–	488,436	–	488,436
Development properties	–	280,972	–	280,972
Equity-accounted investees	30,611	4,903	43,496	79,010
Property, plant and equipment	–	17,878	151,275	169,153
Intangible assets	–	–	54,891	54,891
Other assets	3,210	74,403	48,030	125,643
Total assets	542,678	1,731,950	1,028,773	3,303,401
Liabilities				
Investors' funds	3,606	11,171	29,788	44,565
Placements from financial institutions, other entities and individuals	156,728	–	413,787	570,515
Customer current accounts	552	31,430	160,801	192,783
Financing liabilities	81,722	38,425	48,845	168,992
Other liabilities	577	69,491	112,581	182,649
Total liabilities	243,185	150,517	765,802	1,159,504
Equity of Investment account holders	54,105	56,886	911,199	1,022,190
Off-Balance sheet items				
Commitments	12,613	118,133	159,606	290,352
Restricted investment accounts	–	29,729	–	29,729

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

32 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (contd.)

(b) Geographic Region

US$ 000's

31 December 2017	GCC countries	MENA	Asia	Others	Total
Assets					
Cash and bank balances	166,645	601	27	49,172	216,445
Placements with financial institutions	95,569	–	–	–	95,569
Financing assets	910,568	–	95	81,839	992,502
Investment securities	437,814	103	65,191	18,300	521,408
Assets acquired for leasing	257,806	–	–	–	257,806
Investment properties	403,763	77,000	–	135,500	616,263
Development properties	102,474	395,565	394,998	–	893,037
Equity-accounted investees	81,440	–	–	–	81,440
Property, plant and equipment	114,853	2,282	–	–	117,135
Other assets	166,157	817	8,462	143,416	318,852
Total assets	**2,737,089**	**476,368**	**468,773**	**428,227**	**4,110,457**
Liabilities					
Investors' funds	23,580	520	–	15,313	39,413
Placements from financial institutions, other entities and individuals	771,894	86,602	–	–	858,496
Customer current accounts	169,710	–	1,539	18,358	189,607
Financing liabilities	256,375	14,787	–	93,900	365,062
Other liabilities	165,454	22,086	60,500	7,693	255,733
Total liabilities	**1,387,013**	**123,995**	**62,039**	**135,264**	**1,708,311**
Equity of investment account holders	891,690	–	6,591	8,072	906,353
Off-Balance sheet items					
Commitments	215,460	10,930	–	3,299	**229,689**
Restricted investment accounts	26,118	–	–	2,634	**28,752**

Concentration by location for 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).

US$ 000's

31 December 2 016	GCC countries	MENA	Asia	Others	Total
Assets					
Cash and bank balances	132,117	55	19	24,257	156,448
Placements with financial institutions	213,886	12	–	–	213,898
Financing assets	893,198	–	–	68,292	961,490
Investment securities	393,820	30,130	101,403	1,850	527,203
Assets acquired for leasing	178,916	–	57,612	9,729	246,257
Investment properties	411,436	77,000	–	–	488,436
Development properties	100,297	180,675	–	–	280,972
Equity-accounted investees	79,010	–	–	–	79,010
Property, plant and equipment	167,216	1,937	–	–	169,153
Intangible asset	54,891	–	–	–	54,891
Other assets	106,635	–	4,277	14,731	125,643
Total assets	2,731,422	289,809	163,311	118,859	3,303,401
Liabilities					
Investors' funds	34,076	476	–	10,013	44,565
Placements from financial institutions, other entities and individuals	484,314	86,201	–	–	570,515
Customer current accounts	188,037	–	–	4,746	192,783
Financing liabilities	147,163	21,829	–	–	168,992
Other liabilities	159,140	16,602	–	6,907	182,649
Total liabilities	1,012,730	125,108	–	21,666	1,159,504
Equity of investment account holders	1,013,883	–	6,997	1,310	1,022,190
Off-Balance sheet items					
Commitments	290,215	–	–	137	290,352
Restricted investment accounts	29,729	–	–	–	29,729

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

33 OPERATING SEGMENTS

The Group has four distinct operating segments, Real Estate Development, Asset Management, Private Equity and Commercial Banking, 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:

- **Real Estate Development:** 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.

- **Investment Banking:** The Banking segment of the Group is focused on private equity and asset management domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The asset management unit is responsible for identifying and managing investments in yielding real estate in the target markets of the GCC. 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.

- **Commercial Banking:** These include commercial and corporate banking, retail banking, wealth management, structured investment products and project financing facilities of the Group's commercial banking subsidiary.

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 independent overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 32 (b) to the consolidated financial statements.

US$ 000's

31 December 2017	Real estate development	Investment banking	Commercial banking	Unallocated/ Elimination	Total
Segment revenue	14,893	135,490	56,085	5,180	211,648
Segment expenses (including impairment allowances)	9,931	35,435	44,815	18,279	108,460
Segment result *	4,962	100,055	11,270	(13,099)	103,188
Segment assets	1,556,265	468,122	2,071,510	14,560	4,110,457
Segment liabilities	680,103	217,881	776,471	33,856	1,708,311
Other segment information					
Finance expense	24,320	7,321	13,951	(1,900)	43,692
Impairment allowance	-	(1,333)	10,714	-	9,381
Equity accounted investees	-	69,211	12,229	-	81,440
Equity of investment account holders	-	-	905,190	1,163	906,353
Commitments	51,607	-	178,082	-	229,689

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

31 December 2016	Real estate development	Investment banking	Commercial banking	Unallocated/Elim-ination	Total
Segment revenue	48,795	1,472	63,609	465,080	578,956
Segment expenses (including impairment allowances)	129,460	122,649	68,522	25,277	345,908
Segment result *	(80,665)	(121,177)	(4,913)	439,803	233,048
Segment assets	914,893	376,768	2,012,401	(661)	3,303,401
Segment liabilities	243,569	194,997	644,145	76,793	1,159,504
Other segment information					
Finance expense	11,087	4,492	7,894	(36)	23,437
Impairment allowance	103,905	81,441	35,766	-	221,112
Equity accounted investees	-	79,010	-	-	79,010
Equity of investment account holders	-	-	1,021,038	1,152	1,022,190
Commitments	105,129	10,696	174,527	-	290,352

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

34 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 2017 and 31 December 2016, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models. 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$ 185,775 thousand (31 December 2016: US$ 287,180 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 2017.

Investments amounting to US$ 185,775 thousand (31 December 2016: US$ 287,180 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 2017, the fair value of financing liabilities was estimated at US$ 365,062 thousand (carrying value US$ 365,062 thousand) (31 December 2016: fair value US$ 159,545 thousand (carrying value US$ 168,992 thousand)). These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of financing liabilities as these are largely floating rate instruments.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

34 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).

US$ 000's

	Level 1	Level 2	Level 3	Total
31 December 2017				
Investment securities carried at fair value through:				
– income statement	–	–	34,875	34,875
– equity	103	–	–	103
	103	**–**	**34,875**	**34,978**
31 December 2016				
Investment securities carried at fair value through:				
– income statement	377	–	40,180	40,557
– equity	103	–	1,973	2,076
	480	–	42,153	42,633

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

US$ 000's

	2017	2016
At 1 January	42,153	62,320
De-recognized on loss of control	(1,973)	–
Total gains or losses in income statement	(5,305)	(2,050)
Disposals during the year	–	(18,117)
At 31 December	**34,875**	**42,153**

35 COMMITMENTS AND CONTINGENCIES

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

US$ 000's

	31 December 2017	31 December 2016
Undrawn commitments to extend finance	129,302	174,527
Financial guarantees	73,960	85,129
Capital commitments for infrastructure development	20,000	20,000
Commitment to invest	6,427	10,696

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2017 due to the performance of any of its projects.

Litigations, claims and contingencies

Litigations and claims

The Group has a number of claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Further, claims against the Bank also have been filed by former employees. Based on the advice of the Bank's external legal counsel, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Appropriate provision have been made in the books of accounts. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

36 FINANCIAL RISK MANAGEMENT

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 Bank's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The material subsidiaries consolidated in these financial statements have independent risk management frameworks which is monitored by the respective Board of Directors of the subsidiaries. Accordingly, such risk management policies, procedures and practices are not included in these consolidated financial statements.

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.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

36 FINANCIAL RISK MANAGEMENT (contd.)

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.

Exposure to credit risk

US$ 000's

31 December 2017	Bank balances	Placement with financial institutions	Financing assets	Investment securities – debt type instruments	Assets acquired for leasing (including lease rent receivables)	Other financial assets
Neither past due nor impaired - Carrying amount	216,445	95,569	797,269	300,265	217,393	246,751
Impaired						
Gross amount	–	–	208,658	4,149	15,719	441,869
Allowance for impairment	–	–	(80,502)	(3,759)	(210)	(428,980)
Impaired- Carrying amount	**–**	**–**	**128,156**	**390**	**15,509**	**12,889**
Past due but not impaired – carrying amount	**–**	**–**	**76,008**	**–**	**50,479**	**23,699**
Less : Collective impairment	**–**	**–**	**(8,931)**	**–**	**(2,790)**	**–**
Total – carrying amount	**216,445**	**95,569**	**992,502**	**300,655**	**280,591**	**283,339**

31 December 2016	Bank balances	Placement with financial institutions	Financing assets	Investment securities – debt type instruments	Assets acquired for leasing	Other financial assets
Neither past due nor impaired - Carrying amount	138,177	213,898	836,353	194,806	214,663	77,771
Impaired						
Gross amount	–	–	175,570	4,594	7,408	470,122
Allowance for impairment	–	–	(121,132)	(2,010)	–	(454,419)
Impaired- Carrying amount	–	–	54,438	2,584	7,408	15,703
Past due but not impaired – carrying amount	–	–	82,289	–	33,554	24,687
Less : Collective impairment	–	–	(11,590)	–	(2,544)	–
Total – carrying amount	138,177	213,898	961,490	197,390	253,081	118,161

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.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

36 FINANCIAL RISK MANAGEMENT (contd.)

a) Credit risk (contd.)

The movement in the impairment allowances for financing assets and investment securities is given in notes 5 and 6 respectively. The movement in impairment allowance for other financial assets are as given below:

US$ 000's

	Financing receivables	Financing to projects	Receivable from investment banking services	Other receivables	Total
2017					
At 1 January 2017	70,150	141,588	8,964	71,374	292,076
Impairment charge	–	–	–	–	–
At 31 December 2017	**70,150**	**141,588**	**8,964**	**71,374**	**292,076**
2016					
At 1 January 2016	70,150	90,088	153,630	75,311	389,179
Impairment charge	–	51,500	–	20,714	72,214
Write-off during the year	–	–	(144,666)	(24,651)	(169,317)
At 31 December 2016	70,150	141,588	8,964	71,374	292,076

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 represents working capital and other funding extended to projects managed and promoted by the Group. The financing is expected to be recovered from the operating cash flows of the underlying project assets.

Financing to projects of US$ 3.44 million (31 December 2016: US$ 6.44 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 32 (a) and (b).

Collaterals

The Group holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/ pledge over property, listed/ unlisted securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and updated periodically, generally at annual intervals. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

	As at 31 December 2017			As at 31 December 2016		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Against impaired						
Property	75,717	15,501	**91,218**	38,687	7,387	46,074
Equities	5,769	–	**5,769**	8,546	–	8,546
Other	–	–	**-**			
Against past due but not impaired						
Property	54,610	56,838	**111,448**	73,263	47,506	120,769
Equities	13,745	–	**13,745**	5,597	–	5,597
Other						
Against neither past due nor impaired						
Property	257,223	208,422	**465,645**	250,194	205,316	455,510
Equities	–	–	**-**	1,056	–	1,056
Other	67,814	53	**67,867**	85,525	–	85,525
Total	**474,878**	**280,814**	**755,692**	462,868	260,209	723,077

The average collateral coverage ratio on secured facilities is 126.86% as at 31 December 2017 (31 December 2016: 114.47%).

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

36 FINANCIAL RISK MANAGEMENT (contd.)

a) Credit risk (contd.)

An analysis of concentrations of credit risk of the commercial banking business at the reporting date is shown below:

US$ 000's

	As at 31 December 2017			As at 31 December 2016		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Banking and finance	29,207	–	**29,207**	32,780	–	32,780
Real estate	157,666	280,411	**438,077**	171,158	250,631	421,789
Construction	95,271	–	**95,271**	77,260	–	77,260
Trading	240,560	–	**240,560**	272,239	–	272,239
Manufacturing	119,602	–	**119,602**	104,480	–	104,480
Others	350,196	180	**350,376**	303,573	2,451	306,024
Total carrying amount	**992,502**	**280,591**	**1,273,093**	961,490	253,082	1,214,572

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 Management Committee (MANCOM). 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 31 for the expected maturity profile of assets and liabilities.

US$ 000's

	Gross undiscounted cash flows						
31 December 2017	**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	4,018	5,596	14,486	15,313	–	**39,413**	39,413
Placements from financial institutions, other entities and individuals	297,652	176,701	187,041	227,080	3,484	**891,958**	858,496
Customer current accounts	115,771	28,027	17,024	9,973	18,812	**189,607**	189,607
Financing liabilities	7,401	8,622	152,783	193,773	27,975	**390,554**	365,062
Other liabilities	20,547	13,206	56,587	165,393	–	**255,733**	255,733
Total liabilities	445,389	232,152	427,921	611,532	50,271	**1,767,265**	1,708,311
Equity of investment account holders	416,408	86,658	126,928	40,297	236,062	**906,353**	**906,353**
Commitment and contingencies	10,247	53,941	70,915	94,583	3	**229,689**	**229,689**

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.

US$ 000's

	Gross undiscounted cash flows						
31 December 2016	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	4,928	–	10,012	29,625	–	44,565	44,565
Placements from financial institutions, other entities and individuals	250,473	64,802	183,638	82,696	4,661	586,270	570,515
Customer current accounts	117,932	28,833	17,103	10,019	18,897	192,784	192,783
Financing liabilities	3,788	7,903	33,396	99,612	33,909	178,608	168,992
Other liabilities	30,491	2,288	4,045	137,049	6,463	180,336	180,336
Total liabilities	407,612	103,826	248,194	359,001	63,930	1,182,563	1,157,191
Equity of investment account holders	397,932	114,564	144,291	78,259	307,365	1,042,411	1,022,190
Commitment and contingencies	84,138	45,793	68,530	87,527	4,364	290,352	290,352

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

36 FINANCIAL RISK MANAGEMENT (contd.)

b) Liquidity risk (contd.)

Measures of liquidity

Liquidity is managed at an entity level and is not a Group wide measure. The Bank follows certain internal measures of liquidity. These 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 is based on an internally defined management criteria which identifies the amount of liquid assets (including inter- bank placements) the Bank holds that can be used to offset the net cash outflows for 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.

US$ 000's

	2017	2016
30 days	3.56	4.54
60 days	2.32	2.94
90 days	1.67	2.81

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

US$ 000's

	2017	2016
Net stable funding ratio	0.95	0.89

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

US$ 000's

	Liquid asset/Total asset	
	2017	2016
At 31 December	7.59%	17.19%
Average for the year	9.56%	12.32%
Maximum for the year	10.76%	17.19%
Minimum for the year	7.59%	9.44%

(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 ('BARC'). RMD is responsible for the development of detailed risk management policies (subject to review and approval of the BARC).

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:

US$ 000's

	Up to 3 months	**3 to 6 months**	**6 months–1 year**	**1 to 3 years**	**Over 3 years**	**Total**
31 December 2017						
Assets						
Placements with financial institutions	92,789	–	2,780	–	–	95,569
Financing assets	135,862	33,560	142,900	199,650	480,530	992,502
Investment securities (Sukuk)	–	–	753	390	299,512	300,655
Assets acquired for leasing (including lease rental receivable)	–	18	–	20,629	259,944	280,591
Total assets	**33,578**	**146,433**	**220,669**	**1,039,986**	**1,669,317**	**228,651**
Liabilities						
Investors' funds	4,018	5,596	14,486	15,313	–	39,413
Placements from financial institutions, other entities and individuals	280,721	70,675	204,100	303,000	–	858,496
Financing liabilities	6,225	101,390	38,072	196,039	23,336	365,062
Total liabilities	**290,964**	**177,661**	**256,658**	**514,352**	**23,336**	**1,262,971**
Equity of investment account holders	506,975	176,549	186,280	36,546	3	906,353
Profit rate sensitivity gap	**(569,288)**	**(320,632)**	**(296,505)**	**(330,229)**	**1,016,647**	**(500,007)**
31 December 2016						
Assets						
Placements with financial institutions	206,064	5,096	2,738	–	–	213,898
Financing assets	72,167	46,077	108,180	216,188	518,878	961,490
Investment securities (Sukuk)	–	–	3,976	3,897	189,517	197,390
Assets acquired for leasing (including lease rental receivable)	393	19	34	3,591	242,220	246,257
Total assets	51,192	114,928	223,676	950,615	1,619,035	278,624
Liabilities						
Investors' funds	4,928	–	10,012	29,625	–	44,565
Placements from financial institutions, other entities and individuals	160,511	40,963	183,699	182,941	2,401	570,515
Financing liabilities	1,200	–	44,011	123,781	–	168,992
Total liabilities	166,639	40,963	237,722	336,347	2,401	784,072
Equity of investment account holders	522,113	233,623	224,493	41,961	–	1,022,190
Profit rate sensitivity gap	(410,128)	(223,394)	(347,287)	(154,632)	948,214	(187,227)

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

36 FINANCIAL RISK MANAGEMENT (contd.)

(c) Market Risks (contd.)

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:

US$ 000's

100 bps parallel increase/(decrease)	**2017**	2016
At 31 December	±5,250	±1,888
Average for the year	±3,511	±2,160
Maximum for the year	±5,250	±2,773
Minimum for the year	±73	±953

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.

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

US$ 000's

	2017	2016
Placements with financial institutions	1.87%	1.68%
Financing assets	6.12%	5.89%
Debt type investments	5.20%	5.41%
Placements from financial institutions, other entities and individuals	2.60%	1.78%
Financing liabilities	4.58%	3.59%
Equity of investment account holders	2.07%	1.77%

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:

	2017 US$ '000 Equivalent	2016 US$ '000 Equivalent
Sterling Pounds	9,874	20,680
Euro	(712)	9,710
Australian dollars	12,220	12,223
Kuwaiti dinar	22,690	19,822
Jordanian Dinar	6	3
Indian rupee	24	19
Other GCC Currencies (*)	(77,926)	27,918

(*) 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:

	2017 US$ '000 Equivalent	2016 US$'000 Equivalent
Sterling Pounds	±494	±1,034
Euros	±36	±485
Australian dollar	±611	±611
Kuwaiti dinar	±1,134	±991
Jordanian Dinar	±0.32	±0.15
Indian rupee	±1.19	±0.95

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. 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.

37 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 CBB sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. Capital adequacy regulations of CBB is based on the principles of Basel III and the IFSB guidelines.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2017

37 CAPITAL MANAGEMENT (contd.)

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

- Tier 1 capital: includes CET1 and AT1.
  CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal/statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

  AT1 comprise of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

- Tier 2 capital, includes instruments issued by the Bank that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and regulatory adjustments applied in the calculation of Tier 2 capital.

The regulatory adjustments are subject to limits prescribed by the CBB requirements, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitisation transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

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

US$ 000's

	2017	2016
Total risk weighted exposures	**8,387,708**	4,454,973
CET 1	1,342,931	1,036,135
AT1	7,296	4,979
Tier 1 capital	**1,347,854**	1,041,114
Tier 2 capital	26,453	17,909
Total regulatory capital	**1,376,680**	1,059,023
Total regulatory capital expressed as a percentage of total risk weighted assets	**16.41%**	23.77%

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

38 APPROPRIATIONS

The Board of Directors proposes the following appropriations subject to shareholders' approval in annual general meeting.
- Dividend of 8.71% of the paid-up share capital amounting to US$ 85 million in the form of cash ;
- Appropriation of US$ 787 thousand towards Zakah for the year.

39 COMPARATIVES

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

Risk and Capital Management

Risk and Capital Management

1 EXECUTIVE SUMMARY

This section 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 2017, the Group's total capital ratio stood at a healthy ratio of 16.41%.

The Bank's Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel 3/IFSB for Islamic financial institutions framework.

The Group total risk weighted assets as at 31 December 2017 amounted to USD 8,387,708 thousand. Credit risk accounted for 96.4%, operational risk 3%, and market risk 0.6% of the total risk weighted assets respectively. Tier I and total regulatory capital were USD 1,350,227 thousand and USD 1,376,680 thousand respectively, as at 31 December 2017.

At 31 December 2017, Group's CET1, T1 capital and total capital adequacy ratios were at 16.01%, 16.10% and 16.41% respectively.

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 2017, presented in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation 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 2017.

2 INTRODUCTION

The Basel III framework consists of three mutually reinforcing pillars:
i. **Pillar 1:** Minimum capital requirements for credit risk, market risk and operational risk.
ii. **Pillar 2:** Supervisory review of capital adequacy including Internal Capital Adequacy Assessment process (ICAAP)
iii. **Pillar 3:** Market discipline including rules for disclosure of risk management and capital adequacy

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 12.5% minimum Capital Adequacy Ratio (CAR) including Capital Conservation Buffer (CCB) requirement of 2.5%.

In the event that the CAR falls below 12.5 percent (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 a minimum CAR of 12.5 percent (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 uses the ICAAP document for internal capital monitoring purposes.

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 full disclosure during year end to coincide with the financial year-end reporting.

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 endeavour to enhance its existing framework and adopt international best practices of risk management, corporate governance and the highest level of market discipline.

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.

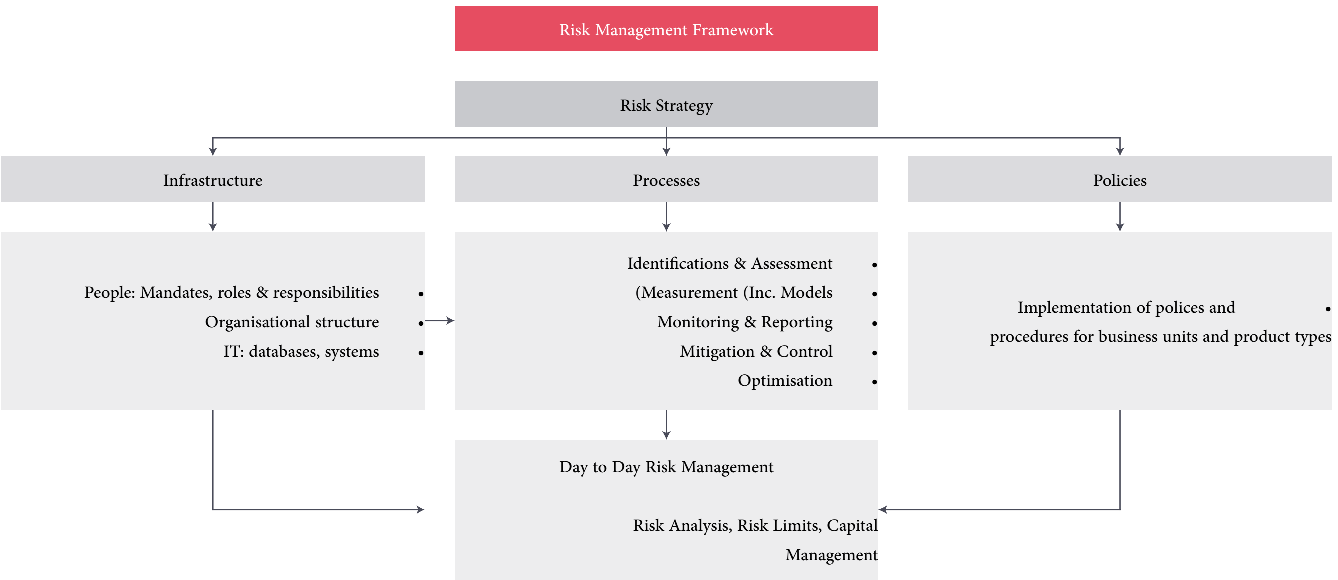
Risk and Capital Management (contd.)

3 OVERALL RISK AND CAPITAL MANAGEMENT (contd.)

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 III:

- 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 Board	Internal Audit
Level 2	Board Committees • Board Nomination, Remuneration, and Governance Committee • Board Investment Committee • Board Audit & Risk Committee	
Level 3	Senior Management Committees • Management Committee (MANCOM)	
Level 4	Risk Management Department • Credit & Investment Risk • Market Risk • Liquidity Risk • Operational Risk	
Level 5	Desktop level procedures 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 Committee ('ARC') 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 ARC 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 and Basel III implementation as required by the CBB and facilitating the performance of key Basel II and Basel III activities.
- Identifying and recommending risk analysis tools and techniques as required under Basel II and Basel III, 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 reports and other risk items 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.

Risk and Capital Management (contd.)

3 OVERALL RISK AND CAPITAL MANAGEMENT (contd.)

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 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 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 Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. From 1 January 2015, capital adequacy regulations of CBB is based on the principles of Basel III of the IFSB guidelines.

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

- **Tier 1 capital:** includes CET1 and AT1.
  CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal/statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

  AT1 comprise of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

- **Tier 2 capital,** Includes instruments issued by the Bank that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and regulatory adjustments applied in the calculation of Tier 2 capital.

The regulatory adjustments are subject to limits prescribed by the CBB requirements, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitisation transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

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.

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.

Risk and Capital Management (contd.)

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 2017. 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(b) and 2(f) in the consolidated financial statements for more details on the accounting policies for investments, including subsidiaries and associates of the Bank.

The principal subsidiaries and associates as at 31 December 2017 and their treatment for capital adequacy purposes are as follows:

Subsidiaries	Entity classification as per PCD Module for consolidated capital adequacy	Treatment by the Bank	
		Consolidated	Solo basis
Khaleeji Commercial Bank (KHCB) BSC	Banking subsidiary	Full consolidation	Full deduction from capital
GFH Sukuk Limited	Financial entity	Full consolidation	No impact as no direct investment by the Bank and the entity is a securitisation vehicle.
Morocco Gateway Investment Company (MGIC)	Commercial entity	Risk weighting of investment exposure	
GFH Capital Limited	Financial entity	Full consolidation	Full deduction from capital
KHCB Asset Company	Financial entity	Full consolidation	No impact as no direct investment by the Bank and the entity is a securitisation vehicle.
Harbour North 1 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. GFH Properties SPC Harbour Row 2 Real Estate S.P.C. Harbour Row 3 Real Estate S.P.C. Harbour Row 4 Real Estate S.P.C.	Commercial Entities	Risk weighting (look through approach) approved by the CBB on 27 May 2012 [ii]	
Delmon Lost Paradise Project Company 1 SPC	Commercial entity	Risk weighting (look through approach) approved by the CBB on 27 May 2012 [ii]	
Delmon Lost Paradise Project Company 2 SPC	Commercial entity		
Al Areen Hotels SPC	Commercial entity	Risk weighting of investment exposure	
Al Areen Leisure and Tourism Company – The Lost Paradise of Dilmun SPC (LPOD)	Commercial entity	Risk weighting of investment exposure	
Tunis Bay Investment Company	Commercial entity	Risk weighting of investment exposure	
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Project")	Commercial entities	Risk weighting of investment exposure	
GCL CPOL Management Company	Commercial entity	Risk weighting of investment exposure	

Associates	Entity classification as per PCD Module for consolidated capital adequacy	Treatment by the Bank for consolidated and solo basis
Falcon Cement Company BSC	Commercial entity	Risk weighting of investment exposure
Bahrain Aluminium Extrusion Company BSC	Commercial entity	Risk weighting of investment exposure
Global Banking Corporation BSC (GB Corp) [i]	Financial entity	Regulatory adjustment (deduction from capital)
Ensha Development Real Estate BSC	Commercial entity	Risk weighting of investment exposure
Capital Real Estate Projects BSC	Commercial entity	Risk weighting of investment exposure

[i] The Bank's investment in GB Corp does not exceed the threshold for deduction from capital, and hence, the entire investment exposure is risk weighted as per the regulatory adjustment.
[ii] These are pass-through entities and hence the underlying assets are risk weighted.

The investments in subsidiaries and associates are subject to large exposure and connected counter party limits and guidelines set by the CBB. Significant investment in banking subsidiaries and financial entities that exceed the threshold for deduction from capital, the excess should be deducted from the capital of the Group.

The Central Bank of Bahrain, vide its letter dated 20 June 2017, has provided GFH Financial Group with an exemption from including the assets acquired via recovery and via the shares swap as part of the Large Exposure and Connected Counterparty limits.

KHCB, a banking subsidiary of the Bank, is a locally incorporated commercial bank and the specific quantitative and qualitative disclosures pertaining to all the risks of KHCB have been disclosed in the Risk Management Disclosures of KHCB as at 31 December 2017, which can be accessed through the Annual report of KHCB. This document provides the risk and capital management disclosures of the GFH. The KHCB specific disclosures and requirements that are disclosed in the annual report of KHCB were not reproduced in this document.

This document intends to combine the risk and capital management disclosures of the parent bank and its involvement with its subsidiaries and associates. The quantitative disclosures in these documents provide further details of the exposures used for capital calculation purposes (where some entities are consolidated and some may be risk weighted) and accordingly will not match with the consolidated financial statements of the Group.

There are no restrictions for transfer of capital other than those applicable to licensed financial entities and process of commercial companies' law of respective jurisdictions.

Risk and Capital Management (contd.)

5 COMPOSITION OF CAPITAL

5.1 3 steps approach to reconciliation between balance sheet in published financial statements and the composition of capital disclosure template

Step 1 and 2: Statement of financial position under the regulatory scope of consolidation and reconciliation of published financial statements to regulatory reporting as at 31 December 2017.

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

US$ 000's

Total Capital	Balance sheet as in published financial statements As at 31 December 2017	Consolidated PIRI data As at 31 December 2017	Reference
ASSETS			
Cash and bank balance	216,445	215,643	
Placement with financial institutions	95,569	95,569	
Financing assets	992,502	992,502	
Of which collective impairment provisions	(8,931)	(8,931)	a
Investment securities	521,408	1,076,335	
Of which equity investments in financial entities	40,896	40,896	b
Assets acquired for leasing	257,806	257,806	
Of which collective impairment provisions	(2,790)	(2,790)	a
Investment properties	616,263	480,763	
Development properties	893,037	214,928	
Equity-accounted investees	81,440	81,440	
Of which equity investments in financial entities	22,456	22,456	c
Property, plant and equipment	117,135	22,083	
Other assets	318,852	289,695	
Total assets	**4,110,457**	**3,726,764**	
LIABILITIES			
Investors' fund	39,413	39,413	
Placements from financial institutions, other entities and individuals	858,496	858,496	
Customer current accounts	189,607	189,607	
Financing liabilities	365,062	248,037	
Other liabilities	255,733	118,426	
Total liabilities	1,708,311	1,453,979	
Equity of investment account holders	**906,353**	**906,353**	

Total Capital	Balance sheet as in published financial statements As at 31 December 2017	Consolidated PIRI data As at 31 December 2017	Reference
OWNERS' EQUITY			
Share capital	975,638	975,638	d
Treasury shares	(58,417)	(58,417)	e
Statutory reserve	105,893	107,672	f
Share premium	3,058	3,058	g
Retained earnings	122,825	31,352	
Share grant reserve	1,026	928	h
Total equity attributable to shareholders of the Bank	**1,150,023**	**1,058,550**	
Non-controlling interests	345,770	307,882	
Total owners' equity	**1,495,793**	**1,366,432**	
Total liabilities, equity of investment account holders and owners' equity	**4,110,457**	**3,726,764**	

The table below shows the total assets and shareholders' equity of the Bank's subsidiaries as at 31 December 2017 which are not consolidated for capital adequacy calculation purposes. For principal activities of these subsidiaries refer Note 1 of the consolidated financial statements as at 31 December 2017.

Entity name	Total Assets *	Total Shareholders' equity *
Morocco Gateway Investment Company (MGIC)	142,505	104,481
Al Areen Hotels SPC	100,097	95,745
Al Areen Leisure and Tourism Company – The Lost Paradise of Dilmun SPC (LPOD)	37,464	36,686
Energy City Navi Mumbai & Mumbai IT Technology Company (India Projects)	308,455	253,900
Tunis Bay Investment Company (TBIC)	109,929	90,406
GCL CPOL Management Company	135,500	41,600

**The numbers disclosed are before considering acquisition accounting adjustments and intercompany eliminations.*

Risk and Capital Management (contd.)

5 COMPOSITION OF CAPITAL (contd.)

Step 3: Composition of Capital Disclosure Template (transition)

US$ 000's

	Component of regulatory capital reported by bank	Amounts subject to pre-2015 treatment	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1): instruments and reserves			
Directly issued qualifying common share capital plus related stock surplus	975,638	–	d
Treasury shares	(58,417)	–	e
Statutory reserves	105,893	–	f
Share premium	3,058	–	g
Retained earnings	228,205	–	
Accumulated other comprehensive income and losses (and other reserve)	1,026	–	h
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	87,528	–	
Common Equity Tier 1 capital before regulatory adjustments	**1,342,931**		
Common Equity Tier 1 capital: regulatory adjustments			
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	–	–	
Total regulatory adjustments to Common equity Tier 1	**-**		
Common equity Tier 1 capital (CET 1)	**1,342,931**		
Additional Tier 1 capital: instruments			
Instrument issued by banking subsidiaries to third parties	7,296	–	
Additional Tier 1 capital (AT1)	7,296		
Tier 1 capital (T1 = CET1 + AT1)	**1,350,227**		
Tier 2 capital: instruments and provisions			
Instruments issued by banking subsidiaries to third parties	14,732	–	
Provisions	11,721	–	a
Tier 2 capital before regulatory adjustments	**26,453**		
Tier 2 capital: regulatory adjustments			
Total regulatory adjustments to Tier 2 capital	–	–	
Total Tier 2 capital (T2)	–		
Total capital (TC = T1+T2)	1,376,680		
Total risk weighted assets	**8,387,712**		

	Component of regulatory capital reported by bank	Amounts subject to pre-2015 treatment	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
Capital ratios and buffers			
Common Equity Tier 1 (CET1) (as a percentage of risk weighted assets)	16.01%		
Tier 1 (T1) (as a percentage of risk weighted assets)	16.10%		
Total capital (as a percentage of risk weighted assets)	**16.41%**		
National minima including CCB (if different from Basel III)			
CBB Common Equity Tier 1 minimum ratio	9.00%		
CBB Tier 1 minimum ratio	10.50%		
CBB total capital minimum ratio	12.50%		
Amounts below the thresholds for deduction (before risk weighting)			
Non-significant investments in the capital of other financial entities	40,896	–	**b**
Significant investment in common stock of financial entities	22,456	–	**c**
Applicable caps on the inclusion of provisions in Tier 2			
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	11,721		**a**

Risk and Capital Management (contd.)

5 COMPOSITION OF CAPITAL (contd.)

Disclosure template for main features of regulatory capital instruments

Issuer	GFH Financial Group BSC
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GFH (DFM) GFH (BHB) GFH (KSE)
Governing law(s) of the instrument Regulatory treatment	All applicable laws and regulations in the Kingdom of Bahrain.
Transitional CBB rules	NA
Post-transitional CBB rules	NA
Eligible at solo/group/group & solo	Yes
Instrument type (types to be specified by each jurisdiction)	Common shares
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	USD 976 million
Par value of instrument	USD 0.265
Accounting classification	Shareholders' equity
Original date of issuance	1999
Perpetual or dated	NA
Original maturity date	NA
Issuer call subject to prior supervisory approval	NA
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable Coupons/dividends	NA
Dividends	Dividends as decided by the shareholders
Coupon rate and any related index	NA
Existence of a dividend stopper	NA
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	NA
Noncumulative or cumulative	NA
Convertible or non-convertible	NA
If convertible, conversion trigger (s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down feature	NA
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-up mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
Non-compliant transitioned features	NA
If yes, specify non-compliant features	NA

NA – Not applicable

6 CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIO

6.1 Capital adequacy

The Bank's regulator CBB sets and monitors capital requirements for the Bank as a whole (i.e. at a consolidated level). The banks are required to maintain minimum capital adequacy ratio of 12.5% on a consolidated basis [i.e. CET1 – 6.5%, AT1-1.5%, Tier 2 – 2% and CCB – 2.5%] and a capital adequacy ratio of 8% on a solo basis [i.e. CET1 – 4.5%, AT1 – 1.5% and Tier 2– 2%]. 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 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 has adopted the standardised approach to credit and market risk and basic indicator approach for operational risk management under the revised framework.

The Group 's regulatory capital position at 31 December 2017 was as follows:

US$ 000's

Total Capital	31 December 2017
Common Equity Tier 1 (CET 1)	
Issue and fully paid ordinary shares	975,637
Less: Treasury shares	(58,417)
Statutory reserve	107,672
Share premium	3,058
Retained earnings	123,338
Current interim cumulative net profit	103,188
Other reserves	928
Total CET1 capital before minority interest	**1,255,403**
Total minority interest in banking subsidiaries given recognition in CET1 capital	87,528
Total CET1 capital prior to the regulatory adjustments	**1,342,932**
Less: Investment in own shares	-
Total CET1 capital after to the regulatory adjustments	**1,342,932**
Other capital - Additional Tier 1 (AT1) & Tier 2 (T2) capital	
Instruments issued by banking subsidiaries to third parties	
– AT1	7,296
– T2	14,732
General financing loss provisions	
– T2	11,721
Total Available AT1 & T2 capital	**33,749**
Total Capital	**1,376,681**

Risk and Capital Management (contd.)

6 CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIO (cond.)

6.1 Capital adequacy (contd.)

US$ 000's

Risk weighted exposures	31 December 2017
Credit Risk	8,085,323
Market risk	52,200
Operational risk	250,189
Total Capital Base	**8,387,712**
Less: Investment risk reserve (30% only)	(2)
Less: Profit equalisation reserve (30% only)	(3)
Total adjusted risk weighted exposures	**8,387,707**
CET1 ratio	16.01%
T1 ratio	16.10%
Total Capital Adequacy ratio (Total Capital)	**16.41%**

Total and Tier 1 Capital ratios of Khaleeji Commercial Bank BSC (c) (significant banking subsidiary of GFH) are as follows:

Capital adequacy ratio (CET1 and T1)	16.31%
Capital Adequacy ratio (Total capital)	**16.96%**

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

If the risk weighted assets is computed after applying the exemptions provided by the Central Bank of Bahrain vide its letter dated 20 June 2017, the value of "Total regulatory capital expressed as a percentage of total risk weighted assests" would be 22.8%.

6.2 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 uses the ICAAP document for internal capital monitoring purposes.

7 CREDIT RISK

7.1 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 assets, 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 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).

7.2 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, documentation 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 36 to the consolidated financial statements for additional details on the processes for measuring and managing credit risk.

7.3 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 equity of investment account holders [EIAH] are required to be included.

Risk and Capital Management (contd.)

7 CREDIT RISK (contd.)

7.3 Capital requirements for credit risk (contd.)

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

US$ 000's

Exposure Class	Gross Credit Exposures	Credit Risk Mitigant	Credit Risk Exposure After Credit Risk Mitigant	Average Risk weights	Total Credit risk Weighted Exposure
Self-financed assets					
Cash items	21,568	-	21,568	0%	-
Total claims on sovereign	69,085	-	69,085	0%	-
Standard Risk Weights for Claims on Banks	11,131	-	11,131	20% - 50%	2,275
Short term Claims on Banks	3,672	-	3,672	20%	734
Preferential Risk Weight for Claims on Banks	1,779	-	1,779	20%	358
Claims on Corporates	958,808	298,337	660,471	100% - 800%	664,020
Past Due Facilities	183,455	15,984	167,471	100% - 150%	242,598
Investments in Equity Securities and Equity Sukuk	696,722	-	696,722	100% - 800%	4,588,015
Holding of Real Estate	897,740	-	897,740	100% - 400%	2,399,299
Others Assets	33,863	-	33,863	100%	33,863
Total self financed assets (A)	**2,877,823**	**314,321**	**2,563,502**	**0% - 800%**	**7,931,162**
Total regulatory capital required (A x 12.5%)				**12.5%**	**991,395**
Financed by EIAH					
Cash item	-	-	-	0%	-
Total claims on sovereign	285,960	-	285,960	0%	-
Total Claims on PSEs	57,562	-	57,562	20% - 100%	39,150
Standard Risk Weights for Claims on Banks	69,059	-	69,059	20% - 50%	33,601
Short term claims on locally incorporated banks	87,077	-	87,077	20%	17,415
Claims on Corporates	455,915	30,682	425,233	50% - 100%	423,706
Total financed by EIAH (B)	**955,574**	**30,682**	**924,892**	**0% - 100%**	**513,871**
Considered for credit risk (C) = (B x 30%)				**30%**	**154,161**
Total regulatory capital required (C x 12.5%)				**12.5%**	**19,270**
Total Risk Weighted Assets					**8,445,033**
Total Regulatory Capital Required					**1,010,665**

7.4 Quantitative information on credit risk

7.4.1 Gross and Average Credit Exposure

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

US$ 000's

Balance Sheet Items	Self Finance	EIAH	Total Gross Credit Exposure	Average Gross Credit Exposure*
Bank balances	105,249	111,196	216,445	174,407
Placements with financial and other institutions	5,466	42,032	95,569	190,013
Financing assets	539,640	452,862	992,502	989,945
Assets acquired for leasing	257,806	-	257,806	256,928
Equity-accounted investees	81,440	-	81,440	107,340
Investment securities	221,145	300,263	521,408	509,362
Investment properties	616,263	-	616,263	517,311
Development properties	893,037	-	893,037	735,060
Property, Plant and Equipment	117,135	-	117,135	125,710
Other assets	318,852	-	318,852	213,281
Total funded exposure	**3,156,034**	**906,353**	**4,110,457**	**3,820,357**
Commitments	229,689	-	229,689	272,928
Restricted investment				
Accounts	28,752	-	28,752	28,888
Total unfunded exposure	**258,441**	**-**	**258,441**	**301,816**

** Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the year ended 31 December 2017. Assets funded by EIAH are geographically classified in GCC countries. Placements with financial and other institutions that are funded by EIAH are placed with Banks and financial institutions having maturity profile of up to 3 months.*

Risk and Capital Management (contd.)

7 CREDIT RISK (contd.)

7.4 Quantitative information on credit risk (contd.)

7.4.2 Credit Exposure by Geography

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

US$ 000's

	GCC Countries	MENA	Asia	Others	Total
Assets					
Cash and Bank balances	166,645	601	27	49,172	216,445
Placements with financial institutions	95,569	–	–	–	95,569
Financing Assets	910,568	–	95	81,839	992,502
Investment securities	437,814	103	65,191	18,300	521,408
Assets acquired for leasing	257,806	–	–	–	257,806
Investment properties	403,763	77,000	–	135,500	616,263
Development properties	102,474	395,565	394,998	–	893,037
Equity-accounted investees	81,440	–	–	–	81,440
Property, plant and equipment	114,853	2,282	–	–	117,135
Other assets	166,157	817	8,462	143,416	318,852
Total assets	**2,737089**	**476,368**	**468,773**	**428,227**	**4,110,457**
Equity of investment account holders	891,690	–	6,591	8,072	906,353
Off-Balance sheet items					
Commitments	215,460	10,930	–	3,299	229,689
Restricted investment accounts	26,118	–	–	2,634	28,752

7.4.3 Credit Exposure by Industry

The classification of credit exposure by industry was as follows:

US$ 000's

	Banks and Financial Institutions	Real Estate	Others	Total
Assets				
Cash and Bank balances	215,644	595	206	216,445
Placements with financial institutions	95,569	–	–	95,569
Financing Assets	29,207	214,947	748,348	992,502
Investment securities	66,250	143,295	311,863	521,408
Assets acquired for leasing	–	257,626	180	257,806
Investment properties	–	616,263	–	616,263
Development properties	–	893,037	–	893,037
Equity-accounted investees	22,461	17,930	41,049	81,440
Property, plant and equipment	–	18,194	98,941	117,135
Other assets	9,003	140,386	169,463	318,852
Total assets	**438,134**	**2,302,273**	**1,370,050**	**4,110,457**
Equity of Investment account holders	30,314	43,905	832,134	906,353
Off-Balance sheet items				
Commitments	18,999	99,622	111,068	229,689
Restricted investment accounts	–	26,118	2,634	28,752

Risk and Capital Management (contd.)

7 CREDIT RISK (contd.)

7.4 Quantitative information on credit risk (contd.)

7.4.4 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	No Stated Maturity	Total
Assets							
Cash and Bank balances	190,863	8,520	12,788	4,210	–	64	216,445
Placements with financial institutions	92,789	–	2,780	–	–	–	95,569
Financing Assets	190,800	84,438	144,589	338,208	234,467	–	992,502
Investment securities	170,979	5,288	–	305,021	40,120	–	521,408
Assets acquired for leasing	5,035	4,536	8,788	53,286	186,161	–	257,806
Investment properties	–	135,500	–	427,280	53,483	–	616,263
Development properties	–	–	–	204,551	688,486	–	893,037
Equity-accounted investees	–	–	–	53,277	28,163	–	81,440
Property, plant and equipment	–	–	–	–	117,135	–	117,135
Other assets	143,277	14,969	32,439	118,722	9,445	–	318,852
Total assets	**793,743**	**253,251**	**201,384**	**1,504,555**	**1,357,460**	**64**	**4,110,457**
Equity of investment account holders	416,408	86,658	126,928	40,297	236,062	–	906,353
Off balance sheet items							
Commitments	10,247	53,941	70,915	94,583	3	–	229,689
Restricted investment accounts	–	11,995	–	16,757	–	–	28,752

The table above shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity, here available. For other items, (including past due receivables), the maturity profile is on the basis of their expected realisation. The total assets are reconciled to the gross credit exposures considered for capital adequacy computation purposes.

7.5 Large exposures

The CBB has set single exposure limit of 15% of the Bank's total capital base on exposures to individual and a combined exposure limit of 25% of total capital base of closely connected counterparties. The excess amount of any exposure above the mentioned thresholds must be risk weighted at 800%, unless it is an exempt exposure in accordance with the requirements of CBB rulebook.

All single exposures in excess of 15% of capital base as at 31 December 2017 has been risk weighted at 800%. Also the combined exposures in excess of 25% of total capital base of closely connected counterparties have been risk weighted at 800%.

The following are the single exposure counterparties in excess of 15% of capital base.

Single exposure in excess of 15% of capital base	% of capital	Exposure as at 31 December 2017 (USD'000s)
Counterparty A	19.68%	270,916
Counterparty B	16.25%	223,779

The Central Bank of Bahrain, vide its letter dated 20 June 2017, has provided GFH Financial Group with an exemption from including the assets acquired via recovery and via the shares swap as part of the Large Exposure and Connected Counterparty limits.

7.6 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 collateralised. 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 35 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 2017 mainly relate to the real estate and development infrastructure sectors.

7.7 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.

7.8 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 24 to the consolidated financial statements.

7.9 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.

Risk and Capital Management (contd.)

7 CREDIT RISK (contd.)

7.10 Restructured facilities

As at 31 December 2017, other assets which are neither past due nor impaired include certain short-term financing to projects which were renegotiated during the year (refer note 35 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.

7.11 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, asset management, real estate development 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 Group.

Information on equity investments	US$ 000's
Privately held	220,753
Quoted in an active market	103
Managed funds	–
Unquoted funds	–
Dividend income	2,470
Realised gain/ (loss) during the year	(5,305)

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
Listed equity investment	–	100%	–	–
Unlisted equity investment	127,965	150%	258,315	30,998
Significant investment in the common shares of financial entities >10%	27,998	250%	25,346	3,042
Other exposures with excess of large exposures limits	505,266	800%	4,042,128	505,266
Premises occupied by the bank*	17,878	100%	17,878	2,145
All other holdings of real estate*	568,962	200%	1,155,650	138,678
Investment in listed real estate companies	103	300%	309	37
Investment in unlisted real estate companies*	310,797	400%	1,235,892	148,307
Total	**1,591,912**		**6,731,666**	**807,800**

**Includes amounts of risk weighted assets arising from full consolidation of KHCB.*

8 MARKET RISK

8.1 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 does 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.

8.2 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 Management Committee ('MANCOM') 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 MANCOM provides guidance for day to day management of FX risk and also approves hedging programmes. The management of the day-to-day FX position of the Bank is the responsibility of the Treasury. 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 MANCOM 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 had significant net exposures denominated in various foreign currency as of 31 December from its financial instruments (refer to Note 36(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 36 to the consolidated financial statements.

Risk and Capital Management (contd.)

8 MARKET RISK (contd.)

8.3 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 Group.

US$ '000's

Self Financed	31st December 2017	Maximum During the Year	Minimum During the Year
Foreign exchange risk - [A]	4,176	5,082	4,025
Risk weighted assets - [B] = (A*12.5)	52,200	63,525	50,313
Capital requirement - (B*12.5%)	6,525	7,941	6,289

9 OPERATIONAL RISK

9.1 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.

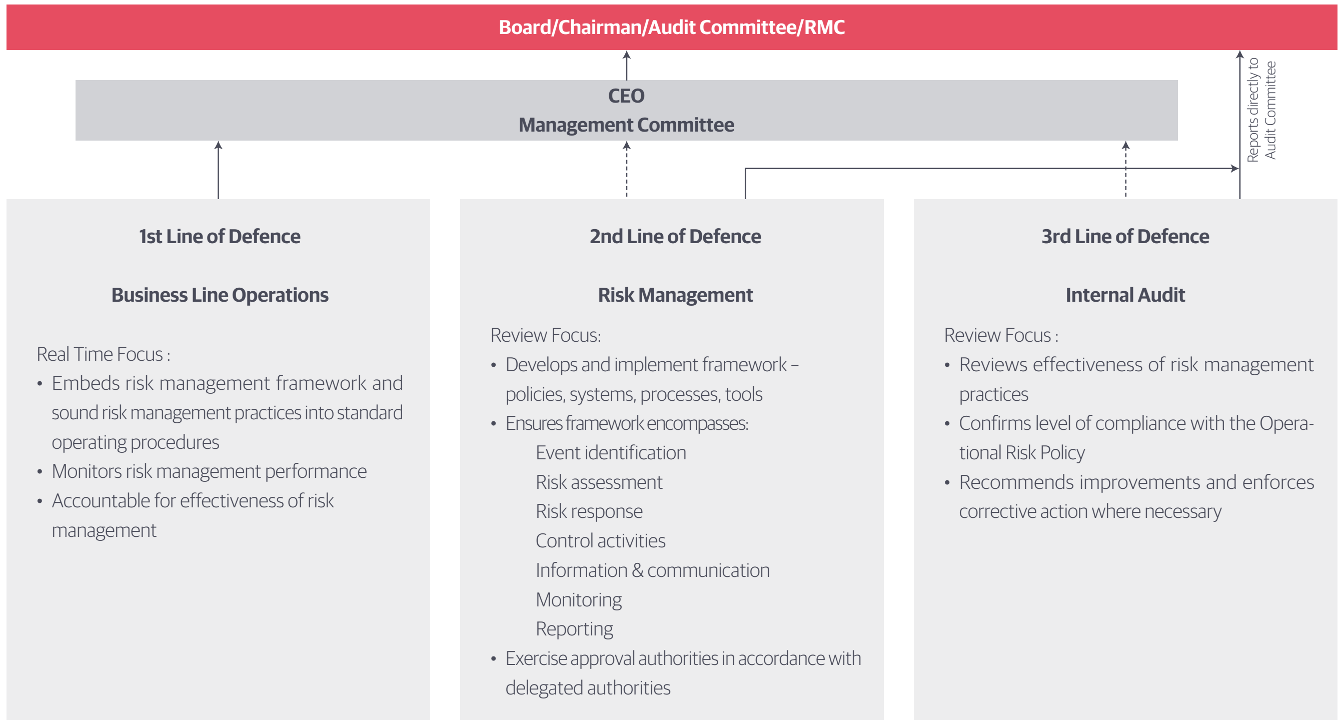
9.2 Operational risk management

Whilst operational risk cannot be eliminated entirely, the Bank endeavours to minimize it by ensuring that a strong control infrastructure is in place throughout the organisation. 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 of the Bank.

To ensure effective governance across all processes and functions, GFH has adopted a 'Three Lines of Defence' approach, as illustrated below. The structure clearly reflects the requisite independence between the three functions.



The rationale behind the 3 Lines of Defence sees that the CEO is ultimately accountable for all 3 Lines of Defence. In addition:

- The Business Unit heads are ultimately accountable for the 1st Line of Defence in their business areas;
- The Risk Management function is ultimately accountable for the 2nd Line of Defence for the Bank; and
- The Internal Audit is ultimately accountable for the 3rd Line of Defence for the Bank.

The Bank's definition of operational risk also incorporates legal and Sharia 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 programme activities.

9.3 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 34 to the consolidated financial statements.

Risk and Capital Management (contd.)

9.4 Sharia compliance

The Sharia 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 Sharia. The Bank also has a dedicated internal Sharia 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 Sharia 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 Sharia rules and principles.

9.5 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 12.5x is used to arrive at the risk weighted assets that are subject to capital charge.

US$ 000's

	Average Gross Income	Risk Weighted Assets	Capital Charge at 12.5%
Operational risk	133,434	250,189	31,274

10 OTHER TYPES OF RISK

10.1 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.

10.2 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 various committees, 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 for time bucket of the maturity ladder.

The liquidity position is closely monitored and stressed on a quarterly basis to cover both normal and more severe market conditions. All liquidity policies are subject to review and approval by the Board of Directors. 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 31 of the consolidated financial statements.

The following are the key liquidity ratios which reflect the liquidity position of the Group:

Liquidity Ratios	31st December 2017	Maximum	Minimum
Liquid assets : Total assets	13.88%	13.88%	9.57%
Liquid assets : Total deposits	15.65%	21.44%	15.65%
Short-term assets : Short-term liabilities	77.25%	77.25%	52.15%
Illiquid assets : Total assets	86.12%	90.43%	86.12%

10.3 Management of Profit Rate Risk in the Banking Book

Profit rate risk is the potential impact of the mismatch between the reset of rate of return on assets and the rate of return of the sources of funding. Majority of the Bank's profit based asset are short term and liabilities are short and medium term in nature, except for certain long term liabilities which have been utilised to fund the Bank's strategic investments in its associates.

The Board is responsible for the overall management of the profit rate risk. The MANCOM helps the Board in determining 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.

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 points (bps) parallel fall or rise in yield curves. For details of the Bank's profit rate gap position as at 31 December 2017 and analysis of the Bank's sensitivity to an increase or decrease in market profit rates, refer Note 36 of the consolidated financial statements. An analysis of the Group's sensitivity to an increase or decrease in market profit rates for a 200 bps parallel increase/(decrease) is as below:

200 bps Parallel Increase/(Decrease)	US$ 000's
At 31st December	± 10,500
Average for the Year	±7,022
Maximum for the Year	± 10,500
Minimum for the Year	± 146

10.4 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. The industry sector and geographical concentration of credit exposures has been disclosed in Notes 32(a) and 32 (b) of the consolidated financial statements respectively.

10.5 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 2017, the Bank did not have any open positions on foreign exchange contracts.

Risk and Capital Management (contd.)

10.6 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.

10.7 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.

10.8 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.

11 PRODUCT DISCLOSURES

11.1 Product descriptions and consumer awareness

The Bank offers a comprehensive mix of Sharia 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 Sharia Supervisory Board of the Bank.

11.2 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.

11.3 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 Sharia 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 Sharia, 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 Mudaraba 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.

For the qualitative disclosures pertaining to EIAH of KHCB, please refer the annual report of KHCB.

The quantitative disclosures below are pertaining to the EIAH from the Bank.

The details of Bank's income distribution to IAH holders for the last five years are given below:

US$ 000's

	2017	2016	2015	2014	2013
Allocated income to IAH	11	12	16	16.20	22.30
Distributed profit	10	11	15	12	19.70
Mudarib fees *	0.5	–	–	–	0.50
Average rate of return earned	0.88%	0.88%	0.89%	0.22%	0.25%
IAH[1]	1,149	1,280	1,656	1,657	2,172
Profit Equalisation Reserve (PER)	9	8	8	7	7
Investment Risk Reserve (IRR)	5	5	5	5	4
Profit Equalisation Reserve-to-IAH (%)	–	–	–	–	–
Investment Risk Reserve-to-IAH (%)	–	–	–	–	–

[1] Represents average balance

** Includes contribution towards deposit protection scheme.*

Risk and Capital Management (contd.)

11 PRODUCT DISCLOSURES (contd.)

11.4 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, Sharia, 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 Sharia 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;
- 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 above mentioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Sharia, 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.

For the qualitative disclosures pertaining to RIA's of KHCB, please refer the annual report of KHCB.

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