A year of diversity
and overseas expansion

GFH Financial Group is on course to achieve steady and sure financial growth by following a clearly defined strategy. As our **2015 Annual Report & Accounts** illustrates, our brand's vision to discover, innovate, and realise value potential, has empowered us to diversify our sectors of excellence, as well as expand our geographical footprint.

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

Jan. '15

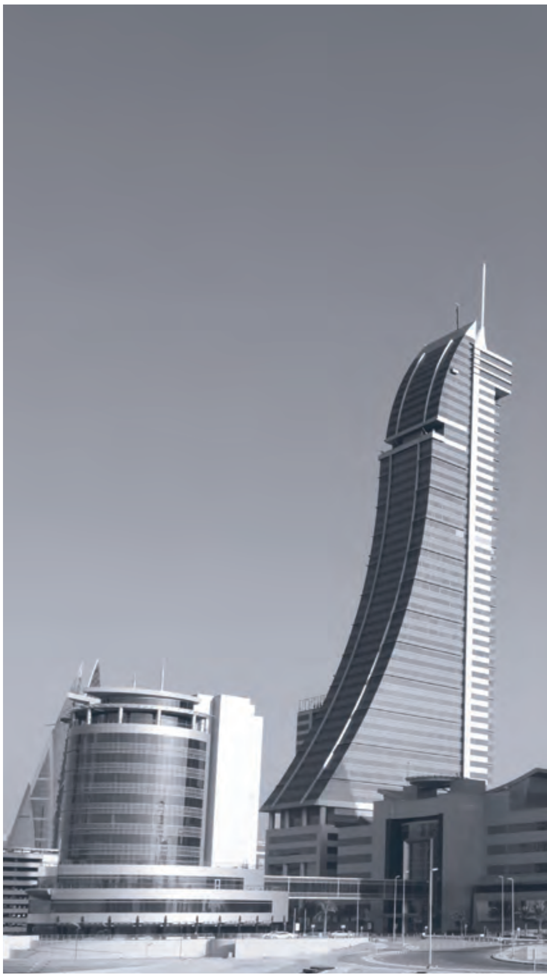
365 days, 52 weeks, 12 months

$85 mil revenue, $29 mil profit before impairment

Dec. '15

Our Financial Profile illustrates the foundation on which we'll grow

GFH has researched and identified unique opportunities which have ensured the growth and diversity of the group's asset base. The employment of deep market insights, innovative thinking, and investment intelligence, has ensured our portfolio develops in accordance with our strategy, and is capable of delivering remarkable performance.



+$5 bil

Since inception in 1999, GFH has raised over US$ 5.127 billion in the following investment areas; Wealth Management, Commercial Banking, Asset Management, and Real Estate Investment.

GFH 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 Islamic 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:

- Wealth Management;
- Commercial Banking;
- Asset Management; and
- Real Estate Development.

GFH is listed on three stock exchanges in the GCC, including the Bahrain Bourse, Kuwait Stock Exchange (KSE) 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.

Recognition

GFH has consistently been widely recognised by various industry stakeholders for its innovative approach, investment prudence, and overall achievements in Islamic finance, wealth management and investment banking. In 2015, the group was awarded the 'Best Investment Bank – Middle East' at the 10th Islamic Business & Finance Awards. In 2014, GFH was recognised as the 'Fastest Growing Bank in Bahrain' and 'Best Wealth Management Firm' by CPI Financial and Banker Middle East. Earlier in 2012, the company won the prestigious award for 'Best Islamic Investment Bank, Bahrain' from Capital Finance International (CFI). Other awards include Banker Middle East's 'Deal of the Year 2008', Euromoney's 'Best Investment Bank' in 2005, 2006 and 2007, and 'Best Islamic Investment Bank' in 2005.

Creation

As an innovative investment Group, GFH has an enviable track record in conceptualizing and establishing a large number of pioneering financial institutions in the GCC. GFH was instrumental in the creation of First Energy Bank, the world's first Islamic investment bank focusing exclusively on the energy sector. The Group also established various cross-border entities including Khaleeji Commercial Bank in Bahrain, QInvest in Qatar, Arab Finance House in Lebanon, First Leasing Bank in Bahrain, Asia Finance Bank in Malaysia, and Gulf Holding Company in Kuwait.

GFH has also successfully conceived, funded, and developed large, complex, and innovative real estate and infrastructure projects in the GCC, MENA, and India. Residential and commercial projects include Bahrain and Tunisia's iconic Financial Harbours, and Energy Cities in Qatar and India. These developments are eventually expected to be key economic drivers and commercial business hubs of note. The Group has also acted as the master developer for luxury lifestyle developments such as Royal Ranches of Marrakech in Morocco. More recently, the Group has led the revival of the prestigious Bahrain developments multi-million dollar Villamar project and the development of the Harbour Row project.

Diversification

As part of GFH's vision, the Group adopts a dynamic and entrepreneurial investment approach underpinned by solid professional credentials. Furthermore, the group pursues a diversified asset allocation strategy to adapt to the multitude of challenges in an ever changing macro environment, whilst working closely with our stakeholders to realistically meet expectations. In terms of asset class diversification, GFH has participated in and brought privileged access to unique private equity investments and in wide-ranging sectors such as real estate, consumer goods, retail, healthcare, industrial, education, technology, and sports. Geographically, GFH initially had an investment focus on the Middle East, North Africa and India, but in recent years, the Group has further diversified its holdings across the U.S, U.K, and Turkey to take advantage of emerging opportunities in these markets.

Our Board of Directors provides thoughtful stewardship towards sustainable growth

GFH's Board of Directors provides our brand with insights drawn from remarkable breadth of experience. Their mature guidance ensures our growth is built on a sustainable platform comprised of long term performance objectives.

180

GFH's highly respected Board of Directors has over 180 years of experience in business between them covering a wide variety of sectors and international markets.

Dr. Ahmed Al-Mutawa
Chairman, Non-Executive

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

Dr. Al-Mutawa is a well respected executive, researcher, and economics academic, bringing more than 37 years of financial and economic experience to GFH. He has been closely involved in the restructuring of the Group and in the development and implementation of its current strategy.

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

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

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

Our Chaiman, Dr. Ahmed Al-Mutawa, has served as a board member in some of the region's largest and most reputable universities and organizations.

GFH's Board of Directors

Mosabah Al-Mutairy
Vice Chairman, Non-Executive

Mr. Mosabah Al-Mutairy has been a Board Member of GFH for the past six years and brings extensive financial expertise amassed throughout his 20 -year career in the fields of investment, finance, and accounting.

He is currently a member of several boards across different organizations including the Investment Committee of Royal Guard of Oman Pension Fund, in which he plays a pivotal role in managing funds. He is also a member of the Board of Directors at the Hotels Management Co. Int and Dhofar Power Company and a member of India Entertainment City and Mena Resident among others.

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

Bashar Mohammed Al-Mutawa
Member, Independent

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

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

He also hold a number of directorship positions, including Al-Jazeera Tourism Company, Naseej BSC©, Tashyeed Properties, Bahrain Film Production Company, and Saar Investment Company.

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

Dr. Khalid M. Al-Khazraji
Member, Independent

Dr. Khalid Al-Khazraji has joined GFH as a Board Member. Prior to his current role, Dr. Al-Khazraji was an Advisor to the Board of Directors of GFH, bringing over 24 years of experience across a number of industries. Dr. Al-Khazraji's skills set includes a wealth of knowledge in Organizational Change, Entrepreneurship and Business Enterprise Management, Human Resource Management and Development, as well as a particular strength in academia.

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

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

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

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

GFH's Board of Directors (contd.)

Mohammed Ali Talib
Member, Independent

Mr. Mohammed Talib has been appointed as a Board Member for GFH, bringing over 29 years of experience in the management of legal sectors. Mr. Talib will take on the direct responsibility of the Group's Board of Directors on matters pertaining to legal issues across all the Group's operations.

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

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

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

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

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

Faisal Abdulla Abubshait
Member, Independent

Mr. Faisal Abdulla Abubshait has over 11 years of experience in diversified business fields such as Real Estate, Industrial, Telecommunication, Technology, Hotels, and Food & Beverage, to name a few. Currently Mr. Abubshait is the President of Abdulla Fouad Holding Company, a post he has held since 2001. Previously he worked for Arthur Anderson, the global consulting firm.

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

Sh. Mohammed Duaij Al-Khalifa
Member, Independent

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

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

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

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

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

Yousef Ibrahim Yousef Al-Ghanim
Member, Independent

Mr. Yousef Al-Ghanim has 8 years of experience in the fields of business management and investment. Currently he is a Managing Partner at Gatelink Communication Company, a Kuwait-based telecommunications firm, where he is responsible for managing the daily operations of the company and its various business lines. He is also a Deputy General Manager for Investment and Development in Alam Al Mesila General Trading Company, where his primary focus is to develop and manage a pool of verticals in accordance with the company's core activities. Previously Mr. Al-Ghanim was a Relationship Officer at the National Bank of Abu Dhabi (Kuwait) from 2007 until 2010.

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

He also serves as a Non-Executive Director at Al Aman Investment Company and as an Executive Director at GateLink Communication Company W.L.L. Mr. Al-Ghanim holds a certificate in Credit Management from the Institute of Banking Studies in Kuwait and a Bachelors degree in Accounting from Kuwait University.

Sharia Supervisory Board gives us a platform of faith on which we perform

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

Dr. 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.

Prof. Abdulaziz Khalifa Al-Qassar
Member

Dr. Al-Qassar is a Professor in the D epartment 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.

Our Financial Highlights illustrate our commitment to diversity and growth

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

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

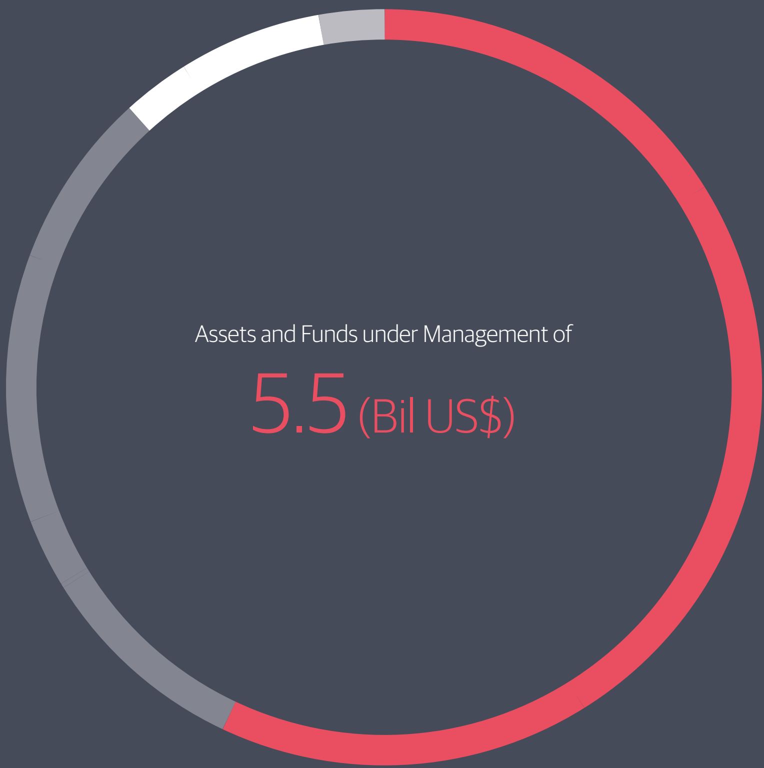
While GFH has been buffeted by the global trade winds, it has never been so well diversified or in better shape to compete in the global market place. With a clearly defined vision, new strategic direction, and leadership, GFH is poised to enjoy its greatest and most prosperous era yet.

57%
Real Estate

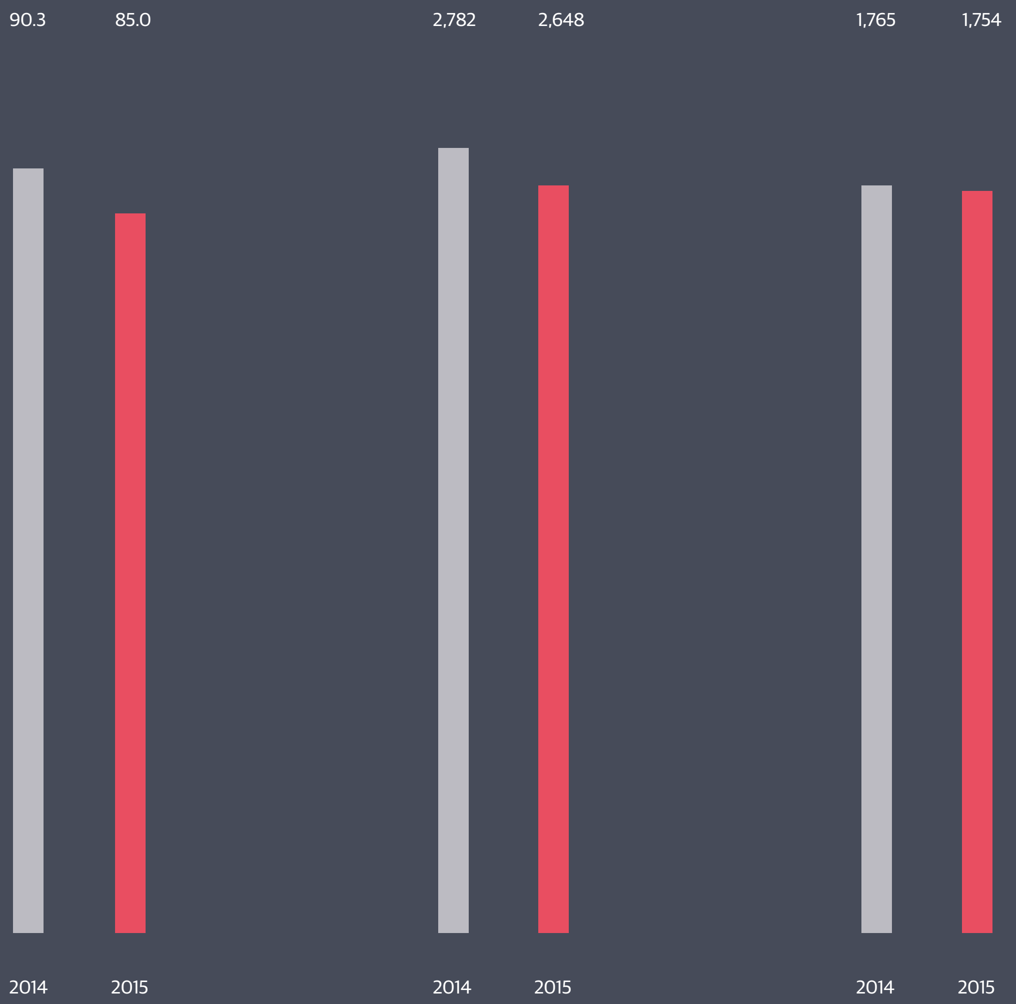
31%
Commercial Banking

9%
Private Equity

3%
Asset Management



GFH's key Commercial Banking asset KHCB has ensured greater fiscal stability from macro-economic issues.



Turnover:

Total group turnover in US$ 85 million

Assets:

Total group assets in US$ 2,648 million

Liabilities:

Total liabilities in US$ 1,754 million

Our Management Team has a singular vision for our diversification & expansion

GFH's Executive Management and Senior Leadership Team comprises a body of financial and managerial experts with the international and regional experience we require to bring our diversity and growth strategy to realisation.

209

GFH's Executive Management and Senior Leadership Team has over 209 years of collective experience in the field of financial services, real estate, and business administration.

Hisham Alrayes
Chief Executive Officer

Hisham Alrayes is the Chief Executive Officer of GFH Financial Group, one of the region's leading financial groups with USD 3.5 billion assets under management and shares listed in Bahrain, Dubai and Kuwait.

In 2012, Mr. Alrayes assumed leadership of the firm with an objective to establish a diverse and well-recognized regional financial 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. These included establishing one of the bank's key subsidiaries Invita, a recognized business process outsource company, as well as developing BBK's successful eBanking platform.

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.

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

Executive Management

Chandan Gupta
Chief Financial Officer

Chandan Gupta was appointed as Group Chief Financial Officer of GFH in 2009. He is responsible for handling the Finance, Accounting, Capital Management, and Treasury functions of the Group and additionally is in charge of the Groups' project 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 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 18 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 University of Mumbai.

Mohamed Ameen Ahmed Ali Hasan
Chief Administrative Officer

As the Chief Administrative Officer, Mohamed Ameen leads and controls the operational activities of GFH. He is responsible for directing as well as managing corporate functions including Administration, Operations, Fund Administration, IT, Corporate Communications and other corporate 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 34 years of experience in financial markets and investment sectors of conventional as well as Islamic banking. Prior to his appointment at GFH, 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 (ACIMA, UK). In addition, he has completed the Gulf Executive Development Programme 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 15-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 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's degree of Commerce. He also holds an international risk certification from Global Association of Risk Professionals (GARP).

Salem Patel
Head of Corporate Investment

Salem Patel, Head of Corporate Investment at GFH, joined in 2007 and is responsible for the sourcing, structuring and management of a number of the firm's most prominent investments across the GCC, UK and US, 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 is also a member of the Group's Executive Management Committee (EXCOM) that is responsible for approving all key decisions related to investments and operations.

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

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

Senior Leadership

Dr. Mohamed Abdulsalam
Head of Sharia & Corporate Secretary

As Head of Sharia and Corporate Secretary at GFH, Dr. Mohamed Abdulsalam supervises all the transactions at the Group to ensure that these are conducted in compliant and in accordance with the teachings of Islamic Sharia. Furthermore, Dr. Mohammed assumes the fiduciary duty of ensuring that the records, meetings and minutes of GFH Board and its committees are proper and according to policy. This is in addition to handling the project companies' boards, effectively moderating all its meetings, writing, and keeping record of all the minutes.

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

Dr. Abdulsalam obtained his Islamic Accounting Bachelorette in 2003 from Al-Imam Mohammed Ibn Saud University, one of the oldest and most renowned institutes of higher education in Saudi Arabia. He is also a holder of an Accounting and Financial Control MBA and a Ph.D. in Accounting from the United States, California. He also pursued additional qualifications including a Master's of Sharia and Accounting Standards for AAOIFI and the Sharia Control Fatwa of Islamic banks.

To further enhance his knowledge in arbitration as a more viable option in dispute resolution. Dr. Mohammed has successfully completed 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 specialized courses covering topics such as: Sharia Auditing, Sharia Standards, Sharia Products, and many others in order to expand his knowledge of Islamic finance on an ongoing basis.

Bahaa Al Marzooq
Head of Internal Audit

Bahaa Al Marzooq, Head of 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 16 years of auditing experience in the Islamic and Investment banking sectors.

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

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

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 establishing a real estate department to manage and develop GFH's existing real estate portfolio and to pursue other new real estate opportunities.

Mr. Karaan has more than 36 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.

Mohammed AbdulMalik
Acting Head of Wealth Management

Mohammed Abdulmalik is the Acting Head of Wealth Management at GFH, a role he has held since 2013. In this capacity, Mr. Abdulmalik is responsible for setting up strategies and objectives for the Wealth Management Team. He develops appropriate business models to capitalize 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 Gulf Holding Company. 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).

Senior Leadership (contd.)

Mohamed Marei
Head of Real Estate Investment

Mr. Mohamed Marei joined GFH in May 2014 and leads the Real Estate Investment department with responsibility for all aspects of investment in Real Estate on behalf of the Bank and its funds under management.

Prior to joining GFH, Mr. Marei founded and led Sarwa Capital in the UAE and Bahrain providing investment management and advisory services to institutional investors. Previously, Mr. Marei was Managing Director and Head of Real Estate Investment for EIIB plc, a London-listed investment bank specializing in Middle Eastern markets. Prior to joining EIIB, he was Director of Asset Management at Bahrain-based Unicorn Investment Bank, and before that was a member of the real estate and infrastructure investment team as Fund Manager at Arcapita in Bahrain.

From 2000 until 2005 Mr. Marei was a mergers and acquisitions investment banker with Lehman Brothers in New York where he executed transactions in a wide range of industries including consumer, retail, industrials and technology. Mr. Marei started his career with Banco Santander Investment in New York in the infrastructure and privatizations group covering Latin America.

Mr. Marei holds an M.S. in International Relations from Georgetown University.

Khalid El-Ali
Head of Asset Management

Mr Khalid El-Ali is the Head of Asset Management at GFH. He was appointed to this role in June 2015, and has overall responsibility for the Group's asset management business overseeing the portfolio management for fixed income, equities, and structured products.

Mr. El-Ali has over 20 years of managerial and portfolio management experience across various investment companies in the MENA region. Prior to leading GFH's Asset Management division, he was the Chief Financial Officer of Baniyas Investment & Development Company. Earlier, he was with Esterad Investment Company as Head of Non-Direct Investments.

Mr. El-Ali holds a Bachelor's degree and PhD in Mathematics from Imperial College in London. He also holds various professional qualifications including, Securities & Futures Authority (SFA) certification, and an Investment Management Certificate from the UK Society of Investment Professionals.

Gaby El-Hakim
Head of Legal Department

Mr. Gaby El-Hakim heads the Group's Legal Department, a role he assumed with the approval of the Central Bank of Bahrain and to which he brings more than 13 years of experience practicing law in areas including corporate banking, investment banking, Islamic finance, structured finance, capital markets, trade finance, cash management, private equity, and litigation/dispute resolutions.

In his capacity at GFH, Mr. El-Hakim is responsible for handling all legal matters and advising management with respect to strategy, structuring deals and new products covering all aspects of the business. Moreover, Mr. El-Hakim coordinates with external local and international counsels on regulatory and litigation matters as required by the Group and its subsidiaries. Prior to joining GFH, Mr. El-Hakim was at BNP Paribas's Regional Bahrain Head Office, where he was Deputy Head of Legal for the Middle East and Africa Region managing and supervising a team of lawyers.

He holds an LLM in Banking & Finance/Master's of Law from Osgood Hall Law School, York University, Toronto, Canada and an LLB (Licence en Droit Libanais) from Sagesse University School of Law, Beirut, Lebanon. He is also a Certified Arbitrator at the GCC Commercial Arbitration Centre, Bahrain, Associate Arbitrator at the Chartered Institute of Arbitration, London and Vice Chairman of the Lawyer's Committee of ICC Bahrain (Chamber of Industry and Commerce) since February 2013.

Hazem Yusuf Mohamed Abdulkarim
Head of Fund Administration

As the Head of Fund Administration, Mr. Hazem Abdulkarim oversees all aspects of client servicing process including administration of client funds, managing funds' share registers, and prompt client reporting process. He is responsible for sustaining and improving the relationships with the investors and shareholders. Mr. Abdulkarim also supervises the Corporate Communications Department and plays a key role in enhancing the brand's image of GFH.

Mr. Abdulkarim holds directorship in several project companies and SPVs.

Mr. Hazem joined GFH in 2000 and has held several positions at GFH over the last 16 years in Operations and Fund Administration. Prior to joining the Group, he was working in the corporate banking division of Bank of Bahrain and Kuwait (BBK).

Mr. Hazem 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 HR Management & Development

Ms. Muneera Mohammed Isa is the Head of Human Resources (HR) Management & Development at GFH. She was appointed to the role in November 2015. Ms. Isa is responsible for managing employee strategies, recruitment, development, 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. She also holds various English certificates from the British Council in addition to a Diploma in Modern Office & Secretarial System.

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

Our growth is in line with our expectation considering the macro-economic conditions affecting our business. Importanty, in line with our business performance, our reputation is also growing stronger with every passing year.

$29 mil

In 2015, aligned with our investor expectation, GFH continued its track record of notable and profitable performance posting a consolidated net profit before impairment of US$29 million.

Dr. Ahmed Al-Mutawa
Chairman, Non-Executive

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

Dear Shareholders, on behalf of the Board of Directors of GFH, I am pleased to present the Group's financial results for the fiscal year ended 31st December 2015, a year of continuous growth, asset diversification and sustainable profitability.

We are all conscious of the challenging macroeconomic environment, both globally and across the GCC region. In this macro background, it required a great degree of adaptability and foresight from GFH in order to deliver financial results in line with the expectations of our investors and shareholders. Despite the hurdles of 2015, GFH has managed to achieve decent performance and credible recognition. With prudent diversification and asset allocation strategies, GFH has made every effort to increase and add revenue streams from our investments and commercial operations to create better financial prospects for our shareholders.

In 2015, we continued our track record of profitable performance, and posted a consolidated net profit of US$12 million. Notably, GFH has achieved a net profit of US$29 million before provision of US$17 million.

Asset Management
Noteworthy highlights of 2015 include the US$48 million purchase of a mall in Jeddah in May. It has been generally observed that Jeddah and the wider Saudi Arabian market offers strategic investment opportunities as the country constitutes a major share (42 per cent) of the GCC's retail industry, which has been growing rapidly over the past decade. Jeddah is also an attractive location for global brands as the market witnesses increased consumer spending. We expect this investment to produce an average semi-annual financial return and internal rate of return (IRR) in excess of 12% over the investment period.

Our Chairman's Report (contd.)

In October, we announced our acquisition of an industrial real estate portfolio in the United States, in a deal worth US$ 115 million. The portfolio includes 17 income-generating industrial, warehousing, and distribution assets across six U.S. states with an overall occupancy rate of 98%, and comprising of approximately 1.7 million square feet. This portfolio is projected to give annual investment returns with cash-on-cash yield, and double digits of internal rate of return (IRR).

With the favourable dynamics of the U.S. real estate sector, this industrial portfolio was an attractive investment opportunity which would offer strong & stable returns to our investors, along with capital appreciation and diversification opportunities. The lucrative yields from our existing U.S. real estate investments are a testimony of GFH's foresight in tapping into the resurgent U.S. market.

Commercial Banking

2015 have witnessed the successful implementation of the new strategy for Khaleeji Commercial Bank (KHCB). KHCB was able to achieve significant operational progress throughout the last fiscal year by achieving operating income of US$ 57 million with a net profit of US$21 million. Their total assets grew to US$1.7 billion and their liabilities grew to US$454 million.

With the launch of personal and corporate banking products/services across strategically located new branches, the bank was able to further increase its market share. The new strategy also gives greater focus on the growth of banking services for high net worth individuals (HNWIs), small & medium enterprises (SMEs), and corporates. KHCB's operational and service excellence was achieved by improving the customer experience along with enhancement of internal processes, support services, and technological advancements.

Private Equity

In July, GFH acquired an 80% stake in a leading Dubai-based private school value at AED154 million. This was the second private school that GFH acquired a majority stake within a 12 month period. This investment was made for multiple reasons, such as the school's positive reputation and steady year-on-year growth in student enrollment. With the UAE's growing population and economy, we expect above average yield and profitable returns from such investments as there is increasing demand for high quality educational institutions offering internationally recognized qualifications. GFH's strategy is focused on investing in cash yielding opportunities in defensive sectors, such as education, which also offer significant growth potential.

Real Estate Development

Towards the end of 2015, GFH made a multiple of high profile announcements which reflected our commitment to our investors and shareholders. We recently confirmed the commencement of construction work at the Harbour Row project, a US$150 million mixed-use real estate development in the Bahrain Financial Harbour. This project will offer luxury residential units along with premium commercial spaces featuring waterfront living, retail, and dining experiences. As the project work commences, we are confident of fulfilling our commitment towards the timely completion of this development. GFH has a long term commitment towards the Harbour Row project, and we expect attractive investment returns in the coming years.

The Group's real estate development projects continue to witness progress throughout 2015 – this success trend has continued from 2014 when we achieved many milestones.

In March 2015, we have obtained the sign-off on the final master plan report from Dubailand and subsequently a formal submission was made to Dubai Municipality. In November 2015, we have secured an agreement with Dubai Civil Engineering (DCE) for the construction of the entire project Infrastructure and 22 villas – construction work will commence after the completion of the detailed design, and after subsequent receipt of the building permit and other necessary approvals from Dubailand and Dubai Municipality. In December 2015, Stantec have completed the design development drawings for the project, and submitted the same to Dubailand. In the meantime, we are forming the developer's SPV in Dubai and have retained a law firm to create all sales and project registration documentation with RERA and the Land Department. We are currently in the process of signing an agreement with Dubailand and DEWA for the setting up of a 132 kilovolt substation to supply power to the real estate development.

The Group's real estate development projects continue to witness progress throughout 2015 – this success trend has continued from 2014 when we achieved many milestones. We have completed the initial infrastructure development of the Phase-1 of Tunis Bay project on time. A Joint Venture arrangement is in place with a consortium of well-known French companies. This JV will develop over 120 hectares of land in Tunis Bay's Phase-1, and work has already progressed on the site. The Tunis Bay project was also able to sign a framework agreement with a regionally renowned industry player for the development of the commercial center and shopping mall in Phase-1 of the project. With such rapid progress of the project, it will further enhance the value of the project, attract more investment, and ultimately pave way for the next phases of this mega project.

In Morocco, GFH's 'Gateway to Morocco' real estate project obtained the required approvals, after it was able to finalize the modification of the master plan concept and design to meet market needs and government requirements. The new concept plan will feature residential, retail, and commercial components, along with a theme park. The project is being developed through a phased approach as phase-1 comprises of 350,000 sqm, and is targeted at shopping and entertainment, with a part residential component. In this regard, a memorandum of understanding was signed with a regionally renowned firm for exploring possibilities of joint collaboration for the development of Phase-1.

The Mumbai Economic Development Zone (MEDZ) project also reported advance progress. Wadhwa Group has submitted the master plan for the land allocated for the project's Phase-1. Subsequently, the project has received an approval for location clearance, and also the Special Township policy approval for the development. As such, the site preparation works are in progress and particularly the associated roads for the township. Additionally, an agreement was signed with Adani Group for the development of land in Phase 2 & 3, and the final payment has been received. As per the agreement, investors will receive 15% of the revenue generated by this project. Adani Group is currently evaluating the economic drivers to create the social fabric at the project site in alignment with other projects in close proximity. This project exercise is being done in consultation with CBRE India. Also, a master planner is being identified to finalize the overall master plan for the development of the land. During the year, investors received the money which was provided by Adani Group and Wadhwa Group, in accordance with the underlying agreements.

Our Chairman's Report (contd.)

Distributions and Exits

Throughout the year 2015, GFH has distributed more than US$39.2 million of dividends and capital redemptions to its investors with underlying investments in Bahrain, UAE, KSA, USA, and India. This includes: 7% from Philadelphia Private School and 9% from Sheffield Private School in the UAE, 11% from the mall in Jeddah, 9% from the Diversified US Residential Portfolio (DURP), and US$28 million back to our investors in India.

Debts & Liabilities

As part of GFH's investment philosophy, we have always maintained prudent balance sheet responsibility by minimizing debts in order to improve liquidity and maintain a safer investment profile. Our timely debt repayments are a testimony of us being a financially responsible business. GFH repaid US$37.5 million to our debt syndicates in the 2015 as an extension of the US$33 million paid to creditors in 2014. Moreover, the debt repayment over 2015 and 2014 to various syndicates represent more than 30% of the group's outstanding facilities.

GFH is firmly committed to strengthen our balance sheet, and these scheduled repayments are part of our ongoing commitment to maintain a healthy financial profile. Over the past eight years, we have deleveraged our balance sheet significantly – the current outstanding debt is US$137 million, which is significantly less than the over US$1 billion figure owed by GFH several years back. Based on future cash flow estimates, we are on track to repay our remaining debts. Our confidence stem from our financial strategies which are increasingly focusing on unearthing additional value from our assets and expanding revenue streams as well. It has been encouraging to see new business income from GFH subsidiaries and our commercial and investment banking divisions. GFH's current debt is under three facilities, which is expected to be repaid on an amortised basis through 2018-19. As of 31st December 2015, GFH's debt-to-equity ratio was only 0.21, this is a positive and healthy indication of the company's current balance sheet position.

Recoveries & Legal Cases

In January 2016, we recovered $12.2 million from Abu Dhabi Investment House (ADIH) as a result of a judgment awarded by the Bahrain Chamber for Dispute Resolution (BCDR) in December 2014. Also, in January 2016 GFH won the arbitration case amounting to $66 million against ADIH, when the arbitration tribunal of BCDR issued its final award. The awarded amounts include a restitution of $66 million, $230,000 in arbitration and legal costs, plus a 10% per annum profit on the awarded amounts starting from 21st January 2016 until the date of final and full payment.

With the total awarded legal cases in favor of GFH against several parties in excess of US$ 150 million, GFH expects significant value to shareholders when such amounts are recovered. The bank is working on such recoveries and some have already been realized.

Our confidence stems from our financial strategies which are increasingly focusing on unearthing additional value from our assets and expanding revenue streams as well.

Conclusion

As we look forward to 2016, GFH aims to build on our success from 2015, and achieve superior financial results, and ultimately take the Group forward to the next level. In the new year, we will expand our investment portfolio and further develop our profile as a major financial group in the GCC. Like 2015, we will continue exploring investment opportunities, which have the potential to offer high returns to our investors and shareholders. In recent years, GFH has been diversifying, and also building asset value and generating better investment returns. In this context, our investors and shareholders should remain optimistic of financial results in the coming years. Our investors and shareholders have the unique opportunity to be part of GFH as the company enters its most prosperous period. While this is a challenging period, we believe in the Group's abilities to overcome difficulties and continue to achieve decent results.

Sincerely,

Dr. Ahmed Al-Mutawa
Chairman

24 February 2016

GFH's Business Activities
Diverse interests with remarkable potential

GFH has undertaken a bold transformation from an investment bank into a financial group designated to offer distinctive financial products, and deliver remarkable returns to both investor and shareholder alike.

$20 bil

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

$286 mil

KHCB was established in 2004 by GFH, and currently has a total equity base of $286 million. KHCB is now a Public Bahraini Shareholding Company listed on the Bahrain Bourse.

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. Following are the details of GFH's business activities:

Commercial Banking
Khaleeji Commercial Bank (KHCB) is an Islamic bank, headquartered in the Kingdom of Bahrain, and operating under a Retail Islamic Banking license granted by the Central Bank of Bahrain (CBB). KHCB was established in 2004 by GFH with an initial paid up capital of $80 million and is now a Public Bahraini Shareholding Company listed on the Bahrain Bourse with a current paid up capital of $265 million. 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, structured investment products, and project financing facilities. GFH currently owns 47% of KHCB.

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:

- The Sheffield Private School, Dubai
- Philadelphia Private School, Dubai
- Leeds United Football Club, UK
- Al Basha'er GCC Equity Fund, Kuwait
- Injazat Technology Fund, Bahrain

KHCB was established in 2004 by GFH with a paid up capital of BD30 million and is now a Public Bahraini Shareholding Company listed on the Bahrain Bourse.

GFH's Business Activities (contd.)

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.

Wealth Management

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

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

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 include:

- US Industrial Portfolio, US
- Event Mall, Jeddah
- Diversified US Residential Portfolio, US

Real Estate Development

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

To name a few of the region's leading Real Estate Development projects initiated by GFH in the MENA and Asian regions include:

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

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

GFH's focus now is to complete and hand over its numerous recognized projects and fully exit its current holdings. The previous strategy has been largely unbiased but has sought opportunities with a strong capital appreciation potential. In future, the bank will look towards investments in this class but will maintain its mandate to fully exit any holding it creates or enters into. GFH has started development of the following projects in 2015:

- Harbour Row, Bahrain
- California Residences, Dubai

Our Management Report provides a picture of our diversity and expansion

5-Year Financials Highlights

Year	Return on Ave Equity	Return on Ave Assets	Cost to Income*
2011	0.22%	0.04%	79.20%
2012	3.26%	1.17%	53.90%
2013	-4.00%	-1.99%	-651.92%
2014 (restated)	4.79%	1.49%	58.70%
2015	1.80%	0.44%	68.14%

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

$29 mil

In 2015, aligned with our investor expectation, GFH continued its track record of notable and profitable performance posting a consolidated net profit before impairment of US$29 million.

$85 mil

GHF's growth strategy resulted in a total consolidated income for the company in 2015 of US$ 85 million as compared to US$ 90 million in the previous year.

Executive Management Review

GFH has started implementing its new business strategy launched last year to transform GFH from an Investment Bank to a "Financial Group" so as to have a stable and recurring income, profitability and cash flows. In the current year, GFH has been successful in consolidating its interest in Khaleeji Commercial Bank (KHCB) as a first step in our evolution as a Financial Group. Market conditions are volatile with pressure on GCC economies due to plunging oil prices and local geo-political tensions in the MENA markets which resulted in both GFH and our investors taking a cautious stand, resulting in lower than planned business activities and consequently having a negative impact on GFH results for the year as compared to plan and last year.

Financial Review

In 2015, GFH recorded a consolidated net profit of US$ 12.0 million for the year, compared to a net profit of US$ 27.4 million in 2014. The loss attributable to shareholders is US$ 5.5 million as compared to a profit of US$ 15.0 million in 2014.

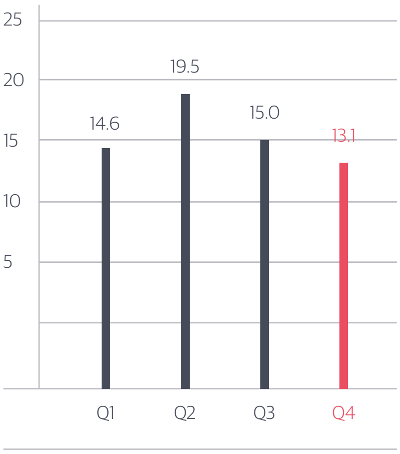
GFH recorded a total consolidated income of US$ 91.2 million for the year, compared to total income of US$ 100.4 million in 2014. Excluding income from industrial business of US$ 6.2 million, income from banking business of US$ 85.0 million for the year was 7.37% lower than previous year. Total income in 2014 included a one off recovery of US$ 33.0 million, excluding which core operating income from banking business increased from US$ 58.7 million in 2014 to US$ 85.0 million in 2015. Most importantly GFH was able to consolidate KHCB business operations income during the year because of change in FAS 23 amendment issued by AAOIFI.

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

Our management report (contd.)

2015 has seen GFH Financial Group reduce its operational costs whilst diversifying its operations and revenue streams, creating a solid foundation for future growth.

Operational Cost 2015
US$ million



Income from investment banking services was higher during the year at US$ 23.8 million as compared to US$ 16.1 million last year because of increased placement during the year, which increased from US$ 86.0 million in 2014 to US$ 112.0 million in 2015. Core commercial banking income was also higher from US$ 41.5 million in 2014 to US$ 57.8 million in 2015 due to higher net interest margin from the commercial banking business. GFH total consolidated expenses for the year amounted to US$ 62.1 million as compared to US$ 59.0 million for last year.

The expenses are slightly higher than last year. During the year GFH booked impairment allowances of US$ 17.0 million in the year as compared to US$ 14.1 million last year.

GFH reported a capital adequacy of 25.36% for December 2015 as compared to 23% in December 2014. The movement is due to additional capital received from convertible murabaha. GFH continued to receive shareholder support with net equity increasing by 8% from US$ 641.6 million in 2014 to US$695.7 million in 2015.

Operational Review

GFH started the year strongly, with new product launches and investor placements running above budget for the first half of the year. GFH launched and placed two investment products, namely, Jeddah Mall in KSA and Sheffield School in UAE. However, post the drop in oil prices and the geo-political situation in MENA, second half performance was below budget with GFH launching and placing US Industrial product. Overall GFH placed a total of US$ 112.0 million in 2015 as compared to US$ 86.0 million in 2014. These projects are in line with GFH revised strategy of investing in existing profitable and dividend paying projects. During the year, GFH paid dividends to its investors amounting to US$ 4.1 million on all projects which were launched in 2014 and 2015. GFH is carefully monitoring these assets to increase value in the investments and will look to start exiting these investments in 2016 / 2017.

KHCB continues to expand within Bahrain, and now has 10 branches in Bahrain. The bank reported a 9.6% growth in total assets from US$ 1.58 billion to US$ 1.73 billion currently, whilst customer deposits grew by 13% from US$ 376 million to US$ 427 million in 2015. KHCB doubled its net profit from USD 10.2 million to US$ 22.06 million in 2015, whilst maintained a healthy capital adequacy ratio of 18.1% as at December 2015.

GFH has focused on managing the exits for its real estate portfolio for itself and its investors. During the year, GFH exited US$ 29.2 million for investors in the India project, bringing the total exit value for the India Project to US$ 43 million. GFH also sold a portion of its real estate holding in the Dubai project as it gears to launch the Dubai and Bahrain projects for retail clients.

During the last quarter of 2015, GFH deconsolidated its investment in Cemena, as we gear underlying companies of Cemena, Falcon and Balexco, towards a potential pre-IPO sale.

Tunis Bay, the USD 3 billion project, is a large real estate development project spanning across 523 hectares of land that will be delivering Tunis Financial Harbor (TFH) which is perceived to be North Africa's prime offshore financial center amongst other complimentary residential, leisure, education & wellness and hospitality components. TFH is expected to be a world class banking center designed to capitalize on Tunisian past decade of economical growth.

Continuing Aims

GFH will aim to invest in the franchise so as to acquire companies in the financial service industry to grow as a financial group. Additionally, we will look to expand our commercial banking platform (KHCB) within Bahrain and to introduce more innovative products for our investment banking clients.

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

Governing with careful oversight

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

1999

GFH Financial Group is an Islamic Investment Bank that was established in the Kingdom of Bahrain in 1999, as Gulf Finance House.

GFH Financial Group BSC is an Islamic investment bank that was established in the Kingdom of Bahrain in 1999. The bank carries on its business activities in accordance with the principles of Islamic Sharia including financial services, investment and commercial transactions, negotiable financial instruments, real estate, infrastructure, in addition to structured finance, and 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, Kuwait Stock Exchange 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 promulgated by Decree No. (21) for the year 2001 ("Companies Law"), and the regulations of corporate governance of companies in the Kingdom of Bahrain ("Governance Regulations"), and the instructions issued by the Central Bank of Bahrain and the Bahrain Bourse Law ("the Regulations").

GFH's Corporate Governance Philosophy

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

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

The Board of Directors are accountable to 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, and MLRO functions report directly to the Board Audit and Risk Committee.

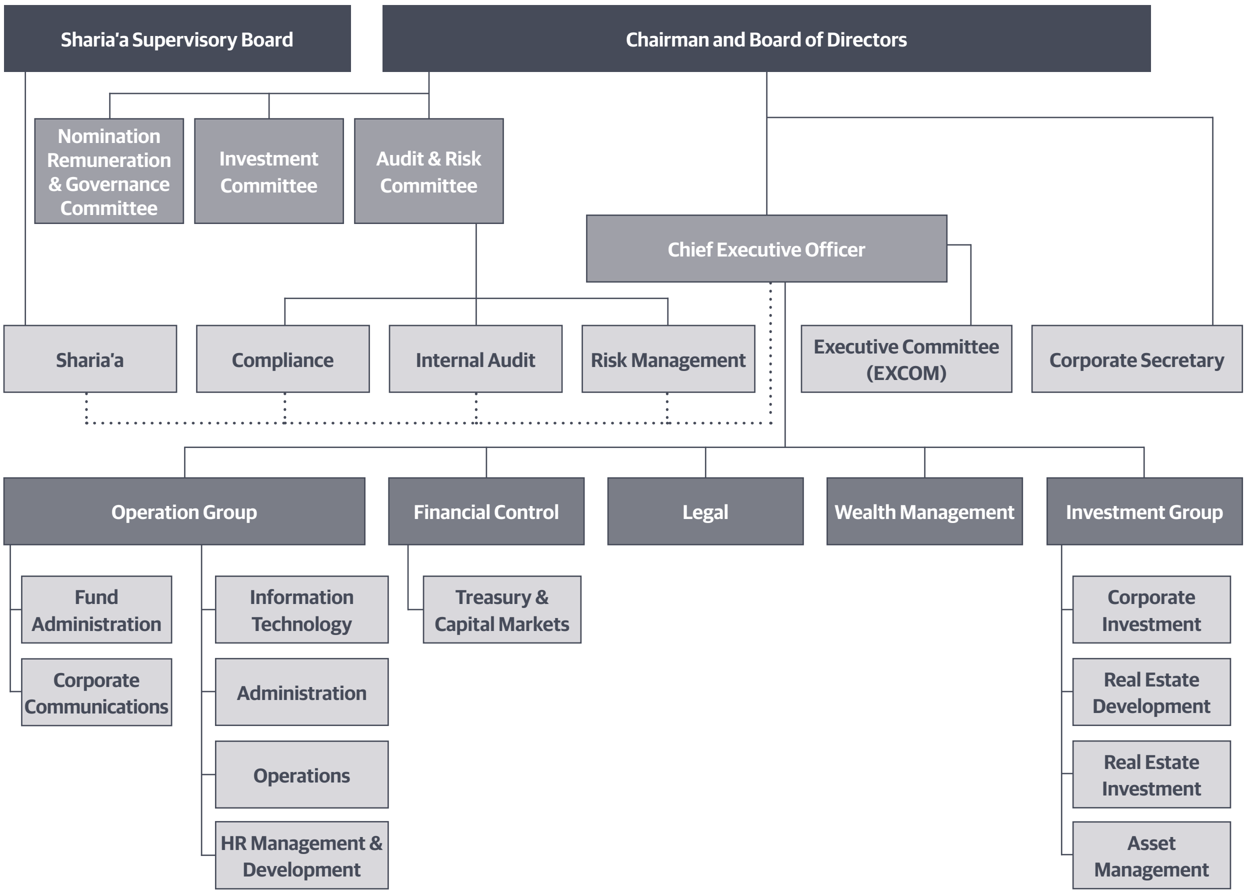
Corporate Governance (contd.)

Compliance with Regulations (HC Module – CBB Rulebook, Vol.2)
In 2015, 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 Financial Group wishes to clarify the following:

- The Risk Committee has been merged with the Audit Committee to form one committee called the 'Audit and Risk Committee' because this merger poses no conflict of interest.
- The Nomination Committee and the Remuneration Committee are merged accordingly to form one committee called the 'Nomination, Remuneration & Governance Committee' because the merger poses no conflict of interest.
- Two of the Board Members could not attend two of the five Board Meetings held during the year 2015.

Organisational Structure



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

GFH's Corporate Governance framework:
GFH's Corporate Governance framework remains in line with the High Level Control (HC) Module of the CBB Rulebook (Vol. 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, and the other internal policies of the Bank are in line with the new and revised regulation and guidelines issued by the CBB.

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

A. Ownership of Shares

A.1. Distribution of shareholdings according to nationality

As at 31st December 2015, the shareholders Register shows that there are 10,808 shareholders who own 2,256,583,403 shares at a nominal value of US$ 0.265 per share, as follows:

Nationality	No. of Shareholders	No. of Shares	%
Bahraini	573	61,547,267	2.73
Emirati	2,829	1,133,534,907	50.23
Kuwaiti	4,176	364,490,807	16.15
Omani	54	12,883,360	0.57
Qatari	44	7,993,208	0.35
Saudi	187	35,671,534	1.58
Others	2,945	640,462,320	28.38
Total	**10,808**	**2,256,583,403**	**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 of 31st December 2015:

Particulars	Number of shares	% of outstanding shares	No. of shareholders
Less than 1%	1,977,561,272	87.64%	10,802
1% to less than 5%	156,019,032	6.91%	5
5% to less than 10%	123,003,099	5.45%	1
Total	**2,256,583,403**	**100%**	**10,808**

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

As of 31st December 2015, Integrated Capital P.J.S.C. (a Group company of Abu Dhabi Financial Group, U.A.E.) held 5.45% of GFH's total outstanding shares.

Note: As of 24th February 2016, the holding was increased to 10.04% of GFH's total outstanding shares.

Corporate Governance (contd.)

B. GFH Board of Directors and the Executive Management

B.1. Formation of the Board of Directors

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

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

In compliance with the CBB requirements, which mandates at least one third of the members of the Board of Directors to be Independent Directors; as of 31st December 2015 the Board was comprised of 'Six' Independent Directors which includes the Chairman of the Audit and Risk Committee, and the Chairman of the Nomination, Remuneration, and Governance Committee.

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

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

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

The Articles of Association of GFH Financial Group 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 Financial Group's business strategy. Additionally, the BOD is responsible for risk management and the preparation of consolidated financial statements in accordance with AAOIFI standards and corporate governance issues. The matters which require the approval of the Board include long term strategic and annual business plan, matters pertaining to corporate governance, acquisition and disposal of investments, and exit of projects. This is along with the main role of the Board which is to ensure adherence to the values of GFH Financial Group, 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, and corporate governance controls in GFH Financial Group. 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 enables 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 it's 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 of 31st December 2015:

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

B.5. Letter of Appointment of Board Members

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

During the term of membership, a member of the BOD must be fully aware of all aspects of the business, including the Bank's policies relating to corporate governance.

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

Under Article 175 of the Companies Law and Article 27-a of the Articles of Association of the Bank, each shareholder who owns 10% or more of the capital is entitled to appoint his representative in the BOD in proportion to the number of members of the BOD. As of 31st December 2015, no shareholder was holding 10% or above of GFH's total outstanding shares.

Note: As of 24th February 2016, the shareholding of one of the shareholders (Integrated Capital P.J.S.C., a Group company of Abu Dhabi Financial Group, U.A.E.) was increased to 10.04% of GFH's total outstanding shares, by virtue of which Integrated Capital is entitled to appoint one representative in GFH's Board of Directors.

Corporate Governance (contd.)

B.7. GFH Board Members and their other memberships

The table below shows the composition of the BOD, the other memberships of the Board member and membership of committees as of 31st December 2015:

Name and position of Board member	Date of first appointment in BOD	Independent/ Non-Executive/ Executive	Representation	Date of resignation	Number of memberships in other boards of Directors	Number of memberships in other boards of Directors in Bahrain	Number of memberships in other boards of Directors of banks in Bahrain	Number of memberships in Board Committees
Dr. Ahmed Khalil Al-Mutawa (Chairman)	May 2011	Non-Executive	NA	NA	8	3	1	1
Mosabah Saif Al-Mutairy (Vice- Chairman)	March 2009	Non-Executive	NA	NA	9	1	1	1
Bashar Mohammed Al-Mutawa	April 2013	Independent	NA	NA	8	8	1	2
Sh.Mohammed Duaij Al-Khalifa	April 2013	Independent	NA	NA	-	-	-	1
Dr. Khalid Mohd Al-Khazraji	April 2013	Independent	NA	NA	2	-	-	1
Mohammed A. Talib	April 2013	Independent	NA	NA	-	-	-	1
Yousef Ibrahim Al-Ghanim	April 2014	Independent	NA	NA	4	-	-	1
Faisal Abdulla Fouad Abubshait	April 2014	Independent	NA	NA	21	-	-	1

Note: None of the Independent Directors has 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.

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

The table below shows the change in the ownership of members of the Board of Directors of the shares of GFH Financial Group, as of 31st December 2015 compared to that of 31st December 2014:

Member's name	Shares owned as of 31st December 2015	Shares owned as of 31st December 2014	Percentage of ownership as of 31st December 2015
Dr. Ahmed Khalil Al-Mutawa	NIL	NIL	N/A
Mosabah Saif Al-Mutairy	NIL	NIL	N/A
Bashar Mohammed Al-Mutawa	NIL	NIL	N/A
Sh. Mohammed Duaij Al-Khalifa	NIL	NIL	N/A
Dr. Khalid Mohd Al-Khazraji	NIL	NIL	N/A
Mohammed Ali Talib	NIL	NIL	N/A
Faisal Abdulla Fouad Abubshait	NIL	NIL	N/A
Yousef Ibrahim Al-Ghanim	NIL	NIL	N/A
Total	**NIL**	**NIL**	**0.0%**

B.9. Directors' and Senior Managers' trading of the Bank's shares and distribution of ownership on an individual basis during the year:

Name of Board member	Total no. of shares held as of 31st Dec 2014	Transactions – within the period 1st Jan – 31st Dec 2015 Bought	Sold	Transfer	Total no. of shares held as of 31st Dec 2015	% of Ownership
Dr. Ahmed Khalil Al-Mutawa	–	–	–	–	–	–
Mosabah Saif Al-Mutairy	–	–	–	–	–	–
Faisal Abdulla Fouad Abubshait	–	–	–	–	–	–
Bashar Mohammed Al-Mutawa	–	–	–	–	–	–
Yousef Ibrahim Al-Ghanim	–	–	–	–	–	–
Dr. Khalid Mohd Al-Khazraji	–	–	–	–	–	–
Mohammed A. Talib	–	–	–	–	–	–
Sh. Mohammed Duaij Al-Khalifa	–	–	–	–	–	–

Name of Executive Management	Total no. of shares held as of 31st Dec 2014	Transactions – within the period 1st Jan – 31st Dec 2015 Bought	Sold	Capital Reduction Adjustment	Total no. of shares held as of 31st Dec 2015	% of Ownership
Hesham Ahmed N. Abdulqader Alrayes	10,102	–	–	6,062	4,040	0.00018
Ajay Shivram Subramanian	2,194	–	–	1,317	877	0.00004
Chandan Gupta	–	–	–	–	–	–
Mohammed Amin Ahmed Ali Hassan	–	–	–	–	–	–
Salem Patel	–	–	–	–	–	–

B.10. Meetings of the Board of Directors during the year 2015

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 five (5) meetings during 2015. The AGM and EGM were held on 12th April 2015.

In addition to official meetings, a number of urgent resolutions were also passed by circulation in 2015 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.

Corporate Governance (contd.)

B.10. Meetings of the Board of Directors during the year 2015 (contd.)
Dates of Board meetings held during the fiscal year 2015 are as follow:

I. 22nd February 2015
II. 13th May 2015
III. 12th August 2015
IV. 11th November 2015
V. 29th December 2015

Date & location of meeting	Names of Directors present	Names of Directors who participated by phone/ video link	Names of Directors not present
Date: 22nd February 2015 **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. Dr. Khaled Mohamed AlKhazraji 4. Mohammed Ali Taleb 5. Sh. Mohamed Duaij Al-Khalifa 6. Bashar Mohamed Al-Mutawa 7. Yousif Ebrahim Al-Ghanim 8. Faisal Abdulla Abubshait		
Date: 13th May 2015 **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. Dr. Khaled Mohamed AlKhazraji 4. Mohammed Ali Taleb 5. Sh. Mohamed Duaij Al-Khalifa	1. Faisal Abdulla Abubshait	1. Bashar Mohamed Al-Mutawa 2. Yousif Ebrahim Al-Ghanim
Date: 12th August 2015 **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	1. Dr. Ahmed Khalil Al-Mutawa 2. Mosabah Saif Al-Mutairy 3. Yousif Ebrahim	1. Faisal Abdulla Abubshait 2. Dr. Khaled Mohamed Al-Khazraji
Date: 11th November 2015 **Location:** Four Seasons Hotel – Bahrain Bay, Manama, Kingdom of Bahrain	1. Dr. Ahmed Khalil Al-Mutawa 2. Mosabah Saif Al-Mutairy 3. Dr. Khaled Mohamed AlKhazraji 4. Mohammed Ali Taleb 5. Sh. Mohamed Duaij Al-Khalifa 6. Bashar Mohamed Al-Mutawa 7. Yousif Ebrahim Al-Ghanim		1. Faisal Abdulla Abubshait
Date: 29th December 2015 **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. Dr. Khaled Mohamed Al-Khazraji 4. Mohammed Ali Taleb 5. Sh. Mohamed Duaij Al-Khalifa 6. Yousif Ebrahim Al-Ghanim 7. Faisal Abdulla Abubshait	1. Bashar Mohamed Al-Mutawa

Note: Mr. Faisal Abdulla Abubshait and Mr. Bashar Mohamed Al-Mutawa could not attend two of the five Board Meetings held during the year 2015.

B.11. Quorum required for adoption of Board resolutions

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

C. Board Committees

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

C.1. The Audit and Risk Committee

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

The Committee must meet at least four times a year. During the fiscal year 2015, the Committee held seven meetings which took place on 19th February, 3rd March, 23rd April, 13th May, 12th August, 31st August and 10th November 2015 respectively.

ARC meeting date & location	ARC members present	ARC members who participated by phone/ video link	ARC members not present
Date: 19th February 2015 **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: 3rd March 2015 **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: 23rd April 2015 **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: 13th May 2015 **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		1. Bashar Mohamed Al-Mutawa
Date: 12th August 2015 **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: 31st August 2015 **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 November 2015 **Location:** GFH Financial Group, Bahrain Financial Harbour, East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Mohammed Ali Taleb 2. Bashar Mohamed Al-Mutawa	1. Sh. Mohamed Duaij Al-Khalifa	

Corporate Governance (contd.)

C.2. Investment Committee (BIC)

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

The Committee must meet at least two times a year. The Committee met five times during the fiscal year 2015 i.e., 13th January, 5th March, 11th November, 29th November and 9th December 2015.

BIC meeting date & location	BIC members present	BIC members who participated by phone/ video link	BIC members not present
Date: 13th January 2015 **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. Yousif Ebrahim Al-Ghanim	
Date: 5th March 2015 **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. Yousif Ebrahim Al-Ghanim	
Date: 11th November 2015 **Location:** Four Seasons Hotel – Bahrain Bay, Manama, Kingdom of Bahrain	1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al-Mutairy 3. Yousif Ebrahim Al-Ghanim		
Date: 29th November 2015 **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. Yousif Ebrahim Al-Ghanim	
Date: 9th December 2015 **Location:** GFH Capital Ltd 402, Level 4, Precinct Building 3, Gate District, Dubai International Financial Centre, Dubai, UAE	1. Dr. Ahmed Khalil Al-Mutawa 2. Mosabah Saif Al-Mutairy	1. Yousif Ebrahim Al-Ghanim	

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 three times during the fiscal year 2015 i.e. 22nd February, 5th March, 10th November 2015.

NRGC meeting date & location	NRGC members present	NRGC members who participated by phone/ video link	NRGC members not present
Date: 22nd February 2015 **Location:** GFH Financial Group, Bahrain Financial Harbour, East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Dr. Khaled Mohamed Al-Khazraji 2. Bashar Mohamed Al-Mutawa 3. Faisal Abdulla Abubshait		
Date: 5th March 2015 **Location:** GFH Financial Group, Bahrain Financial Harbour, East Tower - 37th Floor, Manama, Kingdom of Bahrain		1. Dr. Khaled Mohamed Al-Khazraji 2. Bashar Mohamed Al-Mutawa	1. Faisal Abdulla Abubshait
Date: 10th November 2015 **Location:** GFH Financial Group, Bahrain Financial Harbour, East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Dr. Khaled Mohamed Al-Khazraji 2. Bashar Mohamed Al-Mutawa		1. Faisal Abdulla Abubshait

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 BOD is recommended to the Board of Directors by the Nomination, Remuneration & Governance Committee and then the Board of Directors makes the recommendation to the shareholders during the annual general meeting.

The Board of Directors' remuneration takes into consideration the performance of the Bank, and an assessment of compliance of individual members with their performance agreement and individual responsibilities. During the year 2015, the Board was paid fees as stated in note 27 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 27 (key management personnel) of the consolidated financial statements for details of the remuneration to Board of Directors and Executive Management.

During 2015, the total remuneration paid to Sharia Supervisory Board was US$ 148,000/-.

Corporate Governance (contd.)

E.2. Continuous development of the Board and Board Committees

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

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

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

E.3. Board's Performance Evaluation

At GFH, a comprehensive Board Performance Evaluation Pack (framework for the annual self-assessment process by the Board, the Board Committees, and Individual Directors) is in place which is in line with the CBB guidelines (HC Module).

The evaluation is to be used to assess Board effectiveness and support in identifying the need for:
- A revised mix of skills / experience on the Board.
- Board training and/or professional support
- Replacement of individual Directors whose contribution is deemed inadequate.

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

- The Board shall, through the Nomination, Remuneration and Governance Committee (NRGC), undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and Individual Directors.

- The Chairman will act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of the Board.The Chairman of the NRGC will be responsible for the performance evaluation of the Chairman, taking into account the views of other Board Members.

- The evaluation process will be used constructively as a mechanism to improve Board effectiveness, maximize strengths and tackle weaknesses.

- The results of Board evaluation will be shared with the Board as a whole whilst the results of individual assessments will remain confidential between the Chairman and the Director concerned.

- Key results indicators, derived from the strategic plans and objectives, should be used to measure the Board's performance.

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

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

E.4. Transactions with Related Parties

Details of transactions with related parties are indicated in detail in Note 27 of the consolidated financial statements for the fiscal year ended 31st December, 2015.

E.5. Approval process for Related Party Transactions

All connected party exposures (within the CBB defined limits) will be approved by the appropriate approving authority as per the Delegate Authority Limit (DAL). When the approving authority as per DAL is connected / interested, the approval authority shall move to the next level. All connected party exposures will be submitted to the BARC quarterly for their ratification.

In determining whether to approve a Connected Party Transaction, the requesting and approving authority will consider, among other factors, the following factors to the extent relevant to the Connected Party Transaction:

- Exposures to connected counterparties may be justified only when undertaken for the clear commercial advantage of the bank, when negotiated and agreed on an arm's length basis, and when included in the policy statement agreed with the Central Bank;

- No Islamic facilities provided by a bank to its own External Auditors shall be permitted (External Auditors include firm/ partnership, the partners, the directors and managers of the audit firm). In addition, unless provided for in the contract, off-balance sheet restricted investment accounts will not be permitted to participate in on-balance sheet corporate funding and vice versa and movement within restricted investment accounts is not permitted without the Central Bank's prior written approval;

- Whether the terms of the Connected Party Transaction are fair to the Bank and on the same basis as would apply if the transaction did not involve a Connected Party;

- Whether there are business reasons for the Bank to enter into the Connected Party Transaction;

- Whether the Connected Party Transaction would impair the independence of an outside director;

- 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 BD100,000 (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.6. Ownership of shares by government entities
None of the government entities holds shares of GFH.

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

The main objectives of the internal control process can be categorized as follow:

1. Efficiency and effectiveness of activities (performance objectives);
2. Reliability, completeness and timeliness of financial and management information (information objectives);
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;
V. Monitoring activities and correcting deficiencies.

E.8. 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 fulfill 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 behavior of an employee of the bank.

E.8.1. 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's complaint is acknowledged, properly investigated, and that the Bank's response is adequately communicated to the client.

- Options for submitting a 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,
        P.O. 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 timeframe 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.

E.8.2. Whistle-blowing

- Report an Incident

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

- Report to '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:

    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.

Corporate Governance (contd.)

E.9. Details of Penalties Paid

In 2015, a financial penalty of Bahraini Dinar (BD) 3,200 was imposed by the Central Bank of Bahrain, due to the late submission of newspaper copy of the Bank's reviewed quarterly financial statements for the period ended 30th June 2015.

E.10. 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 following:

1. Ensuring that the necessary approvals of the SSB have been obtained for each project.

2. Ensuring compliance of projects with the Sharia provisions indicated in the prospectus and the approved structure of the project.

3. Reviewing the financial statements and other issues related to the projects and ensuring that they are in compliance with the Sharia principles.

4. Ensuring that the projects are in compliance with Fatwas and recommendations of the SSB of GFH and the other Sharia Boards, if any.

5. Ensuring that the approval of the SSB is obtained for each financial instrument (such as sale transactions, financing, currency conversion, Sukuks, deposits, etc.), including the approved and concluded contracts and agreements.

6. Reviewing the financial statement to ensure full compliance with the Sharia principles and the requirements and provisions of the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).

7. Ensuring that all the products and the structures thereof are in compliance with AAOIFI's standards.

For earnings prohibited by Sharia, please refer note 2(z) and note 31 of the consolidated financial statements for the fiscal year ended 31st December 2015.

E.11. Remuneration related disclosures

The Bank's total compensation approach, which includes the variable remuneration policy, sets out the Banks's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

Last year, the Bank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain and has incorporated revisions to its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in the Annual General Meeting of year 2014 which was held on 12th April 2015. .

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

Remuneration Strategy

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

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

1. Fixed pay;
2. Benefits;
3. Annual performance bonus;
4. The long term performance incentive plan.

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

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:

- Approve, monitor, and review the remuneration system to ensure the system operates as intended.

- Approve the remuneration policy and amounts for each Approved Person and Material Risk Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses, and other employee benefits.

- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit, but take different amount of risk on behalf of the bank.

- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.

- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses, and other employee benefits.

Corporate Governance (contd.)

NRGC role and focus (contd.)

- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRGC will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial control, and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

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

From January 2015 to December 2015

NRGC member name	Appointment date	Number of meetings attended
Khaled Mohamed Al-Khazraji	22 April 2014	3 out of 3
Bashar Mohamed Al-Mutawa	22 April 2014	3 out of 3
Faisal Abdulla Abubshait	22 April 2014	1 out of 3

The aggregate remuneration paid to NRGC members during the year in the form of sitting fees amounted to USD 8K (2014: USD 8K).

Scope of Application of the Remuneration Policy

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

Board Remuneration

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

Variable Remuneration for Staff

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

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

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

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

The NRGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRGC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRGC.

For the overall Bank to have any funding for distribution of a bonus pool; threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally and 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 favor of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not be determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance, and ethical considerations, as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

Variable Compensation for Business Units

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

Corporate Governance (contd.)

Risk Assessment Framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavor 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. It ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, the remuneration practices where potential future revenues whose timing and likelihood remain uncertain, are carefully evaluated.

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

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

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

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

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

Risk Adjustments

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

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

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

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

- Take no action.
- Increase/ decrease 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 behavior 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 misbehavior 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

Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
Deferred Annual Bonus (DAB) share awards	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years
Future performance awards	The portion of variable compensation which is awarded to 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 commission, where the employee is compensated on the basis of a specified percentage of a sales value of an investment on successful exit.

Corporate Governance (contd.)

In addition to the DAB, the employees can also opt for higher participation through an employee share purchase plan at an agreed price. All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

Deferred Compensation

All employees earning over BHD100,000 in total compensation shall be subject to deferral of variable remuneration as follow:

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

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

Details of Remuneration Paid

(a) Board of Directors

	2015(US$ '000)	2014 (US$ '000)
• Board Member fees	261	457
• Board Member allowances	637	663
Total	**898**	**1,120**

(b) Employee remuneration

The detailed disclosures in accordance with the CBB requirement for the previous year 2014 is as below. For the current year 2015, the detailed disclosures will be made available on the website in due course.

		2014 *									
		Fixed remuneration	Sign on bonuses	Guaranteed bonuses	Variable remuneration						
					Upfront		Deferred				
Type of employees	**No. of staff**	**Cash**	**(Cash/ shares)**	**(Cash/ shares)**	**Cash**	**Shares**	**Cash**	**Shares**	**Others**	**Total**
Approved Persons Business Lines	6	2,032	-	-	501	-	96	1,073	-	3,701
Approved Persons Control & Support	7	1,419	-	-	314	-	36	494	-	2,263
Other Material Risk Takers	3	344	-	-	42	-	-	-	-	386
Other Employees: Bahrain Operations	51	3,504	-	-	841	-	-	-	-	4,345.7
Other Employees: Overseas Branches & Subsdiaries *	8	590	-	-	161	-	-	-	-	751.2
	75	**7,889**	**-**	**-**	**1,859**	**-**	**132**	**1,567**	**-**	**11,446**

Deferred Awards

	2014 *			
		Shares		Total
	Cash US$'000s	**Number**	**US$'000s**	**US$'000s**
Opening balance	-	-	-	-
Awarded during the period	132	4,895,774	1,567	1,698
Paid out / released during the period	-	-	-	-
Service, performance, and risk adjustments	-	-	-	-
Bonus share adjustment	-	-	-	-
Closing balance	**132**	**4,895,774**	**1,567**	**1,698**

The total number of shares include additional employee participation through employee share purchase plans 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 date. These are not necessarily reflective of issue price of share awards.

*These above disclosures pertain to employees of the Bank and GFH Capital only and excludes other consolidates subsidiaries of the Bank. Information pertaining to KHCB is available separately in their annual report.

Consolidated Financial Statements

Jan. '15

Dec. '15

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

for the financial year ending 31 December 2015
4 February 2016

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 2015 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 2015 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 organizations 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 2015, the consolidated statements of income, changes in owners' equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2015, 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 Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on Other Regulatory Requirements

As required by the Bahrain Commercial Companies Law and Volume 2 of the Central Bank of Bahrain 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

KPMG Fakhro
Partner Registration No. 137
24 February 2016

Consolidated statement of financial position

for the year ended 31 December 2015

US$ 000's

	Note	31 December 2015	31 December 2014 (restated – note1)
ASSETS			
Cash and bank balances	4	122,165	129,938
Placements with financial institutions		122,348	248,482
Financing assets	5	859,421	782,628
Investment securities	6	573,453	482,596
Assets acquired for leasing		179,870	114,008
Investment properties	7	257,932	313,635
Development properties	8	179,577	131,317
Equity-accounted investees	9	81,274	21,173
Property, plant and equipment	10	25,602	166,375
Intangible assets	11	-	125,176
Other assets	12	246,133	266,914
Total assets		**2,647,775**	2,782,242
LIABILITIES			
Investors' funds	13	5,291	18,675
Placements from financial institutions, other entities and individuals	14	340,090	339,458
Customer current accounts		174,462	111,684
Financing liabilities	15	153,619	249,340
Other liabilities	16	135,977	149,872
Total liabilities		**809,439**	869,029
Equity of investment account holders	17	**944,915**	895,558
OWNERS' EQUITY			
Share capital	18	597,995	1,253,626
Treasury shares		(4,053)	(912)
Capital adjustment account		22,420	(475,582)
Statutory reserve		72,055	70,060
Retained earnings / (accumulated losses)		6,581	(203,608)
Fair value reserve		(230)	(2,366)
Share grant reserve	19	893	1,129
Foreign currency translation reserve		-	(780)
Total equity attributable to shareholders of the Bank		**695,661**	641,567
Non-controlling interests		197,760	376,088
Total owners' equity		**893,421**	1,017,655
Total liabilities, equity of investment account holders and owners' equity		**2,647,775**	2,782,242

The consolidated financial statements consisting of pages 70 to 141 were approved by the Board of Directors on 24 February 2016 and signed on its behalf by:

Ahmed Al Mutawa	**Mosabah Saif Al Mautairy**	**Hisham Alrayes**
Chairman	Vice Chairman	Chief Executive Officer

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated income statement

for the year ended 31 December 2015

US$ 000's

	Note	2015	2014 (restated)
Continuing operations			
Income from investment banking services		23,822	16,152
Management and other fees		6,491	6,915
Income from placements with financial institutions		1,585	1,477
Income from financing assets and assets acquired for leasing		56,890	59,478
Share of profits of equity-accounted investees		-	6,505
Income from investment securities, net	20	12,825	(2,038)
Foreign exchange (loss) / gain, net		(146)	57
Other income	21	18,515	46,332
Total income before return to investment account holders and finance expense		**119,982**	134,878
Return to investment account holders before Bank's share as Mudarib		(43,598)	(33,750)
Bank's share as Mudarib		25,334	10,615
Return to investment account holders		**(18,264)**	(23,135)
Finance expense		(16,758)	(21,416)
Total income		**84,960**	90,327
Staff cost	22	30,464	27,899
Investment advisory expenses		6,469	4,552
Other operating expenses	23	25,176	26,501
Total expenses		**62,109**	58,952
Profit for the year before impairment		**22,851**	31,375
Less: impairment allowances	24	(17,016)	(14,120)
Profit for the period from continuing operations		**5,835**	17,255
Discontinued operations			
Income From Industrial Business, Net	25	6,190	8,704
Income From Assets Held-For-Sale, Net		-	1,392
Profit for the period		**12,025**	27,351
Profit / (Loss) for the year attributable to:			
Shareholders of the Bank		(5,520)	14,983
Non-Controlling Interests		17,545	12,368
		12,025	27,351
Earnings per share			
Basic earnings per share (Us cents)		**(0.25)**	1.02
Diluted earnings per share (Us cents)		**(0.25)**	1.02
Earnings per share – Continuing operations			
Basic earnings per share (Us cents)		**(0.29)**	0.70
Diluted earnings per share (Us cents)		**(0.29)**	0.70

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated statement of changes in owner's equity

for the year ended 31 December 2015

2015	Share Capital	Treasury share	Capital adjustment account	Statutory reserve
Balance at 1 January 2015				
As previously reported	1,253,626	(912)	(475,582)	69,251
Impact of consolidation (note 2 (a))	-	-	-	809
As restated	1,253,626	(912)	(475,582)	70,060
Profit for the year	-	-	-	-
Fair value changes	-	-	-	-
Foreign currency translation differences	-	-	-	-
Total recognised income and expense	**-**	**-**	**-**	**-**
Conversion of Murabaha to capital (note 18)	241,361	-	(181,361)	-
Capital reduction (note 18)	(896,992)	-	679,665	-
Purchase of treasury shares	-	(4,594)	-	-
Sale of treasury shares	-	1,453	-	-
Loss on sale of treasury shares	-	-	(302)	-
Transfer to income statement on disposal of investments	-	-	-	-
Transfer to statutory reserve	-	-	-	1,995
Share grants vesting expense, net of forfeitures	-	-	-	-
Dividends to non-controlling interests	-	-	-	-
Derecognition on loss of control (note 33)	-	-	-	-
Balance at 31 December 2015	**597,995**	**(4,053)**	**22,420**	**72,055**

2014 (restated)	Share Capital	Treasury share	Capital adjustment account	Statutory reserve
Balance at 1 January 2014				
As previously reported	972,281	(912)	(229,656)	68,146
Impact of consolidation (note 2 (a))	-	-	-	-
As restated	972,281	(912)	(229,656)	68,146
Profit for the year	-	-	-	-
Fair value changes	-	-	-	-
Foreign currency translation differences	-	-	-	-
Total recognised income and expense	-	-	-	-
Transfer to statutory reserve	-	-	-	1,914
Conversion of Murabaha to capital (note 18)	415,725	-	(245,325)	-
Share issue related expenses	-	-	(601)	-
Capital reduction	(134,380)	-	-	-
Share grants vesting expense, net of forfeitures (note 22)	-	-	-	-
Acquisition of subsidiaries	-	-	-	-
Balance at 31 December 2014	1,253,626	(912)	(475,582)	70,060

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

US$ 000's

Attributable to shareholders of the Bank						
Retained earnings / (accumulated losses)	**Fair value reserve**	**Share grant reserve**	**Foreign currency translation reserve**	**Total**	**Non-controlling interests**	**Total owners' equity**
(165,851)	(2,345)	1,129	(780)	678,536	187,194	865,730
(37,757)	(21)	-	-	(36,969)	188,894	151,925
(203,608)	(2,366)	1,129	(780)	641,567	376,088	1,017,655
(5,520)	-	-	-	(5,520)	17,545	12,025
-	(203)	-	-	(203)	-	(203)
-	-	-	(302)	(302)	(117)	(419)
(5,520)	**(203)**	**-**	**(302)**	**(6,025)**	**17,428**	**11,403**
-	-	-	-	60,000	-	60,000
217,327	-	-	-	-	-	-
-	-	-	-	(4,594)	-	(4,594)
-	-	-	-	1,453	-	1,453
-	-	-	-	(302)	-	(302)
-	2,339	-	-	2,339	-	2,339
(1,995)	-	-	-	-	-	-
-	-	(236)	-	(236)	-	(236)
-	-	-	-	-	(3,979)	(3,979)
377	-	-	1,082	1,459	(191,777)	(190,318)
6,581	**(230)**	**893**	**-**	**695,661**	**197,760**	**893,421**

Attributable to shareholders of the Bank						
Accumulated losses	Fair value reserve	Share grant reserve (note 24)	Foreign currency translation reserve	Total	Non-controlling interests	Total owners' equity
(310,185)	-	1,242	-	500,916	-	500,916
(40,872)	(49)	-	-	(40,921)	182,501	141,580
(351,057)	(49)	1,242	-	459,995	182,501	642,496
14,983	-	-	-	14,983	12,368	27,351
-	(2,317)	-	-	(2,317)	-	(2,317)
-	-	-	(780)	(780)	(1,080)	(1,860)
14,983	(2,317)	-	(780)	11,886	11,288	23,174
(1,914)	-	-	-	-	-	-
-	-	-	-	170,400	-	170,400
-	-	-	-	(601)	-	(601)
134,380	-	-	-	-	-	-
-	-	(113)	-	(113)	-	(113)
-	-	-	-	-	182,299	182,299
(203,608)	(2,366)	1,129	(780)	641,567	376,088	1,017,655

Consolidated statement of cash flows

for the year ended 31 December 2015

US$ 000's

	2015	2014 (restated)
OPERATING ACTIVITIES		
Profit for the year	**12,025**	27,351
Adjustments for:		
Impairment allowances	17,016	14,120
Income from investment securities	(12,825)	2,038
Gain from assets held-for-sale	-	(1,392)
Share of profit of equity-accounted investees	(3,025)	(6,505)
Foreign exchange loss / (gain)	147	(57)
Management and other fees	-	75
Finance expenses	16,758	7,163
Other income	(18,515)	(41,963)
Depreciation and amortisation	2,994	6,013
Investment banking income	(23,822)	(16,152)
	(9,247)	(9,309)
Changes in:		
Financing assets	(76,793)	(139,686)
Asset acquired for leasing	(69,281)	(28,966)
Other assets	29,582	14,577
Investor's funds	(13,384)	(21,103)
Placements from financial, other entities and individual	632	(46,260)
Customer current accounts	62,766	91,050
Other liabilities	(59,651)	(68,199)
Equity of investment account holders	49,357	127,695
Movement in CBB reserve	(5,290)	(4,748)
Net cash used in operating activities	**(91,309)**	(84,949)
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(663)	(10,932)
Proceeds from assets held-for-sale	-	14,559
Purchase of investment securities	(208,147)	(234,021)
Dividends received	11,942	-
Proceeds from sale of investment securities	144,289	230,710
Acquisition of development property	-	(1,329)
Payment for acquisition of properties	-	(21,977)
Net cash flow on acquisition of subsidiaries	-	7,341
Dividends received from equity-accounted investees	-	5,360
Advance for acquisition of investment	-	1,954
Derecognition of a subsidiary on loss of control	(11,007)	-
Net cash used in investing activities	**(63,586)**	(8,335)

US$ 000's

	2015	2014 (restated)
FINANCING ACTIVITIES		
Financing liabilities, net	(31,073)	(33,568)
Finance expense paid	(8,335)	(14,243)
Proceeds from issue of convertible murabaha	60,000	170,400
Purchase of treasury shares, net	(3,141)	-
Dividends paid (including non-controlling interests)	(1,753)	(10)
Net cash generated from financing activities	**15,698**	122,579
Net (decrease) / increase in cash and cash equivalents during the year	**(139,197)**	29,295
Cash and cash equivalents at 1 January	333,657	304,362
CASH AND CASH EQUIVALENTS at 31 December	**194,460**	333,657
Cash and cash equivalents comprise:		
Cash and balances with banks	72,112	85,175
Placements with financial institutions	122,348	248,482
	194,460	333,657

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated Statement of changes in restricted investment Accounts

for the year ended 31 December 2015

31 December 2015	Balance at 1 January 2015		
Company	**No of units (000)**	**Average value per share US$**	**Total US$ 000's**
Mena Real Estate Company KSCC	150	0.35	52
Al Basha'er Fund	93	7.89	734
Safana Investment (RIA 1)	8,313	2.65	22,050
Janayen Holding Limited (RIA 4)	48,082	0.25	12,095
Shaden Real Estate Investment WLL (RIA 5)	8,100	2.65	21,485
Locata Corporation Pty Ltd (RIA 6)	2,633	0.94	2,475
			58,891

31 December 2014 (restated)	Balance at 1 January 2014		
Company	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	53
Al Basha'er Fund	93	8.39	780
Al Hayreth French Property Fund	17	1,379.63	23,523
Safana Investment (RIA 1)	8,323	2.65	22,077
Janayen Holding Limited (RIA 4)	48,082	0.29	13,963
Shaden Real Estate Investment WLL (RIA 5)	8,100	2.65	21,485
Locata Corporation Pty Ltd (RIA 6)	2,948	0.90	2,655
			84,536

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
Movements during the year						**Balance at 31 December 2015**		
-	-	-	-	-	-	150	0.35	52
-	(88)	-	-	-	-	93	6.95	646
-	-	-	-	-	-	8,313	2.65	22,050
-	58	10,737	-	-	(344)	48,082	0.48	22,546
(11,597)	-	-	-	-	-	3,728	2.65	9,888
-	-	-	-	-	-	2,633	0.94	2,475
(11,597)	**(30)**	**10,737**	**-**	**-**	**(344)**			**57,657**

Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Movements during the period						Balance at 31 December 2014		
-	(1)	-	-	-	-	150	0.35	52
-	(46)	-	-	-	-	93	7.89	734
(9,316)	(2,790)	(11,417)	-	-	-	-	-	-
-	-	-	-	-	-	8,313	2.65	22,050
-	13	599	(1,979)	-	(501)	48,082	0.25	12,095
-	-	-	-	-	-	8,100	2.65	21,485
-	-	-	-	-	-	2,633	0.94	2,475
(9,316)	(2,824)	(10,818)	(1,979)	-	(501)			58,891

Consolidated statement of sources and uses of zakah and charity funds

for the year ended 31 December 2015

US$ 000's

	2015	2014
Sources of zakah and charity fund		
Non-Islamic income (note 31)	166	238
Total sources	**166**	238
Uses of zakah and charity fund		
Utilisation of zakah and charity fund	2,541	175
Total uses	**2,541**	175
Deficit / excess of uses over sources	**(2,375)**	63
Undistributed zakah and charity fund at 1 January	5,050	4,987
Undistributed zakah and charity fund at 31 December (note 16)	**2,675**	5,050
Represented by:		
Zakah payable	751	3,006
Charity fund	1,924	2,044
	2,675	5,050

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2015

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. During the year, the Bank's GDR listed in London stock exchange were delisted.

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

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

Investee name	Country of incorporation	Parent / Owning Company	Effective ownership interests		Activities
			2015	2014	
GFH Capital Limited	United Arab Emirates	GFH Financial Group BSC	100%	100%	Shari'a compliant investment management
Cemena Investment Company (CIC) (note 33)	Cayman Islands	GFH Financial Group BSC	-	38.89%	Investment holding company
Khaleeji Commercial Bank BSC (KHCB) *	Kingdom of Bahrain	GFH Financial Group BSC	46.965%	46.965%	Islamic retail bank
Morocco Gateway Investment Company (MGIC) *	Morocco	GFH Financial Group BSC	33.53%	33.53%	Infrastructure and real estate development
Capital Real Estate Co BSC (c) (CRE) *	Kingdom of Bahrain	GFH Financial Group BSC	60.00%	60.00%	Real Estate Development
Surooh Company, Cayman Islands ('Surooh') *	Kingdom of Bahrain	KHCB	10.00%	10.00%	To construct and sell properties at "Oryx Hills".
Eqarat Al Khaleej, Cayman Islands ('Eqarat') *	Kingdom of Bahrain	KHCB	19.80%	19.80%	To buy, sell and renting income producing properties across the GCC.

** Refer note 2(a)*

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

for the year ended 31 December 2015

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 2015

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015 and are expected to be relevant to the Group.

FAS 23 – Consolidation

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) issued amendments to FAS 23. These amendments provide clarification and expand the scenarios for assessing control when an entity holds less than majority voting rights in an investee. In particular, the concept of de-facto control has been introduced.

The amendment clarifies that where the IFI has less than majority voting rights in an investee, control may also exist through

(a) agreement with the entity's other shareholders or the entity itself;
(b) rights arising from other contractual arrangements;
(c) the IFI's voting rights (de facto power);
(d) potential voting rights; or
(e) a combination thereof

Further, FAS 23 does not provide specific guidance for assessment of control over special purpose vehicles (SPVs) where the Bank / Company has delegated power from its investors. The Bank / Company previously referred to the relevant guidance in International Financial Reporting Standards (IFRSs). As a result of revision to IFRS 10 (consolidation), the Group has now also changed its accounting policy for determining when it has control over SPVs to be in line with IFRS 10. The new control model focuses on the scope of decision making authority over the SPV, rights held by other parties and the Bank's / Company's aggregate economic interest in the investee. In particular, expanded guidance has been provided to assess when the Group's power over an investee would be considered as those of a principal (primarily for its own benefit) and when it would be considered to be that of an agent (primarily for benefit of its investors). A principal will be required to consolidate the SPV where as an agent will not be required to consolidate the SPV.

In accordance with the transitional provisions of the amended FAS 23, the Group reassessed its control conclusions for its investees as of 1 January 2015, being the date of initial application of these amendments. The exercise has resulted in change in control conclusion in respect of the followings investees:

New standards, amendments and interpretations effective from 1 January 2015 (contd.)

Investment	Previous classification	Basis of change in control conclusions
KHCB	Equity accounted associate	The Bank has de facto control over KHCB. The primary consideration has been whether GFH is able to control the outcome of voting at the companies' general meetings. After careful consideration of this question based on both the absolute and relative ownership interests and attendance at previous general meetings of KHCB over the last 4 years, it has been assessed that such control exists. Weightage was also given to the fact that the remaining voting rights of KHCB are widely dispersed and there is no indication that other shareholders exercise their votes collectively.
MGIC	Equity investment carried at fair value through income statement	This represents a investment vehicle (SPV) managed by the Group. The Group has a significant aggregate economic interests and variability from its involvement with the investee and hence is considered to be a principal exercising power for its own benefit.
CRE	Equity investment carried at fair value thorugh equity	Along with KHCB, the Group now controls more than majority of voting rights of this entity and hence has now been assessed as a subsidiary.

Previously, the Group would not have consolidated such investments. Accordingly, in accordance with the transitional provisions of the amended FAS 23, the Group applied the change in policy retrospectively, and has restated the relevant amounts as if the investee had always been consolidated from the date the Group obtained control.

Summary of transition approach:

When the consolidation conclusion changes for an investment that was not previously consolidated, the restatement of comparatives is limited to the immediately preceding period. The following steps have been applied:

(a) If the investee subject to consolidation is a business, the Bank / Company shall apply acquisition accounting on the date of obtaining control (as per the amended FAS 23) when an investee is consolidated for the first time on transition;

(b) The acquisition accounting values of assets, liabilities and non-controlling interests should be rolled forward until the beginning of the year immediately preceding the year of adoption; and

(c) The difference between the values determined in Step (b) and the carrying amount of the investment is recognised in equity at the beginning of the immediately preceding year.

If step (a) above is impracticable, then the deemed acquisition date shall be the beginning of the earliest period for which acquisition accounting is possible, which may also be the current period date of initial application of the amendments.

As all the new investments (except MGIC) that have been consolidated were formed and controlled by the Group since inception, no acquisition adjustments have been made to the value of reported assets and liabilities. Changes in interests of subsidiaries that did not result in loss of control have been accounted for as equity transactions.

In case of KHCB, CRE, Eqarat and Surooh, retrospective application has been done as if the investments had been consolidated since date of original acquisition and all adjustments have been effected in the earliest comparable period (i.e. 1 January 2014). In case of MGIC, as retrospective application was considered impracticable, and accordingly, the acquisition accounting and consolidation was given effect from the beginning of the current financial period (i.e. 1 January 2015) with relevant carryover adjustments being accounted for in equity.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

(a) Statement of Compliance (contd.)

New standards, amendments and interpretations effective from 1 January 2015 (contd.)

Impact of Changes in Accounting Policies

Consolidated statement of financial position (1 January 2014)	**As previously reported**	**Impact of consolidation**	**As restated**
ASSETS			
Cash and bank balances	21,847	82,038	103,885
Placements with financial institutions	-	220,410	220,410
Financing assets	-	644,810	644,810
Investment securities	196,141	243,704	439,845
Assets acquired for leasing	-	85,042	85,042
Investment properties	259,404	32,025	291,429
Development properties	-	35,269	35,269
Equity-accounted investees	209,739	(133,834)	75,905
Property, plant and equipment	299	22,252	22,551
Other assets	172,669	72,341	245,010
Total assets	**883,923**	**1,304,057**	**2,187,980**

Consolidated statement of financial position (1 January 2014)	**As previously reported**	**Impact of consolidation**	**As restated**
LIABILITIES			
Investors' funds	19,166	1,446	20,612
Placements from financial institutions, other entities and individuals	93,511	328,520	422,031
Customer current accounts	-	31,732	31,732
Other liabilities	60,408	34,525	94,933
Total liabilities	**380,852**	**396,223**	**777,075**
Equity of investment account holders	**2,155**	**769,179**	**771,334**
OWNERS' EQUITY			
Accumulated losses	(310,185)	(40,872)	(351,057)
Fair value reserve	-	(49)	(49)
Non-controlling interests	-	182,501	182,501

Impact of Changes in Accounting Policies (contd.)

Consolidated statement of financial position (31 December 2014)	**As previously reported**	**Impact of consolidation**	**As restated**
ASSETS			
Cash and bank balances	46,147	83,791	129,938
Placements with financial institutions	45,753	202,729	248,482
Financing assets	-	782,628	782,628
Investment securities	248,418	234,178	482,596
Assets acquired for leasing	-	114,008	114,008
Investment properties	259,404	54,231	313,635
Development properties	45,501	85,816	131,317
Equity-accounted investees	158,804	(137,631)	21,173
Intangible assets	125,176	-	125,176
Property, plant and equipment	141,301	25,074	166,375
Other assets	234,603	32,311	266,914
Total assets	**1,305,107**	**1,477,135**	**2,782,242**
LIABILITIES			
Investors' funds	14,885	3,790	18,675
Placements from financial institutions, other entities and individuals	90,145	249,313	339,458
Customer current accounts	-	111,684	111,684
Financing liabilities	231,124	18,216	249,340
Other liabilities	101,560	48,312	149,872
Total liabilities	**437,714**	**431,315**	**869,029**
Equity of investment account holders	**1,663**	**893,895**	**895,558**

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

(a) Statement of Compliance (contd.)

New standards, amendments and interpretations effective from 1 January 2015 (contd.)

Impact of Changes in Accounting Policies (contd.)

Consolidated income statement For the year ended 31 December 2014	**As previously reported**	**Impact of consolidation**	**As restated**
Management and other fees	1,045	5,870	6,915
Income from placements with financial institutions	286	1,191	1,477
Income from financing assets and assets acquired for leasing	-	59,478	59,478
Income from investment securities,net	(5,795)	3,757	(2,038)
Share of profit of equity-accounted investees	10,363	(3,858)	6,505
Other income	43,600	2,732	46,332
Return to investment account holders	-	23,135	23,135
Finance expense	13,032	8,384	21,416
Staff cost	11,498	16,401	27,899
Other operating expenses	17,463	9,038	26,501
Profit for the period	17,034	10,317	27,351

New standards, amendments and interpretations issued but not yet effective

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016 and are expected to be relevant to the Group.

FAS 27 – Investments Accounts

FAS 27 Investments accounts was issued in December 2014 replacing FAS 5 – 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 – 'Equity of Investment Account Holders and their Equivalent'. This standard is effective for financial periods beginning 1 January 2016. The adoption of this standard is expected to expand disclosures related to equity of investment account holders and is not expected to have a significant impact on the financial statements of the Group.

(b) Basis of Preparation

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

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

(c) Basis of Consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

(ii) Subsidiaries

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

(iii) Non-controlling 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 27.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

(c) Basis of Consolidation (contd.)

(v) Loss of control

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

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

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

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

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

(vii) Transactions eliminated on consolidation and equity accounting

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

(d) Foreign Currency Transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Other group companies

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

(iv) Foreign operations

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

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

(e) Offsetting of Financing Instruments

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

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

(f) Investment Securities

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

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.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

(f) Investment Securities (contd.)

(i) Classification (contd.)

At fair value through income statement (FVTIS) (contd.)

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

At fair value through equity (FVTE)

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

(ii) Recognition and De-recognition

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

(iii) Measurement

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

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity.

The fair value gains / (losses) are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

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

(iv) Measurement Principles

Amortised cost measurement

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

Fair value measurement

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

(g) Financing Assets

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

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 development property to investment property.

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.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

(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 at each financial year end and adjusted prospectively if appropriate.

(n) Intangible Assets

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

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

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

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

(o) Inventories

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

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

(p) Impairment of Assets

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

Financial assets carried at amortised cost

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

Investments carried at fair value through equity (FVTE)

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

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

Other non-financial assets

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

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

(q) Customers' Current Accounts

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

(r) Financing Liabilities

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

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

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

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

(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 (refer note 38 for details).

(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 income statement on the sale of treasury shares.

Statutory reserve

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

Capital adjustment account

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

(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) Assets Held-for-sale and Discounted Operations

(i) Classification

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

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

(ii) Measurement

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

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

(w) Assets Held-for-sale and Discounted Operations (contd.)

iii) Discontinued operations

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

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

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

(x) Revenue Recognition

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

Banking business

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

Income from placements with / from financial institutions are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.

Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

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

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

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

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.

Istisna'a revenue and the associated profit margin is recognised using the percentage of completion method.

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.

(y) Industrial Business

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

(z) Earnings Prohibited by Shari'a

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

(aa) Zakah

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

(bb) Employees Benefits

(i) Short-term benefits

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

(ii) Post employment benefits

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

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

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

(iii) Share-based employee incentive scheme

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

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

(z) Earnings Prohibited by Shari'a (contd.)
(bb) Employees Benefits (contd.)
(iii) Share-based employee incentive scheme (contd.)

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.

(cc) 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.

(dd) 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.

(ee) 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.

(ff) Deposit Protection Scheme
Funds held with the Bank in unrestricted investment accounts and current accounts 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.

The Scheme applies to all eligible accounts held with the Bank subject to certain specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Judgements

(i) Classification of investments

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

(ii) Special purpose entities

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

(iii) Classification as held-for-sale

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

Estimations

- *Fair value of investments*

  The Group determines fair value of investments designated at fair value that are not quoted in active markets by using valuation techniques such as discounted cash flows and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of investee companies, and based on the latest available audited and un-audited financial statements. Investments of carrying value US$ 18,117 thousand are assessed using valuation models. The basis of valuation have been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

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

  The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group 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.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

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

Estimations (contd.)

- *Impairment on investments carried at fair value carried through equity (contd.)*
  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 (2015: US$ 292,449 thousand; 2014: US$ 290,787 thousand). 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, changes in technology, and operational and financing cash flows. The Group has exposures to investments and projects that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions are adequate and reflect prevailing conditions, 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.

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

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

- *Impairment of financing assets*
  Financing assets are evaluated for impairment on a basis described in accounting policy, refer to note 2 (g). 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 evaluation of the portfolio for impairment on a collective basis, management, where available, uses estimates based on historical loss experience for assets and loss experience in the industry for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio. 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.

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

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

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

4 CASH AND BANK BALANCES

US$ 000's

	31 December 2015	31 December 2014
Cash	17,302	6,761
Balance with banks	40,195	64,796
Balance with Central Bank		
Current account	14,615	13,618
Reserve account	50,053	44,763
	122,165	129,938

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 2015	31 December 2014
Murabaha	749,120	620,235
Musharaka	59,448	98,517
Wakala	84,130	96,170
Mudharaba	3,151	3,385
Istisna	92	578
	895,941	818,885
Less: Impairment allowances – specific	(27,279)	(27,034)
Less: Impairment allowances – collective	(9,241)	(9,223)
	859,421	782,628

Murabaha financing receivables are net of deferred profits of US$ 89,079 thousand (2014: US$ 86,180 thousand). Of the total financing asset portfolio,consumer financing receivables amounted to US$ 146,019 thousand (2014: US$ 97,350 thousand).

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

5 FINANCING ASSETS (contd.)

The movement on impairment allowances are as follows:

US$ 000's

2015	**Specific**	**Collective**	**Total**
At 1 January	27,034	9,223	36,257
Net charge for the year (note 24)	2,719	18	2,737
Adjusted on write-off of assets	(2,474)	-	(2,474)
At 31 December	**27,279**	**9,241**	**36,520**

2014	Specific	Collective	Total
At 1 January	33,233	10,069	43,302
Net charge for the year (note 24)	342	(846)	(504)
Adjusted on write-off of assets	(6,541)	-	(6,541)
At 31 December	27,034	9,223	36,257

6 INVESTMENT SECURITIES

US$ 000's

	31 December 2015	31 December 2014
Equity type investments		
At fair value through income statement:		
- Quoted securities	377	883
- Managed funds	-	9,878
- Unquoted funds	2,050	3,679
- Unquoted securities	58,297	58,297
- Listed sukuk	-	13,159
	60,724	85,896
At fair value through equity:		
- Managed funds (at fair value)	1,973	1,973
- Listed securities	15,242	24,479
- Unquoted securities (at cost)	326,991	287,974
	344,206	314,426
Debt type investments		
At amortised cost		
- Unquoted sukuk	168,523	81,218
At fair value through income statement		
- Quoted sukuk	-	1,056
	573,453	482,596

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

US$ 000's

	2015	2014
At 1 January	85,896	87,793
Acquisitions during the year	10,408	103,615
Fair value changes	(1,724)	(470)
Disposals during the year, at carrying value	(33,856)	(105,042)
At 31 December	**60,724**	85,896

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

US$ 000's

	2015	2014
At 1 January	314,426	283,494
Acquisitions during the year	75,273	77,084
Fair value changes	(228)	(2,080)
Disposals during the year, at carrying value	(36,425)	(33,287)
Impairment charge for the year (note 24)	(8,840)	(10,785)
At 31 December	**344,206**	314,426

Unquoted equity securities classified at fair value through equity are primarily investment in equities of companies of real estate and infrastructure development projects in different countries.

Investments carried at fair value through equity of US$ 326,991 thousand (31 December 2014: US$ 287,974 thousand) are carried at cost less impairment in the absence of a reliable measure of fair value. The Group plans to exit these investments principally by means of strategic sell outs or sale of underlying 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 2015

7 INVESTMENT PROPERTY

US$ 000's

	2015	2014
At 1 January	313,635	313,635
Additions	-	-
Transfer to development property	(55,927)	-
Other charges	224	-
At 31 December	**257,932**	313,635

Investment property includes land plots and buildings in Bahrain. Investment property of carrying amount of US$ 122 million (2014: US$ 203 million) is pledged against a Wakala facility (note 15). The investment property of carrying value US$ 56 million (31 December 2014: US$ 56 million) is pledged against other financing liabilities (note 15).

During the year, investment property of carrying value US$ 55,927 thousand was transferred to development properties on commencement of development with a view to sell in the ordinary course of business.

The fair value of the Group's investment property at 31 December 2015 was US$ 273,370 thousand (31 December 2014: US$ 304,111 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 land in UAE, Bahrain, project in Morocco and villas in Bahrain. The land has been held for development and sale in the normal course of business. During the year, the Bank commenced development of one of the investment property (land in Bahrain) for the purpose of sale.

9 EQUITY-ACCOUNTED INVESTEES

Equity-accounted investees represents investments in:

Name	Country of incorporation	% holding 2015	% holding 2014	Nature of business
Falcon Cement Company BSC (c) (note 33)	Kingdom of Bahrain	32%	-	Manufacturing and trading of cement
United Arab Cement Company J.S.C.(note 33)	Syrian Arab Republic	38.9%	-	Manufacturing of cement
Libya Investment Company (note 33)	Cayman Islands	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) (note 33)	Kingdom of Bahrain	18%	-	Extrusion and sale of aluminium products
Technal Middle East W.L.L.	Kingdom of Bahrain	-	50%	Marketing, distribution, providing technical assistance relating to aluminium and other materials.
Balexco Doha Trading W.L.L.	State of Qatar	-	44%	Trading in aluminium profiles, systems and accessories

The movement in equity-accounted investees is given below:

US$ 000's

	2015	2014
At 1 January	21,173	75,905
Acquisitions during the year (note 33)	78,802	17,263
Share of profit for the year	3,025	6,566
Dividends received	-	(2,511)
Derecognition on loss of control	(21,726)	(76,050)
At 31 December	**81,274**	21,173

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

	2015	2014
Total assets	88,641	31,443
Total liabilities	38,661	1,604
Total revenues	29,178	33,825
Total net profit	5,743	5,294

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

10 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and infrastructure on leasehold land	Plant and machinery
Cost:			
At 1 January	17,809	19,743	127,741
Acquired in a business combination	-	-	-
Additions	-	627	177
Disposals	-	(1,308)	-
Transfers	-	-	-
Foreign exchange difference	-	-	-
Derecognition on loss of control (note 33)	-	(19,062)	(127,918)
At 31 December	**17,809**	**-**	**-**
Accumulated depreciation:			
At 1 January	-	13,998	33,898
Charge for the year	-	207	2,116
Foreign exchange difference	-	-	-
Derecognition on loss of control (note 33)	-	(14,205)	(36,014)
At 31 December	**-**	**-**	**-**
Net book value:			
At 31 December	**17,809**	**-**	**-**

US$ 000's

Tools and dies	Computers	Furniture and fixtures	Motor vehicles	Capital WIP	2015 Total	2014 Total
15,458	18,188	29,146	2,086	40,779	270,950	123,583
-	-	-	-	-	-	136,474
693	406	241	423	5,214	7,781	12,494
-	(34)	(817)	(111)	-	(2,270)	-
-	862	408	96	(1,366)	-	-
-	-	-	(4)	(500)	(504)	(1,601)
(16,151)	(105)	(4,522)	(1,016)	(42,792)	(211,566)	-
-	**19,317**	**24,456**	**1,474**	**1,335**	**64,391**	270,950
13,534	17,091	24,984	1,070	-	104,575	98,572
524	478	(493)	162	-	2,994	6,013
-	-	-	(1)	-	(1)	(10)
(14,058)	(98)	(4,064)	(340)	-	(68,779)	-
-	**17,471**	**20,427**	**891**		**38,789**	104,575
-	**1,846**	**4,029**	**583**	**1,335**	**25,602**	166,375

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

11 INTANGIBLE ASSETS

US$ 000's

	Industrial business		
	Commercial licences	Customer relationship	Total
Cost			
At 1 January 2015	123,620	1,730	125.350
Accumulated amortisation			
At 1 January 2015	-	174	174
Amortisation for the year	-	130	130
At 31 December 2015	-	**304**	**304**
Net carrying value	**123,620**	**1,426**	**125,046**
De-recognition on loss of control (note 33)	(123,620)	(1,426)	(125,046)
At 31 December 2015	-	-	-

12 OTHER ASSETS

US$ 000's

	31 December 2015	31 December 2014
Investment banking receivables	41,958	31,378
Financing to projects *	79,997	84,497
Reimbursement right (note 38)	35,000	35,000
Receivable from sale of investments / properties	17,432	6,316
Advances and deposits	20,198	658
Employee receivables	14,008	13,741
Claims recoverable	13,780	12,027
Income from Sukuk receivable	3,481	530
Lease rentals receivable	3,419	2,117
Inventories	-	28,381
Trade receivables	-	36,491
Prepayments and other receivables	16,860	15,778
	246,133	**266,914**

* Financing to projects represents working capital and other funding facilities provided to projects managed by the Group. The financing is expected to be recovered from the operating cash flows of the underlying project assets (refer note 39 (a) for details of impairment assessment).

13 INVESTORS' FUNDS

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

14 PLACEMENTS FROM FINANCIAL, 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 originally in Euro currency in 2010, which were subject to regulatory sanctions and are re-denominated into US$. Subsequent to the year end, these regulatory sanctions have been formally lifted.

15 FINANCING LIABILITIES

US$ 000's

	31 December 2015	31 December 2014
Murabaha financing	38,043	46,401
Wakala financing	35,851	42,588
Sukuk liability	69,904	85,277
Financing of industrial business:		
- Short term loans	-	24,023
- Ijarah financing	-	11,460
- Term loans	-	19,663
- Murabaha financing (ii)	-	1,712
Other borrowing	9,821	18,216
	153,619	249,340

Murabaha financing
Murabaha financing comprise medium-term financing from a syndicate of banks to be repaid over 6 years on semi-annual basis commencing from August 2014. The revised profit rate on the facility is 6 months LIBOR plus margin (subject to a minimum of 5%). The Murabaha financing facilities are secured by a pledge over the Group's investment in a subsidiary of carrying value of US$ 143 million and investment property of carrying value of US$ 24.6 million.

Wakala financing
Wakala financing is a syndicate facility from a number of financial institutions. 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 of carrying value of US$ 122 million (note 7).

Sukuk liability
The Sukuk are backed by a pool of assets of the Group and has a liquidity facility provided by the Bank to support timely payments of distributions. The Sukuk were traded on the London Stock Exchange's Gilt Edged and Fixed Interest Market. Currently the Sukuk are suspended from trading.

The sukuk is repayable over a period of 6 years with periodic repayment starting from July 2014, with final instalment in July 2018. The sukuk carry a profit rate of LIBOR plus a margin of 3%, with a minimum profit rate of 5%. The Sukuk Certificates are backed by the Group's investment securities with carrying values of US$ 92.94 million (31 December 2014: US$ 99.3 million) and an investment property of carrying value of US$ 31.5 million (31 December 2014: US$ 31.5 million)

Other borrowing comprises term loan in MGIC repayable over a period of 7 years based on treasury rates plus a margin of 5%. The term loan in MGIC is secured by a partial mortgage over development properties of MGIC.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

15 FINANCING LIABILITIES (contd.)

US$ 000's

	31 December 2015	31 December 2014
Financing liabilities		
Current portion	48,174	76,864
Non-current portion	105,445	172,476
	153,619	249,340

16 OTHER LIABILITIES

US$ 000's

	31 December 2015	31 December 2014
Employee related accruals	3,430	2,902
Unclaimed dividends	5,861	5,784
Mudaraba profit accrual	7,509	8,363
Provision for employees' leaving indemnities	1,999	1,878
Zakah and Charity fund (page 78)	2,675	5,050
Provision against financial guarantees (note 38)	35,000	35,000
Accounts payable	64,266	50,645
Accrued expenses and other payables	15,237	40,250
	135,977	149,872

17 EQUITY OF INVESTMENT ACCOUNT HOLDERS

Equity of investment accounts comprise Mudarabah deposits accepted by the Group. 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 2015	31 December 2014
Balances with banks	27,549	30,479
CBB reserve account	50,053	44,761
Placements with financial institutions	116,586	201,607
Debt type instruments – sukuk	168,523	82,273
Equity type instrument – sukuk	-	13,159
Financing assets	582,204	523,279
	944,915	895,558

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

US$ 000's

	2015	2014
Returns from jointly invested assets	43,597	33,750
Banks share as Mudarib	(25,333)	(10,615)
Return / distribution to investment account holders	**18,264**	23,135

The average gross rate of return in respect of unrestricted investment accounts was 1.923% for 2015 (2014: 2.60%). Approximately 1.93% (2014: 2.60% / US$ 20 thousand) 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$ 7 thousand (2014: US$ 7 thousand) and investment risks reserve of US$ 3 thousand (2014: US$ 3 thousand).

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

18 SHARE CAPITAL

US$ 000's

	31 December 2015	31 December 2014
Authorised:		
5,660,377,358 shares of US$ 0.265 each (2014: 5,660,377,358 shares of US$ 0.265 each)	**1,500,000**	1,500,000
Issued and fully paid up:		
2,256,583,403 shares of US$ 0.265 each (2014: 4,730,665,467 shares of US$ 0.265 each)	**597,995**	1,253,626

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

	2015	2014
At 1 January	1,253,626	972,281
Conversion of murabaha to share capital	241,361	415,725
Capital reduction	(896,992)	(134,380)
At 31 December	**597,995**	1,253,626

During the year, the paid up capital of the Bank was increased from US$ 1,253,626 thousand to US$ 1,494,987 thousand as a result of subscription and exercise of conversion option by the holders of the convertible murabaha. As per the terms of the convertible murabaha, 910,793 thousand shares of par value US$ 0.265 has been issued on coversion. The difference between effective conversion price and the par value per share has been adjusted against the capital adjustment account.

Also, during the year, in the extra ordinary general meeting of the shareholders held on 12 April 2015, the shareholders approved the following:

- write off accumulated losses of US$ 896,992 thousand resulting in reduction of the issued and paid-up capital from US$ 1,494,987 thousand to US$ 597,995 thousand (representing reduction of 6 shares for each 10 shares held approximately);
- Acquire up to 10% of the Bank's share capital as treasury shares; and
- change the name of the Bank to GFH Financial Group BSC.

At 31 December 2015, the Bank held 24,503,697 (31 December 2014: 5,204,536) 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 out standing shares
Less than 1%	1,977,561,272	10,802	87.64
1% up to less than 5%	156,019,032	5	6.91
5% to less than 10%	123,003,099	1	5.45
Total	**2,256,583,403**	**10,808**	**100.00**

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

(iii) As at 31 December 2015, 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	123,003,099	5.45

19 SHARE GRANT RESERVE

US$ 000's

	2015	2014
At 1 January	1,129	1,242
Vesting expense, net of forfeiture (note 22)	(236)	(113)
At 31 December	**893**	1,129

20 INCOME FROM INVESTMENT SECURITIES

US$ 000's

	2015	2014
Dividend income	1,601	1,490
Profit / (loss) on disposal of investment securities	3,592	(5,625)
Fair value changes of investments carried at fair value through income statement	(2,135)	(71)
Income from sukuk	9,767	2,168
	12,825	(2,038)

21 OTHER INCOME

Other income primarily comprises income from sale of land to a developer in UAE of US$ 8.37 million, reversal of liability US$ 2.6 million, gain on settlement of receivables US$ 2.02 million and profit from debt buy back US$ 330 thousand.

During the previous year, the Group recognized a net amount of US$ 38 million on recovery from a previously discontinued project with one of the major developers in UAE.

22 STAFF COST

US$ 000's

	2015	2014
Salaries and benefits	28,049	25,422
Social insurance expenses	2,415	2,477
	30,464	27,899

The Bank operates a share incentive scheme for its employees. The share awards granted under the scheme have an initial lock-in period of 3 years and shall vest rateably over varied vesting periods of up to 10 years as per the terms of the scheme. At 31 December 2015, 2.29 million (31 December 2014: 2.29 million) share awards are outstanding to be exercised at a price of US$ 0.65 per share in future periods on satisfaction of the vesting conditions. A vesting charge amounting to US$ Nil (2014: US$ 49 thousand) was recognized during the year.

During 2013, the Group issued employee share awards (9,185,391 shares at a share price of US$ 0.125 per share) with vesting conditions over a period of 2 years based on fulfilment of performance and service conditions. During the year, the Group recognized a charge of US$ Nil (2014: US$ 64 thousand) towards the employee share awards. As at 31 December 2015, no shares (2014: 2.03 million shares) were pending vesting under the employee share awards scheme and during the year no shares (2014: 294 thousand shares) were forfeited.

During 2014, the Group issued employee share awards (2,352,632 shares at a price of US$ 0.19 per share) with vesting conditions over a period of 3 years based on fulfilment of performance and service conditions. During the year, the Group had recognized a charge of US$ Nil (2014: US$ 447 thousand) towards the employee share awards. As at 31 December 2015, 1.57 million shares (2014: 2.35 million shares) were pending vesting under the new employee share awards scheme and during the year no shares (2014: nil) were forfeited.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

22 STAFF COST (contd.)

During the year, the Group issued employee share awards (6.02 million shares at a price of US$ 0.13 per share) in the form of share purchase plan with a mandatory deferral period of over 3 years. The share awards are subject to an additional 6 month retention period and are subject to malus and clawback rules and include certain service conditions.

During the year, the Group had recognized a charge of US$ 1,566 thousand representing the fair value of the employee share awards. As at 31 December 2015, none of the 6.02 million shares were released to employees. The Group is in the process of formalizing the implementation mechanism of the overall share schemes to reflect the requirements of the CBB Remuneration Regulations.

23 OTHER OPERATING EXPENSES

US$ 000's

	2015	2014
Rent	4,787	4,335
Professional and consultancy fee	4,926	4,188
Legal expenses	1,108	4,056
Depreciation	2,235	1,808
Other operating expenses	12,120	12,114
	25,176	26,501

24 IMPAIRMENT ALLOWANCES

US$ 000's

	2015	2014
Investment securities (note 6)	9,031	11,050
Financing to projects	4,500	3,206
Financing assets (note 5)	2,737	(504)
Lease rental receivable and other assets	748	368
	17,016	14,120

25 INCOME FROM INDUSTRIAL BUSINESS, NET

US$ 000's

	2015	2014
Revenue	89,016	100,541
Less:		
Cost of sales	(74,176)	(80,333)
Other operating expenses	(8,650)	(11,504)
Income from industrial business, net	**6,190**	8,704

26 TOTAL FINANCE INCOME AND EXPENSE

US$ 000's

	2015	2014
FINANCE INCOME		
Banking business		
Income from placements with financial institutions	1,585	1,477
Income from financing assets	56,890	59,478
Industrial business		
Income from mudaraba deposits	-	215
Total finance income	**58,475**	61,170
FINANCE EXPENSE		
Banking business		
Placements from financial and other institutions	6,665	8,115
Financing liabilities	10,093	13,301
Equity of investment account holders (note 17)	18,264	23,135
	35,022	44,551
Industrial business		
Finance expense	1,694	2,093
Total finance expense	**36,716**	46,644
Net finance income	**21,759**	14,526

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

27 RELATED PARTY TRANSACTIONS

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

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

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

US$ 000's

2015	Associates / Joint venture	Key management personnel	Shareholders / entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Financing assets	886	-	-	26,112	**26,998**
Equity-accounted investees	81,274	-	-	-	**81,274**
Investment securities	20,154	-	33,058	217,791	**271,003**
Other assets	21,484	-	-	73,604	**95,088**
Liabilities					
Investors' funds	-	-	-	5,291	**5,291**
Customer current account	589	-	26,448	20,690	**47,727**
Other liabilities	-	-	-	35,000	**35,000**
Equity of investment account holders	292	-	52,899	22,305	**75,496**
Income					
Investment banking income	-	-	-	23,822	**23,822**
Management fees	175	-	-	650	**825**
Share of profit of equity- accounted investees	3,025	-	-	-	**3,025**
Income from investment securities, net	(2,135)	-	-	-	**(2,135)**
Other income	-	-	-	3,147	**3,147**
Expenses					
Return to investment account holders	5	-	1,379	347	**1,731**
Staff cost	-	10,548	-	-	**10,548**
Other operating expenses	-	-	-	292	**292**
Impairment allowances	4,500	-	-	-	**4,500**

US$ 000's

2014	Associates / Joint venture	Key management personnel	Shareholders / entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Financing assets	1,174	-	-	21,125	22,299
Equity-accounted investees	21,173	-	-	-	21,173
Investment securities	21,796	-	20,207	184,800	226,803
Other assets	25,257	-	-	103,778	129,035
Liabilities					
Investors' funds	-	-	-	18,675	18,675
Customer current accounts	393	-	114	3,984	4,491
Other liabilities	-	-	-	35,000	35,000
Equity of investment account holders	1,212	926	15,042	27,581	44,761
Income					
Investment banking income	-	-	-	16,152	16,152
Management fees	175	-	-	2,555	2,730
Share of profit of equity- accounted investees	10,436	-	-	-	10,436
Income from investment securities, net	(466)	-	430	(275)	(311)
Other income	-	-	-	3,000	3,000
Expenses					
Return to investment account holders	48	21	106	682	857
Staff cost	-	8,402	-	-	8,402
Other operating expenses	-	-	-	326	326
Impairment allowances	2,206	-	-	6,000	8,206

Key Management Personnel

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

Board of Directors do not hold any interests in the Bank's ordinary shares as at 31 December 2015 (2014: Nil).

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

27 RELATED PARTY TRANSACTIONS (contd.)

Key management personnel (contd.)

The key management personnel compensation is as follows:

US$ 000's

	2015	2014
Board member fees and allowance	898	1,120
Salaries, other short-term benefits and expenses	9,488	7,528
Post-employment benefits	1,060	874

28 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US$ 2,137,037 thousand (31 December 2014: US$ 2,033,909 thousand). During the year, the Group had charged management fees amounting to US$ 825 thousand (2014: US$ 685 thousand) to its assets under management.

29 EARNINGS PER SHARE

Basic earnings per share

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

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

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share. The Bank has two categories of dilutive potential ordinary shares: convertible murabaha notes (note 18) and share awards granted to employees (note 22).

US$ 000's

	2015	2014
In thousands of shares		
Weighted average number of ordinary shares	2,215,119	1,468,792
Effect of shares vesting under new employee scheme (note 22)	1,568	2,353
Weighted average number of ordinary shares (diluted)	**2,216,687**	1,471,145

During the year, all the note holders of the convertible murabaha have exercised their rights to convert the notes to equity shares of the Bank. Further, in case of the share awards granted to employees prior to 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 2015. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above.

30 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 Shari'a Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders for the year ended 31 December 2015 is US$ 285 thousand (2014: US$ 285 thousand) subject to approval of shareholders. Zakah payable for KHCB during the year as computed by the Shari'a Supervisory Board of KHCB is US$ 265 thousand.

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

31 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds. The Group receives interest from deposits placed with the Central Bank of Bahrain and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amounts to US$ 166 thousand (2014: US$ 238 thousand).

32 SHARI'A SUPERVISORY BOARD

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

33 DERECOGNITION OF A SUBSIDIARY ON LOSS OF CONTROL

Restructuring of CIC

During the year, due to changes in the capital structure, the CIC structure has been unwound and the investors in CIC were issued shares equivalent to their effective stake in the underlying entities which are Falcon Cement Company BSC (c) ("FCC"), Bahrain Aluminium Extrusion Company BSC (c) ("Balexco"), United Arab Cement Company PJSC ("UACC"), Syria, and Libya Investment Company ("LIC"). These changes were implemented in preparation of likely listing for FCC and Balexco in the foreseeable future. CIC was previously controlled by the Group through irrevocable proxy from investors. Due to the structural changes effected, the Group lost its control over CIC and has ceased consolidation of CIC from 1 October 2015, being the practical date (earliest date of financial information) considered for the changes in CIC structure. As a consequence, the individual assets and liabilities of the subsidiary were derecognised from the consolidated financial statements. The total assets and liabilities deconsolidated on losing control over CIC is as given below.

	US$ 000's
Assets	
Property, plant and equipment	142,787
Intangible assets	125,046
Equity-accounted investees	19,722
Statutory deposit	840
Total non-current assets	**288,395**
Inventories	27,430
Trade and other receivables	49,470
Cash, bank balances and term deposits	11,007
Total current assets	**87,907**
Total assets	**376,302**
Liabilities	
Bank borrowings	21,295
Payable to a contractor	125
Employees' end of service benefits	790
Total non-current liabilities	**22,210**
Trade and other payables	40,173
Bank borrowings	42,754
Accrued expenses	586
Total current liabilities	**83,513**
Total liabilities	**105,723**
Non-controlling interests de-recognised	191,777

Total assets de-recognised on loss of control	376,302
Total liabilities and non-controlling interests derecognised on loss of control	(297,500)
Carrying value of retained interest in investment	78,802

Gross consideration received	-
Less: Cash and cash equivalents of the subsidiary as at date of de-recognition	(11,007)
Net cash flows on de-recognition of subsidiary	**(11,007)**

The net income from industrial business from 1 January 2015 to derecognition amounting to US$ 6,190 thousand (2014: US$ 8,704 thousand) (note 25) has been presented as discontinued operations in the consolidated income statement.

The Group's equity interest of 32%, 18%, 38.9% and 38.9% respectively in FCC, Balexco, UACC and LIC respectively has been remeasured to its fair value based on independent external valuation at the date of derecognition. The Group's investment in FCC, Balexco, UCC and LIC are included under "Equity-accounted investees" (note 9).

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

34 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their expected realisation/payment and the Group's liabilities on the basis of contractual maturity. However, the contractual maturity and amount of cash flows on these instruments may vary from this analysis. For undiscounted contractual maturity of financial liabilities, refer note 39.

US$ 000's

31 December 2015	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	122,165	-	-	-	-	-	122,165
Placements with financial institutions	121,924	-	424	-	-	-	122,348
Financing assets	122,039	44,928	106,919	206,549	378,986	-	859,421
Investment securities	168,523	-	8,688	235,341	160,901	-	573,453
Asset acquired for leasing	1,414	-	-	1,252	177,204	-	179,870
Investment property	-	-	-	207,346	50,586	-	257,932
Development properties				161,137	18,440	-	179,577
Equity-accounted-investees	2,472	-	-	78,802	-	-	81,274
Property, plant and equipment	-	-	-	-	-	25,602	25,602
Other assets	35,144	3,503	40,945	113,270	53,271	-	246,133
Total assets	**573,681**	**48,431**	**156,976**	**1,003,697**	**839,388**	**25,602**	**2,647,775**
Financial liabilities							
Investors' funds	5,291	-	-	-	-	-	5,291
Placements from financial institutions, other entities and individuals	120,077	26,241	60,042	129,504	4,226	-	340,090
Customer current account	109,196	29,247	13,462	7,885	14,672	-	174,462
Financing liabilities	4,120	4,716	39,293	105,490	-	-	153,619
Other liabilities	52,239	18,761	17,276	47,701	-	-	135,977
Total liabilities	**290,923**	**78,965**	**130,073**	**290,580**	**18,898**	**-**	**809,439**
Equity of investment account holders	361,080	93,562	126,721	70,337	293,215		944,915
Off-balance sheet items							
Commitments	50,756	58,989	85,915	16,178	2,956	-	**214,794**
Restricted investment accounts	22,546	-	2,634	32,477	-	-	**57,657**

US$ 000's

31 December 2014	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	129,938	-	-	-	-	-	129,938
Placements with financial institutions	248,482	-	-	-	-	-	248,482
Financing assets	139,692	61,536	53,942	195,873	331,585	-	782,628
Investment securities	97,032	30,732	28,117	326,715	-	-	482,596
Assets acquired for leasing	-	-	1,408	2,199	110,401	-	114,008
Investment property	-	-	-	-	313,635	-	313,635
Development properties	-	-	-	45,501	85,816	-	131,317
Equity-accounted-investees	-	-	-	16,754	4,419	-	21,173
Property, plant and equipment	-	-	-	-	-	166,375	166,375
Intangible assets	-	-	-	-	1,556	123,620	125,176
Other assets	33,285	67,505	26,912	135,955	3,257	-	266,914
Total assets	648,429	159,773	110,379	722,997	850,669	289,995	2,782,242
Financial liabilities							
Investors' funds	18,675	-	-	-	-	-	18,675
Placements from financial institutions, other entities and individuals	145,018	13,439	32,387	60,101	88,513	-	339,458
Customer current accounts	84,324	10,130	8,615	8,615	-	-	111,684
Financing liabilities	24,197	38,949	36,634	131,344	18,216	-	249,340
Other liabilities	72,283	2,146	38,767	9,890	26,786	-	149,872
Total liabilities	344,497	64,664	116,403	209,950	133,515	-	869,029
Equity of investment account holders	345,132	131,844	147,507	271,075	-	-	895,558
Off-balance sheet items							
Commitments	68,862	12,859	51,172	18,686	93,620	-	245,199
Restricted investment accounts	-	-	-	14,729	44,162	-	58,891

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

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

(a) Industry Sector

US$ 000's

31 December 2015	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	-	122,162	-	-	3	122,165
Placements with financial institutions	-	122,348	-	-	-	122,348
Financing assets	-	71,628	249,221	-	538,572	859,421
Investment securities	-	72,243	292,449	2,050	206,711	573,453
Assets acquired for leasing	-	-	177,199	-	2,671	179,870
Investment properties	-	-	257,932	-	-	257,932
Development properties	-	-	179,577	-	-	179,577
Equity-accounted investees	78,802	-	2,472	-	-	81,274
Property, plant and equipment	-	-	-	-	25,602	25,602
Other assets	682	17,646	166,526	-	61,279	246,133
Total assets	**79,484**	**406,027**	**1,325,376**	**2,050**	**834,838**	**2,647,775**
Liabilities						
Investors' funds	162	15	1,199	-	3,915	5,291
Placements from financial institutions, other entities and individuals	-	126,163	1,809	-	212,118	340,090
Customer current accounts	-	13,916	37,334	-	123,212	174,462
Financing liabilities	-	143,800	9,819	-	-	153,619
Other liabilities	-	1,096	-	84,821	50,060	135,977
Total liabilities	**162**	**284,990**	**50,161**	**84,821**	**389,305**	**809,439**
Equity of Investment account holders	-	4,161	69,207	-	871,547	**944,915**
Off-Balance sheet items						
Commitments	-	1,612	55,550	-	157,632	**214,794**
Restricted investment accounts	-	-	57,657	-	-	**57,657**

(a) Industry Sector (contd.)

US$ 000's

31 December 2014	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	278	130,142	(485)	-	3	129,938
Placements with financial institutions	5,780	241,580	1,122	-	-	248,482
Financing assets	-	109,509	303,477	-	369,642	782,628
Investment securities	-	87,457	290,787	3,679	100,673	482,596
Assets acquired for leasing	-	1,329	112,501	-	178	114,008
Investment properties	-	-	318,624	-	(4,989)	313,635
Development properties	-	-	45,501	-	85,816	131,317
Equity-accounted investees	12,955	3,799	6,907	-	(2,488)	21,173
Property, plant and equipment	140,711	-	19,016	-	6,648	166,375
Intangible assets	125,176	-	-	-	-	125,176
Other assets	66,253	4,367	144,035	-	52,259	266,914
Total assets	351,153	578,183	1,241,485	3,679	607,742	2,782,242
Liabilities						
Investors' funds	77	15	14,793	-	3,790	18,675
Placements from financial institutions, other entities and individuals	-	137,942	1,005	-	200,511	339,458
Customer current accounts	-	(3,671)	19,923	-	95,432	111,684
Financing liabilities	56,858	174,266	18,216	-	-	249,340
Other liabilities	38,087	3,040	62,428	-	46,317	149,872
Total liabilities	95,022	311,592	116,365	-	346,050	869,029
Equity of Investment account holders	-	23,910	34,293	-	837,355	895,558
Off-Balance sheet items						
Commitments	118,039	-	21,168	-	105,992	245,199
Restricted investment accounts	-	-	55,631	-	3,260	58,891

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

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

(b) Geographic Region

US$ 000's

31 December 2015	GCC countries	MENA	Asia	UK	Europe (excluding UK)	Others	Total
Assets							
Cash and bank balances	95,528	3	101	320	4,239	21,974	122,165
Placements with financial institutions	122,348	-	-	-	-	-	122,348
Financing assets	807,146	-	-	-	52,275	-	859,421
Investment securities	370,687	30,570	134,113	18,104	10,249	9,730	573,453
Assets acquired for leasing	179,870	-	-	-	-	-	179,870
Investment properties	257,932	-	-	-	-	-	257,932
Development properties	115,460	64,117	-	-	-	-	179,577
Equity-accounted investees	81,274	-	-	-	-	-	81,274
Property, plant and equipment	25,602	-	-	-	-	-	25,602
Other assets	155,058	41,058	6,909	21,352	2,378	19,378	246,133
Total assets	**2,210,905**	**135,748**	**141,123**	**39,776**	**69,141**	**51,082**	**2,647,775**
Liabilities							
Investors' funds	4,774	517	-	-	-	-	5,291
Placements from financial institutions, other entities and individuals	254,290	85,800	-	-	-	-	340,090
Customer current accounts	173,537	-	-	-	925	-	174,462
Financing liabilities	107,970	9,819	-	35,830	-	-	153,619
Other liabilities	89,464	15,785	-	-	-	30,728	135,977
Total liabilities	**630,035**	**111,921**	**-**	**35,830**	**925**	**30,728**	**809,439**
Equity of investment account holders	912,441	-	31,159	-	1,294	21	944,915
Off-Balance sheet items							
Commitments	214,141	-	-	-	653	-	214,794
Restricted investment accounts	57,657	-	-	-	-	-	57,657

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

(b) Geographic Region (contd.)

US$ 000's

31 December 2014	GCC countries	MENA	Asia	UK	Europe (excluding UK)	Others	Total
Assets							
Cash and bank balances	102,853	184	48	705	11,811	14,337	129,938
Placements with financial institutions	248,470	12	-	-	-	-	248,482
Financing assets	699,808	-	21,393	-	61,427	-	782,628
Investment securities	294,565	33,375	114,668	18,117	9,878	11,993	482,596
Assets acquired for leasing	113,528	-	337	-	143	-	114,008
Investment properties	313,635	-	-	-	-	-	313,635
Development properties	67,200	64,117	-	-	-	-	131,317
Equity-accounted investees	21,173	-	-	-	-	-	21,173
Property, plant and equipment	163,852	2,523	-	-	-	-	166,375
Intangible assets	40,000	85,176	-	-	-	-	125,176
Other assets	179,130	21,740	9,679	24,992	13,005	18,368	266,914
Total assets	2,244,214	207,127	146,125	43,814	96,264	44,698	2,782,242
Liabilities							
Investors' funds	4,582	14,093	-	-	-	-	18,675
Placements from financial institutions, other entities and individuals	254,057	85,401	-	-	-	-	339,458
Customer current accounts	109,002	-	284	2,398	-	-	111,684
Financing liabilities	183,911	18,216	-	47,213	-	-	249,340
Other liabilities	117,142	20,809	212	109	11,600	-	149,872
Total liabilities	668,694	138,519	496	49,720	11,600	-	869,029
Equity of investment account holders	872,160	-	22,167	1,220	11	-	895,558
Off-Balance sheet items							
Commitments	245,167	-	-	32	-	-	245,199
Restricted investment accounts	58,891	-	-	-	-	-	58,891

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

36 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.

- **Asset Management:** The Asset Management unit 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 unit is to find leveraged real estate investments which will produce strong cash on cash returns for investors whilst minimizing overall risk.

- **Private Equity:** The Private Equity unit is involved in identifying and managing investments in companies that are growing and profitable as well as other equity based and alternative investments. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values.

- **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 35 (b) to the consolidated financial statements.

Information regarding the results of each reportable segment is included below: US$ 000's

31 December 2015	Real estate development	Asset Management	Private equity	Commercial banking	Unallocated / Elimination	Total
Segment revenue	5,646	15,111	11,035*	57,826	1,532	91,150
Segment expenses	11,840	2,154	19,015	35,762	10,354	79,125
Segment result	(6,194)	12,957	(7,980)	22,064	(8,822)	12,025
Segment assets	674,757	46,778	186,112	1,728,379	11,749	2,647,775
Segment liabilities	227,823	52,333	52,635	453,943	22,705	809,439
Other segment information						
Finance expense	7,838	543	2,162	6,079	136	16,758
Impairment allowance	-	-	8,137	6,558	2,321	17,016
Equity accounted investees	-	-	78,802	2,472	-	81,274
Equity of investment account holders	-	-	-	943,247	1,668	944,915
Commitments	-	-	-	214,794	-	214,794

* Includes segment result of discontinued operations, net (refer note 25).

US$ 000's

31 December 2014	Real estate development	Asset Management	Private equity	Commercial banking	Unallocated / Elimination	Total
Segment revenue	32,870	4,803	23,697*	41,509	(2,456)	100,423
Segment expenses	15,954	1,931	15,472	31,265	8,450	73,072
Segment result	16,916	2,872	8,225	10,244	(10,906)	27,351
Segment assets	637,350	19,796	547,575	1,570,782	6,739	2,782,242
Segment liabilities	270,441	6,407	174,904	391,601	25,676	869,029
Other segment information						
Finance expense	9,512	295	3,124	8,384	101	21,416
Impairment allowance	9,000	-	3,845	1,275	-	14,120
Equity accounted investees	-	-	18,683	2,490	-	21,173
Equity of investment account holders	-	-	-	893,895	1,663	895,558
Commitments	-	-	118,039	127,160	-	245,199

*Includes segment result of discontinued operations, net (refer note 25).

37 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 2015 and 31 December 2014, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quotes market prices and internal valuation models for unquoted investments. Other investments are carried at cost in the absence of a reliable measure of fair value.

Other than certain investments carried at cost of US$ 326,991 thousand (31 December 2014: US$ 287,974 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 2015.

Investments amounting to US$ 326,991 thousand (31 December 2014: US$ 287,974 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 2015, the fair value of financing liabilities was estimated at US$ 133,400 thousand (carrying value US$ 153,619 thousand) (31 December 2014: fair value US$ 202,787 thousand (carrying value US$ 249,340 thousand)) based on recent transactions for repurchase of liability instruments by the Bank. These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of financing liabilities as these are largely floating rate instruments which were re-priced recently as part of the debt restructuring process.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

37 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 2015				
Investment securities carried at fair value through:				
- income statement	377	-	60,347	60,724
- equity	15,242	-	1,973	17,215
	15,619	**-**	**62,320**	**77,939**
31 December 2014				
Investment securities carried at fair value through:				
- income statement	24,470	-	62,482	86,952
- equity	24,479	-	1,973	26,452
	48,949	-	64,455	113,404

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

US$ 000's

	2015	2014
At 1 January	64,455	46,303
Purchases	-	18,618
Total gains or losses in income statement	(2,135)	(466)
Settlements	-	-
At 31 December	**62,320**	64,455

38 COMMITMENTS AND CONTINGENCIES

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

US$ 000's

	31 December 2015	31 December 2014
Undrawn commitments to extend finance	161,788	105,218
Financial guarantees	53,006	21,942
Capital commitments relating to construction of cement plant	-	111,736
Operating lease commitments		
- Within one year	-	297
- 1 – 5 years	-	1,378
- Over 5 years	-	1,975
Guarantees issued by banks on behalf of the Group	-	2,653

Also, the Group has issued a financial guarantee of US$ 35 million to an investee company. Based on the assessment of the financial position of the investee company, the Group has recognized a provision of US$ 35 million (31 December 2014: US$ 35 million) which is included in other liabilities and recognised an equivalent amount of 'reimbursement right' receivable included in 'other assets' (note 12). The Group is currently in discussion with the lenders and in the opinion of the management, as at the reporting date, the guarantee stands expired.

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

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2015 due to the performance of any of its projects.

Litigations, claims and contingencies

The Group has a number of claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Further, claims against the Bank also have been filed by former employees. Based on the advice of the Bank's external legal counsel, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Accordingly, no provision for these claims has been made in the condensed consolidated interim financial information. 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.

39 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 Group'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.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

39 FINANCIAL RISK MANAGEMENT (contd.)

Risk management framework

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

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

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

(a) Credit Risk

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

Management of investment and credit risk

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

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

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

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

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

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

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

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

Exposure to credit risk

US$ 000's

31 December 2015	**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	104,863	122,348	715,142	164,358	161,096	152,351
Impaired						
Gross amount	-	-	39,775	5,308	554	635,636
Allowance for impairment	-	-	(27,279)	(1,143)	(66)	(575,498)
Impaired- Carrying amount	**-**	**-**	**12,496**	**4,165**	**488**	**60,138**
Past due but not impaired – carrying amount	**-**	**-**	**141,024**	**-**	**20,138**	**33,644**
Less : Collective impairment	**-**	**-**	**(9,241)**	**-**	**(1,852)**	**-**
Total – carrying amount	**104,863**	**122,348**	**859,421**	**168,523**	**179,870**	**246,133**

31 December 2014	Bank balances	Placement with financial institutions	Financing assets	Investment securities – debt type instruments	Assets acquired for leasing	Trade and other receivables	Other financial assets
Neither past due nor impaired - Carrying amount	123,175	248,482	702,604	77,762	92,705	17,010	157,641
Impaired							
Gross amount	-	-	43,836	5,308	-	17,501	462,180
Allowance for impairment	-	-	(27,034)	(796)	-	(254)	(386,921)
Impaired - Carrying amount	-	-	16,802	4,512	-	17,247	75,259
Past due but not impaired - Carrying amount	-	-	72,446	-	22,475	2,234	33,944
Less : collective impairment	-	-	(9,223)	-	(1,172)	-	-
Total – carrying amount	123,175	248,482	782,629	82,274	114,008	36,491	266,844

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 2015

39 FINANCIAL RISK MANAGEMENT (contd.)

(a) Credit Risk (contd.)

The movement in the impairment allowances for investment securities is given in note 6. 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
2015					
At 1 January 2015	70,150	85,588	153,630	75,311	384,679
Impairment charge for the year	-	4,500	-	-	4,500
At 31 December 2015	**70,150**	**90,088**	**153,630**	**75,311**	**389,179**
2014					
At 1 January 2014	70,150	83,382	153,630	74,311	381,473
Impairment charge for the year	-	2,206	-	1,000	3,206
At 31 December 2014	70,150	85,588	153,630	75,311	384,679

Receivables with renegotiated terms

During the year, the Group has renegotiated certain financing receivables and financing to projects due to changes in the financial position of the borrower. The financing receivables were renegotiated for terms and condition similar to original terms. Financing to projects of US$ 56.8 million (31 December 2014: US$ 65.19 million) were renegotiated for an extended period and do not have specified terms of repayment. The Group assesses the recoverability and timing of collection based on underlying stream of cash flows that will be generated by its projects.

Write-off policy

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

Concentration risk

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

The geographical and industry wise distribution of assets and liabilities are set out in notes 36 (a) and (b).

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.

US$ 000's

31 December 2015	**Financing assets**	**Assets acquired for leasing (including lease rentals receivable)**	**Total**
Against impaired			
Property	9,390	504	9,894
Equities	-	-	-
Other	1,228	-	1,228
Against past due but not impaired			
Property	79,308	23,459	102,767
Equities	-	-	-
Other	12,483	-	12,483
Against neither past due nor impaired			
Property	197,194	161,952	359,146
Equities	790	-	790
Other	106,785	-	106,785
Total	**407,178**	**185,915**	**593,093**

31 December 2014	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Against impaired			
Property	13,133	-	13,133
Equities	-	-	-
Other	-	-	-
Against past due but not impaired			
Property	31,141	19,698	50,839
Equities	5,037	-	5,037
Other	14,817	-	14,817
Against neither past due nor impaired			
Property	211,865	98,692	310,557
Equities	17,759	-	17,759
Other	130,907	-	130,907
Total	424,659	118,390	543,049

The average collateral coverage ratio on secured facilities is 107.80% at 31 December 2015 (31 December 2014: 109.49%).

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

39 FINANCIAL RISK MANAGEMENT (contd.)

(a) Credit Risk (contd.)

Concentration by Sector

US$ 000's

31 December 2015	**Financing assets**	**Assets acquired for leasing (including lease rentals receivable)**	**Total**
Banking and finance	73,496	-	**73,496**
Real estate:			
- Property	17,172	180,684	**197,856**
- Infrastructure Development	52,228	-	**52,228**
- Land	62,488	-	**62,488**
Construction	99,029	-	**99,029**
Trading	298,289	-	**298,289**
Manufacturing	35,666	-	**35,666**
Others	205,159	2,605	**207,764**
Total carrying amount	**843,527**	**183,289**	**1,026,816**

31 December 2014	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Banking and finance	109,504	1,329	110,833
Real estate:			
- Property	101,700	112,679	214,379
- Infrastructure Development	11,040	-	11,040
- Land	28,220	-	28,220
Construction	98,175	-	98,175
Trading	233,231	-	233,231
Manufacturing	43,499	-	43,499
Others	157,259	-	157,259
Total carrying amount	782,628	114,008	896,636

(b) Liquidity Risk

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

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then aims to maintain a portfolio of short-term liquid assets, largely made up of short-term placements with financial and other institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units are met through treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

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

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 34 for the expected maturity profile of assets and liabilities.

US$ 000's

	Gross undiscounted cash flows						
31 December 2015	**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	5,291	-	-	-	-	5,291	5,291
Placements from financial institutions, other entities and institutions	121,555	26,296	60,042	131,657	4,225	343,775	340,090
Customer current accounts	109,196	29,247	13,462	7,886	14,873	174,664	174,462
Financing liabilities	4,120	4,716	39,293	108,257	-	156,386	153,619
Other liabilities	52,239	18,761	17,276	47,701	-	135,977	135,977
Total liabilities	292,401	79,020	130,073	295,501	19,098	816,093	**809,439**
Equity of investment account holders	402,922	94,246	128,574	72,394	321,794	1,019,930	**994,915**

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 2014	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	Carrying amount
Financial liabilities							
Investors' funds	18,675	-	-	-	-	18,675	18,675
Placements from financial institutions, other entities and individuals	145,951	13,585	33,131	147,574	3,648	343,889	339,458
Customer current accounts	84,385	10,111	8,594	8,594	-	111,684	111,684
Financing liabilities	28,325	11,136	35,160	133,965	71,043	279,629	249,340
Other liabilities	72,543	2,295	3,761	71,273	-	149,872	149,872
Total liabilities	349,879	37,127	80,646	361,406	74,691	903,749	869,029
Equity of investment account holders	342,231	133,129	150,383	286,982	-	912,725	895,558

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

39 FINANCIAL RISK MANAGEMENT (contd.)

(b) Liquidity Risk (contd.)

Measures of liquidity

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

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

US$ 000's

	2015	2014
Liquidity coverage ratio		
30 days	2.14	12.27
60 days	4.87	8.74
90 days	1.91	7.03

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

US$ 000's

	2015	2014
Net stable funding ratio	1.02	1.55

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	
	2015	2014
At 31 December	17.07%	16.82%
Average for the year	17.88%	17.29%
Maximum for the year	20.36%	17.84%
Minimum for the year	16.30%	16.82%

(c) Market Risks

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

Management of market risks

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

Exposure to profit rate risk

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

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 2015						
Assets						
Placements with financial institutions	121,924	-	424	-	-	122,348
Financing assets	122,040	44,938	106,920	206,549	378,974	859,421
Investment securities (Sukuk)	168,523	-	-	-	-	168,523
Assets acquired for leasing (including lease rental receivable)	1,414	-	-	1,252	180,623	183,289
Total assets	**413,901**	**44,938**	**107,344**	**207,801**	**559,597**	**1,333,581**
Liabilities						
Investors' funds	5,291	-	-	-	-	5,291
Placements from financial and other institutions	120,077	26,241	60,042	129,503	4,227	340,090
Financing liabilities	4,120	4,716	39,293	105,490	-	153,619
Customer current account	20,737	-	-	-	-	20,737
Total liabilities	**150,225**	**30,957**	**99,335**	**234,993**	**4,227**	**519,737**
Equity of investment account holders	**361,080**	**93,562**	**126,721**	**70,337**	**293,215**	**944,915**
Profit rate sensitivity gap	**(97,404)**	**(79,581)**	**(118,712)**	**(97,529)**	**262,155**	**(131,071)**
31 December 2014						
Assets						
Placements with financial institutions	248,482	-	-	-	-	248,482
Financing assets	139,692	61,536	53,942	195,873	331,585	782,628
Assets acquired for leasing	-	-	1,408	2,199	112,517	116,124
Investments in sukuk	95,432	-	-	-	-	95,432
Total assets	483,606	61,536	55,350	198,072	444,102	1,242,666
Liabilities						
Investors' funds	14,885	-	-	-	-	14,885
Placements from financial, other institutions and individuals	145,015	13,439	32,387	145,503	3,111	339,455
Customer current accounts	3,498	-	-	-	-	3,498
Financing liabilities	24,197	38,949	36,634	131,344	18,216	249,340
Total liabilities	187,595	52,388	69,021	276,847	21,327	607,178
Equity of investment account holders	345,132	131,844	147,507	276,210	-	900,693
Profit rate sensitivity gap	(49,121)	(122,696)	(161,178)	(354,985)	422,775	(265,205)

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

39 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)	**2015**	2014
At 31 December	±1,495	±2,920
Average for the year	±3,145	±3,346
Maximum for the year	±4,173	±3,649
Minimum for the year	±1,495	±2,921

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

	2015	2014
Placements with financial institutions	1.22%	0.70%
Financing assets	5.72%	6.33%
Debt type investments	4.55%	3.70%
Placements from financial institutions, other entities and individuals	3.61%	3.19%
Financing liabilities	6.95%	8.50%
Equity of investment account holders	1.93%	2.60%

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:

US$ 000's

	2015 US$ '000 Equivalent	2014 US$ '000 Equivalent
Sterling Pounds	37,370	57,009
Euro	13,644	14,445
Australian dollars	12,222	12,222
Kuwaiti dinar	22,634	8,650
Jordanian Dinar	2,131	2,131
India rupee	100	47
Other GCC Currencies (*)	115,537	47,684

(*) 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:

US$ 000's

	2015 US$ '000 Equivalent	2014 US$'000 Equivalent
Sterling Pounds	±1,869	±2,850
Euros	±682	±722
Australian dollar	±611	±611
Kuwaiti dinar	±1,131	±432
Jordanian Dinar	±106	±106
Indian rupee	±5	±2.35

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. A 5% change in the underlying value of the managed funds would have an impact on the income statement and equity by US$ 99 thousand (2014: US$ 593 thousand). The Group's equity type instruments carried at cost are exposed to risk of changes in equity values. The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 3 (ii). The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

(d) Operational Risk

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

40 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 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.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2015

40 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 securitization 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.

As at 31 December the Bank has made regulatory adjustments of US$ 4,053 thousand in line with the CBB requirements.

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 has computed its capital adequacy ratio for the year 2014 based on Basel II guidelines, hence the figures are not comparable with the current year.

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

US$ 000's

	2015	2014
Total risk weighted exposures	**3,398,337**	2,102,293
Tier 1 capital :		
- CET 1 capital prior to regulatory adjustments	830,600	677,692
- Less: regulatory adjustments	(4,053)	-
CET 1 after regulatory adjustments	**826,547**	677,692
AT1	2,472	NA
Tier 2 capital	14,405	NA
Total regulatory capital	**843,424**	677,692
Total regulatory capital expressed as a percentage of total risk weighted assets	**24.68%**	32.24%

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.

41 COMPARATIVES

In addition to the restatement discussed in note 2 (a) due to impact of adopting changes in accounting standards and impact of de-recogition of CIC on loss of control (note 33), 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 owners' equity except for the effect of change in accounting policy described in note 2 (a).

Risk and Capital Management

Jan. '15

Dec. '15

Risk and Capital Management

1 EXECUTIVE SUMMARY

The Central Bank of Bahrain's ("CBB") Basel 3 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2015. 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%]. These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports of the CBB Rule Book, Vol.2 for Islamic Banks. Section PD-1.3 reflect the requirements of Basel 2 - Pillar 3 and the Islamic Financial Services Board's ("IFSB") recommended disclosures for Islamic banks. Capital Adequacy Ratio in this report refers to the consolidated CAR (hereafter 'CAR').

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

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

As of 31st December 2015 the Group's total capital ratio stood at a healthy 25.36%.

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 Banks total risk weighted assets as of 31 December 2015 amounted to USD 3,326,156 thousand. Credit risk accounted for 93%, operational risk 4%, and market risk 3% of the total risk weighted assets respectively. Tier I and total regulatory capital were USD 826,547 thousand and USD 843,404 thousand respectively, as of 31st December 2015.

On 31st December 2015, Group's CET1 and T1 capital and total capital adequacy ratios were 24.85% and 24.92%, 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 31st December 2015, presented in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). To avoid any duplication, information required under PD module but already disclosed in other sections of Annual Report has not been reproduced. These disclosures should be read in conjunction with the Group's consolidated financial statements for the year ended 31st December 2015.

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 buffer of 0.5% above the minimum capital adequacy ratio. In the event that the capital adequacy ratio falls below 12.5% (consolidated), additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB. Consequently, the CBB requires GFH to maintain an minimum capital adequacy ratio of 12.5% (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 which level information should be publicly disclosed about an institution's risk management, governance, and capital adequacy practices. The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar III disclosure requirements is to complement the first two Pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures, and to encourage all banks, via market pressures, to move towards more advanced forms of risk management.

The current regulations require partial disclosure consisting mainly of quantitative analysis during half year reporting and fuller disclosure during year end to coincide with the financial year-end reporting.

3 OVERALL RISK AND CAPITAL MANAGEMENT

3.1 Risk Management Charter

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

Risk and Capital Management (contd.)

The primary objectives of the Risk Management Charter of the Bank are to:

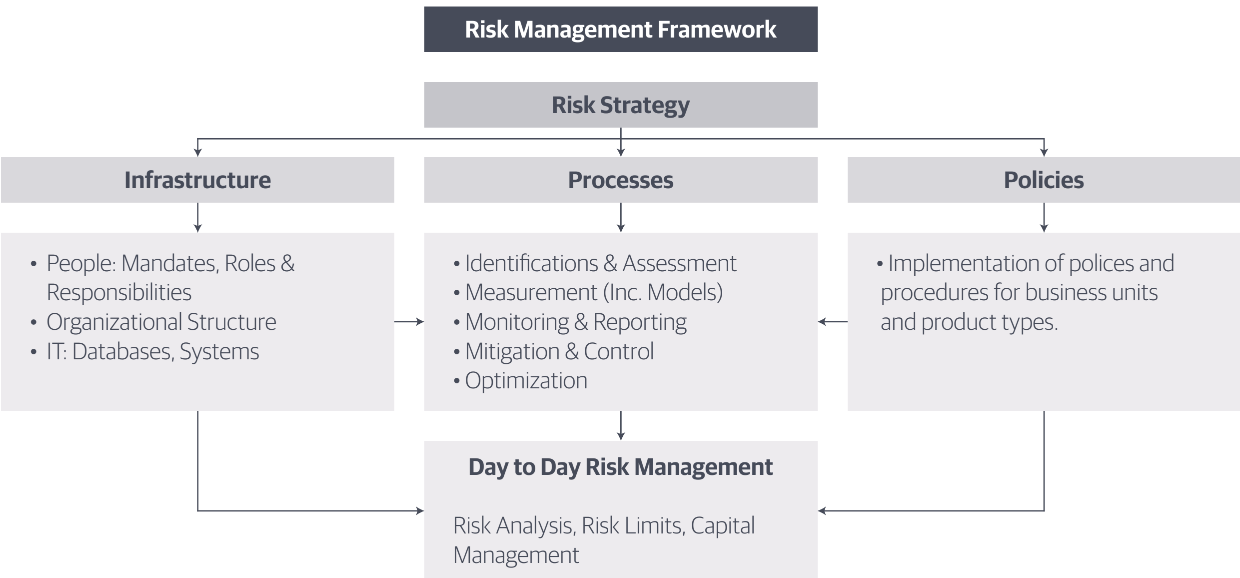
- Manage risks inherent in the Bank's activities in line with the risk appetite of the Bank;
- Strengthen the Bank's risk management practices to reflect the industry best practices;
- Align internal capital requirements with risk materiality.

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

3.2 Risk Management Framework

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

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



The Risk Management framework of the Bank encapsulates the spirit of the following key principles for Risk Management as articulated by Basel 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'a Board	Internal Audit
Level 2	Board Committiees • Board Nomination, Remuneration, and Governance Committee • Board Investment Committee • Board Audit & Risk Committee	
Level 3	Senior Management Committees • Executive Committee (ExComm)	
Level 4	Risk Management Department • Operational Risk • Credit Risk • Liquidity Risk • Market & Investment Risk	
Level 5	Desktop level procedured system and controls in day to day business	

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

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

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

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

3.4 Capital Management

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

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

Risk and Capital Management (contd.)

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

As of 31st December 2015, the Group's consolidated CAR stood at 25.36%.

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 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 1st 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 comprises of ordinary share capital that meets 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 comprises 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 are required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization 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.

As of 31st December 2015, the Bank has made regulatory adjustments of US$ 4,053 thousand in line with the CBB requirements.

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 has computed its capital adequacy ratio for the year 2014 based on Basel II guidelines, hence, the figures are not comparable with the current year.

3.5 Risk Types

The Bank is exposed to various types of risk.

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

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

3.6 Monitoring and Reporting

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

4 GROUP STRUCTURE

The consolidated financial statements for the year comprise of the financial statements of the Bank and its subsidiaries (together referred to as "the Group") as of 31st December 2015. The Group's financial statements are prepared and published on a full consolidation basis, with all material subsidiaries being consolidated in accordance with AAOIFI. Please refer to notes 2(c) and 2(f) in the consolidated financial statements for more details on the accounting policies for investments, including subsidiaries and associates of the Bank.

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

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

Risk and Capital Management (contd.)

The principal subsidiaries and associates as of 31st December 2015 and their treatment for capital adequacy purposes are as follow:

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 securitization vehicle
Morocco Gateway Investment Company	Commercial entity	Risk weighting of investment exposure	
Capital Real Estate Projects BSC (c)	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 securitization vehicle
Harbour East 3 Real Estate S.P.C 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. Harbour Row 1 Real Estate S.P.C. Harbour Row 2 Real Estate S.P.C. Harbour Row 3 Real Estate S.P.C. Harbour Row 4 Real Estate S.P.C.	Commercial Entities	Risk weighting (look through approach) approved by the CBB on 27th May 2012	
Associates			
Injazat Technology Fund BSC (c)	Financial entity	Risk weighting of investment exposure	
Leeds United Football Club	Commercial entity	Risk weighting of investment exposure	
Falcon Cement Company BSC (c)	Commercial entity	Risk weighting of investment exposure	
United Arab Cement Company PJSC	Commercial entity	Risk weighting of investment exposure	
Bahrain Aluminium Extrusion Company BSC (c)	Commercial entity	Risk weighting of investment exposure	
Libya Investment Company	Commercial entity	Risk weighting of investment exposure	

The investments in subsidiaries and associates are subject to large exposure, and connected counter party limits and guidelines set by the CBB. These guidelines are considered for transfer of funds or regulatory capital within the Group. The investment in subsidiaries should be deducted from the capital of the Bank. In the opinion of the Bank, these are pass-through entities and hence, the underlying investments are risk weighted.

During the year, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued amendments to FAS 23 which are effective from 1st January 2015. These amendments provide clarification and expand the scenarios for assessing control when an entity holds less than majority voting rights in an investee. In particular, the concept of de-facto control has been introduced.

In accordance with the transitional provisions of the amended FAS 23, the Group reassessed its control conclusions for its investees as of 1st January 2015, being the date of initial application of these amendments. The exercise has resulted in change in control conclusion in respect of three entities namely; Khaleeji Commercial Bank, Morocco Gateway Investment Company, and Capital Real Estate BSC (c) ("CRE"). Accordingly, the Bank has consolidated these entities for the preparation of its consolidated financial statements for the year ended 31st December 2015 and these entities are also considered as subsidiaries for capital adequacy computation.

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 of 31st December 2015, which can be accessed through the following link.**[http://www.khcbonline.com/main/Investor-Relations/Financial-Reports/]**.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.

5 CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIO

5.1 Capital Adequacy

The Bank's regulator CBB sets and monitors capital requirements for the Bank as a whole (i.e. at a consolidated level). 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 standardized approach to credit and market risk and basic indicator approach for operational risk management under the revised framework.

Risk and Capital Management (contd.)

5 CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIO (contd.)

5.1 Capital Adequacy (contd.)

The Bank's regulatory capital position of 31st December 2015 was as follows:

US$ 000's

Total Capital	31st December 2015
Common Equity Tier 1 (CET 1)	
Issue and Fully Paid Ordinary Shares	597,995
Statutory Reserve	72,055
Retained Earnings	12,101
Current Interim Cumulative Net Profit	(5,520)
Other Reserves	23,082
Total CET1 Capital Before Minority Interest	**699,713**
Total Minority Interest in Banking Subsidiaries Given Recognition in CET1 Capital	130,887
Total CET1 Capital Prior to the Regulatory Adjustments	**830,600**
Less: Investment in Own Shares	(4,053)
Total CET1 Capital After to the Regulatory Adjustments	**826,547**
Other Capital - Additional Tier 1 (AT1) & Tier 2 (T2) Capital	
Instruments Issued by Banking Subsidiaries to Third Parties	
- AT1	2,472
- T2	3,296
General Financing Loss Provisions	
- T2	11,090
Total Available AT1 & T2 Capital	**16,858**
Total Capital	**843,405**

US$ 000

Risk Weighted Exposures	31st December 2015
Credit Risk	3,086,761
Market Risk	145,407
Operational Risk	93,988
Total Capital Base	**3,326,156**

CET1 Ratio	24.85%
T1 Ratio	24.92%
Total Capital Adequacy Ratio (Total Capital)	**25.36%**

Total and Tier 1 Capital ratios of Khaleeji Commercial Bank BSC (c) (significant bank subsidiary) are as follow:

Capital adequacy ratio (CET1 and T1)	17.60%
Capital Adequacy Ratio (Total Capital)	**18.30%**

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

5.2 ICAAP Considerations

The ICAAP incorporates a review and evaluation of Risk Management and capital relative to the risks to which the Bank is exposed. GFH has developed an ICAAP around its economic capital framework which involves identification and measurement of risks to maintain an appropriate level of internal capital in alignment to the Bank's overall risk profile and business plan. An ICAAP document has been developed to address major components of the Bank's risk management, from the daily management of material risks including risk types which are not covered under Pillar I including liquidity risk, profit rate risk in the banking book, concentration risk, and reputational risk. The Bank uses the ICAAP document for internal capital monitoring purposes.

6 CREDIT RISK

6.1 Introduction

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

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

6.2 Credit Risk Management

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

The Bank has an established internal process for assessing Credit Risk. The Bank has established investment and credit policies developed in consultation with business units, covering credit assessment, risk reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. The policies are supplemented by an internal authorization structure for the approval and renewal of investment and credit facilities. Authorization 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 39 to the consolidated financial statements for additional details on the processes for measuring and managing Credit Risk.

6.3 Capital Requirements for Credit Risk

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

Risk and Capital Management (contd.)

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, and 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 RWAs financed by equity of investment account holders [EIAH] are required to be included.

The 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	17,314	-	17,314	0%	-
Total Claims on Sovereign	16,003	-	16,003	0%	-
Standard Risk Weights for Claims on Banks	13,350	-	13,350	29%	3,936
Preferential Risk Weight for Claims on Locally Incorporated Banks	76	-	76	20%	15
Short-Term Claims on Banks	3,981	-	3,981	20%	797
Claims on Corporates	570,747	200,719	370,028	100%	370,028
Mortgage	-	-	-	0%	-
Past Due Facilities	172,174	-	172,174	144%	247,858
Investments in Securities and Sukuk	245,526	-	245,526	147%	361,096
Holding of Real Estate	643,475	-	643,475	290%	1,868,033
Others Assets	17,055	-	17,055	100%	17,055
Total Self-financed Assets (A)	**1,699,701**	**200,719**	**1,498,982**	**169%**	**2,868,818**
Total Regulatory Capital Required (A x 12%)				**12%**	**344,258**
Financed by EIAH					
Cash item	-	-	-	0%	-
Total Claims on Sovereign	189,440	-	189,440	0%	-
Total Claims on PSEs	14,997	-	14,997	0%	-
Standard Risk Weights for Claims on Banks	52,636	-	52,636	49%	26,039
Preferential Risk Weight for Claims on Locally Incorporated Banks	90,639	--	90,639	20%	18,128
Claims on Corporates	624,602	46,891	577,711	100%	577,711
Investments in Securities and Sukuk	14,138	-	14,138	740%	104,597
Total Financed by EIAH (B)	**986,452**	**46,891**	**939,561**	**74%**	**726,475**
Considered for Credit Risk (C) = (B x 30%)				**30%**	**217,943**
Total Regulatory Capital Required (C x 12%)				**12%**	**26,153**
TOTAL RISK WEIGHTED ASSETS					**3,086,761**
TOTAL REGULATORY CAPITAL REQUIRED					**370,411**

6.4 QUANTITATIVE INFORMATION ON CREDIT RISK

6.4.1 Gross and Average Credit Exposure

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

US$ 000's

Balance Sheet Items	Funded Exposure	Unfunded Exposure	Total Gross Credit Exposure	Average Gross Credit Exposure*
Bank Balances	122,165	-	122,165	133,613
Placements with Financial and other Institutions	122,348	-	122,348	168,461
Financing Assets	859,421	214,794	1,074,215	868,418
Assets Acquired for Leasing	179,870		179,870	148,259
Equity-accounted Investees	81,274	-	81,274	36,844
Investment Securities	573,453	-	573,453	595,179
Investment Properties	257,932	-	257,932	299,709
Development Properties	179,577	-	179,577	139,566
Property, Plant, and Equipment	25,602	-	25,602	130,642
Intangible Assets	-	-	-	93,811
Other Assets	246,133	-	246,133	313,461
Total Credit Exposure	**2,647,775**	**214,794**	**2,862,569**	**2,927,963**

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the year ended 31st December 2015. Assets funded by EIAH are geographically classified in GCC countries, and are placed with Banks and financial institutions having maturity profile of up to 3 months. During the year, the Group lost its control over Cemena Investment Company ("CIC") and has ceased consolidation of CIC from 1st October 2015, being the practical date (earliest date of financial information) considered for the changes in CIC structure. As a consequence, the individual assets and liabilities of the subsidiary were derecognised from the consolidated financial statements.

Risk and Capital Management (contd.)

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	Other MENA	Other Asia	UK	Europe (excluding UK)	Others	Total
Assets							
Bank Balances	95,528	3	101	320	4,239	21,974	122,165
Placements with Financial Institutions	122,348	-	-	-	-	-	122,348
Financing Assets	807,146	-	-	-	52,275	-	859,421
Equity-accounted Investees	81,274	-	-	-	-	-	81,274
Investment Securities	370,687	30,570	134,113	18,104	10,249	9,730	573,453
Investment Properties	257,932	-	-	-	-	-	257,932
Development Properties	115,460	64,117	-	-	-	-	179,577
Property, Plant, and Equipment	25,602	-	-	-	-	-	25,602
Other Assets	155,058	41,058	6,909	21,352	2,378	19,378	246,133
	2,210,905	**135,748**	**141,123**	**39,776**	**69,141**	**51,082**	**2,647,775**
Equity of Investment Account Holders	912,441	-	31,159	-	1,294	21	944,915
Off-Balance Sheet Items							
Commitments	214,141	-	-	-	653	-	214,794
Restricted Investment Accounts	57,657	-	-	-	-	-	57,657

6.4.2 Credit Exposure by Industry

The classification of credit exposure by industry was as follows:

US$ 000's

	Trading and Manufacturing	Banks and Financial Institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and Bank Balances	-	122,162	-	-	3	122,165
Placements with Financial Institutions	-	122,348	-	-	-	122,348
Financing Assets	-	71,628	249,221	-	538,572	859,421
Equity-accounted Investees	78,802	-	2,472	-	-	81,274
Investment Securities	-	72,243	292,449	2,050	206,711	573,453
Investment Properties	-	-	257,932	-	-	257,932
Development Properties	-	-	179,577	-	-	179,577
Property, Plant, and Equipment	-	-	-	-	25,602	25,602
Other Assets	682	17,646	166,526	-	61,279	246,133
	79,484	**406,027**	**1,325,376**	**2,050**	**834,838**	**2,647,775**
Equity of Investment Account Holders	-	4,161	69,207	-	871,547	944,915
Off-Balance Sheet Items						
Commitments	-	1,612	55,550	-	157,632	214,794
Restricted Investment Accounts	-	-	57,657	-	-	57,657

Risk and Capital Management (contd.)

6.4.3 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	122,165	-	-	-	-	-	122,165
Placement with Financial Institutions	121,924	-	424	-	-	-	122,348
Financing Assets	122,039	44,928	106,919	206,549	378,986	-	859,421
Equity-accounted Investees	2,472	-	-	78,802	-	-	81,274
Investment in Securities	168,523	-	8,688	235,341	160,901	-	573,453
Investment Property	-	-	-	207,346	50,586	-	257,932
Development Property	-	-	-	161,137	18,440	-	179,577
Property, Plant, and Equipment	-	-	-	-	-	25,602	25,602
Intangible Assets	-	-	-	-	-	-	-
Other Assets	35,144	3,503	40,945	113,270	53,271	-	246,133
Total Assets	**573,681**	**48,431**	**156,976**	**1,003,697**	**839,388**	**25,602**	**2,647,775**
Equity of Investment Account Holders	361,080	93,562	126,721	70,337	293,215	-	944,915
Off-Balance Sheet Items							
Commitments	50,756	58,989	85,915	16,178	2,956	-	**214,794**
Restricted Investment Accounts	22,546	-	2,634	32,477	-	-	**57,657**

The table above shows the maturity profile of the Group's assets and unrecognized 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 realization. The total assets are reconciled to the gross credit exposures considered for capital adequacy computation purposes.

6.5 Exposures in Excess of 15% of Capital Base

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

There were no exposures in excess of 15% of capital base as of 31st December 2015.

6.6 Impaired Facilities and Past Due Exposures

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

The definition and details of impaired assets, past due but not impaired exposures and policy for establishing an allowance account, and write-off of an exposure is provided for, in Note 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 on 31st December 2015 mainly relate to the real estate and development infrastructure sectors.

6.7 Credit Risk Mitigation

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

The position of collateral cover of KHCB for all credit exposures categorised on the basis of the type of security as of 31st December 2015 is given in the table below:

	Murabaha	Musharaka	Mudharaba	Wakala	Istisna	Ijara	Value of Collateral [1]	Gross Exposure [2]	% of Cover	% of Total
Real Estate	469,687	123,103	-	16,247	7,544	362,814	979,395	591,135	166%	85%
Listed Securities	1,438	-	-	-	-	-	1,438	790	182%	0%
Unlisted Securities	-	-	-	-	-	-	-	-	-	0%
Bank Guarantee	42,318	-	-	-	-	-	42,318	11,703	362%	4%
Cash Collateral	70,109	-	-	1,634	-	95	71,838	130,764	55%	6%
Others	-	-	-	-	-	-	-	282,411	-	0%
Unsecured	59,963	-	-	-	-	-	59,963	67,286	89%	5%
Total	**643,515**	**123,103**	**-**	**17,881**	**7,544**	**362,910**	**1,154,952**	**1,084,090**	**107%**	**100%**

[1] Represents collateral values based on the last valuation carried out based on the Bank's valuation policy including collaterals which exceed the book value of facility.
[2] The amounts are gross of collective impairment allowance of US$ 11,093 thousand and specific impairment allowance of US$ 27,345 thousand.

6.8 Related Party and Intra-group Transactions

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

6.9 Exposure to Highly Leveraged and Other High Risk Counterparties

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

6.10 Restructured Facilities

As of 31st December 2015, other assets which are neither past due nor impaired include certain short-term financing to projects which were renegotiated during the year (refer Note 39 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.

Risk and Capital Management (contd.)

6.11 Equity Investments Held in Banking Book

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

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

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

The Group's equity investments are predominantly in its own projects, which include venture capital, private equity, and development infrastructure investment products. The intent of such investments is a later stage exit along with the investors principally by means of sell outs at the project level or through initial public offerings. The Group 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	466,562
Quoted in an Active Market	15,619
Managed Funds	1,973
Unquoted Funds	2,050
Realised Gain/ (Loss) During the Year	-
Unrealised Gain Recognized in the Balance Sheet Not Through Income Statement	(230)

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	9,265	100%	9,265	1,112
Unlisted Equity Investment	224,990	150%	337,485	40,498
Significant Investment in the Common Shares of Financial Entities >10%	2,050	250%	5,125	615
Investments in Unrated Funds - Listed	9,221	100%	9,221	1,107
Premises Occupied by the Bank	17,830	100%	17,830	2,140
All Other Holdings of Real Estate	323,281	200%	646,562	77,587
Investment in Listed Real Estate Companies	5,815	300%	17,445	2,093
Investment in Unlisted Real Estate Companies	294,549	400%	1,186,196	142,344
Total	**889,001**		**2,229,129**	**267,496**

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

7 MARKET RISK

7.1 Introduction

Market Risk is the risk that changes in market prices, such as foreign exchange rates, profit rates, equity prices, and commodity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of Market Risk Management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. As a matter of general policy, the Bank shall not assume trading positions on its assets and liabilities, and hence, the entire balance sheet is a non-trading portfolio (banking book). The Bank has adopted a standardized approach for measurement of Market Risk under the CBB capital adequacy framework. The CBB's standardized approach capital computation framework requires risk weighted assets to be computed for price risk, equities position risk, Sukuk risk, foreign exchange risk, and commodities risk. Hence, from a capital computation perspective the Bank's Market Risk measurement is limited to foreign exchange risk in the banking book. The Bank is also exposed to profit rate risk on the banking book which is managed separately.

7.2 Foreign Exchange Risk Management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. All foreign exchange (FX) risk within the Bank is transferred to Treasury. The Bank seeks to manage currency risk by continually monitoring exchange rates. The Board of Directors approves policies and strategies related to the management of FX risk. The Executive Committee ('ExComm') supports the Board in managing FX risk by recommending policies, setting limits and guidelines, and monitoring the FX risk of the Bank on a regular basis. The ExComm provides guidance for day to day management of FX risk and also approves hedging programs. The management of the day-to-day FX position of the Bank is the responsibility of the Treasury/Liquidity Management Department. The department shall ensure adequate FX liquidity to meet the maturing obligations and growth in assets while ensuring that all limits and guidelines are set by the Board and ExComm are complied with, and shall implement hedging and other approved strategies for managing the risk. The Risk Management Department on an ongoing basis reviews the limits set and ensure that the concerned department(s) is complying with all limits set as per this policy. The Group is exposed to foreign currency translation risk from its subsidiaries which is from the industrial business segment, which is currently not significant (refer to Note 39(c) in the financials section).

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Bank's net foreign exchange position and its sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) has been presented in Note 40 to the consolidated financial statements.

7.3 Capital Requirements for Market Risk

To assess its capital adequacy requirements for Market Risk in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the standardised approach. Foreign exchange risk charge is computed based on 8% of overall net open foreign currency position of the Bank.

US$ '000's

Self Financed	31st December 2015	Maximum During the Year	Minimum During the Year
Foreign Exchange Risk - [A]	7,519	10,579	7,519
Risk Weighted Assets – [B] = (A*12.5)	93,988	132,239	93,988
Capital Requirement – (B*12.5%)	11,749	16,530	11,749

Equity of Investment Account Holders	31st December 2015	Maximum During the Year	Minimum During the Year
Sukuk Risk Equity of Investment Account Holders – [A]	-	2,215	98
Risk Weighted Assets – [B] = (A*12.5*30%)	-	8,306	368
Capital Aequirement – (B*12.5%)	-	1,038	46

The Sukuk risk is arising on full consolidation of KHCB for capital adequacy purposes.

Risk and Capital Management (contd.)

8 OPERATIONAL RISK

8.1 Introduction

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational Risk is an inherent part of normal business operations. The Bank has adopted the Basic Indicator Approach for measurement of Operational Risk under the Basel II and CBB capital computation framework.

8.2 Operational Risk Management

Whilst Operational Risk cannot be eliminated entirely, the Bank endeavors to minimize it by ensuring that a strong control infrastructure is in place throughout the organization. Various procedures and processes used to manage Operational Risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. The Risk Management Department manages the framework and facilitates the process of Operational Risk Management.

The Bank has an Operational Risk Management framework manual which includes components such as Key Risk Indicators (KRIs), operational loss data, and Risk & Control Self Assessment (RCSA) across the Bank. The Bank has completed the process of conducting RCSA of operational risk in all departments of the Bank to identify the important KRIs and key risk triggers. The Bank has completed reviewing the risk registers of its key departments to reflect the Operational Risk profile post the restructuring exercise.

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

Board/Board Level Committees

CEO
Executive Committee

1st Line of Defense

Business Line Operations

Real Time Focus :
- Embeds Risk Management framework and sound Risk Management practices into standard operating procedures
- Monitors Risk Management performance
- Accountable for effectiveness of Risk Management

2nd Line of Defense

Risk Management
(Reports directly to Audit & Risk Committee)

Review Focus:
- Develops and implements Risk Management framework - policies, systems, processes, and tools
- Ensures framework encompasses:
  - Event identification
  - Risk assessment
  - Risk response
  - Control activities
  - Information & communication
  - Monitoring
  - Reporting
- Exercise approval authorities in accordance with delegated authorities

3rd Line of Defense

Internal Audit
(Reports directly to Audit & Risk Committee)

Review Focus :
- Reviews effectiveness of Risk Management practices
- Confirms level of compliance with the Operational Risk policy
- Recommends improvements and enforces corrective action when necessary

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

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

The Bank's definition of Operational Risk incorporates legal and Sharia'a compliance risk. This is defined as an operational risk facing Islamic banks which can lead to, loss of reputation, non-recognition of income, and loss of revenue. This definition excludes strategic, liquidity, credit, market, and reputational risks. However, Operational Risk that has a direct impact upon reputation (and by default a subsequent impact on profit and / or performance) is formally considered and reported upon. Whilst operational risk excludes losses attributable to traditional banking risk (credit, market, and liquidity), the Bank recognises that Operational Risk is attached to the management of those traditional risks. For example Operational Risk includes legal and compliance related risks attached to the management of credit and market risk. Operational risks are attached to the management of business as usual, as well as to changes such as the introduction of new products, projects, or program activities.

8.3 Legal Compliance and Litigation

The Bank has an in-house legal counsel who is consulted on all major activities conducted by the Bank. All contracts, documents, etc have to be reviewed by the legal department as well. For information on contingencies, refer Note 39 to the consolidated financial statements.

8.4 Shari'a Compliance

The Shari'a Supervisory Board (SSB) is entrusted with the duty of directing, reviewing, and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'a. The Bank also has a dedicated internal Shari'a reviewer, who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'a standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers, and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shari'a rules and principles.

8.5 Capital Requirements for Operational Risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the approach agreed with the CBB. The Bank's average gross income for the last three financial years is multiplied by a fixed coefficient alpha of 15% set by CBB and a multiple of 12.5x 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	77,550	145,407	18,176

9 OTHER TYPES OF RISK

9.1 Introduction

Apart from the risks listed in the previous sections, the Bank is also exposed to other types of risks which it identifies and manages as part of its Risk Management Framework. Although these risks do not directly form part of the Tier 1 risks, they are identified and captured by the ICAAP.

9.2 Liquidity Risk

Liquidity Risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Though the liquidity position of the Bank has significantly improved, focus has continued to be to further enhance the liquidity by way of looking to raise additional capital in the form of debt or equity.

The Bank has a liquidity risk policy in place, which describes the roles and responsibilities of Asset Liability Management Committee (ALCO), Treasury, and other concerned departments in management of liquidity. It also stipulates various liquidity ratios to be maintained by the Bank, as well as gap limits under each time bucket of the maturity ladder. The Bank embarked on a successful recapitalization program and managed to significantly enhance its capital base.

Risk and Capital Management (contd.)

The liquidity position is closely monitored and stressed on a quarterly basis to cover both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board Audit & Risk Committee. Daily reports cover the liquidity position of the Bank. Moreover, periodic reports are submitted to the Board of Directors on the liquidity position. For maturity profile of assets and liabilities, refer Note 34 of the consolidated financial statements.

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

Liquidity Ratios	31st December 2015	Maximum	Minimum
Liquid Assets : Total Assets	17.07%	20.36%	16.30%
Liquid Assets : Total Deposits	47.04%	73.13%	47.04%
Short-term Assets : Short-term Liabilities	72.05%	72.05%	24.01%
Illiquid Assets : Total Assets	90.77%	90.77%	88.22%

9.3 Management of Profit Rate Risk in the Banking Book

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

The ExComm is responsible for the overall management of the Profit Rate Risk. ExComm also determines the borrowing and funding strategy of the Bank in order to optimize risk return trade off. It supports the Board in managing Profit Rate Risk by recommending policies, setting limits and guidelines, and monitoring the risk on a regular basis.

The objective of Profit Rate Risk measurement is to maintain the Bank's profit rate risk exposure within self-imposed parameters over a range of possible changes in profit rates. The process of establishing profit rate risk limits and describing the risk taking guidelines provides the means for achieving the objective. Such a process defines the boundaries for the level of Profit Rate Risk for the Bank and, where appropriate, also provides the capability to allocate limits to individual portfolios, activities, or business units. The limit structure also ensures that positions that exceed certain predetermined levels receive prompt management attention. The limit system enables management to control Profit Rate Risk exposures, initiate discussion about opportunities and risks, and monitor actual risk taking against predetermined risk tolerance. As part of ICAAP, thresholds for exposure concentrations will be set up which will trigger additional capital requirements.

The Management of Profit Rate Risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in yield curves. For details of the Bank's profit rate gap position as of 31st December 2015 and analysis of the Bank's sensitivity to an increase or decrease in market profit rates, refer Note 39 to the consolidated financial statements. An analysis of the Group's sensitivity to an increase or decrease in market profit rates for a 200bps parallel increase / (decrease) is as below:

200 bps Parallel Increase / (Decrease)	US$'000's
At 31st December	± 2,990
Average for the Year	± 6,290
Maximum for the Year	± 8,346
Minimum for the Year	± 2,990

9.4 Concentration Risk

This risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business. Concentration Risk can arise from exposure to specific classes of assets, sector, country, revenue streams, counterparty, a group of counterparties, etc. Concentration Risk is mitigated by limits, diversification by assets, geography counterparty quality, etc. As part of ICAAP, thresholds for exposure concentrations will be set up which will trigger additional capital requirements. The industry sector and geographical concentration of credit exposures has been disclosed in Notes 36(a) and 36 (b) of the consolidated financial statements respectively.

9.5 Counterparty Credit Risk

Counterparty Credit Risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity, and credit markets defaults prior to maturity of the contract. In addition to the identified credit risk exposures the Bank's counterparty credit risk from markets as such is limited to the fair value of contracts of foreign exchange risk management instruments the overall exposure to which is usually not significant. For other credit market transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks for counterparty, sector, and geography. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank. As of 31st December 2015, the Bank did not have any open positions on foreign exchange contracts.

9.6 Reputational Risk (Non-performance Risk)

Reputation Risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base, lead to costly litigation that could have an adverse impact on liquidity or capital of the Bank. Being an Islamic Investment Bank, reputation is an important asset and among the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments and poor communication to investors. A well developed and coherently implemented communication strategy helps the Bank to mitigate reputational risks. Additionally, the RMD has put together an Internal Capital Adequacy Assessment Process (ICAAP) Policy to effectively assess and measure all non Pillar 1 risks.

9.7 Displaced Commercial Risk

Displaced Commercial Risk (DCR) refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates. The Bank's DCR primarily arises from the funds accepted in the form of Investment Account Holders (IAH) which is currently not very significant in terms of its size and in comparison to the overall activities of the Bank. The returns to investors on the funds are based on returns earned from short-term placements, and hence, the Bank is not exposed to a significant repricing risk or maturity mismatch risk in relation to these accounts. In relation to the DCR that may arise from its investment banking and restricted investment account products, the risk is considered limited as the Bank does not have any obligation to provide fixed or determinable returns to its investors. The Bank constantly monitors all potential risks that may arise from all such activities as part of its Reputational Risk Management.

9.8 Other Risks

Other Risks include strategic, fiduciary risks, regulation risks, etc. which are inherent in all business activities and are not easily measurable or quantifiable. However, the Bank has policies and procedure to mitigate and monitor these risks. The Bank's Board is overall responsible for approving and reviewing the risk strategies and significant amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board to identify, measure, monitor, and control the risks faced by the Bank. The Bank as a matter of policy regularly reviews and monitors financial and marketing strategies, business performance, new legal, and regulatory developments, and its potential impact on the Bank's business activities and practices.

10 PRODUCT DISCLOSURES

10.1 Product Descriptions and Consumer Awareness

The Bank offers a comprehensive mix of Shari'a compliant investment banking products primarily to high net worth and sophisticated investors. This includes a range of innovative structured investment products like funds, repackaged products, and structured restricted investment accounts. The Investment Department of the Bank has expertise in creating innovative, high end, and value added products offering a wide range of structures, expected returns, tenors, and risk profiles.

Proposal for any new product is initiated by individual business lines within the Bank. The Management Committee of the Bank reviews such proposal to ensure that the new product/ business is in line with the Bank's business and risk strategy. All new products will need the approval of the respective authorities as per the Delegated Authority Limits (DAL), as well as the Board of Directors and the Shari'a Supervisory Board of the Bank.

Risk and Capital Management (contd.)

10.2 Customer Complaints

GFH is dedicated to providing a high standard of service and to maintaining its reputation for honesty and integrity in all its dealings. The Bank takes all disputes and complaints from its customers and business partners very seriously. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy. The complaint handling process is disclosed in the Bank's website and also in all printed prospecting materials. Complaints are normally investigated by persons not directly related to the subject matter of the complaint.

10.3 Equity of Investment Account Holders (EIAH)

The Bank does not have significant amount under EIAH and does not use EIAH as a main source of its funding. The Bank does not, as a focused product proposition, offer EIAH products to its clients. The current EIAH deposits have been accepted on a case-by-case basis considering the Bank's relationship with its customers.

The EIAH holder authorises the Bank to invest the funds in any investments approved by the Bank's Shari'a Board without any preconditions. All EIAH accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. In accordance with the principles of Shari'a, the entire investment risk is on the investor. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence. The Bank charges a Mudarib fee as its share of profit. Early withdrawal is at the discretion of the Bank and is subject to the customer giving reasonable notice for such withdrawal and agreeing to forfeit a share of the profit earned on such account.

Currently, the Bank comingles the EIAH funds with its funds for investments only into interbank placements, and hence, is not subject to any significant profit re-pricing or maturity mismatch risks. The Bank has an element of displaced commercial risk on EIAH which is mitigated by setting up and maintaining an appropriate level of Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) to smoothen return to EIAH holders. Profit Equalization Reserve (PER) is created by allocations from gross income of the Mudarabah before adjusting the Mudarib (Bank) share. Investment Risk Reserves (IRR) comprises amounts appropriated out of the income of investment account holders after deduction of the Mudarib share of income. Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts. All terms of the EIAH are agreed upfront with the customers and form part of the agreement with the customer. Till date, the Bank has not made any withdrawals on PER or IRR. Any movements on these accounts are therefore only on account of additional reserves added.

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 KHCB.

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

US$ 000's

	2015	2014	2013	2012	2011
Allocated Income to IAH	44,915	34,066	35,318	26,321	23,931
Distributed Profit	19,581	23,451	23,127	16,703	17,584
Mudarib Fees *	25,334	10,615	12,191	9,618	6,347
As of 31st December 2015					
IAH[1]	1,004,233	891,273	691,271	512,586	487,838
Profit Equalization Reserve (PER)	-	-	-	-	-
Investment Risk Reserve (IRR)	-	-	-	-	-
Profit Equalisation Reserve-to-IAH (%)	-	-	-	-	-
Investment Risk Reserve-to-IAH (%)	-	-	-	-	-

[1] Represents average balance
* Includes contribution towards deposit protection scheme.

Ratio of Profit Distributed to PSIA by Type of IAH (Based on Tenor):

	Profit Distribution Amount in BD					Ratio of Profit Paid as a Percentage of Total				
Mudharaba Tenor	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
1 Month [1]	2,676	3,459	3,947	4,321	4,838	13.7	14.7	17.1	25.9	27.5
3 Months	928	1,008	1,804	1,737	3,950	4.7	4.3	7.8	10.4	22.5
6 Months	3,528	3,859	2,918	1,257	2,027	18.0	16.5	12.6	7.5	11.5
12 Months	9,727	11,085	9,565	7,952	5,342	49.7	47.3	41.4	47.6	30.4
18 Months	5	3	-	-	-	-	-	-	-	-
24 Months	13	199	605	80	-	0.1	0.8	2.6	0.5	-
VIP	2,703	3,838	4,289	1,355	1,875	13.8	16.4	18.5	8.1	10.7
PER and IRR Expenses	-	-	-	-	(448)	-	-	-	-	(2.6)
Total	19,581	23,451	23,127	16,703	17,584	100.0	100.0	100.0	100.0	100.0

[1] Includes saving account, Al-Wafer account and Call Mudharaba accounts.

Distribution of Profits by Type of IAH Products:

Year	Avg. Profit Earned from IAH Assets (%age of asset)	PER Set aside as a % of IAH Assets	IRR Set aside as a % of IAH Assets	Mudharib Fees as a % of IAH Assets	Profit Paid as a % of IAH Assets
2015	1.95	-	-	2.57	1.99
2014	3.82	-	-	1.19	2.63
2013	5.11	-	-	1.76	3.35
2012	5.13	-	-	1.88	3.26
2011	4.99	-	-	1.22	3.69

Following are the average profit rates declared and distributed to the investors by KHCB:

Year	2015	2014	2013	2012	2011
1 Month Mudharaba [1]	0.78%	1.15%	1.12%	2.25%	2.51%
3 Months Mudharaba	1.75%	2.19%	2.98%	3.08%	4.25%
6 Months Mudharaba	2.69%	3.08%	3.64%	3.55%	4.52%
12 Months Mudharaba	2.75%	3.39%	4.27%	4.46%	5.01%
18 Months Mudharaba	2.80%	3.30%	-	-	-
24 Months Mudharaba	2.91%	4.92%	5.07%	5.07%	-
VIP Mudharaba	2.00%	3.49%	4.09%	2.79%	3.67%

[1] Includes saving account, Al-Wafer account and Call Mudharaba accounts.

KHCB refers to the group of commercial Islamic banks incorporated in the Kingdom of Bahrain so as to benchmark the rate of return on IAH.

Risk and Capital Management (contd.)

IAH Account by Type of Assets:

The following table summarises the movement in type of assets in which the IAH funds are invested and allocated among various type of assets for the year ended 31st December 2015:

US$ 000's

Particular	Allocation at 1 January 2015	Movement	Allocation at 31 December 2015	Proportion of total assets (%)
Cash and Bank Balances	78,711	(1,109)	77,602	70.9%
Placements with financial Institutions	201,607	(85,021)	116,586	100%
Financing Assets [1]	523,279	98,814	622,093	73.6%
Investment Securities – Sukuk	95,432	73,090	168,523	100%
Total	**899,029**	**85,775**	**984,804**	

[1] Includes Murabaha, Wakala and Istisna contracts.

10.4 Restricted Investment Accounts

The Bank offers Restricted Investment Accounts ("RIAs") to both financial institutions and high net worth individuals in the GCC. All RIA product offering documents ("Offering Document") are drafted and issued with input from the Bank's Investment Banking, Shari'a, Financial Control, Legal, and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors. The Bank has guidelines for the development, management and risk mitigation of its RIA investments and for establishment of sound management and internal control systems to ensure that the interests of the investment account holders are protected at all times. Wherever necessary, the Bank establishes Special Purpose Vehicles (SPVs) for management of the investment. The Bank has a Board approved SPV Governance framework in place to equip the Board in ensuring that the management of such SPVs are conducted in a professional and transparent manner.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank considers the following in discharge of its fiduciary responsibilities:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Shari'a principles and the CBB regulations;
- Appropriately highlighting to the Investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the Investor before accepting the investment funds;
- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the Investors with the same level of rigor as the Bank requires for its' own investments;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;
- 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;
- 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 aforementioned responsibilities and functions are provided, managed, and monitored by qualified and experienced professionals from the Investment Banking, Shari'a, Financial Control, Legal, Investment Administration, and the Risk Management Departments with Internal Audit oversight.

The restricted investment accounts primarily represent the investments in the projects promoted by the Bank and managed on a portfolio basis on behalf of investors.

There were no annual distributions made in RIA for the past five years.

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

The quantitative disclosures below are pertaining to the RIAH from KHCB.

RIA Name	Details	Launch Date	Projected Returns	Return Frequency	Return Annualized (%)				
					2015	2014	2013	2012	2011
RIA 1 – Safana	An investment structure designed to participate in the equity interest of Safana Investment WLL. A company established for the purpose of acquiring reclaimed land to subdivide and sell. In 2011, the Bank made an offer to buy back < BD 20,000 of each investors funds in RIA 1 at par. This offer was formalized in a letter to investors dated 25 May 2011. A total of 74 of the 95 RIA 1 investors accepted the offer at a cost of BD 1,220,000 to the Bank and resulting in a total of 39 investors being fully exited from the RIA. As a result, total investors funds have reduced to BD 8.34 million.	2007	61.78% over product tenor	Bullet payment on maturity	-	-	-	-	-
RIA 4 - Janayen	A restricted investment product designed to invest in growth and income generating real estate assets in the GCC and MENA regions. . To date, RIA4 has made distributions and redemptions to depositors amounting to approximately 29.8% of the Depositors' initial capital. These distributions were in the form of yields amounting to ~ 21.1% plus 8.74% of redeemed capital.	2007	44.33%	Quarterly	-	-	-	-	-
RIA 5 - North Gate	A restricted investment product which owns a 6.0% stake in Shaden Real Estate Investment WLL which in turn (through its subsidiaries), holds a parcel of reclaimed land measuring approximately 3.875 million Sq. Meters (located in Al-Hidd, Muharraq). The mixed-use plot will be sold to end users subsequent to the completion of infrastructure works. During Q1 2015, the Bank effected a buy-back option to all RIA investors for up to an amount of BD 30,000 plus 5% premium for all investors. RIA investors holding BD 30,000 and below will be exited in full. A detailed letter was sent to all RIA investors in this regard. The offer was made valid up to 15 June 2015 AND during Q3 2015 the Bank paid 5.62% as partial redemption to the remaining investors.	2008	90.66% over product tenor	Bullet return at maturity	-	-	-	-	-
RIA 6 – Locata	A Restricted Mudaraba product which entitles the investors beneficial ownership of 25% equity share capital of Locata Corporation Pty Ltd., a company incorporated in Australia. The Company has invented a new and patented wireless radiolocation technology and shall use this funding to scale up its production capacity, sales/marketing channels and further product enhancement capabilities. During the year, 479 shares were bought back from investors.	2009	110.54% over product tenor	Bullet return at maturity	-	-	-	-	-

Invested with Insight

gfh.com