Progressive Diversity

Annual Report & Accounts 2016

gfh

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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

During 2016, GFH achieved a wealth of international ambitions

In line with GFH Financial Group's mission to create greater diversity in its holdings, 2016 saw us expanding on our ambitions to create a wider asset base across a greater, global geographical footprint, including the US, the UK and the UAE.

Our Financial Profile illustrates our diversified group's performance

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:

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

+$5 bilion

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; Commercial Banking, Wealth Management & Private Equity, Real Estate Development and Asset Management.

GFH is listed on three stock exchanges in the GCC, including the Bahrain Bourse, Boursa Kuwait 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.

GFH has an enviable track record in conceptualizing and establishing a large number of pioneering financial institutions in the GCC.

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 2016, the Group was awarded the "Best Islamic Financial Group" from Global Brands Magazine, "Best Investment Bank" from Middle East Industry Award, "Gold & Silver Award" from Transform Award MENA, "Investment Banker of the Year" from CPI Awards and "GCC Best Employer Brand" from Dubai. Prior to that, 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 and GFH Real Estate 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, 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. and U.K. to take advantage of emerging opportunities in these markets.

Our Board of Directors provide diversified opinions for our singular direction

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 who is a well respected executive, researcher and economics academic, brings more than 38 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.

190 years

GFH's highly respected Board of Directors has over 190 years of experience in business between them covering a wide variety of sectors and international markets.

GFH's Board of Directors provides a platform of wisdom and insight by which our brand is shifting to the next levels of prosperity and growth. Their remarkable breadth of experience and insightful strategic approach are the catalyst of our excellence.

Dr. Ahmed Al Mutawa
Chairman, Non-Executive

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 seven years. He brings extensive financial expertise amassed throughout his 21-year career in the fields of investment, finance, and accounting.

Mr. Al Mutairy 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 Company International S.A.O.C. and Dhofar Power Company S.A.O.C. 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 holds a number of Directorship positions, including Al Jazeera Tourism Company, Naseej BSC (c), 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. He holds an extensive knowledge and experience in starting and managing small businesses in the GCC region. He has created start-up businesses and currently owns and manages several businesses in the Real Estate, Manufacturing and Retail sectors. He was also the Deputy Chairman of Majid Al Futtaim Retail which owns and operates several Carrefour stores in the GCC, Middle East, Central Asia and North Africa markets. In addition to his role in GFH, Dr. Al Khazraji is also a member of the Board of Trustees of the University of Dubai and Mohammed bin Rashid School of Government.

Currently, Dr. Al Khazraji is an Adjunct Professor of Entrepreneurship and Innovation at the UAE University MBA program. He has published several papers in Cross Cultural Management and Career Management. He published a reference book for the Garland Studies in 'The History of the American Labor' entitled "Immigrants and Cultural Adaptation in the American Workplace: A study of Muslim Employees".

Dr. Al Khazraji is a former Deputy Minister of Labor in the United Arab Emirates and the Director General of the National Human Resources Development and Employment Authority (TANMIA). Within the Ministry of Labor, he contributed to the formulation of UAE labor policies and the development of processes and services in managing the expatriate labor force. He also introduced policies which contribute to the development and employment of the UAE national human resources.

Dr. Al Khazraji obtained his Ph.D degree in Business Administration from the University of Mississippi and his B.S degree from the University of Miami in Florida. He started his career as an Assistant Professor of Management in the College of Business and Economics at the UAE University. During his tenure at the University, he held several posts among them Chairman of the Department of Business Administration, Associate Dean of the College of Business and Economics, and a member of the University's Supreme Council.

Dr. Al Khazraji has represented the United Arab Emirate Government in several regional and international occasions, such as International Labor Organization (ILO) conferences and the Free Trade Agreement negotiation with the United States.

**Dr. Khalid served the Group's Board of Directors until end of February 2017.*

GFH's Board of Directors (contd.)

Mohammed Ali Talib*
Member, Independent

Mr. Mohammed Talib is an Independent Board Member for GFH, bringing over 30 years of experience in the management and 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 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 MENA and GCC countries.

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

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

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

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

**Mr. Mohammed served the Group's Board of Directors until end of February 2017.*

Faisal Abdulla Abubshait*
Member, Independent

Mr. Faisal Abdulla Abubshait has over 12 years of experience in diversified business fields such as Real Estate, Industrial, Telecommunication, Technology, Hotel, and Food & Beverage, to name a few. Currently Mr. Abubshait is the President of Abdulla Fouad Holding Company, a post he has held since 2001. Previously, he worked for Arthur Anderson, the global consulting firm.

Mr. Abubshait holds a 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.

**Mr. Faisal served the Group's Board of Directors until end of February 2017.*

Sh. Mohammed Duaij Al Khalifa*
Member, Independent

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

Sh. Mohammed is currently the Chief Executive Officer of Dilmunia Development Company B.S.C. (c) and Founder of Dahab Consultancy & Management Services. He also served as Chief Executive Officer in Barwa Real Estate (Qatar) Bahrain for five years, where he was responsible for the management of the company's investment portfolio and identifying and pursuing opportunities for investment in the real estate development, investment and private equity markets.

Furthermore, Sh. Mohammed served as Vice Chairman of Nuzul Holding B.S.C. (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.

Sh. Mohammed 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.

Sh. Mohammed 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. Sh. Mohammed is a Board Member of the Bahrain Maritime Sports Association and a Member of the Advisory Committee for the Bahrain Youth Parliament.

**Sh. Mohammed served the Group's Board of Directors until end of February 2017.*

GFH's Board of Directors (contd.)

Yousef Ibrahim Al Ghanim*
Member, Independent

Yousef Al Ghanim joins GFH bringing 9 years of experience in the banking and investment field. Currently, Mr. Al Ghanim serves as the CEO of Al Aman Investment Company (K.S.C.C.), a publicly listed Asset Manager in the Kuwait Stock Exchange, overlooking $750mil in assets under management.

Prior to his role as CEO, Mr. Al Ghanim was the Deputy General Manager for Investment & Development at Alam Al Mesila General Trading Co. WLL, where he was responsible for leading and developing the company's Investments in line with its long-term objectives. Previous to that Mr. Yousef was part of the corporate banking team at the National Bank of Abu Dhabi (Kuwait), bringing a well-rounded experience in banking.

In addition to his current role Mr. Al Ghanim holds the following roles:
Board member at Al Aman Investment Company (K.S.C.C.), Board member at GFH Capital, Member of the Advisory Committee of Alam Al Mesila Co. and EEMC. He holds a Bachelor of Accountancy degree from Kuwait University.

**Mr. Yousef served the Group's Board of Directors until end of February 2017.*

Jassim Al Seddiqi*
Member, Executive Director

Mr. Jassim Al Seddiqi has been a Board Member of GFH since 5th April 2016 and brings extensive financial expertise amassed throughout his career in the fields of investment, finance, and accounting.

Mr. Al Seddiqi is the ex-chairman of Integrated Capital PJSC and sits on GFH's Board along with holding membership of several boards across different organizations. Mr. Jassim is the Chairman of Shuaa Capital and also Director of First Gulf Bank and Tourism and Development Co., UAE.

Over the last 10 years he has occupied a number of directorship positions in the United Arab Emirates. He started his career as a Structuring Manager at Abu Dhabi Capital Group, and today he is the Chief Executive Officer of Abu Dhabi Financial Group and a Board Member in Abu Dhabi Capital Group.

Mr. Al Seddiqi currently holds a Master of Mechanical Engineering degree from the Cornell University (Ithaca, NY), and a Bachelor degree in the same major from University of Wisconsin (Madison), and a postgraduate qualification from South Bank University London in Accounting (UK).

**Mr. Jassim was appointed as Board Member in April 2016.*

Hisham Al Rayes*
Member, Executive Director

Hisham Al Rayes is the Chief Executive Officer as well as a member of the Board of Directors of GFH Financial Group, one of the region's leading financial groups with US$ 6.2bil assets and funds under management and shares listed in the Kingdom of Bahrain, Dubai and Kuwait.

In 2012, Mr. Al Rayes 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. Al Rayes 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. Al Rayes 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. Al Rayes was responsible for a number of key projects and new venture initiatives. These included establishing one of the bank's key subsidiaries, as well as developing BBK's E-Banking platform.

Al Rayes is the chairman of Balexco, Gulf Holding Company and hold directorship in GFH financial Group, Khaleeji Commercial Bank, Falcon Cement Company, GFH Capital, and Shuaa Capital.

Mr. Al Rayes holds a Masters of Business Administration degree with Honors from the University of DePaul, Chicago (USA), and a Bachelor's degree in Engineering with Honors from the University of Bahrain.

**Mr. Hisham was appointed as Board Member in April 2016.*

We expand with God's grace and advice from our Sharia Supervisory Board

Sh. Abdulla bin Sulaiman Al-Manie
Chairman

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

Dr. Fareed Mohammed Hadi
Executive Member

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

Sh. Nidham bin Mohammed Saleh Yaquby
Executive Member

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

Prof. Abdulaziz Khalifa Al-Qassar
Member

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

Our diverse expansion is illustrated in our group's Financial Highlights

Transforming Asset Concentration
The group's balance sheet weighted towards real estate investment during the past year. As part of our corporate strategy to move from an investment bank to a financial group, GFH's 2016 balance sheet is reflecting a greater shift towards Commercial Banking and Investment Banking.

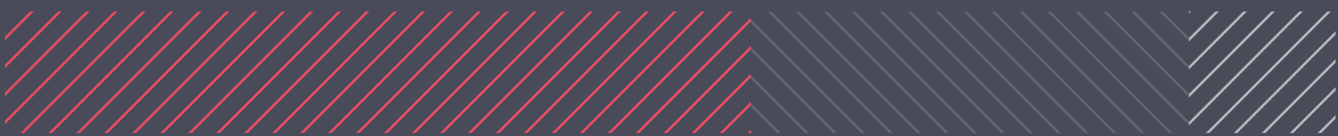
GFH's interest in its key commercial banking asset Khaleeji Commercial Bank is part of its strategy to ensure greater stability from global financial issues. The group will undertake to grow this asset through operational and brand developments.

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 continues to enjoy a great and prosperous financial era.

56%
Real Estate

33%
Commercial Banking

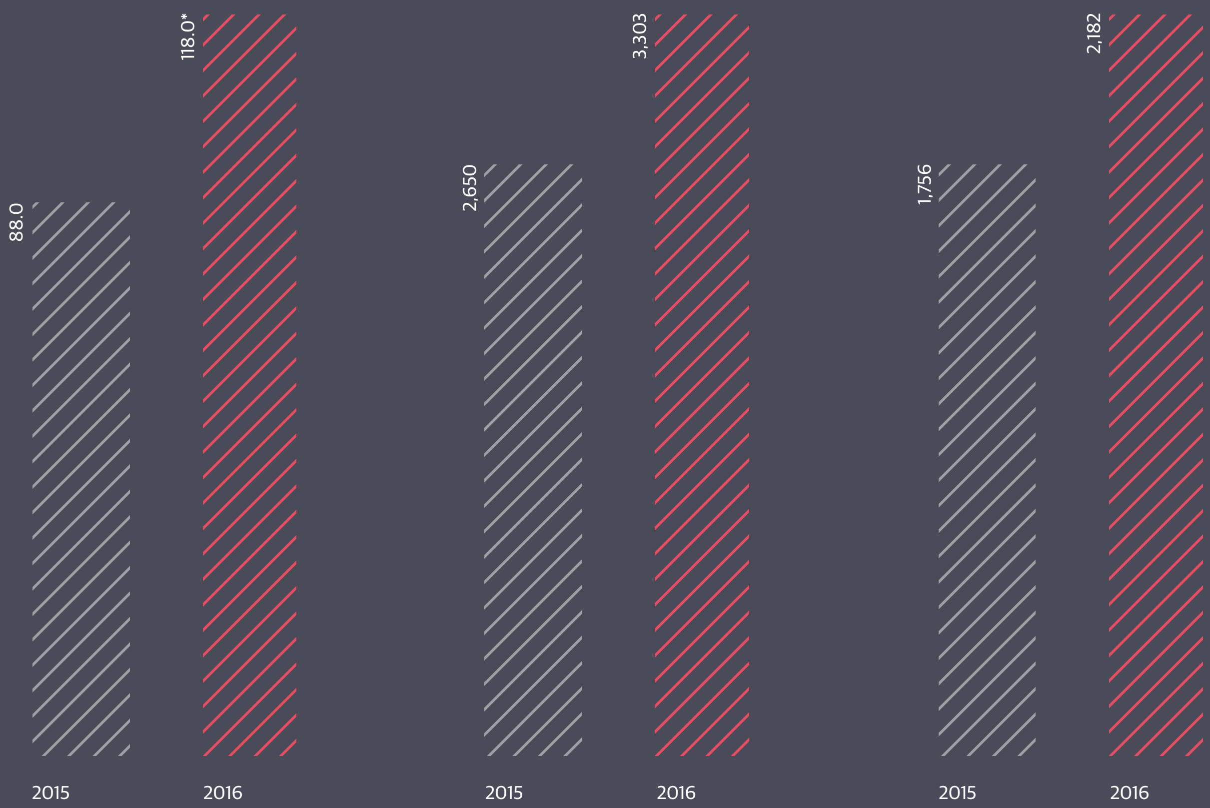
11%
Investment Banking



Assets and Funds under Management of

6.16 (bil US$)

GFH's key commercial banking asset KHCB brings the group more fiscal stability in comparison with 2015.



+34%
Turnover
Total group turnover in US$ 118.0* million

+25%
Assets
Total group assets in US$ 3,303 million

+24%
Liabilities
Total liabilities in US$ 2,182 million

** Excludes income from recoveries*

Our Executive Team are the drivers of our diversified expansion

Hisham Al Rayes is the Chief Executive Officer as well as a member of the Board of Directors of GFH Financial Group, one of the region's leading financial groups with US$ 6.2bil assets and fund under management and shares listed in the Kingdom of Bahrain, Dubai and Kuwait.

In 2012, Mr. Al Rayes 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. Al Rayes 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. Al Rayes 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. Al Rayes was responsible for a number of key projects and new venture initiatives. These included establishing one of the bank's key subsidiaries, as well as developing BBK's E-Banking platform.

Al Rayes is the chairman of Balexco, Gulf Holding Company and hold directorship in GFH financial Group, Khaleeji Commercial Bank, Falcon Cement Company, GFH Capital, and Shuaa Capital.

Mr. Al Rayes holds a Masters 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.

200 years

GFH's Executive Management and Senior Leadership Team has over 200 years of collective experience in the field of financial services, real estate, and business administration.

The Executive Management and Senior Leadership Team at GFH comprise a wealth of financial and managerial expertise. Their combined international experience and regional knowledge provides us with a solid foundation with which to discover insights to drive our diversification and expansion.

Hisham Al Rayes
Chief Executive Officer

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 Group's projects in India. Previously, Mr. Gupta was an Executive Director of Origination & Structuring where he co-led the investment feasibility, due diligence exercise and investment structuring process for various investment projects of the Group. Mr. Gupta joined GFH 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 19 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, Human Resources 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 35 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 16 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 of Commerce degree. He also holds an international risk certification from Global Association of Risk Professionals (GARP).

Hammad Younas
Head of Investment Management

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

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

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

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

Senior Leadership

Bahaa Al Marzooq
Chief Internal Audit

Bahaa Al Marzooq, Chief Internal Audit at GFH, is responsible for supporting the Group in accomplishing its objectives by bringing a systematic and disciplined approach to internal control, risk management and governance processes. He joined GFH in February. 2006 and has more than 17 years of auditing experience in the Islamic and Investment banking sectors. Over the past three years, he was delegated to support the recovery efforts that were remarkably concluded in 2016 with gained assets of total value of $470mil.

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. Al Marzooq is also the holder of an Executive MBA which he obtained in 2004 from the University of Bahrain. Additionally, he has a number of 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.

Dr. Mohamed Abdulsalam
Head of Sharia & Corporate Secretary

As Head of Sharia and Corporate Secretary at GFH, Dr. Mohamed Abdulsalam supervises all the transaction 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 company's 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 Masters 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.

Elias Karaan
Head of Infrastructure Development

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

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

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

Salem Patel
Senior Executive Director -
Private Equity & Corporate Investment

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

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

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

Senior Leadership (contd.)

Mohammed Abdulmalik
Acting Head of Placement & Relationship Management

Mohammed Abdulmalik is the Acting Head of Placement & Relationship 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 placement 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).

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 14 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 counsel on regulatory and litigation matters as required by the Group and its subsidiaries. Prior to joining GFH, Mr. El Hakim was at BNP Paribas's Regional Bahrain Head Office, where he was Deputy Head of Legal for the Middle East and Africa Region managing and supervising a team of lawyers.

He holds an LLM in Banking & Finance/Master of Laws from Osgood Hall Law School, York University, Toronto, Canada and a LLB (Licence en Droit Libanais) from Sagesse University School of Law, Beirut, Lebanon. He is also a Certified Arbitrator at the GCC Commercial Arbitration Centre, Bahrain, 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 Investors & Corporate Communications

As the Head of Investors & Corporate Communications, Mr. Hazem Abdulkarim oversees all aspects of client servicing process including administration of client funds, managing funds' share registers and prompt client reporting process and communication. He is responsible for sustaining and improving the relationships with the investors and shareholders.

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

Since his appointment in 2000, Hazim has held several positions within the Group over the last 17 years in Operations and Fund Administration Departments including directorships in many project companies and Special Purpose Vehicles. Prior to joining the Group, he was working in the corporate banking division of Bank of Bahrain and Kuwait (BBK).

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 Human Resources

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

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

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

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

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

Dear Shareholders,

On behalf of the Board of Directors of GFH, I am pleased to present the Group's financial results for the fiscal year ended 31st December 2016. Realizing the benefits of our transformation, the year was once again marked by greater levels of diversification and value creation, as well as enhanced financial stability and profitability.

We are especially proud of our sustained progress in light of a challenging macroeconomic environment, which continues to impact both the MENA region, as well as the global markets in which we are active. We attribute our ability to continue to effectively invest, grow and prosper to a strong and disciplined strategy aimed at achieving steady results whatever market conditions or challenges may arise. At the core of this strategy has been a focus on the expansion of our business lines and, thus, revenue streams, as well as a keen commitment to extracting value from our existing portfolio of investments across sectors and asset classes.

As a result, our performance in 2016 saw GFH deliver a consolidated net profit of US$ 233.05mil versus US$ 12.02mil in 2015, an increase of 1839%. Importantly, net profits before provisions were an even more significant US$ 454.16mil for 2016.

Operationally, we also took steps to further strengthen the Group throughout the year. This included the further building of our human capital in key areas and in line with our ongoing diversification. Among our senior hires during the year were new heads at our GFH Capital and GFH Real Estate subsidiaries, as well as a new head of Investment Management on the Group level.

180 years

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.

We are especially proud of our sustained progress in light of a challenging macroeconomic environment, which continues to impact both the MENA region, as well as the global markets in which we are active.

Dr. Ahmed Al Mutawa
Chairman, Non-Executive

Our Chairman's Report (contd.)

Asset Management

Looking at our core business lines, GFH continued to build its asset portfolio with the completion, in late 2016, of our second acquisition of a US-based industrial real estate portfolio in a deal valued at US$ 58mil. The portfolio includes 11 income producing distribution, warehousing and industrial properties in the Midwest region of the US across three states. The portfolio is well diversified in terms of tenant base and location strengthening the portfolio's performance. The portfolio also benefits from a regular cash flow stream resulting from long leases, as well as strong single and multi-tenanted tenant base in the properties. With this acquisition, GFH has further strengthened its foothold in the US industrial real estate sector and better positioned itself to take advantage of the strong fundamentals supporting this growing market segment.

Looking at the performance of our existing US$ 115mil portfolio of industrial real estate in the US, which includes 17 income-generating industrial, warehousing and distribution assets across six states, results were above budgets. Also benefiting from favourable demographics and other supporting trends returns for the year surpassed originally anticipated cash-on-cash yields validating our investment rationale and our overall view on this segment of the US real estate market.

GFH's US$ 48mil investment in Jeddah Mall, acquired in 2015, is performing satisfactorily in accordance with the plan. It continues to benefit from its attractive location in Jeddah and has seen other key progress including the notable addition of a LuLu Hypermarket to the mall's tenants which will attract and drive further traffic to the mall. GFH's residential portfolio in the US, acquired in 2014, is delivering higher than targeted distributions to our investors and an exit would be considered at an opportune time taking into consideration the robust market conditions in the US.

We go into 2017 being optimistic about real estate as an asset class and continue to leverage our strong relationships with market participants in order to identify other medium to long term, income yielding opportunities across various markets and sectors within real estate both in the US and elsewhere that we believe can add value in the coming years.

Private Equity

Our private equity arm also continued to make notable investments in 2016. Alongside Abu Dhabi Financial Group, we announced the establishment of ADCORP, the first Islamic financial institution at the Abu Dhabi Global Market. Focused on Corporate Finance, Wealth and Asset Management, ADCORP is being led by financial industry veteran Talal Al Zain, who is widely recognised as one of the region's leading asset management executives. With this investment GFH continues to look for opportunities to maximise and capture the ongoing growth in Islamic investment and finance globally. We expect ADCORP to start operations in the first half of 2017.

Building on our existing investments and success in regional education, we also made two additional investments in the regional education market during 2016. In October, we announced the launch of US$ 46mil investment in AMA International University, Bahrain, which comprises of a university and a school. AMA is a premier institution which focuses on providing quality education to local and international students in Bahrain. AMA University has a current enrolment of 5,550 students and AMA School has an enrolment of approximately 1,600 students.

During the fourth quarter, we added the British School of Bahrain to our investment portfolio. The School, which has a strength of c. 2,400 students, has received an "Outstanding" ranking in Bahrain placing it among a select group of only five local educational institutions to have received such recognition.

GFH's existing investments in the regional education sector, made in 2014 and 2015, also continued to deliver solid performance and meet targeted cash dividends for our investors. GFH believes that positive demographics in the GCC underpin the defensive nature of the education sector and allow for the provision of steady cash flows and attractive returns for the Group and our investors. We will continue to evaluate and pursue additional profitable opportunities in education sector, where have now built a strong presence and track record for value creation.

Another noteworthy transaction during 2016 was the Arab Petroleum Investments Corporation (APICORP)'s acquisition of a 30% shareholding in Falcon Cement, a GFH portfolio company. APICORP, created by Organization of Arab Petroleum Exporting Countries, is a key addition to the company's shareholders and board and their investment provides additional resources to ensure Falcon continues to build on its market leading position and benefits from positive trends in building and real estate. We look forward to working with APICORP and developing this into a strategic business partnership for GFH.

We made significant strides ahead on our Harbour Row and Harbour Walk project, a US$ 150mil mixed-use real estate development comprised of luxury residential units along with premium commercial spaces featuring waterfront living, retail and dining experiences.

Commercial Banking

Over the past year, our commercial banking activities also witnessed significant growth despite challenging market conditions resulting from ongoing global and regional economic difficulties and geopolitical uncertainty. Khaleeji Commercial Bank (KHCB), our commercial banking subsidiary, continued to deliver on its strategy, which has been focused on growing its share of the Bahrain Islamic banking market. Success towards this objective was tangible and, according to plan, resulted in the expansion of the Bank's corporate and retail client base including its ability to attract and retain high net worth individuals. This growth was supported by the development of a more comprehensive range of high-quality Sharia compliant banking products and solutions, as well as a result of significant enhancements made in efficiency, service quality and technological innovation which will continue to be a focus in the year ahead.

For the 2016 financial year, the Bank reported profits before impairments of US$ 30.67mil, representing an increase of 10.2% over 2015. It also continued impressive growth in its loan book, which rose 12% year-on-year to US$ 1.17bil. Similarly, Customer Deposits grew by 32% to $1.7bil, decreasing the Bank's loan/deposit ratio from 81% to 69% year-on-year.

Furthermore, in support of future growth and market expansion, KHCB adopted a conservative provisioning policy in 2016, setting aside US$ 35.76mil in impairments to guard against any potential drops in asset values, as well as maintaining a strong overall capital adequacy ratio of 18% and satisfactory levels of liquidity.

Real Estate Development

During the year, GFH strengthened its real estate platform and ability to build value in this important business line in which we have long been pioneers. GFH Real Estate (GFH RE) was launched in 2016 as a dedicated entity that is now engaged in a range of project development and management activities. This includes the launch of its own direct development projects and the oversight of others associated with the Group, particularly in the UAE and Bahrain.

Significant milestones were reached in our real estate activities and projects under development. We are particularly pleased with the re-commencement of construction work at Villamar, the landmark US$ 700mil residential and commercial complex spread over 35,900 square meters at the Bahrain Financial Harbour (BFH). After a period of inactivity, Gulf Holding Company, the project's developer, announced the conclusion of a final Sukuk restructuring agreement with Al Rajhi Bank (the project financier) and GFH (the project sponsor). The agreement serves to effectively reschedule the project's finances and officially re-launch works. This was a major achievement given Villamar's iconic position on the Bahrain skyline. With the rescheduling of the project's finances, the way is now paved towards swift completion of Phase 1 expected in 2018.

Also at BFH, we made significant strides ahead on our Harbour Row and Harbour Walk project, a US$ 150mil mixed-use real estate development comprised of luxury residential units along with premium commercial spaces featuring waterfront living, retail and dining experiences. A major contract was awarded during the year to Almoayyed Contracting Group, one of the region's leading full-service general contractors, for the development of the project as a result of their ability to meet the project unique and high specification requirement standards. The project which is being managed by GFHRE, also successfully received all pre-authorization approvals for the project work commencement with mobilization now well underway.

In the UAE, our California Village project, a mixed-use development and gated community, also progressed in 2016. Key steps were taken which resulted in mobilization of the project and the commencement of infrastructure work.

Similarly, advancements were made in our projects in North Africa during 2016. Our Tunis Financial Harbour project took further shape during the year with a number of major milestones reached. This included the progression of the Joint Venture agreement for the development of project's golf course and surrounding villas. In addition, the project company was able to sign an agreement with a well-known contractor for the infrastructure works for Phases 1 and 2 on which works are expected to commence in early 2017. Additionally, the framework agreement signed to develop the mall has progressed and it is expected that a final design will be available in first quarter 2017. These steps all serve to further enhance the value of the project, attract more investment and, ultimately, pave way for the next phases of this mega project to proceed.

Our 'Gateway to Morocco' project also saw considerable progress. During 2016 key accomplishments included approval on the new Master Plan which was granted by the government authority (the Wali) of Marrakech. The plan was forwarded to the Ministerial Committee to extend the

Our Chairman's Report (contd.)

investment agreement. The new concept plan features residential, retail and commercial components, along with a theme park. New designs and specifications were adopted in order to meet market demands and government requirements. The project is being developed through a phased approach. The first phase to be developed consists of a Dubai-style shopping and entertainment area along with a residential element. In this regard, several alternatives for financing are being discussed with banks and potential investors.

The Mumbai Economic Development Zone (MEDZ) project also advanced at a steady pace. The Wadhwa Group, the joint development partners, submitted the project's master plan for the land allocated for Phase 1 with the project subsequently receiving the Letter of Intent from the local Special Planning Authority. Wadhwa has also received Stage 1 environment clearance for development under Phase 1. As such, the site preparation works are in progress and particularly the associated roads for the township. Permissions have also been obtained from the Railways Department for construction of a rail-under-bridge, which ensures connectivity to the National Highway with work under progress on the same. The Adani Group, the joint development partner, have also currently appointed HOK as the architect and master planner to finalize the overall master plan for the development of the land. Adani have also made the requisite applications to the State Government for approval of development of Phases 2 and 3 lands as a Special Township Project.

Distributions to Investors

Throughout 2016, we continued to distribute strong dividends to investors in line with our progressive dividend policy. In total, the Group returned dividends to its investors from underlying investments in the, UAE, KSA and the US primarily from investments in real estate and education sectors.

This includes 8.2% returns for 2016 from our Sheffield Private School (SPS) investment and 7% from the Philadelphia Private School (PPS) in the UAE, 11% from our Jeddah Mall investment in KSA and returns of 9% and 8.5% from our Diversified US Residential Portfolio (DURP) and US Industrial portfolio, respectively.

Debts and Liabilities

In line with the Group's focus on continuing to strengthen its financial position, in 2016 we continued our focus on maintaining prudent levels of leverage. In doing so, we took important steps to minimize our overall financing liabilities in order to improve liquidity and enhance our investment and risk profile. Our timely debt repayments are a testimony to soundness of our financial and business practices and the strength of the financial foundations on which we are building. During 2016, GFH debt repayments amounted to US$ 74mil. The 2016 debt repayments included the full prepayment and settlement of a financing facility drawn down in 2006, which originally amounted to US$ 300mil.

Moreover, the Group remains firmly focused on strengthening its balance sheet and credit rating, and these scheduled repayments are part of our ongoing commitment to maintaining a healthy financial profile. Over the past nine years, we have significantly deleveraged our balance sheet, with GFH's consolidated financing liabilities reducing from US$ 1bil in 2008 to US$ 112mil currently, and an extremely healthy debt to equity ratio of 16%.

Based on future cash flow estimates, we remain on track to repay all our outstanding debts as they fall due. Our confidence stems from our overall strategy, which is focused on unearthing additional value from our assets and expanding revenue streams. It has been encouraging to see new business income from all of GFH's subsidiaries, as well as our commercial and investment banking divisions during 2016. We expect more of the same in the year ahead.

Related parties

Please refer to note 24 of the consolidated financial statements, for transactions between GFH and its directors or entities in which the directors are interested.

Recoveries & Legal Cases

During 2016, the Board of GFH resolved to approve the proposed out of court settlement with certain counterparties whereby the Group received assets amounting to US$ 464mil.

Following the completion of the requisite due diligence exercises, on the aforesaid assets and fulfilment of the pertinent obligation, the total net value of the assets recovered has reached to US$ 464mil, reflecting a great enhancement to the financial results of the Group and hence maximizing the shareholder's value. In future, GFH expects to generate additional revenue and value as it maximizes the potential of these assets received in settlements.

Conclusion

Looking to the year ahead, we are confident of our ability to continue to build on the momentum we have established and the solid foundations that are now firmly in place for further growth. These strides are a direct result of the dedication of our management team and staff who have worked tirelessly to establish GFH as the solid financial group that we are today. There is no question that great challenges have been posed, but we have emerged stronger and better positioned than ever for success.

We would also like to thank our shareholders and investors, both new and existing, for their ongoing confidence in our strategy, prospects and, importantly, our ability to deliver on their behalf now and in the future. Similarly, our deep gratitude and appreciation is extended for the ongoing support afforded us by the Central Bank of Bahrain, the Government of the Kingdom of Bahrain and its wise leadership His Royal Majesty King Hamad bin Isa Al Khalifa, His Royal Highness the Prime Minister Prince Khalifa bin Salman Al Khalifa and His Royal Highness the Crown Prince and Deputy Supreme Commander Prince Salman bin Hamad Al Khalifa.

In concluding and, as we go forward, we remain committed to creating even greater value and delivering stronger levels of returns and profitability for the benefit of our shareholders, investors and all stakeholders of the Group. We will achieve this through the continued expansion of our portfolio of solid, income yielding investments and the effective management of what is now a strong and diverse base of assets. We enter 2017 with great confidence in the future of our Group and look forward to keeping you apprised of our activities and progress in the months ahead.

Sincerely,

Dr. Ahmed Al Mutawa
Chairman

5 February 2017

GFH's diversified Business Activities all feature great expansion potential

GFH is a dynamic financial group with a clear vision to develop a high growth, diversified investment and commercial portfolio. GFH actively seeks unique opportunities to grow the value and potential of its investments. To achieve industry-leading performance GFH's business lines cover key aspects of the financial services value chain, from high end financial products and investments, to high street commercial banking operations. 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 and is now a Public Bahraini Shareholding Company listed on the Bahrain Stock Exchange with a current paid up capital of US$ 278.5mil. 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.

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:

- Two US Industrial Portfolios, US
- Diversified US Residential Portfolio, US
- No.1 Palace Street, UK
- Event Mall, Jeddah

$20 bilion

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

$278.5 milion

KHCB was established in 2004 by GFH and is now a Public Bavhraini Shareholding Company listed on the Bahrain Stock Exchange with a current paid up capital of US$ 278.5mil.

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.

Private Equity

The Private Equity ("PE") team is responsible for identifying and managing investments in companies that are growing and profitable as well as other equity based and alternative investments. The PE Team works with investee companies and their management teams to fully realise and maximise future returns. The aim is always to find investments which can generate a healthy yield for investors and can also provide capital appreciation. The assets managed by the PE Team include:

- AMA International University, Bahrain
- The Sheffield Private School, Dubai
- Philadelphia Private School, Dubai
- Falcon Cement Company, Bahrain
- Bahrain Aluminium Extrusion Company, Bahrain
- Al Basha'er GCC Equity Fund, Kuwait

Real Estate Development

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

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

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

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

GFH Properties

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

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

Wealth Management

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

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

Our growth is reflected throughout our Financial Prosperity

5-Year Financials Highlights

Year	Return on Ave Equity	Return on Ave Assets	Cost to Income*
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%
2016	29.06%	7.83%	21.56%

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

$578.9 milion

GFH recorded a total consolidated income of US$ 578.96mil for this year, compared to a total income of US$ 87.99mil in 2015.

25.31%

GFH reported a capital adequacy of 25.31% for 2016 as compared to 24.68% in 2015, significantly higher than the 12% regulatory requirement.

GFH recorded a total consolidated income of US$ 578.96mil for this year, compared to a total income of US$ 87.99mil in 2015. Total income in 2016 included a one-off income from settlement of litigation of US$ 464.57mil.

Executive Management Report
GFH started its business strategy in 2014 to evolve as a Financial Group, so as to have a stable and recurring income, profitability and cash flows. By the end of our three year strategy in 2016, we have managed to outperform the strategy set. GFH now is a wider Financial Group, and 2016 has seen strong progress in our business operations in Commercial Banking, Investment Banking and Real Estate. GFH is now embarking on a new three-year strategy in 2017, which is looking at significant growth across all our existing business lines organically and inorganically in business lines where we see relative market outperformance in future. GFH results for 2016 are stellar, especially considering the challenging macroeconomic environment.

Financial Review
In 2016, GFH recorded a consolidated net profit of US$ 233.05mil compared to a net profit of US$ 12.02mil in 2015. The net profit attributable to shareholders is US$ 217.13mil as compared to a loss of US$ 5.5mil in 2015.

GFH recorded a total consolidated income of US$ 578.96mil for this year, compared to a total income of US$ 87.99mil in 2015. Total income in 2016 included a one-off income from settlement of litigation of US$ 464.57mil. This was in relation to an out of court settlement with various counterparties whereby the Group received assets as part of the settlement. Excluding the one-off income, the total consolidated income for the year was still higher than 2015 at US$ 114.39mil, primarily because of higher income from our Commercial Banking and Real Estate businesses. GFH total consolidated expenses for the year amounted to US$ 124.79mil as compared to US$ 62.11mil for last year. The expenses for the current year are higher primarily because of higher legal and diligence expenses incurred on the recoveries done during the year. GFH also adopted a conservative provisioning policy during 2016 due to major recoveries achieved, setting aside US$ 221mil in reserves of a non-cash nature. Profit before provisions amounted to US$ 454.16mil during the current year, as compared to US$ 25.88mil in 2015.

GFH reported a capital adequacy of 25.31% for December 2016 as compared to 24.68% in December 2015, significantly higher than the 12% regulatory requirement.

Our Management Report (contd.)

Operational Review

At GFH Capital, our Investment banking business of private equity and asset management grew during the year. We successfully completed the acquisition of our second US based industrial real estate portfolio in a deal valued at US$ 58mil. We also launched fund raising for ADCorp, the first Islamic financial intuition at the Abu Dhabi Global Market of US$ 100mil, coupled with a US$ 60mil regional education opportunity, namely AMA International University, Bahrain. During late 2016, GFH added British School of Bahrain to our investment portfolio. The School has received an "Outstanding" ranking in Bahrain placing it among a select group of only five local educational institutions to have received such recognition. GFH kept a strong focus on exits in its investments with a few investments being lined up for exits in 2017. During 2016, GFH was able to bring Arab Petroleum Investments Corporation (APICORP) as a 30% shareholder in Falcon Cement, a GFH portfolio company.

Khaleeji Commercial Bank (KHCB), our commercial banking subsidiary continued to expand in Bahrain, with 11 branches in Bahrain. KHCB reported a 17% growth in total assets from US$ 1.73bil to US$ 2.02bil currently, whilst customer deposits grew by 19.7% from US$ 1.28bil to US$ 1.54bil in 2015.

GFH Real Estate (GFHRE) was launched in 2016 as a dedicated entity that is now engaged in a range of real estate project development and management activities. Significant milestones were reached during 2016, with the relaunch of US$ 700mil Villamar project and the launch of our new projects, US$ 150mil Harbor Row project in Bahrain and US$ 300mil California Village project in Dubai, UAE. Progress has been made with our projects in Tunisia and India with our joint venture partners and Morocco project progressing on receiving the regulatory approvals.

GFH Real Estate (GFHRE) was launched in 2016 as a dedicated entity that is now engaged in a range of real estate project development and management activities.

Continuing Aims

With the launch of our new strategy for 2017, GFH is looking to expand aggressively in our existing businesses, by increasing business volumes across all business lines. Additionally, GFH will look to expand inorganically by way of acquisitions in financial services industry and also to acquire certain infrastructure investment assets.

GFH is building and expanding an investment portfolio that is highly diversified yet shares a singular unifying factor, **exceptional performance.**

Governing with careful oversight

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, 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 Stock Exchange, 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 Stock Exchange Law ("the Regulations").

GFH's Corporate Governance Philosophy

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

GFH believes that compliance with corporate governance principles enhances its value 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, policies that are aimed at complying with the Bank's regulatory and supervisory responsibilities.

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

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

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

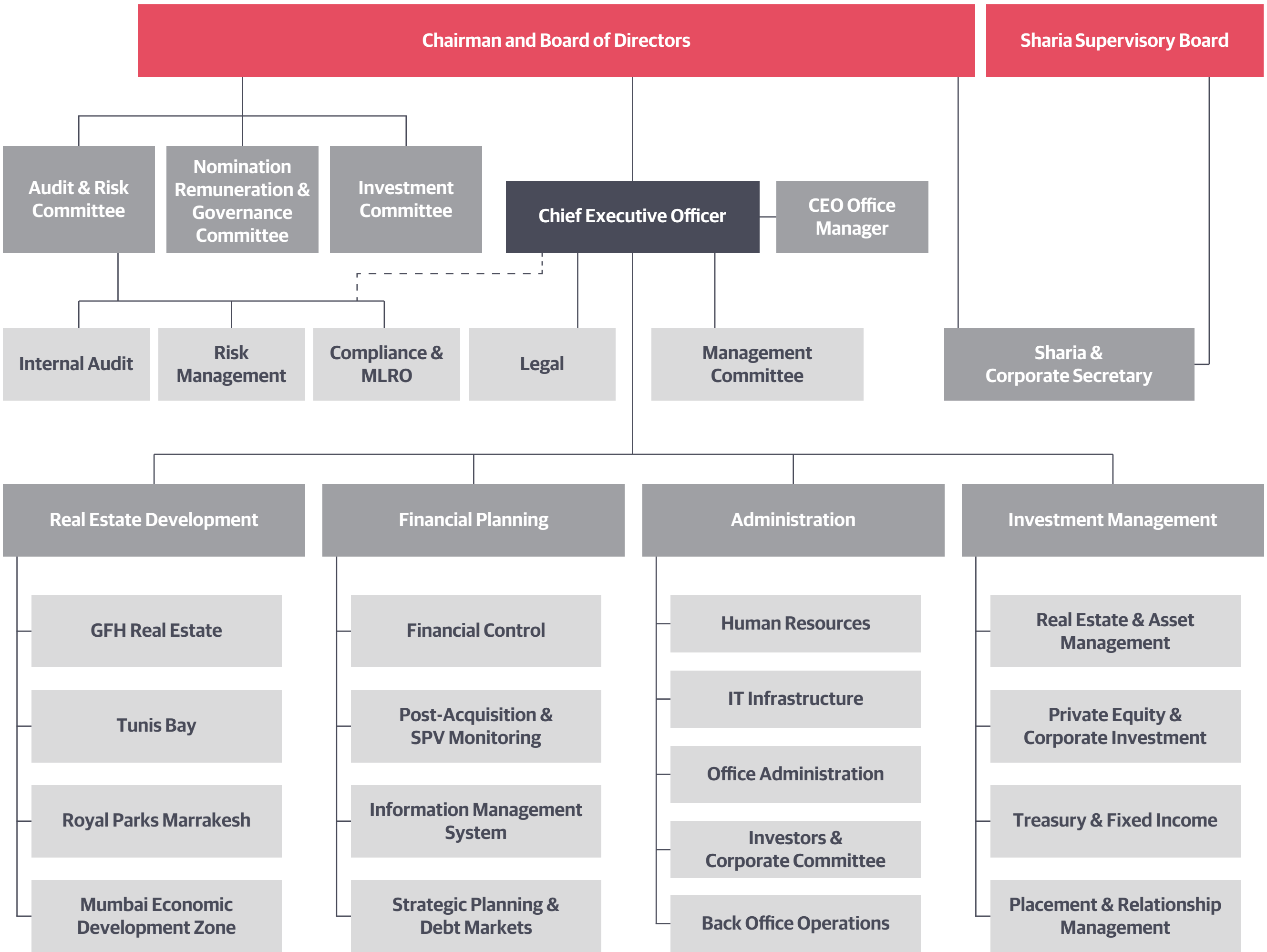
In 2016, GFH continued the implementation of the Corporate Governance Law and compliance with the requirements of the 'High Level Control Module of the CBB Rulebook (Vol. 2)'.

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 (ARC)' 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 (NRGC)' because the merger poses no conflict of interest.
- One of the Board Member 'Mr. Faisal Abdulla Abubshait' was not able attend six of the seven Board Meetings, as well as none of the two meetings of NRGC held during the year-2016. The reason for non-attendance, are the additional responsibilities which Mr. Abubshait has taken over since the demise of his father.
- The Chairman of the Audit & Risk Committee was not able to attend the AGM and EGM meetings held on 1st March 2017. Bank will ensure that all board members attend the future meetings.

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.

Organisational Structure



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

Corporate Governance (contd.)

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 2016, the shareholders Register shows that there are 7,000 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	% of outstanding shares
Bahraini	485	34,277,199	1.519
Emirati	1,441	1,680,917,568	74.490
Kuwaiti	3,541	206,258,841	8.874
Omani	31	2,443,703	0.108
Qatari	39	30,856,967	1.367
Saudi	149	18,070,534	0.801
Others	1,314	289,758,591	12.841
Total	**7,000**	**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 2016:

Particulars	No. of Shareholders	No. of Shares	% of outstanding shares
Less than 1%	6,988	1,324,537,256	58.697
1% to less than 5%	10	459,380,975	20.357
5% to less than 10%	1	170,674,221	7.563
10% to less than 20%	1	301,990,951	13.383
20% to less than 50%	–	–	–
Total	**7,000**	**2,256,583,403**	**100%**

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

As of 31st December 2016, 'Integrated Capital P.J.S.C.' (a Group company of Abu Dhabi Financial Group, UAE) holds 13.38% and is the sole Controller of GFH. Also, an individual shareholder from Abu Dhabi-UAE 'Shaikh Mohammed Bin Ahmed Al Qassami' was holding 5.05% of GFH's total outstanding shares.

Note: As of 28th February 2017, the holding of Shaikh Mohammed Al Qassimi was reduced to 4.85%.

B. GFH Board of Directors and the Executive Management

B.1. Formation of the Board of Directors

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. Also, at the AGM of year 2015 held on 5th April 2016, the number of Board composition was increased from 8 to 10 members.

Furthermore, one new board member was elected and one was appointed as the representative of the Controller (Integrated Capital P.J.S.C). Both of the new members were categorized as Executive Directors.

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
ix. Mr. Hisham Ahmed Al Rayes (since April 2016)
x. Mr. Jassim Mohammed Al Seddiqi (since April 2016)

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 2016 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 includes long term strategic and annual business plan, matters pertaining to corporate governance, acquisition and disposal of investments, exit of projects. This is along with the main role of the Board which is to ensure adherence to the values of GFH 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, as well as 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.

Corporate Governance (contd.)

B.4. Independence of Board Members

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

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

The following table shows the classification of members of the BOD as at 31st December 2016:

Classification of members	No.	% of Representation
Independent	6	60%
Non-Executive	2	20%
Executive	2	20%
Total	**10**	**100%**

B.5. Letter of Appointment of Board Members

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

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

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

Under Article 175 of the Companies Law and Article 27-a of the Articles of Association of the Bank, each shareholder who owns 10% or more of the capital is entitled to appoint his representative in the BOD in proportion to the number of members of the BOD.

As at 31st December 2016, Integrated Capital P.J.S.C. was holding more than 10% of GFH's total outstanding shares and accordingly has one representative 'Mr. Jassim Mohammed Al Seddiqi' present in GFH's Board of Directors.

B.7. GFH Board Members and their other memberships

The table below shows the composition of the BOD, the other memberships of the Board member and membership of committees as at 31st December 2016:

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	5	2	1	1
Mosabah Saif Al Mutairy (Vice- Chairman)	March 2009	Non-Executive	NA	NA	9	1	1	1
Bashar Mohammed Al Mutawa	April 2013	Independent	NA	NA	8	8	1	2
Sh. Mohammed Duaij Al Khalifa	April 2013	Independent	NA	NA	1	1	–	1
Dr. Khalid Mohd Al Khazraji	April 2013	Independent	NA	NA	3	–	–	1
Mohammed A. Talib	April 2013	Independent	NA	NA	–	–	–	1
Yousef Ibrahim Al Ghanim	April 2014	Independent	NA	NA	1	–	–	1
Faisal Abdulla Fouad Abubshait	April 2014	Independent	NA	NA	21	–	–	1
Jassim Mohammed Al Seddiqi	April 2016	Executive	Integrated Capital	NA	7	–	–	–
Hisham Ahmed Al Rayes	April 2016	Executive	NA	NA	11	11	1	–

Note: None of the Independent Director 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.

Corporate Governance (contd.)

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 at 31st December 2016 compared to that of 31st December 2015:

Member's name	Shares owned as at 31st December 2015	Shares owned as at 31st December 2016	Percentage of ownership as at 31st December 2016
Dr. Ahmed Khalil Al Mutawa	NIL	NIL	N/A
Mosabah Saif Al Mutairy	NIL	NIL	N/A
Bashar Mohammed Al Mutawa	NIL	NIL	N/A
Sh. Mohammed Duaij Al Khalifa	NIL	NIL	N/A
Dr. Khalid Mohd Al Khazraji	NIL	NIL	N/A
Mohammed Ali Talib	NIL	NIL	N/A
Faisal Abdulla Fouad Abubshait	NIL	NIL	N/A
Yousef Ibrahim Al Ghanim	NIL	NIL	N/A
Jassim Mohammed Al Seddiqi	–	NIL	N/A
Hisham Ahmed Al Rayes	–	4,040	0.00018
Total	**NIL**	**4,040**	**0.00018%**

B.9. Directors' and Senior Manager's trading of the Bank's shares and distribution of ownership on an individual basis during the year 2016:

Name of Board member	Total no. of shares held as of 31st Dec 2015	Transactions – within the period 1st Jan – 31st Dec 2016			Total no. of shares held as at 31st Dec 2016	% of Ownership
		Bought	Sold	Transfer		
Dr. Ahmed Khalil Al Mutawa	–	–	–	–	–	–
Mosabah Saif Al Mutairy	–	–	–	–	–	–
Faisal Abdulla Fouad Abubshait	–	–	–	–	–	–
Bashar Mohammed Al Mutawa	–	–	–	–	–	–
Yousef Ibrahim Al Ghanim	–	–	–	–	–	–
Dr. Khalid Mohd Al Khazraji	–	–	–	–	–	–
Mohammed A. Talib	–	–	–	–	–	–
Sh. Mohammed Duaij Al Khalifa	–	–	–	–	–	–
Jassim Mohammed Al Seddiqi	–	–	–	–	–	–
Hisham Ahamed Al Rayes	–	–	–	–	–	–

Name of Management Committee Member	Total no. of shares held as of 31st Dec 2015	Transactions – within the period 1st Jan – 31st Dec 2016			Total no. of shares held as at 31st Dec 2016	% of Ownership
		Bought	Sold	Transfer		
Hisham Ahmed N. Abdulqader Al Rayes	4,040	–	–	–	4,040	0.00018
Ajay Shivram Subramanian	877	–	–	–	877	0.00004
Chandan Gupta	–	–	–	–	–	–
Mohammed Amin Ahmed Ali Hassan	–	–	–	–	–	–
Hammad Younis	–	–	–	–	–	–

Corporate Governance (contd.)

B.10. Meetings of the Board of Director during the year 2016

The meetings of the Board of Directors and the Board committees are held whenever the need arises, but under the regulations, the BOD should meet at least four times during a single fiscal year. The BOD held seven (7) meetings during 2016. The AGM was held on 5th April 2016. In addition to official meetings, a number of urgent resolutions were also passed by circulation in 2016 through e-mails to Board members.

As for the agenda of the meetings of the BOD, it is sent to the members at a suitable time before the date of the meeting, to provide the members with all the necessary information, reports and documents for their information and review. The BOD is also notified of all the topics and key events that arise and need approvals. The executive management is responsible for informing the BOD on the performance of GFH in each meeting.

Dates of Board meetings held during the fiscal year 2016 are as follows:

i. 10th February 2016
ii. 24th February 2016
iii. 11th May 2016
iv. 14th May 2016
v. 13th August 2016
vi. 19th October 2016
vii. 13th November 2016

Date & location of meeting	Names of Directors present	Names of Directors who participated by phone/video link	Names of Directors not present
Date: 10th February 2016 **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. Bashar Mohamed Al Mutawa 7. Yousif Ebrahim Al Ghanim		1. Faisal Abdulla Abubshait
Date: 24th February 2016 **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. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Dr. Khaled Mohamed Al Khazraji 4. Sh. Mohamed Duaij Al Khalifa 5. Faisal Abdulla Abubshait	1. Yousif Ebrahim Al Ghanim
Date: 11th May 2016 **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. Bashar Mohamed Al Mutawa 7. Yousif Ebrahim Al Ghanim 8. Jassim Mohammed Al Seddiqi 9. Hisham Ahmed Al Rayes		1. Faisal Abdulla Abubshait

Date & location of meeting	Names of Directors present	Names of Directors who participated by phone/video link	Names of Directors not present
Date: 14th May 2016 **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. Bashar Mohamed Al Mutawa 7. Yousif Ebrahim Al Ghanim 8. Jassim Mohammed Al Seddiqi 9. Hisham Ahmed Al Rayes	1. Faisal Abdulla Abubshait
Date: 13th August 2016 **Location:** GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Hisham Ahmed Al Rayes	1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy 3. Mohammed Ali Taleb 4. Bashar Mohamed Al Mutawa 5. Yousif Ebrahim Al Ghanim	1. Dr. Khaled Mohamed Al Khazraji 2. Sh. Mohamed Duaij Al Khalifa 3. Jassim Mohammed Al Seddiqi 4. Faisal Abdulla Abubshait
Date: 19th October 2016 **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. Bashar Mohamed Al Mutawa 7. Yousif Ebrahim Al Ghanim 8. Jassim Mohammed Al Seddiqi 9. Hisham Ahmed Al Rayes	1. Faisal Abdulla Abubshait
Date: 13th November 2016 **Location:** GFH Financial Group, Bahrain Financial Harbour East Tower - 37th Floor, Manama, Kingdom of Bahrain	1. Hisham Ahmed Al Rayes	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. Bashar Mohamed Al Mutawa 7. Yousif Ebrahim Al Ghanim	1. Faisal Abdulla Abubshait 2. Jassim Mohammed Al Seddiqi

Note: Mr. Faisal Abdulla Abubshait could not attend six of the seven Board Meetings held during the year-2016.

Corporate Governance (contd.)

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 2016, the Committee held six meetings which took place on 9th February, 24th February, 10th May, 15th May, 13th August, and 10th November 2016 respectively.

ARC meeting date & location	ARC members present	ARC members who participated by phone/video link	ARC members not present
Date: 9th February 2016 **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: 24th February 2016 **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 May 2016 **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: 15th May 2016 **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 August 2016 **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
Date: 10th November 2016 **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		

C.2. Investment Committee (BIC)

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

The Committee must meet at least two times a year. The Committee met eight times during the fiscal year 2016 i.e., 25th January, 10th March, 17th March, 27th April, 11th May, 7th June, 13th August and 25th December 2016.

BIC meeting date & location	BIC members present	BIC members who participated by phone/video link	BIC members not present
Date: 25th January 2016 **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	1. Yousif Ebrahim Al Ghanim
Date: 10th March 2016 **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	1. Yousif Ebrahim Al Ghanim
Date: 17th March 2016 **Location:** Four Seasons Hotel, Bahrain Bay, Manama, Kingdom of Bahrain		1. Dr. Ahmed Khalil Al Mutawa 2. Mosabah Saif Al Mutairy	1. Yousif Ebrahim Al Ghanim
Date: 27th April 2016 **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 May 2016 **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 3. Yousif Ebrahim Al Ghanim	
Date: 7th June 2016 **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 3. Yousif Ebrahim Al Ghanim	
Date: 13th August 2016 **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
Date: 25th December 2016 **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 3. Yousif Ebrahim Al Ghanim	

Corporate Governance (contd.)

C.3. Nomination, Remuneration & Governance Committee

The Nomination, Remuneration & Governance Committee ("NRGC") is responsible for recruitment, rewards, incentive compensation of employees and the preparation of internal policies to manage human resources and other administrative matters. It is also responsible for overseeing the governance framework of GFH Financial Group.

The Committee must meet at least two times a year. The Committee met two times during the fiscal year 2016 i.e. 30th March and 11th May 2016.

NRGC meeting date & location	NRGC members present	NRGC members who participated by phone/video link	NRGC members not present
Date: 30th March 2016 **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: 11th May 2016 **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 Board of Directors is recommended to the Board of Directors by the Nomination, Remuneration & Governance Committee and the Board of Directors then makes the recommendation to the shareholders at the annual general meeting.

The Board of Directors' remuneration takes into consideration the performance of the Bank as well as an assessment of compliance of individual members with their performance agreement and individual responsibilities. During the year 2016, the Board was paid fees as stated in note 24 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 24 (Key management personnel) of the consolidated financial statements for details of the remuneration to Board of Directors and Executive Management.

During 2016, the total remuneration paid to Sharia Supervisory Board was US$ 151,000/-.

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

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

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

All the members of the Board at the time of appointment should sign a 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.

Corporate Governance (contd.)

E.4. Transactions with Related Parties

Details of transactions with related parties are indicated in detail in Note 24 of the consolidated financial statements for the fiscal year ended 31st December, 2016.

E.5. Approval process for Related Party Transactions

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

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

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

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

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

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

The main objectives of the internal control process can be categorized as follows:
1. Efficiency and effectiveness of activities (performance objectives);
2. Reliability, completeness and timeliness of financial and management information (information objectives); and
3. Compliance with applicable laws and regulations (compliance objectives).

Also, the internal control system of the Bank consists of five (5) interrelated elements:
i. Management oversight and the control culture;
ii. Risk recognition and assessment;
iii. Control activities and segregation of duties;
iv. Information and communication; and
v. Monitoring activities and correcting deficiencies.

E.8. GFH'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 Charter, which is available on the bank's website, is an assurance that services provided by the Bank will comply with quality standards. Generally, quality standards are standards that will fulfil clients' and shareholders' needs and expectations.

The Client Charter also incorporates GFH's Complaints Handling Procedures and encourages the clients and its shareholders to report any alleged wrongful conduct, malpractice or an improper/unethical behaviour of an employee of the bank.

Corporate Governance (contd.)

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

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

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

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

- What happens once your complaint is submitted?
  a) Once a client complaint has been submitted, we will acknowledge within three (3) business days.
  b) The client complaint will be referred to the concerned person/department which will investigate it thoroughly and a written response detailing the outcome of our investigation and our decision shall be provided within four (4) weeks of receiving the complaint. In the unlikely event that the complaint is not answered within the 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 behaviour 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.

E.9. Details of penalties paid

In 2016, financial penalties amounting Bahraini Dinar ("BD') 24,200 were imposed by the Central Bank of Bahrain, due to the late submission of AUP Report on Remuneration and the related Appendix BR-14 Form.

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 followings:

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

For earnings prohibited by Sharia, please refer note 2(y) and note 28 of the consolidated financial statements for the fiscal year ended 31st December 2016.

Corporate Governance (contd.)

E.11. Remuneration related disclosures
The Bank's total compensation approach, which includes the variable remuneration policy, sets out the Bank's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

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

Remuneration strategy
It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. The variable remuneration policy helps ensure effective alignment of remuneration with prudent risk-taking by senior management in the conduct of business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate Governance (contd.)

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:

NRGC member name	Appointment date	Number of meetings attended	
		2016	2015
Khaled Mohamed Al Khazraji	22 April 2014	2 out of 2	3 out of 3
Bashar Mohamed Al Mutawa	22 April 2014	2 out of 2	3 out of 3
Faisal Abdulla Bubshait	22 April 2014	None	1 out of 3

The aggregate remuneration paid to NRGC members during the year in the form of sitting fees amounted to US$ 4K (2015: US$ 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 will determine board remuneration in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that variable remuneration in any financial year (sitting fees is not part of variable remuneration) does not exceed 10% of the Bank's net profit, after all required deductions outlined in Article 188 have been made. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for staff

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

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

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

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

The NRGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRGC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects. A special pool is also considered for recoveries made against any legacy investments and legal cases and is approved on a case-by-case basis by the Board of Directors.

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

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

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. In exceptional cases, the approval of the NRGC shall be obtained. The variable remuneration of control functions is to be based on function-specific objectives and is not be determined by the financial performance of the business areas they monitor.

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

Variable compensation for business units

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

Risk assessment framework

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

Corporate Governance (contd.)

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the strategic measures. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base.

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

The size of the variable remuneration pool and its allocation within the bank takes into account the full range of current and potential risks, including:
a) The cost and quantity of capital required to support the risks taken;
b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

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

Risk adjustments

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

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

The NRGC, with the Board's approval, can rationalize and make the following discretionary decisions:
- Take no action
- Increase/reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of non-cash awards
- Recovery through malus and clawback arrangements.

Malus and Clawback framework

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

The Bank's variable remuneration framework provides for the following key components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year, but released after a retention period of 6 months
Deferred Annual Bonus (DAB) share awards	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years and an additional retention period of 6 months
Future performance awards (FPA)	The portion of variable compensation which is awarded to selected employees. The awards are contingent on the delivery of future performance targets for the Bank as well as service conditions on part of employees. These could comprise individually or a combination of the following: • Long term Incentive Plan Shares, where the employees are compensated in form of shares as a percentage of fixed salary on achievement of some future performance conditions. • Profit share, where the employees are compensated based on a specified percentage of targeted profit for a transaction. • Carried Interest, where the employees are compensated a specified percentage of fair value gain on investments once it achieves a specified hurdle rate on realisation. • Co-investment, wherein as portion of variable remuneration is awarded in the form of an investment made by the bank which is encashable by employee on Bank's exit from the investment. • Sales/recovery incentive, where the employee or a team is compensated on the basis of a specified percentage of a sales value of an investment on successful exit or recovery of an asset.

Employee Share Ownership Loan Scheme

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

Corporate Governance (contd.)

Establishment of the Trust Instrument:

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

Deferred compensation

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

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

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

Summary of key changes to the Variable Remuneration Policy

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

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

No other significant changes were made to the policy.

Details of remuneration paid

(a) Board of Directors

	2016 (US$ '000)	2015 (US$ '000)
• Board Member fees	378	261
• Board Member allowances (4)	670	637
Total	**1,048**	**898**

(b) Employee remuneration

2016 [1, 2]										
				Variable remuneration						
		Fixed remuneration		Upfront		Deferred				
Type of employees	No. of staff	Cash	Others	Cash	Shares	Cash	Shares[3]	Others	Total
Approved Persons Business lines	6	2,877	434	3,027	–	750	3,750	–	10,838
Approved Persons Control & Support	10	2,983	–	2,238	–	470	2,540	–	8,231
Other Material Risk Takers	23	3,193	369	869	–	–	163	–	4,594
Other Employees: Bahrain Operations	42	2,808	–	1,119	–	50	425	–	4,402
Other Employees: Overseas Branches & Subsdiaries[1]	37	2,456	–	104	–	–	–	–	2,560
	118	**14,317**	**803**	**7,357**	**–**	**1,270**	**6,878**	**–**	**30,625**

Notes:

1. The above disclosures exclude remuneration details of Khaleeji Commercial Bank BSC (KHCB). Information pertaining to KHCB is separately available within their annual report.
2. The financial information is presented based on final approvals by the NRGC and Board of Directors and awards communicated to employees subsequent to the issue of the consolidated financial statements.
3. The amounts attributed to share awards are based on the allocation of the initial bonus pool to deferred share awards. Additional accounting charge, if any, will be reflected in the subsequent accounting periods based on fair value of the shares on the date of issue.
4. Includes US$ 250,000 (2015: US$ 250,000) paid to the Chairman for his time and travel related expenses incurred in relation to his responsibilities as Chairman of GFH.

Corporate Governance (contd.)

2015 [1, 2]										
				Variable remuneration						
		Fixed remuneration		Upfront		Deferred				
Type of employees	No. of staff	Cash	Others	Cash	Shares	Cash	Shares[3]	Others	Total
Approved Persons Business lines	7	2,265	152	578	–	138	689	–	3,822
Approved Persons Control & Support	11	2,430	–	502	–	58	421	–	3,411
Other Material Risk Takers	18	2,019	139	559	–	–	44	–	2,761
Other Employees: Bahrain Operations	35	1,922	–	429	–	–	–	–	2,351
Other Employees: Overseas Branches & Subsdiaries[1]	32	2,096	–	92	–	–	–	–	2,188
	103	**10,732**	**291**	**2,160**	**–**	**196**	**1,154**	**–**	**14,533**

Notes:

1. The above disclosures exclude remuneration details of Khaleeji Commercial Bank BSC (KHCB). Information pertaining to KHCB is separately available within their annual report.
2. The 2015 has been adjusted for actual awards allocated subsequent to issue of annual report for the previous period.
3. The amounts attributed to share awards are based on the allocation of the initial bonus pool to deferred share awards. Additional accounting charge, if any, have been reflected in the subsequent accounting periods based on fair value of the shares on the date of issue and factoring terms of modification to original awards.
4. No sign-on bonus, guaranteed bonus or severance pay was made during 2015 or 2016.

(c) Deferred awards

Type of employees	2016			
		Shares		
	Cash US$ '000s	Number	US$ '000s	Total US$ '000s
Opening balance	328	52,269,290	4,457	4,785
Awarded during the period	1,270	12,504,545	6,878	8,148
Paid out/released during the period	(44)	(25,128,650)	(1,657)	(1,701)
Service, performance and risk adjustments	–	–	–	–
Bonus share and other corporate events	–	–	–	–
Closing balance	**1,554**	**39,645,185**	**9,678**	**11,232**

Type of employees	2015			
		Shares		
	Cash US$ '000s	Number	US$ '000s	Total US$ '000s
Opening balance	132	39,306,527	2,884	3,016
Awarded during the period	196	15,315,395	2,020	2,216
Paid out/released during the period	–	(2,352,632)	(447)	(447)
Service, performance and risk adjustments	–	–	–	–
Bonus share and other corporate events	–	–	–	–
Closing balance	**328**	**52,269,290**	**4,457**	**4,785**

Notes:

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

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

The 2015 table reflects adjustments and modifications made to award terms in 2016 on changes to the variable remuneration policy and has been prepared assuming that the amendments were made at the respective performance years. This was done to reflect comparability of remuneration information for two performance periods. Accordingly, the information reported in the table above may not necessarily match with the accounting charge reflected for each reported periods.

Consolidated Financial Statements

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

for the financial year ending 31 December 2016

5 February 2017

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 2016 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 2016 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 2016, the consolidated statements of income, changes in owners' equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in owners' equity, its consolidated changes in restricted investment accounts and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Sharia rules and principles as determined by the Sharia Supervisory Board of the Bank.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 19 in the consolidated financial statements, which describes "income from settlement of litigations".

Report on other regulatory requirements

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and Associated Resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

kpmg

KPMG Fakhro
Partner Registration No. 137
5 February 2017

Consolidated statement of financial position

as at 31 December 2016

US$ 000's

	Note	31 December 2016	31 December 2015
ASSETS			
Cash and bank balances	4	156,448	122,165
Placements with financial institutions		213,898	122,348
Financing assets	5	961,490	859,421
Investment securities	6	527,203	573,453
Assets acquired for leasing		246,257	179,870
Investment properties	7	488,436	257,932
Development properties	8	280,972	179,577
Equity-accounted investees	9	79,010	81,274
Intangible assets	19	54,891	–
Property, plant and equipment	10	169,153	25,602
Other assets	11	125,643	248,160
Total assets		**3,303,401**	2,649,802
LIABILITIES			
Investors' funds		44,565	27,728
Placements from financial institutions, other entities and individuals	12	570,515	340,090
Customer current accounts		192,783	154,052
Financing liabilities	13	168,992	153,619
Other liabilities	14	182,649	135,977
Total liabilities		**1,159,504**	811,466
Equity of investment account holders	15	**1,022,190**	944,915
OWNERS' EQUITY			
Share capital	16	597,995	597,995
Treasury shares		(340)	(4,053)
Capital adjustment account		24,320	22,420
Statutory reserve		93,768	72,055
Retained earnings		201,993	6,581
Investment fair value reserve		–	(230)
Share grant reserve	17	902	893
Foreign currency translation reserve		(10,614)	–
Total equity attributable to shareholders of the Bank		**908,024**	695,661
Non-controlling interests		213,683	197,760
Total owners' equity (page 74)		**1,121,707**	893,421
Total liabilities, equity of investment account holders and owners' equity		**3,303,401**	2,649,802

The consolidated financial statements consisting of pages 72 to 139 were approved by the Board of Directors on 5 February 2017 and signed on its behalf by:

Ahmed Al Mutawa
Chairman

Mosabah Saif Al Mautairy
Vice Chairman

Hisham Alrayes
Chief Executive Officer & Board Member

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

Consolidated income statement

for the year ended 31 December 2016

US$ 000's

	Note	2016	2015
Continuing operations			
Income from investment banking services		3,322	23,822
Fees and commission income		15,399	6,491
Income from placements with financial institutions		1,818	1,585
Income from financing assets and assets acquired for leasing		70,148	56,890
Share of profits of equity-accounted investees	9	846	3,025
Income from investment securities, net	18	3,888	12,825
Foreign exchange loss, net		(2,424)	(146)
Gain on sale of investment and development property		46,082	8,370
Other income, net	20	17,728	10,145
Operating income before return to investment account holders and finance expense		**156,807**	123,007
Return to investment account holders before Group's share as Mudarib		(43,200)	(43,598)
Bank's share as Mudarib		24,219	25,334
Return to investment account holders	15	**(18,981)**	(18,264)
Less: Finance expense		(23,437)	(16,758)
Operating income		**114,389**	87,985
Income from settlement of litigations	19	464,567	–
Total income		**578,956**	87,985
Staff cost	21	56,464	30,464
Investment advisory expenses		16,504	6,469
Other operating expenses	22	51,828	25,176
Total expenses		**124,796**	62,109
Profit before impairment allowances		**454,160**	25,876
Less: Impairment allowances	23	(221,112)	(17,016)
Profit from continuing operations		**233,048**	8,860
Discontinued operations			
Profit from industrial business, net		–	3,165
PROFIT FOR THE YEAR		233,048	12,025
Profit/(loss) for the year attributable to:			
Shareholders of the Bank		217,125	(5,520)
Non-controlling interests		15,923	17,545
		233,048	12,025
Earnings per share			
Basic and diluted earnings per share (US cents)		**9.59**	(0.25)
Earnings per share – continuing operations			
Basic and diluted earnings per share (US cents)		**9.59**	(0.30)

Ahmed Al Mutawa
Chairman

Mosabah Saif Al Mautairy
Vice Chairman

Hisham Alrayes
Chief Executive Officer & Board Member

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

Consolidated statement of changes in owners' equity

for the year ended 31 December 2016

2016	**Share capital**	**Treasury share**	**Capital adjustment account**	**Statutory reserve**
Balance at 1 January 2016	597,995	(4,053)	22,420	72,055
Profit/(loss) for the year (page 73)	–	–	–	–
Transfer to income statement on disposal	–	–	–	–
Foreign currency translation differences	–	–	–	–
Total recognised income and expense	**–**	**–**	**–**	**–**
Purchase of treasury shares	–	(6,878)	–	–
Sale of treasury shares	–	10,591	–	–
Gain on sale of treasury shares	–	–	1,900	–
Transfer to statutory reserve	–	–	–	21,713
Share grants vesting expense, net of forfeitures	–	–	–	–
Balance at 31 December 2016	**597,995**	**(340)**	**24,320**	**93,768**

2015	Share capital	Treasury share	Capital adjustment account	Statutory reserve
Balance at 1 January 2015	1,253,626	(912)	(475,582)	70,060
(Loss)/Profit for the year	–	–	–	–
Fair value changes	–	–	–	–
Foreign currency translation differences	–	–	–	–
Total recognised income and expense	–	–	–	–
Conversion of Murabaha to capital	241,361	–	(181,361)	–
Capital reduction	(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	–	–	–	–
Balance at 31 December 2015	597,995	(4,053)	22,420	72,055

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

US$ 000's

Attributable to shareholders of the Bank						
Retained earnings	**Investment fair value reserve**	**Share grant reserve**	**Foreign currency translation reserve**	**Total**	**Non-controlling interests**	**Total owners' equity**
6,581	(230)	893	–	695,661	197,760	893,421
217,125	–	–	–	217,125	15,923	233,048
–	230	–	–	230	–	230
–	–	–	(10,614)	(10,614)	–	(10,614)
217,125	**230**	**–**	**(10,614)**	**206,741**	**15,923**	**222,664**
–	–	–	–	(6,878)	–	(6,878)
–	–	–	–	10,591	–	10,591
–	–	–	–	1,900	–	1,900
(21,713)	–	–	–	–	–	–
–	–	9	–	9	–	9
201,993	**–**	**902**	**(10,614)**	**908,024**	**213,683**	**1,121,707**

US$ 000's

Attributable to shareholders of the Bank						
Retained/earnings (Accumulated losses)	Investment fair value reserve	Share grant reserve	Foreign currency translation reserve	Total	Non-controlling interests	Total owners' equity
(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

Consolidated statement of cash flows

for the year ended 31 December 2016

US$ 000's

	2016	2015
OPERATING ACTIVITIES		
Profit for the year	**233,048**	12,025
Adjustments for:		
Impairment allowances	221,112	17,016
Income from investment securities	(3,888)	(12,825)
Share of profit of equity-accounted investees	(846)	(3,025)
Foreign exchange loss	2,424	146
Gain on sale of investment and development property	(46,082)	-
Income from settlement of litigations	(464,567)	-
Finance expenses	23,437	16,758
Other income	(17,728)	(18,515)
Depreciation and amortisation	3,784	2,995
Investment banking income	-	(23,822)
	(49,306)	(9,247)
Changes in:		
Placements with financial institutions	(5,108)	-
Financing assets	(102,069)	(76,793)
Asset acquired for leasing	(66,387)	(69,281)
Other assets	90,405	29,582
Investor's funds	16,837	(13,384)
Placements from financial institutions, other entities and individual	230,425	632
Customer current accounts	38,731	62,766
Other liabilities	(64,457)	(59,651)
Equity of investment account holders	77,275	49,357
Movement in CBB reserve	(2,613)	(5,290)
Net cash generated from/(used in) operating activities	**163,733**	(91,309)
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(1,118)	(663)
Purchase of investment securities	(93,546)	(208,147)
Proceeds from sale of investment securities	91,531	144,289
Dividends received	9,422	11,942
Proceeds from sale of investment property	7,353	-
Derecognition of a subsidiary on loss of control	-	(11,007)
Net cash generated from/(used in) investing activities	**13,642**	(63,586)

US$ 000's

	2016	2015
FINANCING ACTIVITIES		
Financing liabilities, net	(42,310)	(31,073)
Finance expense paid	(20,666)	(8,335)
Proceeds from issue of convertible Murabaha	–	60,000
Sale of treasury shares, net	3,713	(3,141)
Dividends paid (including non-controlling interests)	–	(1,753)
Net cash (used in)/generated from financing activities	**(59,263)**	15,698
Net increase/(decrease) in cash and cash equivalents during the year	**118,112**	(139,197)
Cash and cash equivalents at 1 January	194,460	333,657
CASH AND CASH EQUIVALENTS at 31 December	**312,572**	**194,460**
Cash and cash equivalents comprise:		
Cash and balances with banks	103,782	72,112
Placements with financial institutions (with original maturity of three months or less)	208,790	122,348
	312,572	194,460

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

Consolidated statement of changes in restricted investment accounts

for the year ended 31 December 2016

31 December 2016	**Balance at 1 January 2016**		
Company	**No of units (000)**	**Average value per share US$**	**Total US$ 000's**
Mena Real Estate Company KSCC	150	0.33	52
Al Basha'er Fund	93	6.95	646
Safana Investment (RIA 1)	8,313	2.65	22,050
Janayen Holding Limited (RIA 4)	48,082	0.48	22,546
Shaden Real Estate Investment WLL (RIA 5)	3,728	2.65	9,888
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633
			57,815

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	1.00	2,633
			59,049

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

Movements during the year						Balance at 31 December 2016		
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**
–	–	–	–	–	–	150	0.33	52
–	(9)	–	–	–	–	93	6.85	637
(5,329)	–	–	–	–	–	6,304	2.65	16,721
(22,546)	–	–	–	–	–	–	–	–
(202)	–	–	–	–	–	3,652	2.65	9,686
–	–	–	–	–	–	2,633	1.00	2,633
(28,077)	**(9)**	**–**	**–**	**–**	**–**			**29,729**

Movements during the period						Balance at 31 December 2015		
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
–	–	–	–	–	–	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	1.00	2,633
(11,597)	(30)	10,**737**	–	–	(344)			57,815

Consolidated statement of sources and uses of zakah and charity fund

for the year ended 31 December 2016

US$ 000's

	2016	2015
Sources of zakah and charity fund		
Non-Islamic income (note 28)	95	166
Total sources	**95**	166
Uses of zakah and charity fund		
Utilisation of zakah and charity fund	(610)	(2,541)
Total uses	**(610)**	(2,541)
Deficit of uses over sources	**(515)**	(2,375)
Undistributed zakah and charity fund at 1 January	2,675	5,050
Undistributed zakah and charity fund at 31 December (note 14)	**2,160**	2,675
Represented by:		
Zakah payable	267	751
Charity fund	1,893	1,924
	2,160	2,675

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

1. REPORTING ENTITY

GFH Financial Group BSC ("the Bank") was incorporated as Gulf Finance House BSC in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 and operates under an Islamic Wholesale Investment Banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's shares are listed on the Bahrain, Kuwait and Dubai Financial Market Stock Exchanges.

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

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

Investee name	Country of incorporation	Parent/Owning Company	Effective ownership interests		Activities
			2016	**2015**	
GFH Capital Limited	United Arab Emirates	GFH Financial Group BSC	100%	100%	Investment management
Khaleeji Commercial Bank BSC ('KHCB')	Kingdom of Bahrain	GFH Financial Group BSC	46.965%	46.965%	Islamic retail bank
Morocco Gateway Investment Company ('MGIC')	Cayman Islands	GFH Financial Group BSC	33.53%	33.53%	Real estate development
Capital Real Estate Co BSC (c) ('CRE')	Kingdom of Bahrain	GFH Financial Group BSC	60.00%	60.00%	Real estate development
Al Areen Hotels SPC *	Kingdom of Bahrain	GFH Financial Group BSC	100%	-	Hospitality management
Al Areen Project companies *	Kingdom of Bahrain	GFH Financial Group BSC	100%	-	Real estate development
British School of Bahrain *	Kingdom of Bahrain	GFH Financial Group BSC	100%	-	Education
Al Areen Leisure and Tourism Company – The Lost Paradise of Dilmun SPC *	Kingdom of Bahrain	GFH Financial Group BSC	100%	-	Amusement and theme park
Surooh Company ('Surooh')	Cayman Islands	KHCB	10.00%	10.00%	To construct and sell properties at "Oryx Hills".
Eqarat Al Khaleej ('Eqarat')	Cayman Islands	KHCB	19.80%	19.80%	To buy, sell and renting income producing properties across the GCC.

** Represents subsidiaries acquired as part of settlement of litigations Refer note 19*

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

During the year, the Bank entered into a Memorandum of Understanding to acquire an Islamic wholesale bank in Bahrain subject to agreeing final acquisition value, due diligence, regulatory and shareholder approvals. As at the reporting date, the transaction is still in progress and a final outcome is expected to be known by first half of 2017.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

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).

i. New standards, amendments and interpretations effective from 1 January 2016

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'. The adoption of this standard expanded the disclosures related to equity of Investment Account Holders. The standard had no significant impact on the consolidated financial statements of the Bank. Refer to note 16 for the additional disclosure.

ii. New standards, amendments and interpretations issued but not yet effective

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

b) Basis of preparation

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

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

c) Basis of consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement. The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated income statement. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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

(ii) Subsidiaries

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

(iii) Non-controlling interests (NCI)

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

(iv) Special purpose entities

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist, when the Bank owns majority of voting rights in an investee.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are usually not included in these consolidated financial statements. Information about the Group's fiduciary assets under management is set out in note 25.

(v) Loss of control

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

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

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

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

c) Basis of consolidation (contd.)

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

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

(vii) Transactions eliminated on consolidation and equity accounting

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

d) Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into US$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US$ at the exchange rates at the date of the transactions. Foreign currency differences are accumulated into foreign currency translation reserve in owners' equity, except to the extent the translation difference is allocated to NCI.

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

e) Offsetting of financing instruments

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

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

f) Investment securities

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

(i) Classification

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

Debt-type instruments

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

At fair value through income statement (FVTIS)

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

At amortised cost

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

Equity-type instruments

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

At fair value through income statement (FVTIS)

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

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

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

At fair value through equity (FVTE)

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

(ii) Recognition and de-recognition

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

f) Investment securities (contd.)

(iii) Measurement

Investment securities are measured initially at fair value plus, except for investment securities carried at FVTIS, transaction costs that are directly attributable to its acquisition or issue.

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

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

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

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

g) Financing assets

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

h) Assets acquired for leasing

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

i) Placements with and from financial and other institutions

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

j) Cash and cash equivalents

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

k) Investment property

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

A property is transferred to investment property when, there is change in use, evidenced by:
(i) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
(ii) commencement of an operating ijara to another party, for a transfer from a development property to investment property.

Further, an investment property is transferred to development property when, there is a change in use, evidenced by:
(i) commencement of own use, for a transfer from investment property to owner-occupied property;
(ii) commencement of development with a view to sale, for a transfer from investment in real estate to development property.

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

l) Development properties

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

m) Property, plant and equipment

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

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

m) Property, plant and equipment (contd.)

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

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

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

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in the consolidated statement of income in the year of derecognition.
The assets' residual values, useful lives and methods of depreciation are reviewed annually and adjusted prospectively if appropriate.

n) Intangible assets

Goodwill

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

Other Intangible assets

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

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

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

o) Impairment of assets

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

Financial assets carried at amortised cost

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

Investments carried at fair value through equity (FVTE)

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

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

Other non-financial assets

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

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

p) Investors funds

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

q) Customers' current accounts

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

r) Financing liabilities

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

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

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

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

s) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment to settle the liability, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (note 34).

t) Dividends and board remuneration

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

u) Share capital and reserves

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

Treasury shares

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

Statutory reserve

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

v) Equity of investment account holders

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

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

Restricted investment accounts

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

w) 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 2016

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

Banking business

Commission income

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

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

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

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

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

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

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

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

Non banking business

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

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

y) Earnings prohibited by Sharia

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

z) Zakah

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

aa) Employees benefits

(i) Short-term benefits

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

(ii) Post employment benefits

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

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

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

(iii) Share-based employee incentive scheme

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

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

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (contd.)

bb) 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.

cc) 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.

dd) 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.

ee) Investment account holder protection scheme

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

The Scheme applies to all eligible accounts held with the retail 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 (SPEs) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPEs, 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 SPEs which do 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 classifies non-current assets (or disposal group) as 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

(i) Fair value of investments

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

(ii) Impairment on investments carried at fair value carried through equity

The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group generally considers a decline in value below cost of 30%, or a decline that persists for more than 9 months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of the investee companies' financial health, industry and sector performance.

Equity-type instruments classified as investments at FVTE but carried at cost less impairment due to the absence of reliable measure of fair value are tested for impairment. A significant portion of the Group's equity-type investments comprise investments in real estate and infrastructure development projects (2016: US$392,004 thousand; 2015: US$ 288,099 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, and operational and financing cash flows. The Group has exposures to investments and projects that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions are adequate and reflect prevailing conditions, long term asset objectives and available information. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

(iii) Impairment of investment property

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

(iv) Impairment of other receivables

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

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

Estimations (contd.)

(v) Impairment of financing assets

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying assets/collaterals.

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

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

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

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

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

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

(vii) Estimating net realisable value of development property

Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the development property.

4 CASH AND BANK BALANCES

US$ 000's

	31 December 2016	31 December 2015
Cash	18,271	17,302
Balance with banks	53,281	40,195
Balance with Central Bank of Bahrain		
Current account	32,230	14,615
Reserve account	52,666	50,053
	156,448	122,165

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 2016	31 December 2015
Murabaha	924,587	749,120
Musharaka	23,249	59,448
Wakala	77,947	84,130
Mudaraba	3,064	3,151
Istisna	19	92
	1,028,866	895,941
Less: Impairment allowances – specific	(55,786)	(27,279)
Less: Impairment allowances – collective	(11,590)	(9,241)
	961,490	859,421

Murabaha financing receivables are net of deferred profits of US$ 82,238 thousand (2015: US$ 89,079 thousand).

The movement on impairment allowances are as follows:

US$ 000's

2016	**Specific**	**Collective**	**Total**
At 1 January	27,278	9,241	36,519
Net charge for the year (note 23)	35,951	2,349	38,300
Adjusted on write-off of assets	(7,443)	–	**(7,443)**
At 31 December	**55,786**	**11,590**	**67,376**

2015	Specific	Collective	Total
At 1 January	27,034	9,223	36,257
Net charge for the year (note 23)	2,719	18	2,737
Adjusted on write-off of assets	(2,474)	–	(2,474)
At 31 December	27,279	9,241	36,520

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

6 INVESTMENT SECURITIES

US$ 000's

	31 December 2016	31 December 2015
Equity type investments		
At fair value through income statement:		
– Quoted securities	377	377
– Unquoted funds	–	2,050
– Unquoted securities	40,180	58,297
	40,557	60,724
At fair value through equity:		
– Managed funds (at fair value)	1,973	1,973
– Listed securities (at fair value)	103	15,242
– Unquoted securities (at cost)	287,180	326,991
	289,256	344,206
Debt type investments		
At amortised cost		
– Sovereign sukuk (quoted)	159,710	154,385
– Corporate sukuk (quoted)	35,099	6,012
– Corporate sukuk (unquoted)	2,581	8,126
	197,390	168,523
	527,203	573,453

6 INVESTMENT SECURITIES (contd.)

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

US$ 000's

	2016	2015
At 1 January	60,724	85,896
Acquisitions during the year	–	10,408
Fair value changes	(2,050)	(1,724)
Disposals during the year, at carrying value	(18,117)	(33,856)
At 31 December	**40,557**	60,724

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

US$ 000's

At 1 January	344,206	314,426
Acquisitions arising from settlement (note 19)	8,800	75,273
Purchase during the year	43,885	–
Fair value changes	–	(228)
Disposals during the year, at carrying value	(46,594)	(36,425)
Impairment charge for the year	(61,041)	(8,840)
At 31 December	**289,256**	344,206

Unquoted equity securities US$ 287,180 thousand (2015: US$ 326,991 thousand) classified at fair value through equity, but measured at cost less impairment in the absence of reliable measure of fair value, are primarily investment in equities of companies carrying out real estate and infrastructure development projects in different countries. The Group plans to exit these investments principally by means of strategic sell outs or sale of underlying assets.

During the year, the Group recognised impairment of US$ 60,817 (2015: US$ 8,840 thousand) on such assets. Impairment allowance has been established based on management's assessment of the current market conditions, the marketability of the investments and the assessment of recoverable amounts.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

7 INVESTMENT PROPERTY

US$ 000's

	2016	2015
At 1 January	257,932	313,635
Acquisitions arising from settlement (note 19)	207,707	–
Additions during the year	53,827	–
Transfer to development property	19,395	(55,927)
Other charges	–	224
Disposals	(38,825)	–
Impairment charge (note 23)	(11,600)	–
At 31 December	**488,436**	257,932

Investment property includes land plots and buildings in Bahrain, UAE and Morocco. Investment property of carrying amount of US$ 160.70 million (2015: US$ 137 million) is pledged against Wakala facilities (note 13). Investment property of carrying amount of US$ 46.84 million is pledged against an Ijarah facility (note 13). Investment property of carrying amount of US$ 31.5 million is pledged against Sukuk liability (note 13).

The fair value of the Group's investment property at 31 December 2016 was US$ 521,187 thousand (31 December 2015: US$ 273, 370 thousand) based on a valuation carried out by an independent third party external valuers who have recent experience in the location and category of the asset being valued.

8 DEVELOPMENT PROPERTIES

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

US$ 000's

	2016	2015
At 1 January	179,577	131,317
Acquisitions arising from settlement (note 19)	125,512	–
Additions during the year	–	67,181
Transfer to investment property	(19,395)	–
Disposals	(4,722)	(18,921)
At 31 December	**280,972**	179,577

9 EQUITY-ACCOUNTED INVESTEES

Equity-accounted investees represents investments in:

Name	Country of incorporation	% holding 2016	% holding 2015	Nature of business
Falcon Cement Company BSC (c)	Kingdom of Bahrain	32%	32%	Manufacturing and trading of cement
United Arab Cement Company J.S.C.	Syrian Arab Republic	38.9%	38.9%	Manufacturing of cement
Libya Investment Company	Cayman Islands	38.9%	38.9%	Holding company
Amlak II SPV	Cayman Islands	23.51%	23.51%	Purchase and sale of real estate in the Kingdom of Bahrain
Bahrain Aluminium Extrusion Company B.S.C. (c) (Balexco)	Kingdom of Bahrain	18%	18%	Extrusion and sale of aluminium products
Global Banking Corporation BSC (c)	Kingdom of Bahrain	20%	–	Islamic wholesale banking
Ensha Development Company	Kingdom of Bahrain	33.33%	–	Holding plot of land in Kingdom of Bahrain.

The movement in equity-accounted investees is given below:

US$ 000's

	2016	2015
At 1 January	81,274	21,173
Acquisitions from settlement (note 19)	27,900	–
Additions during the year	5,454	78,802
Share of profit for the year	846	3,025
Impairment charge for the year (note 23)	(36,464)	–
Derecognition on loss of control	–	(21,726)
At 31 December	**79,010**	81,274

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

	2016	2014
Total assets	344,908	88,641
Total liabilities	111,448	38,661
Total revenues	66,563	29,178
Total net profit	5,981	5,743

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

10 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and infrastructure on leasehold land on leasehold land	Plant and machinery
Cost:			
At 1 January	17,809	–	–
Acquired in a business combination (note 19)	22,242	85,927	535
Additions	–	–	–
Foreign exchange difference	–	–	–
Disposals	–	(1,308)	–
Derecognition on loss of control	–	–	–
At 31 December	**40,051**	**84,619**	**535**
Accumulated depreciation:			
At 1 January	–	–	–
Charge for the year	–	1,454	–
Foreign exchange difference	–	–	–
Derecognition on loss of control	–	–	–
At 31 December	**–**	1,454	**–**
Net book value:			
At 31 December	**40,051**	**83,165**	**535**

US$ 000's

Tools and dies	Computers	Furniture and fixtures	Motor vehicles	Capital WIP	2016 Total	2015 Total
–	19,317	24,456	1,474	1,335	64,391	270,950
–	–	6,342	25,348	5,481	145,875	–
–	487	931	58	2,138	3,614	7,781
–	–	–	–	–	–	(504)
–	–	(379)	–	(467)	(2,154)	(2,270)
–	–	–	–	–	–	(211,566)
–	**19,804**	**31,350**	**26,880**	**8,487**	**211,726**	64,391
–	17,471	20,427	891	–	38,789	104,575
–	1,049	1,214	67	–	3,784	2,994
–	–	–	–	–	–	(1)
–	–	–	–	–	–	(68,779)
–	**18,520**	**21,641**	**958**	**–**	**42,573**	38,789
–	**1,284**	**9,709**	**25,922**	**8,487**	**169,153**	25,602

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

11 OTHER ASSETS

US$ 000's

	31 December 2016	31 December 2015
Investment banking receivables	11,396	41,958
Financing to projects, net *	6,442	79,997
Reimbursement right	–	35,000
Receivable from sale of investment properties		
– Investment securities	–	992
– Investment properties	37,952	–
– Development properties	10,000	10,000
Advances and deposits	19,711	20,198
Employee receivables	19,786	14,008
Income from Sukuk receivable	3,902	3,481
Lease rentals receivable	6,825	3,419
Prepayments and other receivables	9,629	39,107
	125,643	248,160

During the year, the Group recognised US$ 51,500 thousand (31 December 2015: US$ 4,500 thousand) and US$ 20,714 thousand (2015: Nil) impairment allowance on financing to projects and other receivables respectively (note 23).

12 PLACEMENTS FROM FINANCIAL INSTITUTIONS, OTHER ENTITIES AND INDIVIDUALS

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

13 FINANCING LIABILITIES

US$ 000's

	31 December 2016	31 December 2015
Murabaha financing	–	35,851
Wakala financing	66,959	38,043
Sukuk liability	50,059	69,904
Ijarah	16,571	–
Other borrowings	35,403	9,821
	168,992	153,619

Financing liabilities		
Current portion	45,210	48,174
Non-current portion	123,782	105,445
	168,992	153,619

Murabaha financing

Murabaha financing comprised 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 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. During the year, the Murabaha financing was fully repaid.

Wakala financing

Wakala financing (i) (2016)

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

Wakala financing (ii) (2009)

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

Sukuk liability

The Sukuk is backed by a pool of assets of the Group and has a liquidity facility provided by the Bank to support timely payments of distributions. The Sukuk were traded on the London Stock Exchange'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 semi-annual repayment starting from July 2014, with final instalment in July 2018. The Sukuk carry a profit rate of LIBOR plus a margin of 3%, with a minimum profit rate of 5%. The Sukuk Certificates are backed by the Group's investment securities with carrying values of US$ 92.94 million (31 December 2015: 92.94 million) and an investment property with carrying value of US$ 31.5 million (31 December 2015: US$ 31.5 million)

Ijarah facility

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

Other borrowings

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

14 OTHER LIABILITIES

US$ 000's

	31 December 2016	31 December 2015
Employee related accruals	25,179	3,430
Unclaimed dividends	5,844	5,861
Mudaraba profit accrual	7,812	7,509
Provision for employees' leaving indemnities	3,109	1,999
Zakah and Charity fund (page 80)	2,160	2,675
Provision against financial guarantees	–	35,000
Accounts payable	48,177	64,266
Accrued expenses and other payables	90,368	15,237
	182,649	135,977

15 EQUITY OF INVESTMENT ACCOUNT HOLDERS

Equity of investment accounts comprise Mudaraba 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 2016	31 December 2015
Balances with banks	45,389	27,549
CBB reserve account	52,666	50,053
Placements with financial institutions	157,635	116,586
Debt type instruments – sukuk	197,390	168,523
Financing assets	569,110	582,204
	1,022,190	944,915

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

US$ 000's

	2016	2015
Returns from jointly invested assets	43,200	43,598
Banks share as Mudarib	(24,219)	(25,334)
Return to investment account holders	**18,981**	18,264

The average gross rate of return in respect of unrestricted investment accounts was 4.39% for 2016 (2015: 4.74%). Approximately 1.93% (2015: 1.99%) 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 (2015: US$ 7 thousand) and investment risks reserve of US$ 3 thousand (2015: US$ 3 thousand).

16 SHARE CAPITAL

US$ 000's

	31 December 2016	31 December 2015
Authorised:		
5,660,377,358 shares of US$ 0.265 each (2015: 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 (2015: 2,256,583,403 shares of US$ 0.265 each)	**597,995**	597,995

The movement in the share capital during the year is as follows:

US$ 000's

	2016	2015
At 1 January	597,995	1,253,626
Conversion of Murabaha to share capital	–	241,361
Capital reduction	–	(896,992)
At 31 December	**597,995**	597,995

At 31 December 2016, the Bank held 2,211,891 (31 December 2015: 24,503,697) treasury shares.

Additional information on shareholding pattern

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

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

Categories*	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	1,324,537,256	6,988	58.70
1% up to less than 5%	459,380,975	10	20.36
5% to less than 10%	170,674,221	1	7.56
10% to less than 20%	301,990,951	1	13.38
Total	**2,256,583,403**	**7,000**	**100**

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

(iii) As at 31 December 2016, 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	301,990,951	13.38
Mohammed Ahmed Saeed Al-Qassmi	170,674,221	7.56

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

17 SHARE GRANT RESERVE

US$ 000's

	2016	2015
At 1 January	893	1,129
Vesting expense, net of forfeiture (note 21)	9	(236)
At 31 December	**902**	893

18 INCOME FROM INVESTMENT SECURITIES

US$ 000's

	2016	2015
Dividend income	1,728	1,601
Gain on disposal of investment securities	1,417	3,592
Fair value changes of investments carried at fair value through income statement	(7,220)	(2,135)
Income from sukuk	7,963	9,767
	3,888	12,825

19 INCOME FROM SETTLEMENT OF LITIGATIONS

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

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

US$ 000's

	% of interests	Value of assets acquired
Development properties		118,000
Investment properties		207,707
Liabilities associated with acquisition of investment properties		(15,000)
Unquoted equity securities		8,800
Investment in associates (in Bahrain)		
Global Banking Corporation BSC (c)	20%	27,900
Ensha Development Company	33.33%	
Investment in subsidiaries (in Bahrain) * (note 1)		
Al Areen Leisure & Tourism Company, The Lost Paradise of Dilmun SPC (LPOD)	100%	
Al Areen Hotels SPC (Hotels)	100%	117,160
Al Areen Project companies	100%	
British School of Bahrain (BSB)	100%	
Total		**464,567**

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

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

Acquisition of businesses/subsidiaries

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

Consideration

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

Provisional assessment of identifiable assets acquired and liabilities assumed

The fair value of assets and liabilities have been reported on a provisional basis as permitted by IFRS 3 'Business Combinations' for the purpose of recognition of the business combination. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting may be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

19 INCOME FROM SETTLEMENT OF LITIGATIONS (contd.)

	US$ 000's
Cash and cash equivalents	2,284
Property, plant and equipment	145,875
Development properties	5,289
Acquisition related intangibles *	54,891
Other assets	3,876
Total assets	**212,215**
Liabilities	
Deferred revenue	32,151
Bank borrowings	14,642
Trade and other payable	47,328
Employees' end of service benefits	934
Total liabilities	**95,055**
Total net assets acquired (equivalent of fair value of assets received)	**117,160**

** Excess of fair value of consideration over the fair values of net identifiable tangible assets and liabilities have been provisionally allocated to acquisition related intangible assets. The Group is in the process of attributing values to identifiable intangible assets as permitted by IFRS 3. and any excess consideration shall be allocated as goodwill.*

20 OTHER INCOME

Other income for the year primarily comprises recoveries on previously impaired accounts US$ 5.9 million and revenue from operations of non-banking subsidiaries of US$ 11.83 million (2015: Nil).

For the previous year, reversal of liability of US$ 2.6 million, recoveries on previous impairment of US$ 2.02 million and profit from buy back of debt of US$ 330 thousand.

21 STAFF COST

US$ 000's

	2016	2015
Salaries and benefits	53,799	28,049
Social insurance expenses	2,665	2,415
	56,464	30,464

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

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

21 STAFF COST (contd.)

Performance periods	2016		2015	
	No. of Shares	US$ 000's	No. of Shares	US$ 000's
Legacy Option Scheme	**2,290,000**	**902**	2,290,000	893
2013 Award				
Opening balance	–	–	2,352,632	447
Change to deferred cash settled plan	–	–	(2,352,632)	(447)
Closing balance	**–**	**–**	–	–
Share incentive scheme				
2014 Award				
Opening balance	36,953,895	1,567	–	–
Awarded during the period	–	–	36,953,895	1,567
Forfeiture and other adjustments	–	880	–	–
Transfer to employees/settlement	(25,128,650)	(1,657)	–	–
Closing balance	**11,825,245**	**780**	36,953,895	1,567
2015 Award				
Opening balance	–	–	–	–
Awarded during the period	15,315,395	2,020	–	–
Forfeiture and other adjustments	–	–	–	–
Transfer to employees/settlement	–	–	–	–
Closing balance	**15,315,395**	**2,020**	–	–

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

22 OTHER OPERATING EXPENSES

US$ 000's

	2016	2015
Rent	5,415	4,787
Professional and consultancy fee	4,529	4,926
Legal expenses	15,388	1,108
Depreciation	3,784	2,235
Other operating expenses	22,712	12,120
	51,828	25,176

23 IMPAIRMENT ALLOWANCES

US$ 000's

	2016	2015
Financing assets (note 5)	38,300	2,737
Investment securities		
– Equity securities (note 6(b))	61,041	8,840
– Debt type securities	867	191
Equity accounted investees (note 9)	36,464	–
Financing to projects (note 11)	26,500	4,500
Other receivables (note 11)	45,714	–
Investment property (note 7)	11,600	–
Lease rental receivable	626	748
	221,112	17,016

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

24 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 of the Bank) included in these consolidated financial statements are as follows:

US$ 000's

2016	Associates/ Joint venture	Key management personnel	Significant shareholders/ entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Financing assets	–	–	–	13,523	13,523
Equity-accounted investees	79,010	–	–	–	79,010
Investment securities	–	–	6,058	205,623	211,681
Other assets	6,889	6,568	588	25,082	39,127
Liabilities					
Investors' funds	162	–	–	10,689	10,851
Customer current account	26	–	233	5,047	5,306
Financing liabilities	–	–	35,271	–	35,271
Other liabilities	–	4,255	20,000	12,695	36,950
Equity of investment account holders	1,183	397	–	2,432	4,012
Income					
Investment banking income	–	–	–	3,321	3,321
Management fees	–	–	6,000	1,807	7,807
Share of profit of equity- accounted investees	846	–	–	–	846
Income from investment securities, net	(2,050)	–	186	338	(1,526)
Expenses					
Return to investment account holders	31	5	411	21	468
Staff cost*	–	7,905	–	–	7,905
Other operating expenses	–	1,048	11	233	1,292
Impairment allowances	36,464	–	–	60,604	97,068

** The amounts presented excludes bonus to key management personnel for 2016, as allocation has not been finalised at the date of approval of these consolidated financial statements.*

2015	Associates	Key management personnel	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	–	–	22,305	22,597
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	–	898	–	292	1,190
Impairment allowances	4,500	–	–	–	4,500

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

24 RELATED PARTY TRANSACTIONS (contd.)

Key Management Personnel

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

Board of Directors do not hold any interests in the Bank's ordinary shares as at 31 December 2016 (2015: Nil). Senior management holding of shares are disclosed in note 21.

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

The key management personnel compensation is as follows:

US$ 000's

	2016	2015
Board member fees and allowance	1,048	898
Salaries, other short-term benefits and expenses	7,739	9,488
Post-employment benefits	166	1,060

25 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$ 2,166,805 thousand (31 December 2015: US$ 2,137,037 thousand). During the year, the Group had charged management fees amounting to US$ 1,807 thousand (2015: US$ 825 thousand) to its assets under management.

26 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.

US$ 000's

	2016	2015
In thousands of shares		
Weighted average number of ordinary shares	**2,263,094**	2,215,119

In case of the legacy share options granted to employees prior to 2014, as the average market value of shares during the current year was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2016. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above

27 ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Sharia Supervisory Board and notified to shareholders annually. The zakah payable by shareholders for 31 December 2015 is US$ 0.00169/share and the current year calculations for zakah are yet to approved by the Group's Sharia Supervisory Board and will be provided for in the Bank's website

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

28 EARNINGS PROHIBITED BY SHARIA

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds. The Group receives interest from deposits placed with the Central Bank of Bahrain and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amounts to US$ 95 thousand (2015: US$ 166 thousand).

29 SHARIA SUPERVISORY BOARD

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

30 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 35.

US$ 000's

31 December 2016	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	156,380	–	–	–	–	68	156,448
Placements with financial institutions	208,790	5,108	–	–	–	–	213,898
Financing assets	72,167	46,077	108,180	216,188	518,878	–	961,490
Investment securities	–	–	–	291,340	235,863	–	527,203
Asset acquired for leasing	393	19	34	3,592	242,219	–	246,257
Investment property	–	–	–	455,807	32,629	–	488,436
Development properties	–	–	–	202,374	78,598	–	280,972
Equity-accounted-investees	–	–	–	69,387	9,623	–	79,010
Property, plant and equipment	–	–	–	–	–	169,153	169,153
Intangibles and goodwill	–	–	–	54,891	–	–	54,891
Other assets	9,162	11,738	51,763	52,980	–	–	125,643
Total assets	**446,892**	**62,942**	**159,977**	**1,346,559**	**1,117,810**	**169,221**	**3,303,401**
Financial liabilities							
Investors' funds	4,928	–	10,012	29,625	–	–	44,565
Placements from financial institutions, other entities and individuals	168,087	37,125	209,354	151,394	4,555	–	570,515
Customer current account	117,932	28,833	17,103	10,019	18,896	–	192,783
Financing liabilities	1,200	–	44,010	123,782	–	–	168,992
Other liabilities	32,704	2,866	23,878	91,743	31,458	–	182,649
Total liabilities	**324,851**	**68,824**	**304,357**	**406,563**	**54,909**	**-**	**1,159,504**
Equity of investment account holders	389,628	112,446	141,623	76,812	301,681	–	**1,022,190**
Off-balance sheet items							
Commitments	84,138	45,793	68,530	87,528	4,363	–	**290,352**
Restricted investment accounts	–	17,408	–	12,321	–	–	**29,729**

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	55,298	–	248,160
Total assets	573,681	48,431	156,976	1,003,697	841,415	25,602	2,649,802
Financial liabilities							
Investors' funds	27,728	–	–	–	–	–	27,728
Placements from financial institutions, other entities and individuals	120,077	26,241	60,042	129,504	4,226	–	340,090
Customer current account	88,786	29,247	13,462	7,885	14,672	–	154,052
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	292,950	78,965	130,073	290,580	18,898	–	811,466
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	132,915	16,178	2,956	–	261,794
Restricted investment accounts	22,546	–	2,794	32,475	–	–	57,815

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

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

(a) Industry Sector

US$ 000's

31 December 2016	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	–	151,965	1,138	–	3,345	156,448
Placements with financial institutions	–	208,790	12	–	5,096	213,898
Financing assets	–	11,460	248,483	–	701,547	961,490
Investment securities	–	96,464	419,378	–	11,361	527,203
Assets acquired for leasing	–	40,178	196,347	–	9,732	246,257
Investment properties	–	–	488,436	–	–	488,436
Development properties	–	–	280,972	–	–	280,972
Equity-accounted investees	43,496	30,611	4,903	–	–	79,010
Property, plant and equipment	–	–	17,878	–	151,275	169,153
Intangible assets	–	–	–	–	54,891	54,891
Other assets	2,640	3,210	74,403	–	45,390	125,643
Total assets	**46,136**	**542,678**	**1,731,950**	**-**	**982,637**	**3,303,401**
Liabilities						
Investors' funds	162	3,606	11,171	–	29,626	44,565
Placements from financial institutions, other entities and individuals	–	156,728	–	–	413,787	570,515
Customer current accounts	–	552	31,430	–	160,801	192,783
Financing liabilities	–	81,722	38,425	–	48,845	168,992
Other liabilities	–	577	69,491	–	112,581	182,649
Total liabilities	**162**	**243,185**	**150,517**	**-**	**765,640**	**1,159,504**
Equity of Investment account holders	–	54,105	56,886	–	911,199	**1,022,190**
Off-Balance sheet items						
Commitments	–	12,613	118,133	–	159,606	**290,352**
Restricted investment accounts	–	–	29,729	–	–	**29,729**

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	–	63,306	248,160
Total assets	79,484	406,027	1,325,376	2,050	836,865	2,649,802
Liabilities						
Investors' funds	162	15	23,636	–	3,915	27,728
Placements from financial institutions, other entities and individuals	–	126,163	1,809	–	212,118	340,090
Customer current accounts	–	13,916	37,334	–	102,802	154,052
Financing liabilities	–	143,800	9,819	–	–	153,619
Other liabilities	–	1,096	84,821	–	50,060	135,977
Total liabilities	162	284,990	157,419	–	368,895	811,466
Equity of Investment account holders	–	4,161	69,207	–	871,547	944,915
Off-Balance sheet items						
Commitments	–	1,612	102,550	–	157,632	261,794
Restricted investment accounts	–	–	57,815	–	–	57,815

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

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

(b) Geographic Region

US$ 000's

31 December 2016	GCC countries	MENA	Asia	UK	Europe (excluding UK)	Others	Total
Assets							
Cash and bank balances	132,117	55	19	240	7,615	16,402	156,448
Placements with financial institutions	213,886	12	–	–	–	–	213,898
Financing assets	893,198	–	–	17,894	50,398	–	961,490
Investment securities	393,820	30,130	101,403	–	–	1,850	527,203
Assets acquired for leasing	178,916	–	57,612	–	–	9,729	246,257
Investment properties	411,436	77,000	–	–	–	–	488,436
Development properties	100,297	180,675	–	–	–	–	280,972
Equity-accounted investees	79,010	–	–	–	–	–	79,010
Property, plant and equipment	167,216	1,937	–	–	–	–	169,153
Intangible asset	54,891	–	–	–	–	–	54,891
Other assets	106,635	–	4,277	–	31	14,700	125,643
Total assets	**2,73,1422**	**289,809**	**163,311**	**18,134**	**58,044**	**42,681**	**3,303,401**
Liabilities							
Investors' funds	34,076	476	–	–	–	10,013	44,565
Placements from financial institutions, other entities and individuals	484,314	86,201	–	–	–	–	570,515
Customer current accounts	188,037	–	–	–	4,489	257	192,783
Financing liabilities	147,163	21,829	–	–	–	–	168,992
Other liabilities	159,140	16,602	–	–	6,907	–	182,649
Total liabilities	**1,012,730**	**125,108**	**-**	**-**	**11,396**	**10,270**	**1,159,504**
Equity of investment account holders	1,013,883	–	6,997	–	1,310	–	**1,022,190**
Off-Balance sheet items							
Commitments	290,215	–	–	–	137	–	**290,352**
Restricted investment accounts	29,729	–	–	–	–	–	**29,729**

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

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	21,405	248,160
Total assets	2,210,905	135,748	141,123	39,776	69,141	53,109	2,649,802
Liabilities							
Investors' funds	27,211	517	–	–	–	–	27,728
Placements from financial institutions, other entities and individuals	254,290	85,800	–	–	–	–	340,090
Customer current accounts	153,127	–	–	–	925	–	154,052
Financing liabilities	107,970	9,819	–	35,830	–	–	153,619
Other liabilities	89,464	15,785	–	–	–	30,728	135,977
Total liabilities	632,062	111,921	–	35,830	925	30,728	811,466
Equity of investment account holders	912,441	–	31,159	–	1,294	21	944,915
Off-Balance sheet items							
Commitments	261,141	–	–	–	653	–	261,794
Restricted investment accounts	57,657	–	–	–	–	–	57,657

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

32 OPERATING SEGMENTS

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

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

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

- **Investment Banking:** The Banking segment of the Group is focused on private equity and asset management domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The asset management unit is responsible for identifying and managing investments in yielding real estate in the target markets of the GCC. The investment banking activities focuses on providing structuring capabilities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions.

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

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

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

The Group has primary operations in Bahrain and the Group does not have any significant independent overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 35 (b) to the consolidated financial statements.

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

US$ 000's

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

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

31 December 2015	Real estate development	Investment banking	Commercial banking	Unallocated/ Elimination	Total
Segment revenue	5,646	26,146	57,826	1,532	91,150
Segment expenses (including impairment allowances)	11,840	21,169	35,762	10,354	79,125
Segment result	(6,194)	4,977	22,064	(8,822)	12,025
Segment assets	674,757	232,890	1,728,379	13,776	2,649,802
Segment liabilities	227,823	104,968	453,943	24,732	811,466
Other segment information					
Finance expense	7,838	2,705	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	47,000	–	214,794	–	261,794

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

33 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 2016 and 31 December 2015, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models. Other investments are carried at cost in the absence of a reliable measure of fair value.

Other than certain investments carried at cost of US$ 287,180 thousand (31 December 2015:US$ 326,991 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 2016.

Investments amounting to US$ 287,180 thousand (31 December 2015: US$ 326,991 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 2016, the fair value of financing liabilities was estimated at US$ 159,545 thousand (carrying value US$ 168,992 thousand) (31 December 2015: fair value US$ 133,400 thousand (carrying value US$ 153,619 thousand). These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of financing liabilities as these are largely floating rate instruments which were re-priced recently as part of the debt restructuring process.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

33 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 2016				
Investment securities carried at fair value through:				
– income statement	377	–	40,180	40,557
– equity	103	–	1,973	2,076
	480	**–**	**42,153**	**42,633**
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

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs: US$ 000's

	2016	2015
At 1 January	62,320	64,455
Purchases	–	–
Total gains or losses in income statement	(2,050)	(2,135)
Disposals during the year	(18,117)	–
At 31 December	**42,153**	**62,320**

34 COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group are as follows: US$ 000's

	31 December 2016	31 December 2015
Undrawn commitments to extend finance	174,527	161,788
Financial guarantees	85,129	68,006
Capital commitments for infrastructure development	20,000	32,000
Commitment to investment	10,696	–

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2016 due to the performance of any of its projects.

Litigations, claims and contingencies

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

35 FINANCIAL RISK MANAGEMENT

Overview

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

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risk

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

Risk management framework

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

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

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

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

35 FINANCIAL RISK MANAGEMENT (continued)

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

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

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 2016

35 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
2016					
At 1 January 2016	70,150	90,088	153,630	75,311	389,179
Impairment charge for the year	–	51,500	–	20,714	72,214
At 31 December 2016	**70,150**	**141,588**	**153,630**	**96,025**	**461,393**
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

Receivables with renegotiated terms

During the year, the Group has renegotiated certain financing receivables and financing to projects due to changes in the financial position of the borrower. The financing receivables were renegotiated for terms and condition similar to original terms. Financing to projects represents working capital and other funding extended to projects managed and promoted by the Group. The financing is expected to be recovered from the operating cash flows of the underlying project assets.

Financing to projects of US$ 6.44 million (31 December 2015: US$ 56.8 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.

31 December 2016	**Financing assets**	**Assets acquired for leasing (including lease rentals receivable)**	**Total**
Against impaired			
Property	20,780	7,387	28,167
Equities	8,546	–	8,546
Other			
Against past due but not impaired			
Property	73,263	47,506	120,769
Equities	5,597	–	5,597
Other			
Against neither past due nor impaired			
Property	268,103	205,316	473,419
Equities	1,056	–	1,056
Other	85,525	–	85,525
Total	**462,870**	**260,209**	**723,079**

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

The average collateral coverage ratio on secured facilities is 114.47% at 31 December 2016 (31 December 2015: 107.80%).

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

35 FINANCIAL RISK MANAGEMENT (contd.)

a) Credit risk (contd.)

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

US$ 000's

31 December 2016	**Financing assets**	**Assets acquired for leasing (including lease rentals receivable)**	**Total**
Concentration by Sector			
Banking and finance	32,780	–	32,780
Real estate:			
– Property	35,085	243,806	278,891
– Infrastructure Development	43,009	–	43,009
– Land	93,064	–	93,064
Construction	77,260	–	77,260
Trading	272,239	–	272,239
Manufacturing	104,480	–	104,480
Others	303,574	2,451	306,025
Total carrying amount	**961,491**	**246,257**	**1,207,748**

31 December 2015	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Concentration by Sector			
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

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 2016	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Financial liabilities							
Investors' funds	4,928	–	10,012	29,625	–	**44,565**	44,565
Placements from financial institutions, other entities and institutions	250,473	64,802	183,638	82,696	4,661	**586,270**	570,515
Customer current accounts	117,932	28,833	17,103	10,019	18,897	**192,784**	192,783
Financing liabilities	3,788	7,903	33,396	99,612	33,909	**178,608**	168,992
Other liabilities	30,491	2,288	4,045	137,049	6,463	**180,336**	180,336
Total liabilities	407,612	103,826	248,194	359,001	63,930	**1,182,563**	1,157,191
Equity of investment account holders	397,932	114,564	144,291	78,259	307,365	**1,042,411**	**1,022,190**
Commitment and contingencies	84,138	45,793	68,530	87,527	4,363	**290,352**	**290,352**

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 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	27,728	–	–	–	–	27,728	27,728
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	86,759	29,247	13,462	7,886	14,873	152,227	154,052
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	811,466
Equity of investment account holders	402,922	94,246	128,574	72,394	321,794	1,019,930	994,915
Commitments and contingencies	50,756	58,989	132,915	16,178	2,956	261,794	261,794

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

35 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

	2016	2015
30 days	4.54	2.14
60 days	2.94	4.87
90 days	2.81	1.91

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

US$ 000's

	2016	2015
Net stable funding ratio	0.89	1.02

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	
	2016	2015
At 31 December	17.19%	17.07%
Average for the year	12.32%	17.88%
Maximum for the year	17.19%	20.36%
Minimum for the year	9.44%	16.30%

(c) Market Risks

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

Management of market risks

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

Exposure to profit rate risk

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

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

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 2016						
Assets						
Placements with financial institutions	206,064	5,096	2,738	–	–	213,898
Financing assets	72,167	46,077	108,180	216,188	518,878	961,490
Investment securities (Sukuk)	–	–	3,976	3,897	189,517	197,390
Assets acquired for leasing (including lease rental receivable)	393	19	34	3,591	242,220	246,257
Total assets	**278,624**	**51,192**	**114,928**	**223,676**	**950,615**	**1,619,035**
Liabilities						
Investors' funds	1,336	–	10,012	29,625	–	40,973
Placements from financial and other institutions	160,511	40,963	183,699	182,941	2,401	570,515
Customer current account	5,119	–	–	–	–	5,119
Financing liabilities	1,200	–	44,011	123,781	–	168,992
Total liabilities	**168,166**	**40,963**	**237,722**	**336,347**	**2,401**	**785,599**
Equity of investment account holders	522,113	233,623	224,493	41,961	–	**1,022,190**
Profit rate sensitivity gap	**(411,655)**	**(223,394)**	**(347,28)**	**(154,632)**	**948,214**	**(188,754)**
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)

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

35 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)	**2016**	2015
At 31 December	±1,888	±1,495
Average for the year	±2,160	±3,145
Maximum for the year	±2,773	±4,173
Minimum for the year	±953	±1,495

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

	2016	2015
Placements with financial institutions	3.99%	1.22%
Financing assets	9.02%	5.72%
Debt type investments	4.91%	4.55%
Placements from financial institutions, other entities and individuals	6.78%	3.61%
Financing liabilities	7.17%	6.95%
Equity of investment account holders	2.10%	1.93%

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:

	2016 **US$ '000 Equivalent**	2015 US$ '000 Equivalent
Sterling Pounds	20,680	37,370
Euro	9,710	13,644
Australian dollars	12,223	12,222
Kuwaiti dinar	19,822	22,634
Jordanian Dinar	3	2,131
India rupee	19	100
Other GCC Currencies (*)	27,918	115,537

(*) 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:

	2016 US$ '000 Equivalent	2015 US$'000 Equivalent
Sterling Pounds	±1,034	±1,869
Euros	±485	±682
Australian dollar	±611	±611
Kuwaiti dinar	±991	±1,131
Jordanian Dinar	±0.15	±106
Indian rupee	±0.95	±5

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 (2015: US$ 99 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.

36 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. Capital adequacy regulations of CBB is based on the principles of Basel III and the IFSB guidelines.

Notes to the consolidated financial statements (contd.)

for the year ended 31 December 2016

36 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$ 340 thousand (2015: 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's regulatory capital position at 31 December was as follows:

US$ 000's

	2016	2015
Total risk weighted exposures	**4,298,923**	3,398,337
Tier 1 capital:		
– CET 1 capital prior to regulatory adjustments	1,073,224	830,600
– Less: regulatory adjustments	(340)	(4,053)
CET 1 after regulatory adjustments	**1,072,884**	826,547
AT1	3,681	2,472
Tier 2 capital	11,590	14,405
Total regulatory capital	**1,088,155**	843,424
Total regulatory capital expressed as a percentage of total risk weighted assets	**25.31%**	24.68%

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.

37 SUBSEQUENT EVENTS

Subsequent to the year end, the Board of Directors approved a plan to acquire financial institutions and real estate infrastructure investments through issuance of new shares of the Bank up to 3.4 billion subject to regulatory and shareholders approvals. If the plan materialize, this will have a significant impact on Group's consolidated financial statements going forward.

38 APPROPRIATIONS

The Board of Directors proposes the following appropriations subject to shareholders approval in annual general meeting.

- Remuneration of US$ 2.5 million to the Board of Directors;
- Dividend of 20% of the paid-up share capital amounting to US$ 120 million in the form of cash (10%) and bonus shares (10%);
- Appropriation of US$ 2 million towards charity for the year; and
- Appropriation of US$ 1.5 million towards zakah for the year.

39 COMPARATIVES

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

Risk and Capital Management

Risk and Capital Management

1 EXECUTIVE SUMMARY

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 Sharia Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles. 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 at 31 December 2016, the Group's total capital ratio stood at a healthy 25.31%.

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 at 31 December 2016 amounted to US$ 4,298,923 thousand. Credit risk accounted for 94 percent, operational risk 4 percent, and market risk 2 percent of the total risk weighted assets respectively. Tier I and total regulatory capital were US$ 1,072,884 thousand and US$ 1,088,154 thousand respectively, as at 31 December 2016.

At 31 December 2016, Group's CET1 and T1 capital and total capital adequacy ratios were 24.96% and 25.31%, respectively.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31 December 2016, presented in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). To avoid any duplication, information required under PD module but already disclosed in other sections of Annual Report has not been reproduced. These disclosures should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2016.

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

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

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

2.2 Pillar 2

Pillar 2 deals with the Supervisory Review and Evaluation Process (SREP). It also addresses the Internal Capital Adequacy Assessment Process (ICAAP) to be followed by Banks to assess the overall capital requirements to cover all relevant risks (including those covered under Pillar 1). Under the CBB's Pillar II guidelines, each bank is to be individually assessed by the CBB and an individual minimum capital adequacy ratio is to be determined for each bank.

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

2.3 Pillar 3

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

The current regulations require partial disclosure consisting mainly of quantitative analysis during half year reporting and 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.

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

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

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

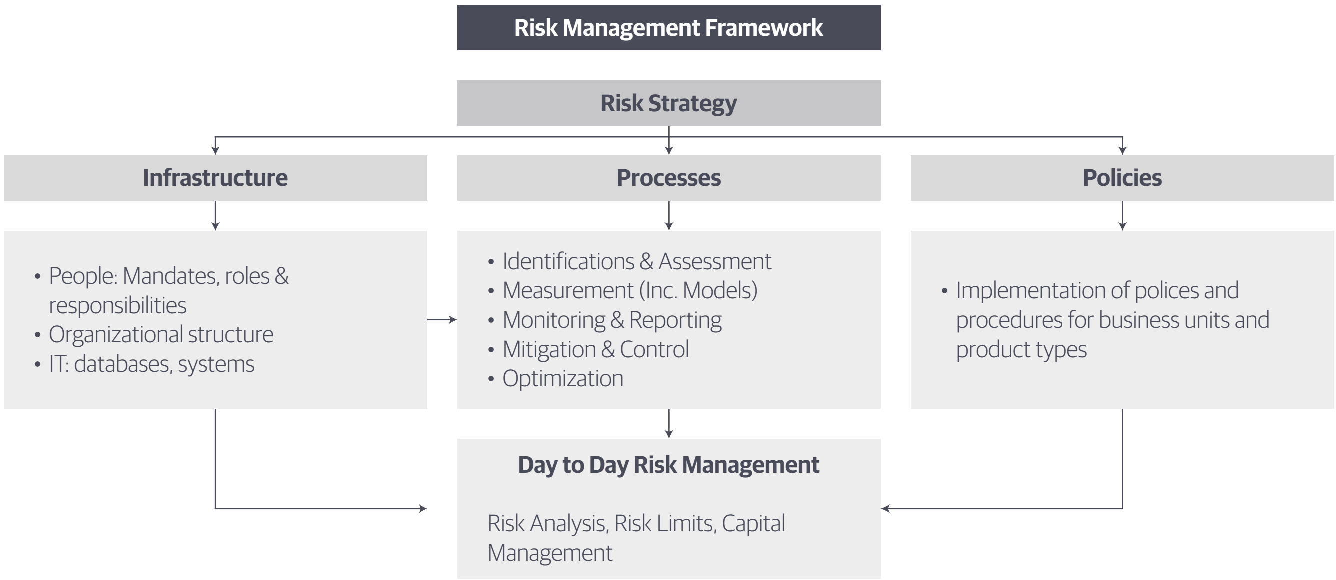
Risk and Capital Management (contd.)

3 OVERALL RISK AND CAPITAL MANAGEMENT (contd.)

3.2 Risk Management Framework

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

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



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

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

3.3 Risk governance structure

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

Risk Governance Structure of GFH

Level 1	Board Sharia Board	Internal Audit	Sharia Audit
Level 2	Board Committees • Board Nomination, Remuneration, and Governance Committee • Board Investment Committee • Board Audit & Risk Committee		
Level 3	Senior Management Committees • Management Committee (MANCOM)		
Level 4	Risk Management Department • 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 the risk management guidelines issued by the CBB, Basel II, IFSB and international best practices.
- Acting as the principal coordinator in Basel II implementation as required by the CBB and facilitating the performance of key Basel II activities.
- Identifying and recommending risk analysis tools and techniques as required under Basel II, guidelines issued by the CBB and IFSB.
- Reviewing the adequacy of the risk limits and providing feed back to the relevant approving authorities.
- Preparing quarterly Risk Packs for review by the Board Audit & Risk Committee.
- Preparing MIS Reports for review by the Board Audit & Risk Committee, where necessary.
- Developing systems and resources to review the key risk exposures of the Bank and communicating the planned/ executed corrective actions to the Board Risk Committee.

3.4 Capital management

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

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

Risk and Capital Management (contd.)

3 OVERALL RISK AND CAPITAL MANAGEMENT (contd.)

3.4 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.

As at 31 December 2016, the Group's consolidated CAR stood at 25.31%.

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.

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 2016, the Bank has made regulatory adjustments of US$ 340 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.

3.5 Risk Types

The Bank is exposed to various types of risk.

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

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

3.6 Monitoring and reporting

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

Risk and Capital Management (contd.)

4 GROUP STRUCTURE

The consolidated financial statements for the year comprise of the financial statements of the Bank and its subsidiaries (together referred to as "the Group") as at 31 December 2016. 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.

The principal subsidiaries and associates as at 31 December 2016 and their treatment for capital adequacy purposes are as follows:

Subsidiaries	Entity classification as per PCD Module for consolidated capital adequacy	Treatment by the Bank	
		Consolidated	**Solo basis**
Khaleeji Commercial Bank BSC (KHCB)	Banking subsidiary	Full consolidation	Full deduction from capital
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
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 27 May 2012	
Delmon Lost Paradise Project Company 1 SPC Delmon Lost Paradise Project Company 2 SPC	Commercial entity	Risk weighting (look through approach) approved by the CBB on 27 May 2012	
Al Areen Hotels SPC	Commercial entity	Risk weighting of investment exposure	
Al Areen Leisure and Tourism Company – The Lost Paradise of Dilmun SPC	Commercial entity	Risk weighting of investment exposure	
British School of Bahrain	Commercial entity	Risk weighting of investment exposure	

Associates	Entity classification as per PCD Module for consolidated capital adequacy	Treatment by the Bank for consolidated and solo basis
Injazat Technology Fund BSC (c)	Financial 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
Cemena Libya Investment Company	Commercial entity	Risk weighting of investment exposure
Global Banking Corporation BSC (GB Corp) [i]	Financial entity	Regulatory adjustment (deduction from capital)
Enshaa Development Real Estate BSC	Commercial entity	Risk weighting of investment exposure

[i] The Bank's investment in GB Corp does not exceed the threshold for deduction from capital, and hence, the entire investment exposure is risk weighted as per the regulatory adjustment.

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.

KHCB, a banking subsidiary of the Bank, is a locally incorporated commercial bank and the specific quantitative and qualitative disclosures pertaining to all the risks of KHCB have been disclosed in the Risk Management Disclosures of KHCB as at 31 December 2016, which can be accessed through the following link Annual report 2016. This document provides the risk and capital management disclosures of the parent bank. The KHCB specific disclosures and requirements are disclosed in the annual report of KHCB and are not reproduced in this document.

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

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

Risk and Capital
Management (contd.)

4 GROUP STRUCTURE (contd.)

Composition of Capital disclosure
Step 1 and 2: Statement of financial position under the regulatory scope of consolidation and reconciliation of published financial statements to regulatory reporting as at 31 December 2016.

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

	Balance sheet as in published financial statements As at 31 December 2016	Consolidated PIRI data As at 31 December 2016	Reference
ASSETS			
Cash and bank balance	156,448	151,968	
Placement with financial institutions	213,898	213,886	
Financing assets	961,490	961,490	
Of which collective impairment provisions	(11,590)	(11,590)	a
Investment securities	527,203	737,533	
Of which equity investments in financial entities	46,201	46,201	b
Assets acquired for leasing	246,257	246,257	
Investment properties	488,436	483,960	
Development properties	280,972	212,751	
Equity-accounted investees	79,010	79,010	
Of which equity investments in financial entities	23,000	23,000	c
Intangible assets	54,891	–	
Property, plant and equipment	169,153	23,480	
Other assets	125,643	124,725	
Total assets	**3,303,401**	**3,235,060**	
LIABILITIES			
Investors' fund	44,565	44,565	
Placements from financial institutions, other entities and individuals	570,515	570,515	
Customer current accounts	192,783	194,064	
Financing liabilities	168,992	133,590	
Other liabilities	182,649	155,173	
Total liabilities	**1,159,504**	**1,097,907**	
Equity of investment account holders	**1,022,190**	**1,022,190**	

	Balance sheet as in published financial statements As at 31 December 2016	Consolidated PIRI data As at 31 December 2016	Reference
OWNERS' EQUITY			
Share capital	597,995	597,995	d
Treasury shares	(340)	(340)	e
Capital adjustment account	24,320	24,320	f
Statutory reserve	93,768	93,768	g
Retained earnings	201,993	199,981	h
Share grant reserve	902	902	i
Foreign currency translation reserve	(10,614)	–	
Total equity attributable to shareholders of the Bank	**908,024**	**916,626**	
Non-controlling interests	213,683	156,258	
Total owners' equity	**1,121,707**	**1,072,884**	
Total liabilities, equity of investment account holders and owners' equity	**3,303,401**	**3,192,981**	

The table below shows the total assets and shareholders' equity of the Bank's subsidiaries as at 31 December 2016 which are unconsolidated for capital adequacy calculation purposes. For principal activities of these subsidiaries refer Note 2 c (iii) of the consolidated financial statements as at 31 December 2016.

Entity name	Total Assets*	Total Shareholders' equity*
Morocco Gateway Investment Company	135,322	96,988
Capital Real Estate Company BSC (c)	15,419	14,947
Al Areen Hotels SPC	106,109	76,365
Al Areen Leisure and Tourism Company – The Lost Paradise of Dilmun SPC	46,433	45,808
British School of Bahrain	11,122	928

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

Risk and Capital Management (contd.)

4 GROUP STRUCTURE (contd.)

Step 3: Composition of Capital Common Template (transition).

	Component of regulatory capital reported by bank	Amounts subject to pre-2015 treatment	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1)			
Directly issued qualifying common share capital plus related stock surplus	597,995	-	d
Retained earnings	199,981	-	h
Accumulated other comprehensive income and losses (and other reserves)	118,990	-	f+g+i
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	156,258	-	
Common Equity Tier 1 capital before regulatory adjustments	**1,073,224**		
Common Tier 1 capital: regulatory adjustments			
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	340	-	e
Total regulatory adjustments to Common equity Tier 1	**340**	-	
Common equity Tier 1 capital (CET 1)	**1,072,884**	-	
Additional Tier 1 capital (AT1)	**-**	-	
Tier 1 capital (T1 = CET1 + AT1)	**1,072,884**		
Tier 2 capital: instruments and provisions			
Instruments issued by banking subsidiaries to third parties	3,681		
Provisions	11,590	-	a
Tier 2 capital before regulatory adjustments	**15,271**		
Tier 2 capital: regulatory adjustments			
Total regulatory adjustments to Tier 2 capital	**-**	**-**	
Tier 2 capital (T2)	**15,272**		
Total capital (TC = T1+T2)	**1,088,156**	**-**	
Total risk weighted assets	**4,298,923**		
Capital ratios and buffers			
Common Equity Tier 1 (as a percentage of risk weighted assets	24.96%		
Tier 1 (as a percentage of risk weighted assets)	24.96%		
Total capital (as a percentage of risk weighted assets)	25.31%		

	Component of regulatory capital reported by bank	Amounts subject to pre-2015 treatment	Source based on reference numbers /letters of the balance sheet under the regulatory scope of consolidation
National minima including CCB (if different from Basel III)			
CBB Common Equity Tier 1 minimum ratio	9.00%		
CBB Tier 1 minimum ratio	10.50%		
CBB total capital minimum ratio	12.50%		
Amounts below the thresholds for deduction (before risk weighting)			
Non-significant investments in the capital of other financial entities	46,201		b
Significant investment in common stock of financial entities	23,000		
Applicable caps on the inclusion of provisions in Tier 2			
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	11,590		

Risk and Capital Management (contd.)

4 GROUP STRUCTURE (contd.)

Disclosure template for main feature of regulatory capital instruments

Issuer	GFH Financial Group BSC (c)
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GFH (BLOOMBERG ID)
Governing law(s) of the instrument Regulatory treatment	All applicable laws and regulations in the Kingdom of Bahrain
Transitional CBB rules	NA
Post-transitional CBB rules	NA
Eligible at solo/group/group & solo	Yes
Instrument type (types to be specified by each jurisdiction)	Common shares
Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	US$ 598 million
Par value of instrument	US$ 0.265
Accounting classification	Shareholders' equity
Original date of issuance	1999
Perpetual or dated	NA
Original maturity date	NA
Issuer call subject to prior supervisory approval	NA
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable Coupons/dividends	NA
Dividends	Dividends as decided by the shareholders
Coupon rate and any related index	NA
Existence of a dividend stopper	NA
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	NA
Non-cumulative or cumulative	NA
Convertible or non-convertible	NA
If convertible, conversion trigger (s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down feature	NA
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-up mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
Non-compliant transitioned features	NA
If yes, specify non-compliant features	NA

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 standardised approach to credit and market risk and basic indicator approach for operational risk management under the revised framework.

The Bank's regulatory capital position at 31 December 2016 was as follows:

US$ 000's

Total Capital	31st December 2016
Common Equity Tier 1 (CET 1)	
Issue and fully paid ordinary shares	597,995
Statutory reserve	93,768
Retained earnings	6,581
Current interim cumulative net profit	193,400
Other reserves	25,222
Total CET1 capital before minority interest	**916,966**
Total minority interest in banking subsidiaries given recognition in CET1 capital	156,258
Total CET1 capital prior to the regulatory adjustments	**1,073,224**
Less: Investment in own shares	(340)
Total CET1 capital after to the regulatory adjustments	**1,072,884**
Other capital - Additional Tier 1 (AT1) & Tier 2 (T2) capital	
Instruments issued by banking subsidiaries to third parties	
- AT1	–
- T2	3,681
General financing loss provisions	
- T2	11,590
Total Available AT1 & T2 capital	**15,271**
Total Capital	**1,088,155**

Risk and Capital Management (contd.)

5 CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIO (contd.)

5.1 Capital Adequacy (contd.)

US$ 000's

Risk Weighted Exposures	31st December 2016
Credit Risk	4,060,074
Market risk	64,488
Operational risk	174,365
Total Capital Base	**4,298,927**
Investment risk reserve (30% only)	2
Profit equalization reserve (30% only)	2
Total adjusted risk weighted exposures	**4,298,923**

CET1 ratio*	24.96%
T1 ratio*	24.96%
Total Capital Adequacy ratio (Total Capital) *	**25.31%**

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

Capital adequacy ratio (CET1 and T1)	17.66%
Capital Adequacy ratio (Total capital)	**18.36%**

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.

**The ratio reported are different from the consolidated financial statements due to financial submissions made by subsidiaries and adjustments to initial PIR information after date of approval of the financial statements.*

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 authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits for credit facilities are as per the Board approved Delegated Authority Limits (DAL). The RMD assesses all investment and credit proposals prior to investments/facilities being committed. RMD lists down its concerns and comments on all applications prior to circulation for sign off. Renewals and reviews of investments/facilities are subject to the same review process. Investment updates are periodically reviewed by the Board of Directors. Regular audits of business units and credit processes are undertaken by Internal Audit.

Please refer Note 35 to the consolidated financial statements for additional details on the processes for measuring and managing credit risk.

6.3 Capital requirements for credit risk

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

Rating of exposures and risk weighting

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

As per CBB guidelines, 100% of the RWAs 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.

Risk and Capital Management (contd.)

6 CREDIT RISK (contd.)

6.3 Capital requirements for credit risk (contd.)

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

US$ 000's

Exposure Class	Gross Credit Exposures	Credit Risk Mitigant	Credit Risk Exposure After Credit Risk Mitigant	Average Risk weights	Total Credit risk Weighted Exposure
Self-financed assets					
Cash items	18,279	-	18,279	0%	-
Total claims on sovereign	33,061	-	33,061	0%	-
Standard Risk Weights for Claims on Banks	428	-	428	22%	93
Preferential Risk Weight for Claims on Banks	1,791	-	1,791	20%	359
Claims on Corporates	804,765	272,724	532,041	100%	532,041
Past Due Facilities	100,301	7,387	92,914	150%	138,935
Investments in Equity Securities and Equity Sukuk	335,477	-	335,477	174%	583,562
Holding of Real Estate	987,169	-	987,169	262%	2,585,071
Others Assets	10,975	-	10,975	100%	10,975
Total self financed assets (A)	**2,292,246**	**280,111**	**2,012,135**	**191%**	**3,851,038**
Total regulatory capital required (A x 12%)				**12%**	**462,124**
Financed by EIAH					
Cash item	-	-	-	0%	-
Total claims on sovereign	207,032	-	207,032	0%	-
Total Claims on PSEs	-	-	-	0%	-
Standard Risk Weights for Claims on Banks	160,593	-	160,593	53%	84,930
Preferential Risk Weight for Claims on Locally Incorporated Banks	99,727	--	99,727	20%	19,945
Claims on Corporates	607,135	15,219	591,916	100%	591,916
Total financed by EIAH (B)	**1,074,486**	**15,219**	**1,059,268**	**66%**	**696,791**
Considered for credit risk (C) = (B x 30%)				**30%**	**209,037**
Total regulatory capital required (C x 12%)				**12%**	**25,084**
Total Risk Weighted Assets					**4,060,074**
Total Regulatory Capital Required					**487,208**

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	Self Finance	EIAH	Total Gross Credit Exposure	Average Gross Credit Exposure*
Bank balances	109,589	46,899	156,448	109,200
Placements with financial and other institutions	5,108	208,790	213,898	147,425
Financing Assets	389,798	571,692	961,490	948,291
Assets acquired for leasing	246,257	-	246,257	231,399
Equity-accounted investees	79,010	-	79,010	81,108
Investment securities	332,394	194,809	527,203	548,082
Investment properties	488,436	-	488,436	337,450
Development properties	280,972	-	280,972	155,976
Property, Plant and Equipment	169,153	-	169,153	59,347
Intangible assets	54,891	-	54,891	13,723
Other assets	125,643	-	125,643	190,250
Total funded exposure	**2,281,251**	**1,022,190**	**3,303,401**	**2,822,251**
Undrawn commitments to extend finance	174,527	-	174,527	188,048
Financial guarantees	85,129	-	85,129	76,272
Capital commitments for infrastructure development	20,000	-	20,000	21,500
Commitment to investment	10,696	-	10,696	2,674
Total unfunded exposure	**290,352**	**-**	**290,352**	**288,494**

** Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the year ended 31 December 2016. 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.*

Risk and Capital Management (contd.)

6 CREDIT RISK (contd.)

6.4 Quantitative information on credit risk (contd.)

6.4.2 Credit Exposure by Geography

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

US$ 000's

	GCC Countries	Other MENA	Other Asia	UK	Europe (excluding UK)	Others	Total
Assets							
Bank balances	132,117	55	19	240	7,615	16,402	156,448
Placements with financial institutions	213,886	12	–	–	–	–	213,898
Financing Assets	893,198	–	–	17,894	50,398	–	961,490
Equity-accounted investees	79,010	–	–	–	–	–	79,010
Investment securities	393,820	30,130	101,403	–	–	1,850	527,203
Assets acquired for leasing	178,916	–	57,612	–	–	9,729	246,257
Investment properties	411,436	77,000	–	–	–	–	488,436
Development properties	100,297	180,675	–	–	–	–	280,972
Property, plant and equipment	167,216	1,937	–	–	–	–	169,153
Intangible assets	54,891	–	–	–	–	–	54,891
Other assets	106,635	–	4,277	–	31	14,700	125,643
	2,731,422	**289,809**	**163,311**	**18,134**	**58,044**	**42,681**	**3,303,401**
Equity of investment account holders	1,013,883	–	6,997	–	1,310	–	1,022,190
Off-Balance sheet items							
Commitments	290,215	–	–	–	137	–	290,352
Restricted investment accounts	29,729	–	–	–	–	–	29,729

6.4.3 Credit Exposure by Industry

The classification of credit exposure by industry was as follows:

US$ 000's

	Trading and Manufacturing	Banks and Financial Institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	–	151,965	1,138	–	3,345	156,448
Placements with financial institutions	–	208,790	12	–	5,096	213,898
Financing Assets	–	11,460	248,483	–	701,547	961,490
Equity-accounted investees	43,496	30,611	4,903	–	–	79,010
Investment securities	–	96,464	419,378	–	11,361	527,203
Assets acquired for leasing	–	40,178	196,347	–	9,732	246,257
Investment properties	–	–	488,436	–	–	488,436
Development properties	–	–	280,972	–	–	280,972
Property, plant and equipment	–	–	17,878	–	151,275	169,153
Intangible assets	–	–	–	–	54,891	54,891
Other assets	2,640	3,210	74,403	–	45,390	125,643
	46,136	**542,678**	**1,731,950**	**-**	**982,637**	**3,303,401**
Equity of Investment account holders	–	54,105	56,886	–	911,199	1,022,190
Off-Balance sheet items						
Commitments	–	12,613	118,133	–	159,606	290,352
Restricted investment accounts	–	–	29,729	–	–	29,729

Risk and Capital Management (contd.)

6 CREDIT RISK (contd.)

6.4 Quantitative information on credit risk (contd.)

6.4.4 Credit Exposure by Maturity

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

US$ 000's

	Up to 3 Months	3 to 6 Months	6 Months-1 Year	1 to 3 Years	Over 3 Years	No Stated Maturity	Total
Assets							
Cash and bank balances	156,380	–	–	–	–	68	156,448
Placement with financial institutions	208,790	5,108	–	–	–	–	213,898
Financing Assets	72,167	46,077	108,180	216,188	518,878	–	961,490
Equity-accounted investees	–	–	–	69,387	9,623	–	79,010
Investment in securities	–	–	–	291,340	235,863	–	527,203
Asset acquired for leasing	393	19	34	3,592	242,219	–	246,257
Investment property	–	–	–	455,807	32,629	–	488,436
Development property	–	–	–	202,374	78,598	–	280,972
Property, plant and equipment	–	–	–	–	–	169,153	169,153
Intangible assets	–	–	–	54,891	–	–	54,891
Other assets	9,162	11,738	51,763	52,980	–	–	125,643
Total assets	**446,892**	**62,942**	**159,977**	**1,346,559**	**1,117,810**	**169,221**	**3,303,401**
Equity of investment account holders	389,628	112,446	141,623	76,812	301,681	–	1,022,190
Off balance sheet items							
Commitments	84,138	45,793	68,530	87,528	4,363	–	**290,352**
Restricted investment accounts	–	17,408	–	12,321	–	–	**29,729**

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 Large exposures

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

There were no single exposures in excess of 15% of capital base as at 31 December 2016. The combined exposures in excess of 25% of total capital base of closely connected counterparties have been risk weighted at 800%.

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 at 31 December 2016 mainly relate to the real estate and development infrastructure sectors.

6.7 Credit risk mitigation

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

6.8 Related party and intra-group transactions

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties in the normal course of its business. For the purpose of identification of related parties the Bank strictly follows the guidelines issued by Central Bank of Bahrain and definitions as per FAS issued by AAOIFI. Detailed break up of exposure to related parties has been presented in Note 24 to the consolidated financial statements.

6.9 Exposure to highly leveraged and other high risk counterparties

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

6.10 Restructured facilities

As at 31 December 2016, other assets which are neither past due nor impaired include certain short-term financing to projects which were renegotiated during the year (refer note 35 to the consolidated financial statements). In certain cases, on a need basis, the Bank supports its project vehicles by providing short-term liquidity facilities. These facilities are provided based on assessment of cash flow requirements of the projects and the projects ability to repay the financing amounts based on its operating cash flows. The assessment is independently reviewed by the management of the Bank. Although no specific collateral is provided, such exposures are usually adequately covered by the value of the underlying project assets. The terms of the renegotiation primarily include extension of the repayment period. The facilities are provided for as viewed necessary based on periodic impairment assessments.

Risk and Capital Management (contd.)

6 CREDIT RISK (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	335,477
Quoted in an active market	103
Managed funds	-
Unquoted funds	-
Dividend income	1,727
Realised gain/ (loss) during the year	4,638

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

US$ 000's

	Gross Exposure	**Risk Weight**	**Risk Weighted Exposure**	**Capital Charge**
Listed equity investment	-	100%	-	-
Unlisted equity investment	304,273	150%	456,409	54,769
Significant investment in the common shares of financial entities >10%	22,269	250%	55,673	6,681
Other exposures with excess of large exposures limits	8,935	800%	71,480	8,578
Premises occupied by the bank*	17,878	100%	17,878	2,145
All other holdings of real estate*	654,934	200%	1,309,867	157,184
Investment in listed real estate companies	103	300%	309	37
Investment in unlisted real estate companies*	314,254	400%	1,255,317	150,638
Total	**1,322,646**		**3,166,933**	**380,032**

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

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 Management Committee ('MANCOM') supports the Board in managing FX risk by recommending policies, setting limits and guidelines and monitoring the FX risk of the Bank on a regular basis. The MANCOM provides guidance for day to day management of FX risk and also approves hedging programs. The management of the day-to-day FX position of the Bank is the responsibility of the Treasury/Liquidity Management Department. The department shall ensure adequate FX liquidity to meet the maturing obligations and growth in assets while ensuring that all limits and guidelines set by the Board and MANCOM are complied with; and shall implement hedging and other approved strategies for managing the risk. The Risk Management Department on an ongoing basis reviews the limits set and ensure that the concerned department(s) is complying with all limits set as per this policy. The Group is exposed to foreign currency translation risk from its subsidiaries, which is currently not significant (refer to Note 35(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 35 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 2016	Maximum During the Year	Minimum During the Year
Foreign exchange risk - [A]	5,159	7,640	5,519
Risk weighted assets – [B] = (A*12.5)	64,488	95,500	68,988
Capital requirement – (B*12.5%)	8,061	11,938	8,624

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/Chairman/Audit Committee/RMC

CEO
Executive Committee

Reports directly to Audit & Risk 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

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

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; and
- The Head of Internal Audit is ultimately accountable for the 3rd Line of Defense for the Bank.

The Bank's definition of operational risk incorporates legal and Sharia 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 34 to the consolidated financial statements.

8.4 Sharia compliance

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

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	92,995	174,365	21,796

Risk and Capital Management (contd.)

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.

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 30 of the consolidated financial statements.

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

Liquidity Ratios	31st December 2016	Maximum	Minimum
Liquid assets : Total assets	17.19%	17.19%	9.44%
Liquid assets : Total deposits	45.20%	53.73%	21.95%
Short-term assets : Short-term liabilities	95.96%	95.96%	58.45%
Illiquid assets : Total assets	79.72%	79.72%	72.46%

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 MANCOM is responsible for the overall management of the profit rate risk. MANCOM 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.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in yield curves. For details of the Bank's profit rate gap position as at 31 December 2016 and analysis of the Bank's sensitivity to an increase or decrease in market profit rates, refer Note 35 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	± 3,776
Average for the Year	± 4,320
Maximum for the Year	± 5,546
Minimum for the Year	± 1,906

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. The industry sector and geographical concentration of credit exposures has been disclosed in Notes 31(a) and 31 (b) of the consolidated financial statements respectively.

9.5 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. In addition to the identified credit risk exposures the Bank's counterparty credit risk from markets as such is limited to the fair value of contracts of foreign exchange risk management instruments the overall exposure to which is usually not significant. For other credit market transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks for counterparty, sector and geography. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank. As at 31 December 2016, 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.

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.

Risk and Capital Management (contd.)

9 OTHER TYPES OF RISK (contd.)

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

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

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

Currently, the Bank comingles the EIAH funds with its funds for investments only into interbank placements and hence is not subject to any significant profit re-pricing or maturity mismatch risks. The Bank has an element of displaced commercial risk on EIAH which is mitigated by setting up and maintaining an appropriate level of Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) to smoothen return to EIAH holders. Profit Equalisation Reserve (PER) is created by allocations from gross income of the 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 the Bank.

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

US$ 000's

	2016	2015	2014	2013	2012
Allocated income to IAH	12	16	16.20	22.30	23
Distributed profit	11	15	12	19.70	20
Mudarib fees *	–	–	–	0.50	2
Average rate of return earned	0.88%	0.89%	0.22%	0.25%	0.57%
As at 31 December 2016					
IAH[1]	1,280	1,656	1,657	2,172	4,025
Profit Equalisation Reserve (PER)	8	8	7	7	6
Investment Risk Reserve (IRR)	5	5	5	4	4
Profit Equalisation Reserve–to–IAH (%)	–	–	–	–	–
Investment Risk Reserve–to–IAH (%)	–	–	–	–	–

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

Risk and Capital Management (contd.)

10 PRODUCT DISCLOSURES (contd.)

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, Sharia, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors. The Bank has guidelines for the development, management and risk mitigation of its' RIA investments and for establishment of sound management and internal control systems to ensure that the interests of the investment account holders are protected at all times. Wherever it is necessary for the Bank establishes Special Purpose Vehicles (SPVs) for management of the investment. The Bank has a Board approved SPV Governance framework in place to equip the Board in ensuring that the management of such SPVs are conducted in a professional and transparent manner.

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

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Sharia principles and the CBB regulations;
- Appropriately highlighting to the Investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the Investor before accepting the investment funds;
- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the Investors with the same level of rigor as the Bank requires for its' own investments;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;
- Preparing and disseminating periodical investment updates to Investors on a regular basis during the tenor of the investment;
- Distributing the capital and profits to the Investor in accordance with the terms of the offering document; and
- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the above mentioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Sharia, Financial Control, Legal, Investment Administration and the Risk Management Departments with Internal Audit oversight.

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

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

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

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