



GFH FINANCIAL GROUP B.S.C.

(Incorporated in the Kingdom of Bahrain)
Commercial Registration Number 44136

IN RELATION TO GFH FINANCIAL GROUP B.S.C.'S ("GFH") VOLUNTARY CONDITIONAL REVISED OFFER TO ACQUIRE UP TO 100% OF THE ISSUED AND PAID UP ORDINARY SHARES OF KHALEEJI COMMERCIAL BANK B.S.C. ("KHCB"), REPRESENTING UP TO 187,589,034 ORDINARY SHARES OF KHCB, (CONSTITUTING VOTING RIGHTS), NOT CURRENTLY OWNED BY GFH, REPRESENTING UP TO 21.03% STAKE OF KHCB'S ISSUED AND PAID-UP SHARE CAPITAL, BY WAY OF A REVISED SHARES EXCHANGE RATIO OF 0.384 GFH SHARES AND BHD 0.024 PER KHCB SHARE AT THE DISCRETION OF EACH SHAREHOLDER OF KHCB.

The Offeror does not intend to further revise the offer.

Important: If you are in doubt about any aspect of this Revised Offer, you should consult a licensed securities dealer or licensed institution in securities, a bank manager, solicitor or attorney, professional accountant or any other professional advisor.

Disclaimer statement

The Central Bank of Bahrain, Bahrain Bourse and the Ministry of Industry, Commerce and Tourism, in the Kingdom of Bahrain, assume no responsibility for the accuracy and completeness of the statements and information contained in this Revised Offer Document and expressly disclaim any liability whatsoever for any loss howsoever arising from the reliance upon the whole or any part of the contents to this Revised Offer Document.

This Revised Offer Document is dated 24th November 2021.

Receiving Agent	Issue Execution Advisor and Allotment Agent	Central Securities Depository and Issue Registrar
KFin Technologies (Bahrain) W.L.L.	Bahrain Clear B.S.C.(c)	Bahrain Clear B.S.C.(c)



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REVISED OFFER DOCUMENT DATED 24 NOVEMBER 2021

DIRECTORS' DECLARATION







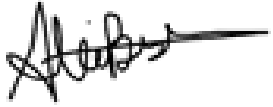

The Directors of GFH Financial Group B.S.C. issuing this Revised Offer Document, whose names appear below, jointly and severally accept full responsibility for the accuracy of information contained in this Revised Offer Document. To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this Revised Offer Document is in accordance with the facts and contains no omissions likely to affect the importance and completeness of this Revised Offer Document.

Statement from the Board of Directors of GFH Financial Group B.S.C.

This Revised Offer Document has been prepared by GFH Financial Group B.S.C. ("GFH") in accordance with Appendix TMA-C of Part B of the Central Bank of Bahrain Rulebook, Volume 6, Takeovers, Mergers and Acquisitions Module to provide information to the shareholders of Khaleeji Commercial Bank B.S.C. ("KHCB") in connection with the Revised Offer made by GFH to acquire up to 100% of the issued and paid up ordinary shares of KHCB, represented by up to 187,589,034 ordinary shares of KHCB, (constituting voting rights), currently not owned by GFH, representing up to 21.03% stake in KHCB, bringing the GFH's total stake in KHCB to a maximum of 100%, represented by 803,646,321 shares (constituting voting rights) of KHCB.

The Revised Offer Document has been filed with the Central Bank of Bahrain. The Board of Directors of GFH hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Revised Offer Document is, to the best of their knowledge, in accordance with the facts and contains no material omissions.



BOARD OF DIRECTORS	TITLE	SIGNATURE
Mr. Jassim Alseddiqi	Chairman, Non-Executive Director	
Mr, Ghazi Al Hajeri	Vice Chairman, Independent Director	
Mr. Hisham Alrayes	Member and Group CEO, Executive Director	
Mr. Rashid Al Kaabi	Member, Non-Executive Director	
Mr. Ahmed Al Ahmadi	Member, Independent Director	
Mr. Ali Murad	Member, Independent Director	
Mr. Fawaz Al Tamimi	Member, Independent Director	
Ms. Alia Al Falasi	Member, Independent Director	
Mr. Edris Al-Rafi	Member, Independent Director	



IMPORTANT INFORMATION

This Revised Offer Document has been prepared in connection with a voluntary conditional offer (the **Offer** or **Revised Offer**) made by GFH Financial Group B.S.C. (the **Offeror** or **GFH**) to acquire up to 100% of the issued and paid up ordinary shares of Khaleeji Commercial Bank B.S.C. (the **Offeree** or **KHCB**), represented by up to 187,589,034 ordinary shares of KHCB, (constituting voting rights), currently not owned by GFH, representing up to 21.03% stake in KHCB, bringing the GFH's total stake in KHCB to a maximum of 100%, represented by 803,646,321 shares of KHCB (constituting voting rights). This Offer becomes unconditional in all respects only if the conditions precedent set out in section 3.6 of this Revised Offer Document are fulfilled or waived, where applicable, by GFH.

If at the time you receive this Revised Offer Document, you have sold all your shares in KHCB, you should immediately hand this Revised Offer Document to the person to whom the shares have been sold, or to the person authorised by KHCB or Bahrain Bourse or other agent through whom the sale was made to effect the sale or transfer in favour of the person to whom the shares have been sold.

This Revised Offer Document has been prepared to comply with the provisions of the Central Bank of Bahrain (the **CBB**) Rulebook, Volume 6, Takeovers, Mergers and Acquisitions Module (the **TMA**).

This Revised Offer Document has been filed with the CBB and it does not constitute a guarantee by the CBB that the facts stated in this Revised Offer Document are accurate or complete.

This Revised Offer to KHCB Shareholders resident in countries other than the Kingdom of Bahrain may be affected by the laws of their respective country of residence and shall not be deemed to be an Offer in any jurisdiction where the Offer would violate the laws of such jurisdiction. All the KHCB Shareholders wishing to accept the Revised Offer must satisfy themselves as to the due observance of the laws in the jurisdictions relevant to them, including the receipt of any necessary governmental consent or the payment of any taxes due.

The information in this Revised Offer Document regarding the Offeror has been provided by the Offeror. The Receiving Agent make no representation or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this Revised Offer Document is, or shall be relied upon as, a promise or representation by the Receiving Agent.

The information in this Revised Offer Document pertaining to KHCB has been prepared in good faith based on publicly available information and in cooperation with the management of KHCB. Consequently, the Offeror and the Receiving Agent do not accept any liability for the accuracy or completeness of the information in this Revised Offer Document regarding KHCB.

All enquiries relating to this Revised Offer Document should be directed to the Offeror. No person has been authorised to provide any information or make any representation on behalf of the Offeror other than as indicated in this Revised Offer Document.

The information contained in this Revised Offer Document is, to the best of the knowledge and belief of GFH directors who have taken all reasonable care to ensure that such is the case, correct as of the date of this Revised Offer Document. Any new material information will be published and announced promptly as a supplement to this Revised Offer Document in accordance with the provisions of the TMA.

Important: If you are in any doubt about the contents of this Revised Offer Document and the aspects of the Offer, you should consult a licensed securities dealer or licensed institution in securities, a bank manager, solicitor or attorney, professional accountant or any other professional advisor. The fact that this





Revised Offer has been filed with the CBB, does not mean that the CBB takes responsibility for the performance of the Offeror or the Offeree, nor the correctness of any statements or representations made by the Offeror.

Copies of this Revised Offer Document and of the Acceptance and Transfer Form can be obtained from the offices of the Receiving Agent, Bahrain Bourse, and the Participating Branches in the Kingdom of Bahrain.

Please refer to section 4 for further details.

FORWARD LOOKING STATEMENTS

This Revised Offer Document contains words or phrases such as will, aim, expect, anticipate, forecast, estimate, intend, future, objective, project, should, and similar expressions or variations of such expressions which are Forward-Looking Statements. Such Forward Looking Statements are based on assumptions and should not be constructed as being indicative of the actual events which will occur or a guarantee of future performance.



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1. GLOSSARY

Words and expressions not otherwise defined in this Offer Document have, unless the context otherwise requires, the following meanings:

Acceptance	means the acceptance of this Revised Offer by a KHCB Shareholder by signing the Acceptance and Transfer Form and submitting the same to the Receiving Agent within the Offer Period as per the procedures prescribed in this Revised Offer Document;
Acceptance and Transfer Form	means the form to be prepared and distributed by KHCB and/or the Receiving Agent to KHCB Shareholders to participate in the Offer;
Bahrain	means Kingdom of Bahrain;
Bahrain Clear	means Bahrain Clear B.S.C.(c);
BHD	means Bahraini Dinar, the legal currency of the Kingdom of Bahrain;
BHB	means the Bahrain Bourse;
Board of Directors	means the Board of Directors of GFH Financial Group B.S.C.;
Business Day	means a day on which banks, financial institutions and the BHB are open for general business in the Kingdom of Bahrain;
Cash Consideration	means BHD 0.024 per KHCB Share at the discretion of each KHCB Shareholder provided that the Revised Offer becomes unconditional after the fulfilment of the Conditions Precedent;
CBB	means the Central Bank of Bahrain;
Certified Copy	means a copy of a document certified as a true copy of the original from any of the following from a GCC or FATF member state: (a) a lawyer; (b) a notary; (c) a chartered/certified accountant; (d) an official of a government ministry; (e) an official of an embassy or consulate; or (f) an official of the Offeror, Offeree, or another licensed financial institution;
CMSD	means the Capital Markets Supervision Directorate of the CBB;
CSD	means the Central Securities Depository at Bahrain Clear;
Conditions Precedent	means the conditions set out in section 3.6 of this Revised Offer Document;
Demat	means dematerialised;
OGM	means ordinary general meeting;
FATF	means the Financial Action Task Force;



Final Closing Date	means the Initial Offer Closing Date or date falling on the 15th calendar day from the date of announcement on the Revised Offer having been declared unconditional in all respects, whichever is later;
Firm Intention	means the notice of firm intention to make an Offer issued by GFH to the board of directors of KHCB on 14 October 2021;
GCC	means the Gulf Co-operation Council comprising the Kingdom of Bahrain, the State of Kuwait, the Sultanate of Oman, the State of Qatar, the Kingdom of Saudi Arabia and the United Arab Emirates;
GFH	means GFH Financial Group B.S.C., commercial registration number 44136 licensed and regulated by the CBB as an Islamic (wholesale) bank and listed on the BHB, Boursa Kuwait, and Dubai Financial Market;
GFH Share(s)	means each ordinary share of GFH to be allocated from the treasury shares of GFH of up to 72,034,189 ordinary shares in GFH, such shares (approximation subject to rounding as described in section 4.3.2 c), to be allotted to those KHCB Shareholders who have opted for the Share Exchange Offer provided at the discretion of each KHCB Shareholder in exchange for their KHCB Shares, provided that the Revised Offer becomes unconditional after the fulfilment of the Conditions Precedent;
IBAN	means International Bank Account Number;
Initial Last Practicable Date	means the last date prior to the dispatch of this Initial Offer Document to the board of directors of KHCB, being 3 November 2021;
Initial Offer Closing Date	means fifteen (15) calendar days from the Offer Opening Date, being the last date, subject to extension and subject to the Final Closing Date, for receiving the completed Acceptance and Transfer Form;
Investor Number (IN)	means a unique number issued by Bahrain Clear for any investor who opens a securities depository account at Bahrain Clear;
KHCB	means Khaleeji Commercial Bank B.S.C., commercial registration number 55133 licensed and regulated by CBB as an Islamic (retail) bank and listed on the BHB;
KHCB Shareholder	means a holder of KHCB Shares as of the date which is two (2) Business Days following the Last Trading Date and one (1) Business Day after the Suspension of Trading Date for KHCB Shares for the purposes of the Offer;
KHCB Shares	means KHCB's issued and paid up ordinary shares constituting voting rights totaling 803,646,321 shares;
Last Practicable Date	means the last date prior to the dispatch of this Revised Offer Document to the board of directors of KHCB for the purposes of ascertaining certain information contained herein, being 23 November 2021;
Last Trading Date	means the date two (2) Business Days prior to the Offer Opening Date;
Minor	means a person who is below 21 years of age;

MOICT	means the Ministry of Industry, Commerce and Tourism of the Kingdom of Bahrain;
Offer or Revised Offer	<p>means the Offer by GFH, to acquire up to 100% of the issued and paid up ordinary shares of KHCB, representing up to 187,589,034 ordinary shares of KHCB (constituting voting rights), not currently owned by GFH, representing up to 21.03% stake of KHCB's issued and paid-up share capital, by way of a shares exchange ratio of 0.384 GFH Shares and cash consideration of BHD 0.024 per KHCB share at the discretion of each shareholder of KHCB and subject to satisfaction or waiver by GFH of the Conditions Precedent, where applicable.</p> <p>The Offeror does not intend to further revise the offer.</p>
Offer Document or Initial Offer Document	means the offer document, submitted to KHCB's Board on 4 th November 2021
Revised Offer Document	Means this offer document, prepared in connection with the Offer;
Offer Opening Date	means the date, to be publicly announced, from which the completed Acceptance and Transfer Forms will be received by the Receiving Agent;
Offer Period	means the period beginning on the Offer Opening Date and ending on the Final Closing Date;
Announcement of the Results of the Offer Date	means one (1) Business Day after the Final Closing Date, being the date by which the results of the Offer will be communicated to the KHCB Shareholders;
Offeree	means Khaleeji Commercial Bank B.S.C.;
Offeree Board Circular	means the circular to be sent by the board of directors of KHCB to the KHCB Shareholders in accordance with TMA containing the information required to be provided to the KHCB Shareholders in accordance with the TMA.;
Offeror	means GFH Financial Group B.S.C.;
Participating Branches	the branches of each of GFH and KHCB listed in section 4.1.12 of the Revised Offer Document that will be receiving Acceptance and Transfer Forms during the Offer Period;
Receiving Agent	means KFin Technologies (Bahrain) W.L.L. the entity appointed by the Offeree which is authorised to receive Acceptance and Transfer Forms in accordance with the Revised Offer Document and through the Participating Branches;
Securities Account	means an account with a brokerage firm authorised by Bahrain Bourse;

Settlement Date	means the date falling within a period of 7 calendar days from the Final Closing Date of the offer on which the GFH Shares are transferred to the KHCB Shareholders, and subject to the Offer becoming unconditional in all respects
Share Exchange Ratio	means the exchange ratio of 0.384 GFH Shares per KHCB Share for the Share Exchange Offer at the discretion of each KHCB Shareholder provided that the Offer becomes unconditional after the fulfilment of the Conditions Precedent;
Suspension of Trading Date for KHCB Shares	means the date one (1) Business Day prior to the Offer Opening Date upon which KHCB Shares will be suspended from trading on the Bahrain Bourse;
TMA	means the Takeovers, Mergers and Acquisitions Module of the CBB Rulebook, Volume 6;
Unconditional as to Acceptances Date	means the date on which the Offer is declared unconditional as to Acceptances;
Unconditional in all Respects Date	means the date on which all the conditions to the Offer have been satisfied or waived (where applicable) and is declared unconditional in all respects;

2. RESOLUTIONS AND APPROVALS

2.1 Board of Directors

This Revised Offer is made pursuant to the resolutions adopted by the Board of Directors dated 2nd May, 14th September, and 24th November 2021. The Board of Directors resolved to:

- 2.1.1 Approve the acquisition of 100% of KHCB shares through the treasury shares and issue new shares for GFH Financial group.
- 2.1.2 Convene an ordinary general assembly meeting of the shareholders of GFH to approve the repurchase of its share (as treasury shares) to be offered to KHCB in exchange for KHCB shares.
- 2.1.3 Voluntary acquisition of 100% of the shares of KHCB (the remaining stake of 21%), pursuant to an acquisition offer by using treasury shares of up to 171,416,377 ordinary shares, which represent 4.5% of the Group's shares.
- 2.1.4 Repurchasing of the Group's shares (treasury shares), up to 10% of the total issued shares for strategic expansion in financial and investment institutions, as well as the employees' incentive plan, subject to the approval of regulatory authorities.
- 2.1.5 Amending KHCB offer from share swap ratio of 0.914 GFH share per KHCB share to be a mix of 0.384 GFH share per KHCB and cash of BHD 0.024 (USD 0.064) per KHCB share.

2.2 Ordinary General Assembly of Offeror

The Offeror convened an OGM of its shareholders in connection with the repurchase of its shares (as treasury shares) on 14 October 2021. The repurchase of GFH's shares (treasury shares), up to a maximum of 10% of the total issued shares of GFH was approved by 40.37% of the shareholders, for the purpose of acquisition of the shares of KHCB pursuant to an acquisition offer, using treasury shares not exceeding 171,416,377 ordinary shares equivalent to 4.5% of the Group's shares, and for the purpose of strategic expansion in financial and investment institutions, and employee incentive programs. The shareholders also authorized the Board of Directors or whomever it authorizes, to take all the necessary actions to implement the above, including but not limited to representing GFH in the final negotiations of the acquisition process and taking all necessary measures with any related parties, regulatory authorities, markets and signing all the final papers, contracts and any other documents. The agenda for the OGM has been published on 15 September 2021 and the results were published on 14 October 2021 in accordance with the laws and regulations of Bahrain and are available on the websites of the Bahrain Bourse and GFH at <https://www.bahrainbourse.com> and <https://www.gfh.com>

2.3 CBB - Capital Market Supervision Directorate

Copies of the Board of Director's resolutions, the Initial Offer Document, and this Revised Offer Document have been filed with the CMSD of the CBB. The Offeror has obtained a no objection letters from the CMSD dated 3rd November 2021 and 24th November 2021 stating it has no objection to the uses of the Initial Offer Document and the Revised Offer Document, subsequently, for the purpose of the Offer.

The Offeror has obtained a no objection letter from the CMSD dated 14th October 2021, on the purchase of up to 10% of its treasury shares.



3. THE OFFER

The Board of Directors refers to the Pre-conditional Voluntary Offer dated 15th September 2021, whereby certain pre-conditions to the Offer were specified, and the Firm Intention dated 14 October 2021, issued pursuant to the satisfaction of the pre-conditions, whereby the board of directors of KHCB were notified of GFH's Firm Intention to make an Offer to the KHCB Shareholders to acquire their shares in KHCB. The details of the Offer are set out below. This also refers to the Initial Offer Document sent to KHCB's Board on 4th November 2021.

3.1 The Offeree and Securities for which the Offer is made

- 3.1.1 KHCB is registered with the MOICT under commercial registration number 55133 as a public Bahraini shareholding company whose ordinary shares are listed on the BHB and regulated as an Islamic (retail) bank by the CBB.
- 3.1.2 The Offer is to acquire up to 100% of the issued and paid up ordinary shares of KHCB, representing up to 187,589,034 ordinary shares of KHCB (constituting voting rights), not currently owned by GFH, representing up to 21.03% stake of KHCB's issued and paid-up share capital, by way of a shares exchange and cash consideration at the discretion of each shareholder of KHCB and subject to satisfaction or waiver by GFH of the Conditions Precedent, where applicable.

3.2 The Offeror

GFH is registered in the Kingdom of Bahrain with the MOICT under commercial registration number 44136 as a public Bahraini shareholding company whose ordinary shares are listed on the BHB, Boursa Kuwait, and Dubai Financial Market, and regulated as an Islamic (wholesale) bank by the CBB.

3.3 Consideration for the Offer

- 3.3.1 The consideration for the Offer at the discretion of each KHCB Shareholder is the allotment of GFH Shares at a Share Exchange Ratio of 0.384 GFH Shares and BHD 0.024 per KHCB Share provided that the Offer becomes unconditional in all respects after the fulfilment, or waiver by GFH where applicable, of the Conditions Precedent.
- 3.3.3 KHCB Shareholders are notified that GFH is an Islamic (wholesale) bank and as such, the GFH Shares offered are a Shari'a compliant investment.
- 3.3.4 The Offer price was determined by GFH based on the highest price (of BHD 0.072 per share) paid by the offeror or any person acting in concert with it for voting rights of the offeree company during the offer period and within 6 months prior to its commencement in accordance with TMA-3.3.7. The price is based on the latest acquisition of GFH on the shares held by Shuaa Capital and Goldilocks Investment Company in KHCB, on 6th June 2021, and the valuation assessment conducted therein.

3.4 Shareholders eligible for the Offer

KHCB Shareholders whose names appear in the KHCB Share register two (2) Business Days after the Last Trading Date, i.e. one (1) Business Day after the Suspension of Trading Date for KHCB Shares, will be eligible to receive the Offer.



3.5 Suspension of trading

Trading in KHCB Shares will be suspended from the Suspension of Trading Date for KHCB Shares. Subject to the exercise of any rights of compulsory acquisition availed by GFH and/or the delisting (please refer to section 13.2, trading in KHCB Shares will resume on the date one (1) Business Day after the Settlement Date.

3.6 Conditions Precedent to the Revised Offer

In light of the Revised Offer the condition precedent of “the availability of treasury shares required for the settlement” as disclosed in the Firm Intention announcement dated 14th October 2021 and the Initial Offer Document dated 4th November 2021, has been satisfied.

The Offeror does not intend to further revise the offer.

The implementation of the Revised Offer will be subject to the fulfilment, or waiver by GFH where applicable, of the following conditions precedent. For avoidance of doubt, the offer shall not become unconditional in all respects unless the below 3 conditions precedent are fulfilled, or waived by GFH:

- 3.6.1 Acceptances are received in respect of at least 168,830,131 KHCB Shares representing 18.93% of the entire issued share capital of KHCB, which would result in total ownership by GFH of at least 87.98% of the total issued share capital of KHCB, represented by 784,887,418 shares of KHCB;
- 3.6.2 Receipt of all regulatory and statutory approvals in connection with the Offer;
- 3.6.3 KHCB does not undertake any of the following from the date of the Firm Intention until the expiration of the Offer Period:
- (a) issue any shares and /or distribute cash dividends;
 - (b) create, issue or grant, or permit the creation, issue or grant of, any convertible securities, options or warrants in respect of shares of the KHCB;
 - (c) other than in the normal course of business, sell, dispose of or acquire assets without a written consent of GFH;
 - (d) enter into contracts, including service contracts, otherwise than in the ordinary course of business, including contracts or actions which may give rise to any contingent liability;
 - (e) cause KHCB or any subsidiary or associate of KHCB to purchase or redeem any shares in KHCB or provide financial assistance for any such purchase;
 - (f) acquire any company, partnership, other business organization or division thereof, or enter into any joint venture, or strategic alliance;
 - (g) enter into any commitment, agreement or arrangement for assumption of third party financing



or bank debt or any other loan or debt, nor obtain or procure any such financing for KHCB;

- (h) make any changes in the memorandum and articles of association or nature of bank licence or registered address of KHCB;
- (i) amend, waive, modify or consent to the termination of any contract or the KHCB's rights thereunder other than in the ordinary course of business consistent with past practice;
- (j) enter into any contract which is not in the ordinary course of business with any related party;
- (k) enter into any formal or informal agreement, or otherwise make a commitment to do any of the foregoing; or
- (l) carry out any actions prohibited by the TMA.

Under TMA Rule 2.14.5, except with the consent of the CBB, all conditions must be fulfilled or the Offer must lapse within fifteen (15) calendar days of the Initial Offer Closing Date or of the Unconditional as to Acceptances Date, whichever is the later.

Under TMA Rule 2.14.3, setting out the 'final day rule', except with the consent of the CBB, the Offer may not become or be declared unconditional as to acceptances after the official working hours on the 60th day after the date the Offer Document was posted, i.e. after 3rd January 2022.

More guidance on the expected timetable for the Offer is provided in section 3.7 below.

Shareholders and/or potential investors of KHCB should note that the Revised Offer is subject to the satisfaction or waiver (where applicable) of the Conditions Precedent and conditional upon, the Revised Offer becoming or being declared unconditional in all respects. Accordingly, the Revised Offer may or may not become unconditional in all respects. Shareholders and/ or potential investors of KHCB should therefore exercise caution when dealing in the securities of KHCB. Persons who are in doubt as to the action they should take should consult their licensed brokers, dealers, solicitors, professional accountants or other professional advisers.

3.7 Revised Offer timeline and key dates

The key dates for the Revised Offer will be determined in accordance with the CBB's regulations and, in particular, the TMA. Certain of the key dates are to be determined by reference to dates which are not, as at the date of this Revised Offer Document, possible to determine because, for example, they are linked to the date the board of directors of KHCB publishes its Offeree Board Circular in accordance with the TMA or because they relate to the date upon which conditions to the Revised Offer are satisfied or waived. In such case, these dates are referenced as "To be announced" in the table below and announcements will be made in accordance with the CBB regulations to the KHCB Shareholders as these dates are determined.

Date of Pre-conditional Offer	Voluntary	15 September 2021
Date of Firm Intention		14 October 2021
Date for convening OGM of Offeror		14 October 2021
Initial Last Practicable Date		03 November 2021



Date of Initial Offer Document	4 November 2021
Last Practicable Date	23 November 2021
Date of the Revised Offer Document	24 November 2021
Latest date for posting of the Offeree Board Circular	To be announced
Last Trading Date	To be announced, being the date two (2) Business Days prior to the Offer Opening Date
Suspension of Trading Date for KHCB Shares	To be announced, being the date one (1) Business Day prior to the Offer Opening Date
Offer Opening Date	To be announced
Initial Offer Closing Date	To be announced, being the date which is fifteen (15) calendar days from the Offer Opening Date, subject to extension and subject to the Final Closing Date
Final Closing Date	To be announced, The Initial Offer Closing Date, or fifteen (15) calendar days from the date the Offer is announced as unconditional in all respects, whichever is later. This is to be announced if the date differs from the Initial Offer Closing Date
Last date upon which the Offer can be declared unconditional as to Acceptances	03 January 2022
Right to withdraw Date	To be announced, being an acceptor will be entitled to withdraw his acceptance after 14 days from the Initial Closing Date of the Offer, if the Offer has not become unconditional as to acceptances by that date. Such entitlement to withdraw will be exercisable until the Unconditional as to Acceptances Date and subject to relevant provisions of the TMA Module.
Announcement of Results of the Offer Date	To be announced, being one (1) Business Day after the Final Closing Date
Settlement Date	To be announced - within seven (7) calendar days from the Final Closing Date.



3.8 Offer acceptance procedures

- 3.8.1 KHCB Shareholders willing to accept the Offer may potentially be holding the KHCB Shares in one of the following forms:
- (a) shares in Demat form held in a brokerage account with a registered broker in the BHB;
 - (b) shares in Demat form held in the CSD of Bahrain Clear; or
 - (c) shares in physical form with an original share certificate only.
- 3.8.2 Please refer to Section 4 'Procedures for accepting the Offer' of this Offer Document for further details.

3.9 Rights of the GFH Shares

- 3.9.1 Share Ranking - GFH Shares shall rank *pari passu* with the existing ordinary shares of GFH.
- 3.9.2 Dividend Rights - Provided that the Offer becomes unconditional after the fulfilment of the Conditions Precedent, KHCB Shareholders who accept the Share Exchange Offer at the discretion of each KHCB Shareholder will be entitled to any dividends declared by GFH pertaining to the financial year ending 31 December 2021, and for subsequent financial years on a *pari passu* basis with other holders of shares in GFH.
- 3.9.3 Voting, Capital Distributions and Liquidation Rights - Holders of the GFH Shares will enjoy all the rights and obligations of the existing shareholders of GFH, including but not limited to, participation and voting in shareholders general assembly meetings and participation on a *pari passu* basis in any distributions or other returns of capital whether on a liquidation or otherwise.

3.10 Acceptance irrevocable

Upon a KHCB Shareholder submitting the completed Acceptance and Transfer Form to the Receiving Agent, the Acceptance becomes irrevocable and cannot be withdrawn by that KHCB Shareholder either in whole or in part except if, as at the Initial Offer Closing Date, the Conditions Precedent remain unfulfilled or have not been waived by GFH. An acceptor will be entitled to withdraw his acceptance after 14 days from the Initial Closing Date of the Offer, if the Offer has not become unconditional as to acceptances by that date. Such entitlement to withdraw will be exercisable until the Unconditional as to Acceptances Date but subject to relevant provisions of the TMA.

4. PROCEDURES FOR ACCEPTING THE OFFER

4.1 Form submission

4.1.1 Submission by individuals

- (a) KHCB Shareholders who are individuals and who wish to accept the Offer must submit the following documents:
- (i) The original signed Acceptance and Transfer Form;
 - (ii) The original or Certified Copy and a copy of two of the following three forms of identification:
 - A: the individual's valid passport or valid international travel document;
 - B: the individual's valid national identification card or an equivalent document; and
 - C: the individual's valid driving licence.
 - (iii) Proof of permanent residential address. The proof can consist of a copy of a recent utility bill, bank statement or similar statement from another bank or financial institution licensed in the country, which have been issued within three months prior to their presentation, or official documentation, such as a smartcard, from a public/governmental authority, or a tenancy agreement;
 - (iv) If an individual KHCB Shareholder has an existing IN and Securities Account, proof of such IN and Securities Account is required in the form of a Bahrain Clear investor card or statement of account, or a Bahrain Clear system print-screen. If the Applicant has an existing Securities Account but no designated broker, then proof of such IN can additionally be in the form of an allotment notice from a previous IPO of no earlier than 2006;
 - (v) A statement of account from Bahrain Clear or a broker in respect of KHCB Shares held in electronic form; and
 - (vi) Bank account details from the KHCB Shareholder's bank in the name of the KHCB Shareholder in the form of a bank statement, a bank online system print-screen or a bank letter indicating the IBAN or other account details and bank name. The KHCB Shareholder's bank account details will be utilized for any settlement of the Cash Consideration and may be used for the payment of any future dividends in the case of an acceptance of the Offer at the discretion of each KHCB Shareholder.
- (b) The following additional documents are required when a person is signing on behalf of an individual KHCB Shareholder by way of a power of attorney:
- (i) The original or Certified Copy and copy of the valid passport or international travel document of the person applying and signing on behalf of the individual KHCB Shareholder;
 - (ii) The original or Certified Copy and copy of the valid national identification card or an equivalent document of the person applying and signing on behalf of the individual KHCB Shareholder; and
 - (iii) The original or Certified Copy and copy of the notarised (or where from outside the

Kingdom of Bahrain, apostilled/legalised) power of attorney.

- (c) The following additional documents are required for applications on behalf of Minors:
- (i) The original or Certified Copy and copy of the valid passport or valid international travel document of the legal guardian applying and signing on behalf of the Minor;
 - (ii) The original or Certified Copy and copy of the government-issued valid national identification card or an equivalent document of the legal guardian applying and signing on behalf of the Minor; and
 - (iii) Unless the legal guardian signing on behalf of the Minor is the Minor's father, the original or Certified Copy and copy of the proof of guardianship to the applying Minor.

4.1.2 Submission by institutions

All institutions must provide the following documentation:

- (i) The original signed Acceptance and Transfer Form;
- (ii) A copy of a valid commercial registration certificate of the institution;
- (iii) A copy of the memorandum and articles of association, or equivalent, of the institution;
- (iv) List of shareholders names, shares held by each one of them and their full address and a copy of their ID's.
- (v) The original or Certified Copy and a copy of two of the following three forms of identification in respect of the individual signing on behalf of the institution:
 - A the individual's valid passport or valid international travel document;
 - B the individual's valid national identification card or an equivalent document; and
 - C the individual's valid driving licence.
- (vi) If the institution has an existing IN and Securities Account, proof of such an IN and Securities Account is required in the form of a Bahrain Clear investor card or statement of account, or a Bahrain Clear system print-screen. If the KHCB Shareholder has an existing Securities Account but no designated broker, then proof of such Investor Number can additionally be in the form of an allotment notice from a previous IPO of no earlier than 2006;
- (vii) A statement of account from Bahrain Clear or a broker in respect of their KHCB Shares held in electronic form;
- (viii) The original and copy of the document authorising the person(s), whose signature(s) appear(s) on the Acceptance and Transfer Form to sign such document on behalf of the institution. Such a document can be either a power of attorney or a resolution of the board of the institution; and
- (ix) Bank account details from the KHCB Shareholder's bank in the name of the KHCB Shareholder in the form of a bank statement, a bank online system print-screen or a bank letter indicating the IBAN or other account details and bank name. The KHCB Shareholder's bank account details will be utilized for any settlement of the Cash Consideration and may be used for



payment of any future dividends in the case of an acceptance of the Offer at the discretion of each KHCB Shareholder.

- 4.1.3 All completed Acceptance and Transfer Forms, together with the required documentation, should be submitted by hand or courier/post to any of:
- (i) the office of the Receiving Agent listed in section 4.1.12 during the Offer Period;
 - (ii) the Participating Branches of the Offeror listed in section 4.1.12 during the Offer Period; or
 - (iii) the Participating Branches of the Offeree listed in section 4.1.12 during the Offer Period.

In all cases the documents should reach one of the above locations no later than the close of business on the Final Closing Date.

- 4.1.4 KHCB Shareholders who do not have an IN number will be required to obtain an IN number prior to any future transfer of shares using Bahrain Clear Application Form Number 1(A) for individuals and 1(B) for institutions. Certain fees payable to Bahrain Clear may apply. For the avoidance of doubt, this is not a requirement for accepting the Revised Offer.
- 4.1.5 KHCB Shareholders who opt for the Share Exchange Offer at the discretion of each KHCB Shareholder and wish to trade such shares on the Bahrain Bourse in the future will be required prior to such trading to open a trading account with a registered broker and open an investor account with Bahrain Clear via Bahrain Clear Application Form Number (2) – Investor Account Opening Form. Subsequently, a KHCB Shareholder may transfer the shares from the “CSD to the Broker” via the Bahrain Clear Application Form Number (6) - Transfer application between CSD and Broker. Certain fees payable to Bahrain Clear may apply. For the avoidance of doubt, this is not a requirement for accepting the Revised Offer.
- 4.1.6 At the time of submission of a completed Acceptance and Transfer Form, the Receiving Agent or the Participating Branches shall verify the validity of all copies of each participating KHCB Shareholder’s identification documents along with the submitted Acceptance and Transfer Form.
- 4.1.7 KHCB Shareholders intending to accept the Revised Offer and who hold KHCB Shares that are mortgaged will have to provide original written clearance from the mortgagee in a form acceptable to the Offeror, the CSD or the Receiving Agent.
- 4.1.8 The following important directions should be followed when completing the Acceptance and Transfer Form:
- (a) only the prescribed Acceptance and Transfer Form received by mail or collected from the office of the Receiving Agent, or the Participating Branches listed in section 4.1.12 should be used, and completed in full in accordance with the instructions contained therein. In the case of joint owners of KHCB Shares only one Acceptance and Transfer Form may be used and signed by all such joint owners; and
 - (b) in the case of any KHCB Shares held by investment managers, the Acceptance and Transfer Form should be signed by the investment manager and sent along with a copy of the document reflecting the investment manager’s position as the investment manager for the KHCB Shareholder. The Acceptance and Transfer Form must state the beneficial owners of the KHCB Shares and be provided together with their specific signed mandate.

- 4.1.9 The Offeror and the Receiving Agent reserve the right to reject any Acceptances and Transfer Forms if:
- (a) the Acceptance and Transfer Form is not completed in all respects or is completed with incorrect information;
 - (b) any of the information stated in section 4.1.1 to 4.1.8(b) above is not included in or with the Acceptance and Transfer Form; or
 - (c) the Acceptance and Transfer Form along with all of the above documents is received by the Receiving Agent after the close of business on the Final Closing Date.
- 4.1.10 The Offeror and the Receiving Agent reserves the right to accept, at its sole discretion, duly completed Acceptance and Transfer Forms where the information set out in sections 4.1.1 to 4.1.8(b) has not been provided in its entirety but sufficient information and documentation has been provided or otherwise procured to comply with all applicable laws and regulations associated with know your client and anti-money laundering requirements and other laws and regulations applicable to the Offeror and the Offer have been complied with.
- 4.1.11 The KHCB Shareholder shall:
- (a) consent to the passing on of any information about the KHCB Shareholder to any relevant regulatory authorities by the Receiving Agent, the Registrar, the Offeror or the Offeree (as the case may be) or their delegates and any onward transmission by those regulatory authorities of such information;
 - (b) acknowledge that due to money laundering requirements operating within Bahrain, the Receiving Agent, the Offeror or the Offeree (as the case may be) may require identification of the KHCB Shareholder(s) and source of funds before the Acceptance and Transfer Forms can be processed;
 - (c) hold the Receiving Agent, the Offeror or the Offeree (as the case may be) harmless and indemnified and shall keep them held harmless and indemnified against any loss arising from the failure to process the Acceptance and Transfer Form, if information as has been required from the KHCB Shareholder has not been provided within the allotted time to the satisfaction of the party requesting such information;
 - (d) understand and agree that any shares to be transferred to the KHCB Shareholder may be retained pending the completion of any verification of identity required by the Receiving Agent, the Offeror or the Offeree (as the case may be); and
 - (e) accept the terms of the privacy notice at Schedule 1 and consent to the use and sharing of the KHCB Shareholder's personal data including sensitivity personal data in accordance with such privacy notice.

4.1.12 The Receiving Agent and the Participating Branches

The Receiving Agent and the Participating Branches as set out below will receive the completed Acceptance and Transfer Forms together with the information stated in sections 4.1.1 to 4.1.8(b) (as applicable) above:

Receiving Agent's Addresses, Contact Details and Opening Times

No.	Name	Address	Telephone Number	Opening Days	Operating Hours
1	KFin Technologies (Bahrain) W.L.L.	Office No: 74, 7 th Floor, Zamil Tower, Building 31, Road 383, Block 305, PO Box 514 Manama, Kingdom of Bahrain	17215080	Sunday to Thursday	8:00 am - 4:00 pm

The Offeror – Addresses, Contact Details and Opening Times

No.	Name	Address	Telephone Number(s)	Opening Days	Operating Hours
1	GFH Financial Group	29 th Floor, Bahrain Financial Harbour, East Tower, Road 4626, Block 346 Manama, Sea Front P.O.Box 10006	17 538538 Ext. 550	Sunday to Thursday	8:30 am - 4:30 pm

Participating Branches of the Offeree – Addresses, Contact Details and Opening Times

No.	Branch Name	Address	Telephone Number(s)	Opening Days	Operating Hours
1	KHCB - BFH Branch	2nd Floor Bahrain Financial Harbour, East Tower, Road 4626, Block 346 Manama, Sea Front	17 505701 Call Center 17 540054	Sunday to Wednesday Thursday	9:00 am - 4:00 pm 9:00 am - 3:00 pm
2	KHCB – Al Hidd Branch	Lulu Hyper Mall, Hidd Ground Floor, Shop GF-	17505708 Call Center	Sunday to Wednesday	9:00 am - 4:00 pm



		17, Building 166, Road 3, Block 109, Hidd	17 540054	Saturday	9:00 am - 3:00 pm
3	KHCB – Wadi AlSail Branch	Shop 3, Entrance 1509, Road 2835, Block 928 – Wadi AlSail, Riffa “Wadi AlSail Mall”	17505707 Call Center 17 540054	Sunday to Wednesday	9:00 am – 4:00 pm
				Thursday	9:00 am - 3:00 pm
4	KHCB – Sanad Branch	Shop 2414BM, Road 4571, Sanad 745, Middle Governorate	17505703 Call Center 17 540054	Sunday to Wednesday	9:00 am - 4:00 pm
				Saturday	9:00 am - 3:00 pm

4.1.13 Once all the Conditions Precedent have been fulfilled or waived, where applicable by GFH and the Offer becomes unconditional as to acceptances and/or in all respects (as the case may be), during or at the end of the Offer Period, GFH will arrange to make an announcement to this effect in two newspapers in the Kingdom of Bahrain and the websites of the BHB, KHCB and GFH. KHCB Shareholders, who did not submit their Acceptance and Transfer Form prior to the announcement of the Offer becoming unconditional, will then be eligible to submit their Acceptance and Transfer Form for a further fifteen (15) day period from the date of such announcement.

4.1.14 Any queries regarding the application procedure should be directed to the Receiving Agent or the Participating Branches at the details outlined above.

4.2 Purchase of KHCB shares outside the Offer

GFH shall not purchase KHCB Shares outside the Offer. Furthermore, GFH will not deal in KHCB Shares during the Offer Period.

4.3 Settlement and fractional shares

4.3.1 Cash Consideration:

- (a) the settlement shall be effected on the Settlement Date by wire transfer in BHD from an account held with the Offeror to the account of the KHCB Shareholder indicated on the Acceptance and Transfer Form unless:
 - I. the KHCB Shareholder has not provided sufficient account details to process such transfer (such as an absence of an IBAN or account number for an account in the name of the KHCB Shareholder); or
 - II. has elected in the Acceptance and Transfer Form to collect a manager’s cheque as an alternative to the wire transfer.
- (b) Where the KHCB Shareholder has not provided sufficient account details to process such transfer (such as an absence of an IBAN number for an account in the name of the KHCB Shareholder) or has elected in the Acceptance and Transfer Form to collect a manager’s cheque as an alternative to the wire transfer, a manager’s cheque will be made available for collection by the relevant KHCB Shareholder from the Offeror’s Main Branch during its opening hours from the Settlement Date to the date falling six months after the Settlement Date.



- (c) No other modes of payment shall be effected and all settlement shall be net of any bank or related charges. All charges such as wire transfer charges, processing fees, collection charges, foreign currency conversion charges, managers cheque charges, special clearing charges shall be borne by the KHCB Shareholder.

4.3.2 Share Exchange:

- (a) the settlement will be made by exchanging GFH Shares in electronic form, for KHCB Shares as per the prescribed Share Exchange Ratio. Such exchange shall be effected on the Settlement Date.
- (b) KHCB Shareholders who have accepted the Offer will be notified of their allotment by an allotment notice, upon which the KHCB Shares held by them will be transferred to GFH and GFH Shares credited to their account with the BHB (provided that the Revised Offer becomes unconditional in all respects after the fulfilment, or waiver by GFH (where applicable), of the Conditions Precedent).
- (c) Fractional shares will not be issued. Any fractional shares resulting from applying the Share Exchange Ratio will be rounded to the nearest integer on the basis of the first decimal (tenths) i.e. fractional shares of up to 0.4 will be rounded down to the previous integer and fractional shares of between 0.5 and 0.9 will be rounded up to next integer.

4.3.2 KHCB Shareholders who accept this Offer need to fulfil the conditions prescribed in the acceptance procedure above in order to facilitate their rights and obligations being performed. Settlement of the consideration to which any KHCB Shareholder is entitled under the Revised Offer will be implemented in full in accordance with the terms of this Offer Document. Announcements of the proposed Settlement Date and any revisions to the Settlement Date necessitated by any changes to the Offer Period or Offer timetable will be notified to the KHCB Shareholders.

4.3.3 Allotment notices for each KHCB Shareholder that has successfully participated in the Share Exchange Offer will be made available for collection at Bahrain Clear during normal working hours starting from one (1) Business day after the Settlement Date.

4.4 Tax

4.4.1 As at the date of this document there is no income, withholding or capital gains taxes payable under existing laws in the Kingdom of Bahrain. Corporate income tax is only levied on oil, gas and petroleum companies at a flat rate of 46%. This tax is applicable to any oil company conducting business activity of any kind in Bahrain, including oil production, refining and exploration, regardless of the company's place of incorporation. There are no currency or exchange control restrictions currently in force under the laws of Kingdom of Bahrain and the free transfer of currency into and out of the Kingdom of Bahrain is permitted subject to anti – money laundering and international regulations in force from time to time.

4.4.2 KHCB Shareholders should consult their professional advisors on the possible tax consequences of acceptance of the Offer under the laws of their countries of citizenship, residence, ordinary residence or domicile.

4.5 Prior communications

4.5.1 On 3 February 2021, CBB communicated its approval to GFH increasing its shareholding in KHCB as a controller of KHCB and also for its acquisition of up to 100% of the KHCB Shares.



- 4.5.2 On 8 June 2021, GFH communicated its non-binding intent to make a voluntary takeover offer for the issued share capital of KHCB subject to a confirmatory due diligence exercise on KHCB and all necessary regulatory, board and shareholder approvals. Subsequent updates were provided on 8 July 2021 and 8 August 2021.
- 4.5.3 On 15 September 2021, GFH communicated a pre-conditional voluntary offer to KHCB's board of directors.
- 4.5.4 On 14 October 2021, GFH communicated to KHCB's board of directors its Firm Intention to make an Offer.
- 4.5.5 On 4th November 2021, GFH communicated to KHCB's board of directors its Offer Document ("Initial Offer Document") which will be replaced by this Revised Offer Document.

5. THE OFFEROR

5.1 GFH Financial Group B.S.C.

- 5.1.1 GFH is a public shareholding company incorporated in the Kingdom of Bahrain on 6 November 1999 and is licensed and regulated by the CBB as an Islamic (wholesale) bank.
- 5.1.2 Subsidiaries within the GCC region in which GFH (whether directly or indirectly) holds shares are set out below:

Name / Entity	Nationality / Headquarters
Khaleeji Commercial Bank B.S.C.	Bahrain
Al Areen Boulevard Real Estate W.L.L	Bahrain
Al Areen Facility Management W.L.L	Bahrain
Al Areen Holding Company BSC	Bahrain
Al Areen Hotels WLL	Bahrain
Athena Center for Special Education W.L.L	Bahrain
Athena Private School For Special Education W.L.L.	Bahrain
BSB Ventures WLL	Bahrain
Castle Plus W.L.L.	Bahrain
Cemena Holding Company	Bahrain
Delmon Lost Paradise Project Company 1 WLL	Bahrain
Delmon Lost Paradise Project Company 2 WLL	Bahrain
Encor Outlook Real Estate LLC	UAE
Falcon Cement Company BSC	Bahrain
GBCorp B.S.C. (Closed)	Bahrain
GFH Capital (Saudi)	Saudi Arabia
GFH Capital Limited (Dubai)	UAE
GFH Properties WLL	Bahrain
GFH Real Estate Company LLC	UAE
GFH Ventures WLL	Bahrain
Gulf Holding Company	Kuwait
Harbour East 3 Real Estate WLL	Bahrain
Harbour Heights Healthcare Properties WLL	Bahraini
Harbour House Row Towers WLL	Bahrain
Harbour North 1 Real Estate WLL	Bahrain
Harbour North 2a Real Estat WLL	Bahrain
Harbour North 2b Real Estate WLL	Bahrain
Harbour North 3 Real Estate WLL	Bahrain
Harbour Row 2 Hotel Real Estate W.L.L.	Bahrain
Harbour Row 2 Real Estate WLL	Bahrain
Harbour Row 2 Retail Real Estate W.L.L	Bahrain
Harbout Row 3 Hotel Real Estate W.L.L	Bahrain
Harbour Row 3 Real Estate WLL	Bahrain
Harbour Row 3 Retail Real Estate W.L.L	Bahrain



Harbour Row 4 Real Estat WLL	Bahrain
HH Hotel Properties WLL	Bahraini
LPOD Water Park WLL	Bahrain
Marseille Downtown Real Estate Co. WLL	Bahrain
Marseille North 2 Properties WLL	Bahrain
Marseille North Real Estate WLL	Bahrain
Marseille Properties WLL	Bahrain
Marseille South Properties WLL	Bahrain
PCL Real Estate Company WLL	Bahrain
Residential South Real Estate Development Company WLL	Bahrain
South East Real Estate WLL	Bahrain

5.2 Capital and major shareholders

5.2.1 GFH's authorised capital currently stands at USD 2,500,000,000 with an issued and paid up capital of USD 1,000,637,366.96 divided into 3,775,990,064 ordinary shares with a nominal value of USD 0.265 each. The following shareholders own more than 5% of the issued share capital of GFH:

Major shareholders	Percentage owned
Shuaa Capital and its associates	6.00%
Keypoint Trust B.S.C(c)	7.83%

5.2.2 In 2019, GFH issued 207,547,170 ordinary shares as bonus shares against extinguishment of the same number of treasury shares held by the Bank.

5.2.3 In 2020, GFH netted-off its accumulated losses by transferring an amount of USD 110,273,000 from statutory reserves.

5.2.4 In 2021, GFH issued 94,339,623 ordinary shares as bonus shares.

5.2.5 GFH utilizes up to a maximum of 10% of its total issued shares (treasury shares) for the purpose of this acquisition, strategic expansions in financial and investment institutions, and its employees incentive programs.

5.2.6 Reference is made to section 3.9 of this Revised Offer Document which sets out a description of certain of the rights that will be afforded to the GFH Shares in relation to voting, dividends and distributions of capital.

5.2.7 Number of shares repurchased to-date for the purpose this acquisition:

Date	BHB	DFM	BK	Total
Sunday, October 24, 2021	1,685,000	7,300,000	400,000	9,385,000
Monday, October 25, 2021	1,400,000	8,500,000	300,000	10,200,000
Tuesday, October 26, 2021	1,650,000	10,700,000	0	12,350,000
Wednesday, October 27, 2021	400,000	9,250,000	0	9,650,000
Thursday, October 28, 2021	300,000	7,450,000	0	7,750,000



Sunday, October 31, 2021	200,000	4,300,000	0	4,500,000
Monday, November 1, 2021	200,000	4,300,000	0	4,500,000
Tuesday, November 2, 2021	300,000	4,700,000	0	5,000,000
Wednesday, November 3, 2021	0	1,900,000	0	1,900,000

5.3 Board of directors

GFH's Board of Directors currently comprises nine (9) board members, as follows:

Mr. Jassim Alseddiqi	Chairman, Non-Executive Director
Mr. Ghazi Al Hajeri	Vice Chairman, Independent Director
Mr. Hisham Alrayes	Member and Group CEO, Executive Director
Mr. Rashid Al Kaabi	Member, Non-Executive Director
Mr. Ahmed Al Ahmadi	Member, Independent Director
Mr. Ali Murad	Member, Independent Director
Mr. Fawaz Al Tamimi	Member, Independent Director
Ms. Alia Al Falasi	Member, Independent Director
Mr. Edris Al-Rafi	Member, Independent Director

Mr. Jassim Alseddiqi, Mr. Hisham Alrayes, Mr. Salah Sharif and Mr. Mosobah Al Mutairy present GFH on KHCB's Board of Directors.

Jassim Alseddiqi **Chairman, Non-Executive Director**

Jassim Alseddiqi is the Chairman of GFH Financial Group and the Group Chief Executive Officer of SHUAA Capital, the leading asset management and investment banking platform, with c. US\$ 14 billion in assets under management. With 16 years of experience, Jassim is known for his dynamic and innovative approach, having pioneered many investment strategies in the region. He is also the Chairman of Islamic Arab Insurance Company (SALAMA), Eshraq Investments, Khaleeji Commercial Bank and The Entertainer. He also serves on the boards of First Abu Dhabi Bank (FAB), ADNOC Distribution and Dana Gas.

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

Ghazi AlHajeri **Vice Chairman, Independent Director**

Mr. Ghazi Al Hajeri is the CEO of Wafra International Investment Company, a Kuwait-based asset management company with \$ 7BN in AUM. Bringing 21 years of experience to his role, he is in charge of overall corporate direction and proprietary investments, Mr Al Hajeri leads the company's transformational growth strategy. Prior to that, Mr Al Hajeri occupied the role of deputy CEO at Touristic Enterprises Co., an entity owned by the Kuwait Investment Authority and the oldest and



largest provider of recreation and entertainment in the State of Kuwait. Mr. Al Hajeri was responsible for the group's facility operations and development.

Mr. Ghazi Al Hajeri held the position of Managing Director for Wafra InterVest Corp. He established Wafra's regional office in 2007 and remained its Regional Director until 2017. Mr. Al Hajeri was responsible for firm's regional business strategy and product development and served as a corporate liaison with the firm's largest clients. Mr. Ghazi Al Hajeri was responsible for directing the firm's largest client relationships. He devised strategic plans to grow the firm's expansion in assets from \$ 7 billion to \$ 20 billion in a period of 10 years. Mr. Al Hajeri managed complex projects for sovereign wealth and pension clients that included asset allocation, business development and investment planning. Mr. Al Hajeri was a member of the Alternative Investments Division Investment Committee and responsible for reviewing and monitoring external investment managers while directing departmental strategy at Wafra Investment Advisory Group in New York from 2000 – 2006. Mr. Al Hajeri holds a Bachelor degree in Science in Business Administration from the University of Denver.

Hisham Alrayes
Member & Group CEO, Executive Director

Hisham Alrayes is leading the Group forward towards its vision of becoming the region's most prominent, diversified financial Group, and one that provides a remarkable platform for delivering superior Wealth Management, Real Estate, Commercial Banking and Asset Management services. With over 20 years of experience, Hisham brings extensive expertise to the Group and an in-depth knowledge of GFH. He was instrumental in driving the development and execution of the Group's regional and international investment strategy and managed the bank's liabilities as Chief Investment Officer prior to his appointment as Group CEO in 2012, and since his appointment as CEO, has driven the development and execution of the Group's regional and international diversification strategy.

Rashid Al Kaabi
Member, Non-Executive Director

Rashid Nasser Sraiya Al Kaabi is a member of the Board of Directors at Qatar Chamber of Commerce and Industry (QCCI) and Chairman of the industry committee at QCCI. With over 20 years of experience, Rashid has become one of the most outstanding and youngest Qatari Businessmen to achieve an esteemed reputation both nationally and internationally. His business career started in 1995 and by 2019, he has managed to expand the business well into new horizons. With his keen expertise new businesses have been launched across Qatar, USA, United Kingdom, Germany, Poland, Turkey, UAE and Oman across all 5 sectors of Al Sraiya Holding's engineering, hospitality, industrial, trading, education and general services groups.

Rashid believes administrative and legitimate expertise are essential for the success of a business. Smart, reliable, profitable and consistent business decisions are the outcome of Rashid's eye for business opportunities, expertise in negotiations, wealth of knowledge, integrity, values, and a drive for a better future. As a visionary business man, Rashid is always on the lookout for future business opportunities that will enlarge the Group's portfolio. As a vivid man of values, the importance of family owned and managed companies is held high as he believes they play a major role in managing private economic enterprises in Qatar, the Gulf region, and beyond. Family owned businesses adhere to the quality of administrative and financial systems compatible with the



standards of transparency and responsibility towards society, as a family is towards itself. It is the family company that guarantees survival and sustainability across time because of the shared appreciation of the journey of noble success through dedication, inspiration, innovation, virtue, and wisdom.

Ali Murad
Member, Independent Director

Mr. Ali Murad is the Managing Director and Co-Founder of Pinnacle W.L.L., Bahrain. He also serves as a board member in several companies including C5 Accelerate W.L.L., EAT App, Wavepoint Publishing W.L.L. Throughout the 19 years of experience in his career, Mr. Murad occupied several positions in the banking sectors before he moved into the private sector. He commenced his banking career at Arab Banking Corporation where he remained for five years. During this time, he held the position of credit analyst of ABC Islamic Bank EC, money market dealer and thereafter, as a deputy manager of the Treasury and Marketable Securities Department. Mr. Murad then joined Unicorn Investment Bank (now, Bank Alkhair) in the Investment Development and Distribution Department and later First Energy Bank as a director in Investment Placement, where he placed numerous financial products and services to high-net-worth individuals, governments and quasi-governmental Organizations, publicly listed and unlisted companies, as well as private banking clients.

Mr. Murad was part of the investment team, where he also worked on tailoring customized investment products catering to the tough market conditions at the time. In 2010, Mr. Murad embarked in a career in the private sector and founded Pinnacle W.L.L. as a holding company for stakes in various sectors including technology, music publishing, real estate to name a few. He continues to explore, review and monitor active and potential investments both regionally and internationally. Mr. Murad holds a Bachelor of Science and Business Administration in Marketing from Suffolk University, Boston, Massachusetts.

Ahmed Al Ahmadi
Member, Independent Director

Ahmed AlAhmadi serves as an Independent Director on the Board of GFH Financial Group and is currently part of Rothschild & Co., a multinational investment bank and financial services company. He is an investment professional with robust analytical skills and a passion for business.

With a strong professional and academic profile that is recognized by the broader regional business community, Ahmed was involved in sourcing global opportunities and partnerships in the financial services space for a renowned sovereign wealth fund in Abu Dhabi. In his previous role under Mergers & Acquisitions, Ahmed applied his talents in executing a number of notable transactions, including the successful recapitalization of a NYSE-listed utilities company, minority acquisition of the leading telecommunication player in India, and successful construction of a diversified public equities portfolio during 2020. He consistently proves to be a fully rounded investment professional with a deep analytical and creative mindset.

Ahmed has also been involved in the energy and power industry in an asset management and advisory capacity. He previously served as a Director on the Board of SHUAA Capital PSC and Integrated Capital.



Ahmed is a CFA charter holder. He holds a First-Class Honours degree in Chemical Engineering (BEng) from University College London, and a Master's degree with Merit in Risk Management and Financial Engineering (MSc) from Imperial College London.

Alia Al Falasi
Member, Independent Director

Alia Al Falasi serves as Legal Counsel in the financial investment arm of one the UAE's leading sovereign wealth funds, with an AUM of over \$ 200bn. With 14 years of working experience, she is responsible for transaction execution and the oversight of investments, from a legal and governance perspective, with a focus on investing in China, France and Russia. Within this geographic focus, Alia has experience investing across a variety of asset classes, including publicly traded equities, private equity, venture capital and real estate, in addition to experience with working across a broad range of industries such as healthcare, TMT, financial services and consumer goods, among others.

In the past two years alone, Alia was a leading member of a team that closed deals with an invested amount greater than \$ 1bn. Alia has served as an Investment Committee member, responsible for screening opportunities, portfolio management and making strategic and investment decisions within the broader business unit she serves at, overseeing an investment portfolio of more than \$ 20bn. Alia is admitted as a solicitor in the Senior Courts of England and Wales. She holds a BSc in Management with Law from the University of London, in association with The London School of Economics and Political Science.

Fawaz Al Tamimi
Member, Independent Director

Holding a BSc. in Marketing from California State University in Los Angeles, Mr. Fawaz Al Tamimi is the Senior Vice President of Finance and Investment at Tamimi Holding with 11 years of working experience. Mr. Al Tamimi is a Board member at Tamimi Group, Gulf Islamic Investment Company, Specialized Industrial Casting Company, Kingdom Holding Gulf Union Insurance, and Tamimi Markets, amongst others.

Edris AlRafi
Member, Independent Director

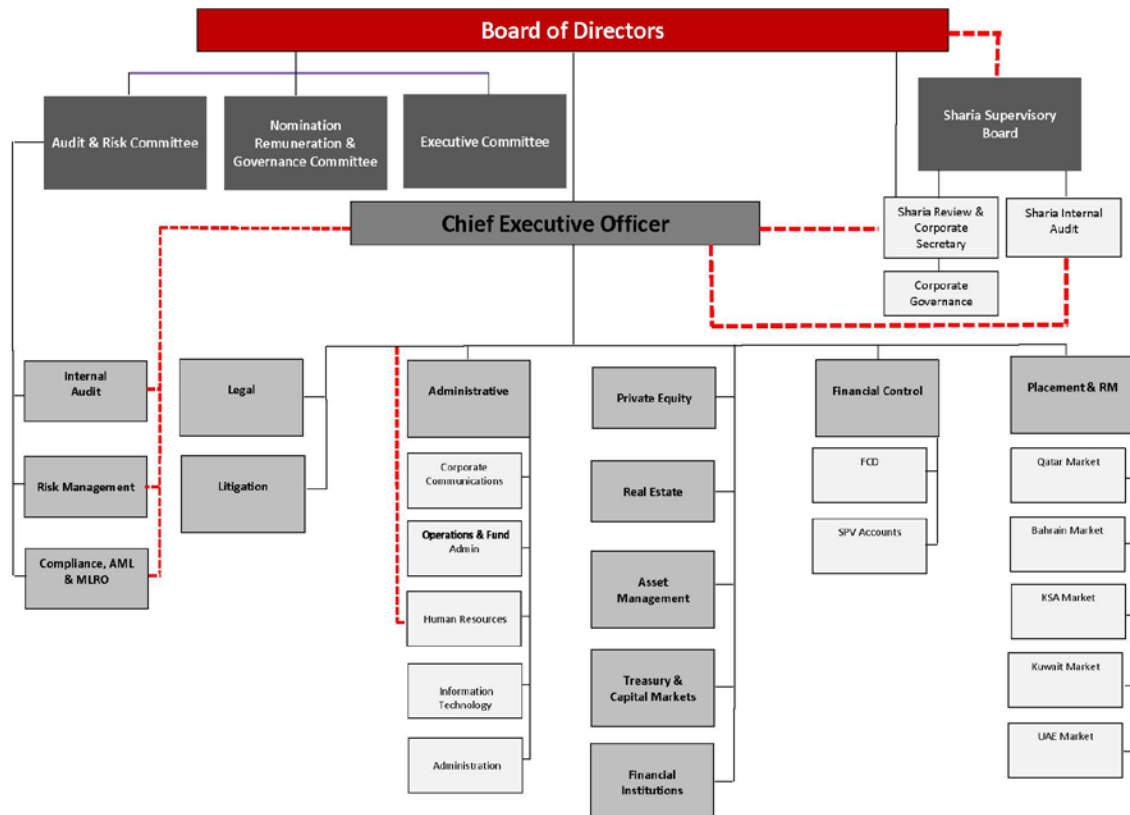
Edris Al-Rafi is the Head of Middle East & Africa at Aberdeen Standard Investments and prior to that he served as Chief Executive Officer at Dubai Holding LLC. Edris is also the Chairman of Aurum Leasing Limited, and has held various senior leadership roles such as the Chief Commercial Officer at Meraas Holding and the Head of UAE at Goldman Sachs. He joined Goldman Sachs in 2008 to manage Sovereign Wealth Funds, UAE Commercial Banks & large UAE corporate clients including GREs for Investment Banking and Securities businesses. Before that, he served as General Manager at First Gulf Bank and he was also on the Board of Noor Bank PJSC & Emaar Industries & Investments (Pvt) JSC. Mr. Al-Rafi has more than 20 years of experience in investment banking, private equity, hospitality and real estate development. Edris holds a Finance degree from Higher Colleges of Technology.



5.4 Management team

The current management team of GFH is:

Mr. Hisham Alrayes	Chief Executive Officer
Mr. Salah Sharif	Chief Operating Officer
Mr. Baha Al-Marzooq	Chief Internal Audit
Mr. Hammad Younas	Chief Investment Officer – Private Equity
Mr. Nael AlKujok	Co-Chief Investment Officer – Real Estate
Mr. Abesh Chatterjee	Head of Risk Management
Dr. Mohammed Abdulsalam	Head of Sharia and Corporate Secretary
Mr. Suryanarayanan Hariharan	Chief Financial Officer
Mr. Mohammed Abdulmalik	Group Co-IPT Head
Mr. Razi Almerbati	CEO GFH Capital S.A. – Group Co-IPT Head
Ms. Muneera Isa	Head of Human Resources
Mr. Ahmed Jamsheer	Head of Treasury & Capital Markets
Mr. Osama Janahi	Head of Information Technology
Ms. Mariam Jowhary	Head of Compliance and AML
Mr. Salem Patel	Head of Asset Management
Mr. Hamza Saleem	Acting Head of Legal



Hisham Alrayes
Chief Executive Officer

Hisham Alrayes is leading the Group forward towards its vision of becoming the region's most prominent, diversified financial Group, and one that provides a remarkable platform for delivering superior Wealth Management, Real Estate, Commercial Banking and Asset Management services. With over 20 years of experience, Hisham brings extensive expertise to the Group and an in-depth knowledge of GFH. He was instrumental in driving the development and execution of the Group's regional and international investment strategy and managed the bank's liabilities as Chief Investment Officer prior to his appointment as Group CEO in 2012, and since his appointment as CEO, has driven the development and execution of the Group's regional and international diversification strategy.

Prior to joining the Group in 2007, Hisham was part of the senior management team of the Bank of Bahrain & Kuwait ('BBK'), a leading commercial bank in the Kingdom of Bahrain where he was responsible for a number of key projects and new venture initiatives. He currently chairs and holds a number of directorships in financial, industrial and real estate companies including Esterad Investment Company, Khaleeji Commercial Bank and GFH Capital.

Hisham holds a Master's degree with honors in Business Administration from the University of DePaul, Chicago (USA), and a Bachelor's degree in Engineering with honors from the University of Bahrain. Hisham was awarded 'Banker of the Year' in the MEA Finance Awards 2020 in recognition of his role in steering the Group's diversification strategy which has seen the Group expand its business lines and geographic reach, while remaining resilient in the face of unprecedented market conditions. He was also ranked one of the top CEOs in Financial Services & Investments in 2019, and named 'Investment Bank CEO of the Year' at CEO Middle East 2019.

Salah Sharif
Chief Operating Officer

A key player in the strategic management of the Group's core operational functions, Salah Sharif, Chief Administrative Officer, is also responsible for ensuring the highest standards of operational excellence across the Group's Special Purpose Vehicles and project companies. He has more than 30 years of regional and international exposure to conventional and Islamic banking and finance with experience across commercial and wholesale banking and in industrial and infrastructure advisory sectors. In addition to his executive role at the Group, Salah also serves on a number of investee company boards. He is the Chairman of Falcon Cement Company, Vice Chairman of GFH Properties and Vice Chairman of Gulf Holding Company, and a Board member of Khaleeji Commercial Bank.

Prior to his current role in GFH, Salah was seconded as the CEO of Cemena Holding Company (CHC), an industrial subsidiary of the Group, which is one of the largest cement holding companies in the MENA region. Previously, he held a number of senior roles in leading, global financial institutions, including American Express and Standard Chartered Bank where he held key executive positions. Salah holds an MBA from the University of South Wales, UK.

Baha Al-Marzooq
Chief Internal Audit

Baha Al-Marzooq, Chief Internal Audit, supports the Group's strategic success by ensuring a systematic and disciplined approach to internal control, risk management and governance



processes; reporting to the Board Audit & Risk Committee to maintain the internal audit function independency from the Group's management. Baha has more than two decades of auditing and banking experience, and for the last few years has supported the Group's recovery efforts that were remarkably concluded with total income above US\$ 500 million. Prior to joining the Group, Baha worked with Ernst & Young (EY) – Bahrain, one of the 'Big Four' global auditing firms, as Manager in the Assurance Services during which he also served in other regional offices of EY such as Kuwait, Qatar and Houston Texas – USA. During his tenor with EY, Baha was in charge of auditing a number of clients from different sectors namely Islamic Banks, Conventional Banks, Investment funds, Insurance, Oil & Gas, Hospitality and Government sectors.

He holds a B.Sc. in Accounting from Bahrain University and is a Certified Public Accountant (CPA) California, USA in 2001. He holds an Executive MBA from the University of Bahrain in addition to a number of specialized professional qualifications including, Certified Internal Auditor, Chartered Global Management Accountant and has a Certification in Risk Management Assurance. He has also participated in several technical, business and leadership programs and lately completed the Senior Executive Leadership Program from Harvard Business School.

Hammad Younas
Chief Investment Officer – Private Equity

Hammad Younas is the Chief Investment Officer – Private Equity 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, and throughout 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 in 2016, 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 charter holder 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.

Nael Mustafa
Co-Chief Investment Officer – Real Estate

Nael Mustafa is Co-Chief Investment Officer – Real Estate. He is responsible for developing and executing the Group's global real estate investment strategy and oversight of its growing portfolio of assets across the Middle East, Europe and the US. Nael has more than 30 years of experience in investment banking with a proven record in regional and international investments. This includes deep expertise in capital markets, corporate finance as well as Sharia compliant alternative investments in North America, Europe and the Middle East.

Prior to joining GFH in October 2020, Nael spent 17 years at Arcapita in a number of senior positions. Most recently, he was Managing Director for Strategic Investments & Business Development, Member of the Global Investment Committee and Board Member on Real Estate Funds and Private Equity. In his role, he focused on expanding the firm's geographic footprint and product offering including managing strategic acquisitions of asset managers and specialised real



estate general partners in Europe and Asia, strategic tie-ups and placement agents in Europe, Central Asia and Asia as well as have been responsible for the launch of the firm's Sukuk and liquidity platforms. During his tenure, he also served as Arcapita's Head of MENA Investments, Head of Real Estate and Head of Real Estate – MENA. Previously, Nael was the Head of Corporate Finance at SICO Bank in addition to working with BNP Paribas and GM TAIB Securities in Bahrain. Nael is a Chartered Financial Analyst and holds a B.Sc in Accounting and Finance from the University of Bahrain and an MBA from Edinburgh Business School.

Abesh Chatterjee
Head of Risk Management

Abesh Chatterjee is the Head of Risk Management at GFH Financial Group. He has over 12 years of experience in Risk management. As Head of Risk Management he is responsible for managing all type of risk including Credit, Market, Liquidity and Operational Risk across the Group and ensuring that the risk framework is effective. He is a part of 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.

Abesh began his journey as a risk management professional in India with ICICI Bank, the largest private sector bank in India. Later he shifted to Bahrain and managed the Risk management function of ICICI Bank Bahrain. He also worked as Head of Risk management in International Investment Bank, Bahrain. Besides Risk management, Abesh has also worked on other areas like ERP system development and Engineering during his stint with Infosys Technologies Limited and Larsen & Toubro Limited, two of the most prestigious companies in India. Abesh holds a post graduate diploma in Management from NITIE (India) and a bachelor degree in Mechanical Engineering from Jadavpur University (India). He also completed certification in Financial Risk Manager (FRM) from Global Association of Risk Professionals (GARP).

Dr. Mohamed Abdulsalam
Head of Sharia & Corporate Secretary

As Head of Sharia'a and Corporate Secretary at GFH, Dr. Mohamed Abdulsalam supervises all Group transactions to ensure they are conducted in compliance and in accordance with the teachings of Islamic Sharia. Furthermore, Dr. Abdulsalam assumes the fiduciary duty of maintaining all records, meetings and minutes of GFH's Board and its committees in addition to moderating meetings, and managing all record keeping activities for GFH's project companies. He joined the Group in 2006 with 18 years of Sharia experience. Prior to GFH, Dr. Abdulsalam worked with other Islamic financial institutions in Bahrain. He was a Sharia Auditor at Kuwait Finance House (KFH) and an Internal Auditor at Bahrain Islamic Bank (BisB).

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



Suryanarayanan Hariharan
Chief Financial Officer

Suryanarayanan Hariharan, Head of Financial Control, works closely with the Group's executive management team and is responsible for the accounting, financial planning and analysis, and stakeholder reporting, including regulatory reporting, for the Group and its owned subsidiaries. Surya has more than 16 years' experience in stakeholder reporting, audit services, business process improvement and transition and risk advisory. Prior to his appointment at GFH, he was the Head of Finance for a private equity venture in Abu Dhabi backed by sovereign wealth funds and ultra high net worth individuals. Previous to this he was in audit services and real estate domain at KPMG in both Bahrain and Qatar, and Pricewaterhouse Coopers in India.

He holds a bachelor's degree in Commerce from the University of Mumbai, India, and is a Chartered Accountant (CA) from the Institute of Chartered Accountants of India, and a Certified Management Accountant, USA.

Mohammed Abdulmalik
Group Co-IPT Head

Mohammed Abdulmalik, Group Co-IPT Head of Placement & Relationship Management, shapes and implements placement strategies and develops business models designed to capitalize on current market dynamics and potentials. In addition to managing the placement function of the Group, he is currently a Board Member of Capital Real Estate Projects and Sheffield Private School.

A well-versed investment banker, Mohammed brings 22 years of industry experience, having held a number of roles both within GFH, where he leveraged his extensive network of HNWI, FI's and Sovereign Wealth Funds to market Group products and services and contribute to the investment placement business. Prior to joining the Group, he held a number of roles in financial control and auditing with Arthur Anderson, Ernst & Young, and HSBC. He holds a B.Sc. in Accounting from the University of Bahrain.

Razi Almerbati
CEO GFH Capital S.A. - Group Co-IPT Head

Razi Almerbati is the CEO of GFH Capital S.A. and the Group Co-IPT Head of Placement & Relationship Management at GFH Financial Group. He brings to his role more than 15 years of experience in the banking and finance sector including a significant track record in Islamic investments and advisory. His areas of expertise include private banking and wealth management as well as private equity. Prior to joining GFH, Razi most recently served as Head of Investment Development & Distribution for the GCC region at The First Investor in Qatar, a subsidiary of Barwa Bank. Prior to that, he was Regional Director of the Investment Advisory Group of Abu Dhabi Investment House.

Razi currently holds Board Memberships in the following Companies:

- Esterad Investment Company
- Global Banking Corporation
- Falcon Cement Company



Muneera Isa
Head of Human Resources

Muneera Isa, Head of Human Resources (HR), manages employee strategies, recruitment, development and retention, career progression, and performance management. In addition to compliance, policy making and the overall implementation of HR regulations. Muneera is a seasoned HR professional, bringing over 17 years of experience to the Group having worked with regional and international financial institutions in the Kingdom of Bahrain including Bahrain Mumtalakat Holding Company, Capinvest and BNP Paribas.

She holds a Bachelor's Degree in English Literature from the University of Bahrain, a CIPD Level 5 Diploma in Human Resource Management from the Chartered Institute of Personnel and Development (CIPD), and a Master's Certificate in Human Resource Management from the Society for Human Resource Management (SHRM).

Ahmed Jamsheer
Head of Treasury & Capital Markets

Ahmed Jamsheer is the Head of Treasury & Capital Markets, where he is responsible for overseeing the Groups corporate liquidity, investments, cash flow and debt financing. He brings to his role more than 12 years of diverse experience in finance and investments as well as asset management, alternative investments, derivatives, debt financing, private equity and real estate. Most recently, prior to joining the Group in 2016, he spent six years at Promoseven Holdings as Head of Investments, Capital Markets & Finance, managing the company with an annual turnover of US\$ 1 billion. Previously, he held other senior management roles in finance and investment at Fortuna Company and Golden Bull Asset Management Company, among others. Ahmed holds a Master of Science in Finance with high distinction and a Bachelor of Science in Finance with honours from Bentley University, Waltham, MA, U.S.

Osama Janahi
Head of Information Technology

Osama Janahi is the Head of Information Technology. He has more than 20 years of experience with an exceptional business understanding and excellent project management skills, who provides leadership, vision, direction, and management to the entire IT department including application, development, and infrastructure teams. Responsible for anticipating future needs and delivering enhanced solutions across all departments and subsidiaries. Customer-orientated and capable of driving change through tracking, vetting and implementing creative and modern technology solutions that is relevant to the industry, security, efficiency and the business. A strong believer that IT should partner with business to improve productivity and efficiency of the organization.

Mr. Janahi holds a B.Sc. in Computer Science from the University of Bahrain along with other IT technical and non-IT professional certification like CISA, ITIL, Oracle, and others. He has some specific banking business and accounting knowledge which he gained through his work in Al Baraka Bank and Arthur Anderson.

Mariam Jowhary
Head of Compliance & AML

Mariam Jowhary joined the Group in late 2019 as Head of Compliance and AML, responsible for establishing and maintaining a robust and effective compliance and corporate governance framework across the Group that complies with regulatory requirements and industry legislation.



She works closely with the CEO and other members of the Group's executive management and reports independently to the Board Audit & Risk Committee.

Mariam is also responsible for ensuring compliance with the rules and regulations of the CBB, the Bahrain Bourse, the Dubai Financial Market, the UAE Securities and Commodities Authority, the Boursa Kuwait and the Kuwaiti Capital Markets Authority. Leveraging 16 years of professional experience, she has significant expertise in the field of compliance and has previously worked with Central Bank of Bahrain for more than 14 years. She holds a B.Sc. in Banking and Finance (with honors degree) from the University of Bahrain, Advanced Islamic Banking Diploma from BIBF, as well as APRM & CIPA Certifications.

Salem Patel
Head of Asset Management

Salem Patel is Head of Asset Management for GFH Financial Group. He is responsible for managing the bank's proprietary assets as well as clients investments in equity and fixed income funds. Salem is also a member of the bank's Management Investment Committee and ALCO. He brings over 20 years of extensive local and international financial industry experience to the Group having previously worked in the Financial Services Division with Accenture in London and prior to this as a Financial Analyst with LongView Partners, London. Salem began his career working in Equity Research at UBS and Societe Generale.

Salem currently holds a number of Directorships including Falcon Cement Company and Roebuck Asset Management. He graduated from the City University Business School in London with a B.S.C (Hons) in Business Studies specializing in Finance and has obtained a number of certifications including: the Islamic Finance Qualification (IFQ) and the Securities and Futures Authorities Registered Representative (SFA). He has also passed all three levels of the Chartered Financial Analyst (CFA) program and recently completed the Senior Executive Leadership Program at Harvard Business School.

Hamza Saleem
Acting Head of legal

Hamza Saleem is the Acting Head of Legal at the GFH Financial Group. He is responsible for providing the Group and its project companies with legal advice and support across a wide range of general, corporate, commercial, financial and regulatory matters. Hamza comes to the role with over thirteen years of legal experience as it applies to transactions involving mergers, acquisitions and related corporate matters as well as in the provision of regulated financial services and the development of banking products and services.

Prior to joining GFH in 2021, Hamza most recently spent 11 years at Zu'bi & Partners (formerly, Qays H. Zu'bi) as a Senior Associate and has previously worked at two of Pakistan's tier-1 law firms, where he focused on banking, finance and corporate and commercial law.

Hamza is a Solicitor of England and Wales and was previously called to the bar as a Barrister-at-law at the Honourable Society of Lincoln's Inn, having undertaken the BVC from the University of the West of England and an LL.B. (Honours) from the University of London.



5.5 Nature of business

Overview

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 recognized internationally for over a decade. GFH has developed a strong and consistent ability to identify, successfully bring to market and capitalize 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\$12 billion assets and funds under management from its strong client base in four main activities:

- Investment Management;
- Real Estate Development;
- Commercial Banking; and
- Treasury & Proprietary investments

GFH is listed on three stock exchanges in the GCC, including the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market. GFH's operations are principally focused across the GCC, North Africa and India, along with strategic investments in the U.S. and U.K.

Recognition

GFH has consistently been widely recognized by various industry stakeholders for its innovative approach, investment prudence and overall achievements in Islamic finance, real estate development and investment management. In 2021, GFH has been awarded "The Middle East's 30 Biggest Asset Managers 2021" by Forbes Middle East. As in 2020, GFH was awarded 3 prime awards as "The Best Private Bank", "The Best Investment Management Firm (Bahrain)" and "Banker of the year" by MEA Finance Awards in 2020. GFH was named "Best Investment Management Services" and "Best Investment Banking Services" at the Banker Middle East Product Awards 2019, "Best Investment Bank" at CPI Financial Islamic Business & Finance Awards 2019, "Best Investment Bank-Middle East" and "Best Islamic Bank-Bahrain" at the Islamic Business & Finance Awards-EMEA in 2018. The Group has also been recognized with three prestigious awards at the Bankers Middle East Awards in 2018 as well as five top honours in 2017. In 2016, the Group was awarded the "Best Islamic Financial Group" from Global Brands Magazine, "Best Investment Bank" from Middle East Industry Award, "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 recognized 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 financial Group, GFH has an enviable track record in conceptualizing and establishing a large number of pioneering financial institutions in the GCC. GFH was instrumental in the creation of First Energy Bank, the world's first Islamic investment bank focusing exclusively



on the energy sector. The Group also established various cross-border entities including Khaleeji Commercial Bank in Bahrain, 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. 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 on the development of prestigious Bahrain-based developments such as the revival of the multi-million dollar Harbour Heights project, and the centrally located waterfront 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 in wide-ranging sectors such as real estate, hospitality, retail, healthcare, industrial, education, and technology. 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.

5.6 Registered addresses and contact information

The Offeror

GFH Financial Group B.S.C.
Bahrain Financial Harbour, East Tower, 29th Floor
Road 4626, Block 346 Manama, Sea Front
P.O. Box 10006
Manama, Kingdom of Bahrain

Tel: (973) 1753 8538
Fax: (973) 1754 0006

5.7 Summary of material contracts

Except for contracts entered into in respect of any investment, treasury, project financing, deposit taking, lending and other contractual arrangements in the ordinary course of business, there are no material contracts entered into by GFH in the last two financial years with a value in excess of 1% of GFH's net profit in the last financial year.

6. FINANCIAL INFORMATION IN RELATION TO GFH

6.1 Details of the last three financial years

Please refer to Annexures 3 to 5

6.2 Dividends

2018: Distributed cash dividends at a rate of 3.34% of the nominal value of the ordinary shares for a total amount of US\$30 million (equating to US\$0.0087 per share), and US\$55 million of bonus shares at a rate of 5.97% of the nominal value of a share, equating to 1 bonus share for every 16.74 shares.

2019: Distributed cash dividends at a rate of 3.34% of the nominal value of the ordinary shares for a total amount of US\$30 million (equating to US\$0.0089 per share).

2020: Distributed cash dividends at a rate of 1.86% of the nominal value of the ordinary share for a total amount of US\$17 million (equating to US\$0.0049 per share), and US\$ 25 million of bonus shares at a rate of 2.56% of the nominal value of a share, equating to 1 bonus share for every 39.03 shares.

6.3 A statement of the assets and liabilities shown in the last published audited accounts

Please refer to Annexure 3 which includes the financial statements for GFH for the year ended 31 December 2020 and in particular the Statement of Financial Position.

6.4 Cash flow statement and any other primary statements provided in the last published audited accounts

Please refer to Annexure 3 which includes the financial statements for GFH for the year ended 31 December 2020 and in particular the Statement of Profit and Loss, Statement of Comprehensive Income, Statement of Changes in Equity, and Statements of Cash Flows.

6.5 Significant accounting policies

All the significant accounting policies as contained in the Annual Report for the financial year ended 31 December 2020 have been mentioned in Annexure 3 of this Offer Document, under the heading "Notes to the Financial Statements". There has been no change in accounting policies which have resulted in figures not being comparable to a material extent.

7. BAHRAIN'S BANKING SECTOR

7.1 Bahrain's financial sector is well-developed and diversified, consisting of a wide range of conventional and Islamic financial institutions and markets, including retail, wholesale banks and specialised banks.



- 7.2 Bahrain's banking system consists of both conventional and Islamic banks and is the largest component of the financial system. In 2020, the Banking segment includes 30 retail banks of which 13 are locally incorporated and 17 are branches of foreign banks, 61 wholesale banks, and 8 representative offices of overseas banks.
- 7.3 The banking sector has played a pivotal role in the emergence of Bahrain as a leading financial centre in the region. It has continued to grow in 2020 with a total banking sector assets of c.USD 207.353.5 billion, more than five times annual Gross Domestic Product (GDP). Overall, the sector contributes c.19% of Bahrain's GDP, making it one of the key drivers of growth in the country.

8. CROSS SHAREHOLDINGS BY THE OFFEROR AND ITS DIRECTORS IN KHCB

Name of Shareholder	Number of Shares	Relevant GFH Director
GFH	121,726,795	Jassim Alseddiqi Hisham Alrayes
KHCB Asset Company, a Subsidiary of GFH	494,330,492	Jassim Alseddiqi Hisham Alrayes

- 8.1 None of the Directors of GFH have any direct or deemed interest in the KHCB Shares
- 8.2 GFH holds (direct and indirect) USD 150,287,600 notional of Additional Tier 1 Sukuk issued by KHCB, as of the date of this notice.
- 8.3 No arrangement, agreement or understanding including any compensation agreement, exists in connection with the Offer between GFH and any person acting in concert with it and the directors of KHCB or the KHCB Shareholders.
- 8.4 GFH (together with its subsidiary, KHCB Asset Company) holds 616,057,287 KHCB Shares representing 69.06% of the issued share capital of KHCB. KHCB Asset Company has pledged 336,134,454 KHCB shares to Sharjah Islamic Bank PJSC.
- 8.5 In the past 12 months, GFH acquired 121,726,795 KHCB Shares representing 13.64% of KHCB Shares for a consideration of BD 0.072 per KHCB share.

9. GFH POST-ACQUISITION STRATEGY

9.1 The impact of the acquisition on the continuation of the business of KHCB:

- 9.1.1 GFH intends to maintain KHCB's commercial registration and vocation as an Islamic retail bank. KHCB will continue to operate under its normal course of business and maintain its operations as a subsidiary of GFH.
- 9.1.2 The acquisition by GFH is expected to impact the operations of KHCB positively as result of synergies that will contribute to the enhancement of the commercial banking business line of the group. It will provide access to a different segment of clients and opportunities. KHCB will benefit from GFH's infrastructure to enhance its business profile and scale while increasing its competitiveness in the space that it operates in.



9.2 Strategic plans for KHCB post acquisition

- 9.2.1 GFH will continue to support KHCB's vision to become one of the strongholds of the domestic economy and regional Islamic Banking by providing unique, innovative and trustworthy Shari'a-compliant products, services and investment opportunities for its clients.
- 9.2.2 GFH does not intend to implement material changes to the general business of KHCB

9.3 Long term commercial justification for the proposed Offer

- 9.3.1 KHCB will provide GFH with access to a wider segment of clients and allow for a bigger market share.
- 9.3.2 Commercial Banking provides stability to GFH's profitability and risk profile, and hence is considered a key pillar to GFH's strategic growth plan.

9.4 Impact on KHCB's employees

- 9.4.1 The successful completion of the Offer is not expected to materially change the current organizational structure of KHCB, with the virtue of GFH's and KHCB's different regulatory licenses and areas of business. As such, there will not be a major impact on KHCB's employees except for the extent required to implement GFH's vision and drive of business, by creating the right balance between cost and benefit. KHCB is envisioned to continue to have a separate team and organizational structure

10. SHARE OWNERSHIP IN GFH AND KHCB

10.1 Currently, as at the Last Practicable Date, the following shareholders own 5% or more in GFH and KHCB (controlled / related parties ownership have been consolidated in the table below) respectively:

Current and pre-offer ownership structure		
GFH Financial Group B.S.C.	% owned in GFH	No of shares
Shuaa Capital and its associates	6.00%	226,701,547
Keypoint Trust B.S.C(c)	7.83%	295,789,745
Others	86.17%	3,253,498,772
Total	100.0%	3,775,990,064

Current and pre-offer ownership structure		
Khaleeji Commercial Bank B.S.C.	% owned in KHCB	No of shares
GFH Financial Group	13.64 %	121,726,795
KHCB Asset Company	55.41 %	494,330,492
Khaleeji Commercial Bank B.S.C (Treasury Shares)	9.92 %	88,473,159
Other Public	21.03%	187,589,034
Total	100.00%	892,119,480

10.2 Please refer to Annexure 1 for details of dealings in GFH's shareholding during the period from 23 May 2021 to 23 November 2021, prior to the Offer Period (6 months preceding the Last Practicable Date)

11. THE OFFEROR'S CONFIRMATORY STATEMENTS

11.1 The Offeror confirms that:

11.1.1 settlement of the Offer consideration to which all of the Offeree's shareholders are entitled under this Offer will be implemented in full in accordance with the terms of this Offer;

11.1.2 no arrangements involving rights over shares, nor any indemnity agreements, nor any agreements or understandings, both formal or informal, relating to the shares pertaining to this Offer (that may be an inducement to deal or refrain from dealing) exist between the Offeror or any person acting in concert with the Offeror and any other party;

11.1.3 none of the KHCB Shares being acquired pursuant to the Offer will be transferred to any other persons;



- 11.1.4 it has not entered nor made any agreements, arrangements or understandings, nor has it undertaken any compensation agreements, both directly or through any person acting in concert with the Offeror, in connection with the Offer with the directors or shareholders of the Offeree;
- 11.1.5 no material changes in the financial or trading position or outlook of GFH has occurred following the last published audited accounts excerpts of which are included in this Offer Document, and on the websites of GFH (www.gfh.com) and Bahrain Bourse (www.bahrainbourse.org)

12. MARKET PRICE AND HISTORICAL STOCK TRADING SUMMARY

12.1 Trading price of the Offeree

Please refer to Annexure 2 for the details on the trading price of the Offeree

12.2 Trading price of the Offeror

Please refer to Annexure 2 for the details on the trading price of the Offeror

13. EFFECT OF THE OFFER

13.1 Legal consequences of the Offer

13.1.1 The Offer, if completed, will result in GFH becoming the legal owner of KHCB Shares validly tendered under the Offer together with all rights and interests associated with such ownership.

13.1.2 Shareholders in KHCB surrendering their shares to GFH in return for availing of the Share Exchange Offer provided at the discretion of each KHCB Shareholder made by GFH shall lose their rights associated with their ownership of such KHCB Shares, including but not limited to, rights concerning share ranking, voting, dividend and liquidation.

13.1.3 Shareholders in KHCB choosing not to surrender their shares to GFH in return for availing of the Share Exchange Offer provided at the discretion of each KHCB Shareholder made by GFH shall continue to retain their rights associated with their ownership of such KHCB Shares, including but not limited to, rights concerning share ranking, voting, dividend and liquidation, subject to compulsory acquisition rules, if applicable.

13.2 Possible Compulsory Acquisition and Delisting

13.2.1 Compulsory Acquisition

13.2.1.1 If the Offeror obtains 90% or more of the acceptances of the outstanding KHCB Shares subject to the voluntary conditional revised offer by the Offeror, the Offeror intends to exercise its right to compulsorily acquire those Offer Shares not acquired by the Offeror under the Offer within (3) months from the date the level of acceptances of the Offer reaches the prescribed level under the Commercial Companies Law required for compulsory acquisition. Subject to the satisfaction of the requirements under the Article 319 of the Commercial Companies Law and requirements under the TMA Module.

13.2.1.2 The Offeror shall dispatch a notice (the "Notice of Compulsory Acquisition") to the KHCB Shareholders who did not accept the Offer during the Offer period (the "Non-accepting Shareholders") informing them of the Offeror's intention to acquire their remaining KHCB Shares under its right of compulsory acquisition within (15) calendar days from the Unconditional in all Respects Date.

13.2.1.3 Pursuant to the exercise of the right of compulsory acquisition by the Offeror, the KHCB Shares held by the Non-accepting Shareholders not acquired by the Offeror under the Offer will be compulsorily acquired by the Offeror at the same consideration for the Offer at a Share Exchange



Ratio of 0.384 GFH Shares per KHCB Share in addition to Cash Consideration of BHD 0.024 per KHCB Share.

- 13.2.1.4 A Non-accepting Shareholder has the right to make an application to the court objecting to such compulsory acquisition and such application shall be made by such Non-accepting Shareholder within (60) calendar days from the date on which the Notice of Compulsory Acquisition is dispatched.

13.2.2 Delisting

- 13.2.2.1 If the Offeror exercises its right to compulsorily acquire those Offer Shares not acquired by the Offeror under the Offer and completes the compulsory acquisition, the Offeree will become a direct wholly-owned subsidiary of the Offeror and the Offeree will apply to the CBB to delist its shares from Bahrain Bourse in compliance with the rules of the TMA.
- 13.2.2.2 If Offeror obtains less than 90% acceptances of the outstanding KHCB Shares subject to the voluntary conditional offer, KHCB's shares may be subject to voluntary delisting from the Bahrain Bourse subject to the approval of the CBB, Bahrain Bourse, KHCB's Board and the general meeting of the shareholders of KHCB.

In view of the foregoing, in the case of the exercise by the Offeror of its right of compulsory acquisition under the Commercial Companies Law, whether or not any Non-accepting Shareholders makes an application to the court to object such compulsory acquisition, it will take a longer time for the Non-accepting Shareholders to receive the consideration as compared to the time required for the KHCB Shareholders to receive the net consideration after their acceptance of the Offer and the Offer having become unconditional in all respects.

Shareholders and/or potential investors of KHCB should note that the Offer and potential compulsory acquisition and delisting as prescribed above is subject to the satisfaction or waiver (where applicable) of the Conditions Precedent and conditional upon, the Offer becoming unconditional in all respects. Accordingly, the Offer may or may not become unconditional in all respects.

Persons who are in doubt as to the action they should take should consult their licensed brokers, dealers, solicitors, professional accountants or other professional advisers.

13.3 No special benefits to executive managers and directors

- 13.3.1 No payments of any kind will be made by GFH to the executive managers, the directors or the employees of KHCB in connection with the Offer, except for an ordinary settlement pursuant to the Share Exchange Offer for any KHCB Shares held by such persons.
- 13.3.2 GFH's executive managers, directors and employees will not receive any payments of any kind from KHCB or any other third party in connection with the Offer, except for an ordinary settlement pursuant to the Share Exchange Offer for any KHCB Shares held by such persons.



13.4 The effect of the Offer on the directors of the Offeror

The Offer will not have any material effect on the current directors of GFH, and no change is envisaged to the current structure of the Board of Directors of GFH pursuant to this Offer.

13.5 Financial consequences of the Offer

13.5.1 GFH currently owns 69.06% of the issued share capital of KHCB as of the date of this Offer Document. In this context, full acceptance of the Offer is not expected by the Offeror to have a material adverse effect upon the Offeror's assets, liabilities, profits or business.

13.5.2 The Offeror will continue to benefit from a sound financial position with pro-forma regulatory capital ratios above the requirements as per the CBB's Capital Adequacy Rules. On the basis of the published accounts as at 30th June 2021, GFH's Pro forma CET1, Tier 1 and Total Capital ratios will not be impacted materially, and will remain in compliance with the minimum capital adequacy requirements of 9.0%, 10.5% and 12.5%, respectively, as required by the CBB.



14. RISK FACTORS

In deciding whether to accept the Offer, KHCB Shareholders should carefully read this document and consider the risk factors set out in this section. Additional risks and uncertainties not presently known to GFH, or which GFH currently consider to be immaterial, may also have an adverse effect on the GFH Group.

KHCB shareholders should also consult their own financial and legal advisors about the risks associated with GFH Group's business in light of their particular circumstances, without relying on the Bank. KHCB shareholders are advised to make, and will be deemed by the Bank to have made, their own investigations in relation to such factors before accepting the Offer.

14.1 Risks Relating to the Offer

14.1.1 **If the 'Conditions Precedent to the Offer' set out in section 3.6 of this Revised Offer Document and 'Procedures for accepting the Offer' set out in section 4 of this document are not satisfied, the Offer may not take place or may be delayed**

The Offer is conditional on a number of conditions as set out in section 3.6 (Conditions Precedent to the Offer) of this document. If any of these conditions are not satisfied, then there is a risk that the Offer will not take place. Further, in order to implement the Offer, the procedural requirements set out in section 4 (Procedures for Accepting the Offer) of this document must be satisfied. If any such requirement is not satisfied, then the Offer will not take place (or, in certain circumstances, the implementation of the Offer may be delayed). Any of the foregoing events may have a negative impact on the existing value of the GFH Shares.

14.1.2 **GFH Group may fail to realise the anticipated synergies and other benefits from the Offer**

The GFH Group may fail to achieve the synergies that it anticipates will arise from the Offer. The GFH Group expects to benefit from access to a wider segment of clients, a bigger market share and stability to GFH's profitability and risk profile. GFH Group's ability to realise these anticipated synergies and the timing of this realization may be affected by a variety of factors like unforeseeable events, including major changes in the markets in which GFH and KHCB operate.

14.1.3 **Trading prices of the GFH Shares and the KHCB Shares may be volatile until the Offer takes place**

Given the awareness in the market of the Offer, it is likely that there will be increased volatility in the share price of the GFH Shares and the KHCB Shares until the Offer is finalised.

14.1.4 **Risks relating to the Exchange Ratio**

The exchange ratio is based on the market price of GFH shares to the offer price on KHCB shares. The offer price on KHCB shares has been determined based on the recent publicly disclosed transaction of offer to buy shares from one of the shareholders. Since GFH is a listed entity, the market price of GFH is considered as an approximate reflection of the value for GFH shares. Additionally, the future financial forecasts and estimates, including synergies, referred to above will be realised in the amounts and time periods contemplated thereby. If a material variation is to take place with respect to all or any of these assumptions, this could materially affect the valuations of



the Banks and the Exchange Ratio may not accurately reflect the values of the respective companies.

14.2 Risks relating to the GFH Shares

14.2.1 Volatility of GFH Share price following implementation of the Offer

The trading price of the GFH Shares following implementation of the Offer may be subject to wide fluctuations in response to a number of factors, specific to the GFH Group or otherwise, such as variation in operating results, changes in financial estimates, changes in credit ratings, recommendations by securities analysts, the operating and news reports relating to trends in the GFH Group's markets. These factors may adversely affect the trading price of the GFH Shares regardless of the GFH Group's operating performance. Further, any future sales, or the possibility of sales, of substantial numbers of GFH Shares owned by substantial shareholders in GFH following the Offer could have an adverse effect on the market price of the GFH Shares. KHCB Shareholders should be aware that the value of the GFH Shares and the income from them can increase or decrease as is the case with any other investment in listed securities and the historic trading patterns of the GFH Shares are independent of, and may bear no resemblance whatsoever to, the trading patterns of the GFH Shares following implementation of the Offer.

14.3 Risks Relating to the GFH Group's Business

14.3.1 Strategic and business risks

14.3.1.1 Difficult market conditions may have a material adverse effect on the Group's results of operations, financial condition, business and prospects

The Group's principal businesses are investment banking; commercial banking; real estate development; and treasury and proprietary investments. Each of the Group's businesses is materially affected by conditions in the global financial markets and economic conditions or events throughout the world that are outside its control, including but not limited to changes in interest/profit rates, availability of credit and funding, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), regulatory restrictions and requirements by regulatory authorities, currency exchange rates and controls and other national and international political and economic circumstances (including wars, terrorist acts, security operations and sovereign debt restructurings). These factors may affect the level and volatility of securities prices and the liquidity and the value of investments, and the Group may not be able to or may choose not to manage its exposure to these market conditions and/or other events. In the event of a market downturn, each of the Group's principal businesses could be materially adversely affected.

Since Covid-19 was first identified in China in late 2019 it has spread rapidly, infecting people around the world and causing a substantial number of deaths. Almost all countries that have been significantly affected have introduced measures to try to contain the spread of the virus, including border closures and restricting the movement of their citizens. The measures have resulted in the closure of numerous businesses in those countries (particularly those related to the travel industry) and widespread job losses. It is currently unclear how long these restrictions will be in place and what their ultimate impact will be on global and local economies, as well as the Group's businesses. According to the World Bank, the Covid-19 pandemic has adversely affect investment sentiment,



lead to irregular intervals of volatility in the market, impacted the global economy, disrupting the financial market and decreasing interest/profit rates. Recurring outbreaks of the Covid-19 and the uncertainty behind the scope and duration of the pandemic, may lead to further adverse effects to the Group's business, operational results, financial condition and liquidity.

Further any future volatility of the oil price can have a negative impact on Group's business given that majority assets of the Group are concentrated in GCC and oil price shocks have the potential to significantly adversely affect many economies around the world and GCC. In addition, if low oil prices are prolonged, this would be likely to have a material adverse impact on the core business areas of the Group in the following ways:

- the investment banking business could be impacted as a result of tightened market liquidity. Additionally, low risk appetite of investors could impact the Group's new investment placements and the income earned. If market conditions do not improve, the return from the existing investments may drop, especially those investments in sectors such as hospitality, education and real estate;
- commercial banking may be impacted as a result of reduction in business activity, increase in funding costs and funding pressures, deterioration in asset quality, increase in credit losses and impairment charges, and lower profitability and cash flows;
- real estate development may be impacted by decline in market demand, delay in completing infrastructure and construction works, shortage of available cash to fund construction projects and the inability to continue operations by any of the Group's contractors due to financial difficulties; and
- treasury and proprietary investments may be impacted due to a fall in market price and value of the investments and/or a reduction in market liquidity to exit the investments in timely manner or at a preferable rate. The Group's treasury department may face difficulties in meeting its obligations including funding commitments due to increased funding costs, significant outflow of deposits within a short period of time due to liquidity constraints or a lack of confidence of depositors.

14.3.1.2 The Group's businesses may be impacted by political, economic and related considerations

Many of the Group's clients and a significant part of its businesses are based in the GCC and the wider MENA region. Since early 2011, there has been political unrest in a number of countries in the MENA region, including Algeria, Bahrain, Egypt, Iraq, Libya, Morocco, Oman, Saudi Arabia, Syria, Tunisia and Yemen. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and civil war and has given rise to a number of regime changes and increased political uncertainty across the region. It is not possible to predict the occurrence of events or circumstances such as war or hostilities, or the impact that such occurrences might have on the Group. The MENA region is currently subject to a number of armed conflicts including those in Yemen, Syria, Iraq and Palestine as well as the multinational conflict with the Islamic State.

The Group's business could be affected by political, economic or related developments both within and outside the Middle East because of inter-relationships within the global financial markets. In addition to operations in the GCC and wider-MENA region, the Group also has operations in India,



Europe and the United States. The economies of these countries are at varying stages of socio-economic and macro-economic development which could give rise to a number of risks, uncertainties and challenges that could include the following:

- changes in political, social, or economic conditions;
- trade protection measures and operating licensing requirements;
- potentially negative consequences from unexpected changes in regulatory requirements;
- state-imposed restrictions on repatriation of funds; and/or
- the outbreak of armed conflict.

In particular, political uncertainty could decrease the attractiveness of some of the Group's real estate developments making it more difficult for the Group to exit them and could decrease clients' funds available for investment in the Group's investment banking business or decrease client demand for the Group's investment products.

14.3.2 Risks applicable to the Group's investment banking business

14.3.2.1 Increasing competition from existing asset managers and new entrants in the Group's key investment banking markets may adversely affect profitability of its investment banking business

The Group competes with a number of large international financial institutions who operate investment banking businesses which are similar to those of the Group as well as with established local and regional competitors based in Europe, North America and Asia, including managers offering primary funds, secondary funds and direct and co-investment funds in the private equity and real estate markets. Further, to the extent that the market increasingly recognises the growth in funds available for investment by institutional and high net worth individual investors in the GCC region, additional competitors could be attracted to the GCC region.

Many of the Group's competitors form part of larger financial services companies and attract business through their client relationships in other areas in which they operate. A number of the Group's competitors have a stronger global brand recognition, wider geographic reach and greater resources than the Group. To the extent that the Group does not successfully compete in terms of the maintenance of its existing client base, development of additional clients, sophistication of product offering, pricing, performance or service, its ability to grow or maintain its investment banking business may suffer and its results of operations will be adversely affected as a result. Competition might lead to pressure on margins or, if the Group is unable to persuade its clients about the advantages of its unique product offerings, could lead to pressure on its fee structure generally. Further, to the extent that certain products the Group offers become more widely available in the market and are replicated by its competitors, part of its business may be increasingly perceived as a commodity service, which could result in increased pressure from clients to reduce fees, which may reduce the Group's revenue and margins from its investment banking business in the future. In addition, increasing competition may lead to a decrease in fees across the industry for certain or all segments of the Group's investment banking product offering.



14.3.2.2 New money inflows into the private equity and real estate investment markets may lead to an increase in transaction prices and diminish the Group's returns from its investment banking business

Private equity, real estate investment and fund managers may continue to expand the range of their investments in terms of transaction sizes, industries and geographical regions and there is a finite set of available investment opportunities at any given time. As a result, the pricing of transactions in the private equity investment and the real estate markets, where the Group's real estate investments are concentrated, may become less disciplined, with higher prices being offered than for historical comparable investments. If this occurs, returns on investments in these asset classes could decline. A decrease in the investment returns from the private equity investment and real estate markets over time may have an adverse effect on investors' allocations and result in lower cash inflows into or higher cash outflows from the private equity investments and real estate markets. In addition, lower returns could lead to a decline in the fees investors are willing to pay to managers and funds for asset management and investment advisory services and a decline in performance fees generally. Even if fee rates do not decline, absolute amounts of fees received could decline if the value of the Group's investments declined as a result of negative performance. These developments could have an adverse impact on the Group's results of operations from its investment banking business.

14.3.2.3 Investments in prospective private equity transactions are risky and the Group could fail to realise gains on these investments

Private equity investment involves a number of significant risks, including the following:

- **Limited capital resources.** Prospective private equity investment portfolio companies may have limited financial resources, which may negatively affect their ability to meet their obligations under their financing arrangements;
- **Limited operating history.** Some prospective private equity investment portfolio companies may have limited operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;
- **Limited information.** Generally, little public information exists about prospective private equity portfolio companies, and the Group is required to rely on the ability of its investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. The companies that the Group targets in its private equity investment business are generally not publicly listed. If the Group is unable to identify all material information about any of these companies, it may not make a fully informed investment decision and therefore may lose money on its investment;
- **Dependency on key managers and personnel.** Some prospective private equity investment portfolio companies may depend on the management talents and efforts of a small group of persons, and the death, disability, resignation or termination of service of one or more of these persons could have a material adverse impact on the relevant portfolio company and, in turn, on the Group's results of operations from its investment banking business;
- **Due diligence risk.** The due diligence process undertaken by the Group in connection with any



proposed private equity investment may not reveal all relevant factors that are material to the Group's investment decision and any failure to identify a material factor could affect the operations of the investee, the Group's expected profit from the investment, the timing of its exit and the expected sale price; and

- **Other risks.** Prospective private equity investment portfolio companies may from time to time be party to litigation, may be susceptible to economic slowdowns or recessions, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. The Group's private equity investment portfolio may also be exposed to a relatively high concentration in particular industries or particular companies, for example the Group is currently targeting investment in the education, healthcare and technology sectors. The Group may also make private equity investments in companies it does not control and in these cases it must rely on board representation, shareholder agreements and other mechanisms to protect its interests, which may not always be effective.

As a result of the factors set out above or other circumstances, the Group's private equity investments may not realise gains, or may realise gains that fall short of the returns desired by its clients. If the Group's investments do not perform as anticipated, the returns it is able to deliver to clients will be adversely affected. The Group typically co-invests for its own account alongside its clients and the value of these own-account investments made by the Group will also decrease if the Group's investments do not perform as anticipated. Any failure to provide adequate returns for clients or to realise gains on its private equity investments could decrease the Group's ability to attract clients in the future which could have a material adverse effect on the Group's results of operations from investment banking.

14.3.2.4 The performance of the Group's investment banking business is subject to risks associated with real estate investment

The Group's real estate investment business derives its income from the ownership and operation of properties that are principally located in the US and the Europe. These properties include, from time to time, office, hotel, residential (including multi-family residential), leisure and industrial properties. There are a number of factors that may adversely affect the income that the Group's real estate properties generate, including:

- **Performance risk.** The performance of any particular real estate investment is dependent upon the managers of the asset concerned. To the extent that any of the Group's real estate investments are managed by third parties, the Group is exposed to the risk that the third party managers may take decisions with which the Group does not agree or may take decisions in good faith that could lead to material losses, for example if there is a material change in circumstances after the decision has been taken;
- **Exit strategy risk.** There is a risk that the period for which a real estate investment is held will be longer than expected at the time of its acquisition. If the Group is unable to sell any real estate investment within the anticipated investment term, or at the expected sales price, this may delay the exit from the investment and may affect the profitability of the investment;
- **Illiquidity.** The Group's real estate investments are illiquid and involve a high degree of risk.



Although these investments may generate current income, the return of capital and the realisation of gains, if any, from a real estate investment may not occur until the partial or complete sale of the investment. See also “—*Risks applicable to the Group’s real estate development business—Real estate valuation is inherently subjective and uncertain, and real estate investments are illiquid*” below;

- **Due diligence risk:** The due diligence process undertaken by the Group in connection with any proposed real estate investment may not reveal all relevant factors that are material to the Group’s investment decision and any failure to identify a material factor could affect the Group’s expected profit from the investment, the timing of its exit and the expected sale price; and
- **Other risks:** Real estate investments have historically experienced significant fluctuations in value, and specific factors, such as (i) changes in general or local economic conditions which can result in increased vacancy rates and/or tenant bankruptcies; (ii) changes in the supply of, or the demand for, competing properties in a geographic area; (iii) changes in interest rates; (iv) the promulgation and enforcement of governmental regulations relating to land-use and zoning restrictions, environmental protection and occupational safety; (v) unavailability of mortgage funds that may render the sale of a property difficult; (vi) the financial condition of tenants and prospective purchasers of the investment concerned; (vii) increases in real estate tax rates and other operating expenses; (viii) increases in energy costs and energy supply shortages; (ix) the existence of uninsured or uninsurable risks; and (x) acts of God and natural disasters, may result in potentially significant reductions in the fair value of any real estate investment and/or reduce the Group’s returns from the investment and/or make it more difficult to dispose of the investment at a profit.

As a result of the factors set out above or other circumstances, the Group’s real estate investments may not realise gains or may realise gains that fall short of the returns desired by its clients. If the Group’s investments do not perform as anticipated, the returns it is able to deliver to clients will be adversely affected and the value of its own account investments may also decrease. The Group cannot guarantee that it will be able to exit its real estate investments at a time of its choosing or at all or that it will realise gains on any real estate investment. Any failure to provide adequate returns for clients or to realise gains on its real estate investments may decrease the Group’s ability to attract clients in the future, which could have a material adverse effect on the Group’s results of operations from its investment banking business.

14.3.2.5 A prolonged recessionary environment could negatively impact the Group’s investment banking business

A prolonged recessionary environment could place negative pressure on asset-based returns and the mark to market valuations of the investments in private equity companies and real estate made by the Group’s investment banking business, as well as impacting the returns which the Group is able to deliver to its clients from these investments. In such an environment, the Group may choose to, or become forced to, sell such investments at values that are less than expected or even at a loss, thereby significantly affecting investment performance and consequently the Group’s overall operating results and cash flow and its reputation with its clients.



14.3.3 Risks applicable to the Group's real estate development business

14.3.3.1 The Group is exposed to a range of development and construction risks

The Group is currently undertaking a number of real estate development projects which expose it to a number of risks common to development companies, including:

- uncertainties as to market demand or a decline in market demand after construction has begun;
- the inability or unwillingness of customers to make contracted progress payments on units or land sale contracts;
- delays or refusals in obtaining all necessary zoning, land use, building, occupancy and other required governmental and regulatory permits, approvals and authorisations;
- material disagreements with joint venture partners where the development involves a joint venture;
- delays in completing necessary infrastructure works;
- requirements to make significant current capital expenditures for certain properties without receiving revenue from these properties until future periods;
- possible shortage of available cash to fund construction and capital improvements and the related possibility that financing for these capital improvements may not be available to the Group on suitable terms or at all;
- an inability to complete development projects on schedule or within budgeted amounts;
- an inability to arrange funding to complete the project or to repay or refinance existing financing that is maturing; and
- an inability to pass through risks contractually to contractors as a result of which the Group may become exposed to various market or contractor risks.
- There can be no assurance that any or all of the Group's current projects will be completed in the anticipated time frame or at all, whether as a result of the factors specified above or for any other reason, and the Group's inability to so complete a project could have a material adverse effect on its business, results of operations, cash flows and financial condition.
- Although the Group does not act as a contractor itself, its projects are also exposed to a number of construction risks, including the following:
 - default or failure by the Group's contractors to finish projects on time, according to specifications or within budget;
 - financial difficulties encountered by the Group's contractors or joint venture partners;
 - an inability to find a suitable contractor either at the commencement of a project or following a default by an appointed contractor;



- disruption in service and access to third parties, such as architects, engineers, interior designers or other service providers;
- design faults and/or defective materials or building methods;
- disputes between contractors and their employees;
- shortages of materials, equipment and labour, adverse weather conditions, natural disasters, labour disputes, disputes with sub-contractors, major accidents, changes in governmental priorities and other unforeseen circumstances; and
- escalating costs of construction materials, resources, personnel and global commodity prices.

Any of these factors, either alone or in combination, could materially delay the completion of a project or materially increase the costs associated with a project. The failure to complete construction according to specifications may also result in liabilities, reduced efficiency and lower financial returns.

14.3.3.2 The Group's projects could be exposed to catastrophic events over which the Group has no control

The Group's real estate development projects could be adversely affected or disrupted by natural disasters (such as earthquakes, floods, tsunamis, volcanoes, fires or typhoons) or other catastrophic events, including, but not limited to:

- changes to predominant natural weather, hydrologic and climatic patterns, including sea levels;
- major accidents, including chemical and radioactive or other material environmental contamination; and
- major epidemics affecting the health of persons in the region and travel into the region.

The occurrence of any of these events at one or more of the Group's development projects may cause severe disruption to the project concerned. In addition, such an occurrence may increase the costs associated with the relevant project, may subject the Group to liability or impact its reputation and may otherwise hinder the normal operation of the Group's real estate development business.

Whilst the Group carries insurance that may cover losses caused by certain catastrophic events, there is no certainty that all such losses will be recovered in a reasonable time or at all, given that insurance policies are typically limited in scope, contain exclusions and may include first loss deductibles as well as the fact that payments under such policies are dependent on the solvency of the insurer.

14.3.3.3 Real estate valuation is inherently subjective and uncertain, and real estate investments are illiquid

Real estate assets are inherently difficult to value. As a result, valuations are subject to substantial uncertainty and subjective judgements and are made on the basis of assumptions which may not



be correct. There can be no assurance that the sale of any of the Group's development properties will be at a price which reflects the most recent valuation of the relevant project, particularly if the Group was forced to sell properties prior to the completion of their development or in adverse economic conditions. In addition, the real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond the Group's control and may materially adversely impact projects after their most recent valuation date. Because real estate investments in general are relatively illiquid, the Group's ability to promptly sell one or more of its real estate assets in response to changing conditions is limited. Accordingly, should the Group need to sell one or more real estate assets in adverse market conditions, its business, results of operations, cash flows and financial condition could be materially adversely affected if it is unable to sell the assets at the desired price or in a timely fashion.

14.3.3.4 A prolonged period of difficult economic conditions could negatively impact the Group's real estate development business

The Group is currently undertaking a number of real estate development projects in Bahrain as well as in other countries and also owns a significant land bank which it may use for future development. The real estate market has historically been cyclical and the Group believes that it will continue to be so. A prolonged period of difficult economic conditions could result in slow downs and/or defaults in the performance of services by any of the Group's contractors who are faced with financial difficulties as well as in defaults in payments for completed properties and development land sold by the Group. These effects could be aggravated by the fact that the Group may still need to complete the development of the amenities of any affected projects in order to properly service the projects and by the fact that the Group may be relying on income from certain projects in order to repay financing incurred by it in connection with a particular project or any other projects. Real estate prices are also impacted by economic conditions and at times of deteriorating economic conditions the Group may experience less demand for its properties which may reduce the prices it is able to obtain and/or cause delays to affected projects and may also constrain its ability to realise value from its land bank.

14.3.3.5 The Group's projects are domiciled in various jurisdictions and exposed to varying economic and regulatory risk

The Group's projects are located in various jurisdictions inside and outside Bahrain which makes these projects and the holding structures exposed to changes in the economic and regulatory environment. Such exposure may be due to uncertainties such as changes in policies, taxation, repatriation policies and/or other developments in the laws and regulations of the respective jurisdiction the project is domiciled in.

14.3.4 Risks applicable to the Group's treasury and proprietary investments business

14.3.4.1 The Group is subject to the risk that liquidity may not always be readily available or may only be available at costs which may adversely affect one or more of its businesses

Treasury acts as the custodian of cash in the business and is responsible for managing the liquidity. Liquidity risk is the risk that the Group will be unable to meet its obligations, including funding commitments, as they become due. This risk is inherent in the Group's operations, particularly in its treasury, commercial banking and investment banking businesses, and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding



(including, for example, short-term funding, rollovers), changes in credit ratings or market-wide phenomena such as market dislocation, financial crisis and major disasters.

The Group's ability to continue to fund itself effectively is therefore exposed to events that impact its ability to obtain funding in the GCC, such as a severe regional recession, or from banks and financial institutions, such as a significant reduction in market liquidity.

Since the start of 2018, GFH has also increased the amount of funding secured through customer deposits. The availability of deposits is subject to fluctuation due to factors outside the Group's control, including possible loss of confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time or may cause GFH and/or its commercial banking business to increase the profit distributions on its deposits to ensure that it retains sufficient deposits.

The Group may experience outflows of deposits at times when liquidity is constrained generally in the GCC or when its major depositors experience short- or longer-term liquidity requirements. In addition, if a substantial portion of the Group's depositors, or any of its largest depositors, withdraw their demand deposits or do not roll over their time deposits at maturity, the business may need to seek other sources of funding or may have to sell, or enter into sale and repurchase or securitisation transactions over, certain of its assets to meet its funding requirements. In extreme cases, if the Group is unable to refinance or replace such deposits with alternative sources of funding to meet its liquidity needs, through deposits, the interbank markets, the international capital markets, its shareholders or through asset sales, this would have a material adverse effect on the business generally and consequently on the Group.

The Group's investment banking business principally invests in private equity transactions and real estate, principally in the US and the UK but also elsewhere in Europe and in the GCC. These investments are typically made on behalf of its clients, although the Group usually retains a proportion of each investment for its own account. The Group uses cash to fund its investment banking investments prior to placement with its clients and to provide add on funding capital to support or facilitate the growth of its existing investments. The Group's principal sources of cash for its investment banking business, other than that arising from its operating income and sale of investments, are financing sourced from regional and international capital markets and client funds.

At times when liquidity in the financial markets is constrained, the performance of the Group's investment banking business could suffer. This could cause the Group's cash flows from operations to significantly decrease, which could materially and adversely affect its liquidity position and the amount of cash it has on hand to conduct its operations. Having less cash on hand could in turn require the Group to rely on financing which may not be available on acceptable terms or to sell investments at less than optimal prices.

In the event that the Group is unable to obtain funding for potential investments or can only obtain funding at higher cost or otherwise on unfavourable terms, the Group may have difficulty completing otherwise profitable investment opportunities or may generate gains from such investments that are lower than would otherwise be the case, either of which could lead to a decrease in the investment banking income earned by the Group and its clients.



To the extent that market conditions render corporate financing difficult to obtain or more expensive for the Group's portfolio companies, this may negatively impact their operating performance and, therefore, the investment returns earned by the Group and its clients. In addition, to the extent that market conditions make it difficult or impossible to refinance any financing that is maturing in the near term and the Group is unable to provide sufficient support, some of the Group's portfolio companies may be unable to repay such financing at maturity and may be forced to sell assets, undergo a recapitalisation or seek bankruptcy protection. If a portfolio company enters into bankruptcy proceedings, this could potentially result in a complete loss of investment value in such company and a negative impact on the Group's operating results and cash flows from its investment banking business.

Financial market uncertainty could also decrease clients' funds available for investment or decrease client demand for the Group's less conservative investment banking products. Such a decrease in the Group's clients' available funds or demand for the Group's products could result in its clients withdrawing from the product offerings or decreasing their rate of investment or their allocation to the alternative asset class as a whole. Any such change would also constrain the ability of the Group's investment banking business to continue to invest.

There can be no assurance that the Group will be able to obtain additional funding as and when required or at prices that will not affect its ability to compete effectively and, if the Group is forced to sell assets to meet its funding requirements, it may suffer material losses as a result.

14.3.4.2 The Group's treasury department faces a number of risks (like Market risk) specific to the Group's business when seeking to manage the Group's liquidity

Reflecting the nature of the Group's operations, the funding sources availed by the Group are of generally higher cost than those availed by commercial banking businesses which are able to source significant volumes of low or no cost retail deposits. As a result, the Group utilises riskier but potentially more profitable products such as fixed income, credit linked notes and structured notes as part of its treasury portfolio management to manage its profit margins. Any unanticipated macro- and micro-economic conditions could weaken the position of the Group's treasury portfolio if its treasury department is unable to react promptly to the changes. It is difficult to predict such changes and although the Group has set stop loss limits, any failure to proactively monitor the portfolio and react to losses could result in breaches of those limits.

The Group also trades in fixed income, principally issued by sovereign and quasi sovereign issuers or by issuers in the real estate sector and financial institution issuers and other structured products. As the Group takes leverage against these investments and fall in price of the investments may lead to margin call and extra liquidity need. Any inability to meet the margin call may lead to the leverage providers selling the collaterals at unfavourable market rates which can have a significant impact on the Group's liquidity and profitability.

The maturity profiles of the Group's assets and liabilities may not match at all times. The Group uses limits to manage the extent of these funding mismatches. Limits may not, however, be sufficient protection during severe adverse market conditions when credit ceases to be readily available and it becomes more difficult to renew liabilities. In these circumstances, the Group's ability to meet its obligations as they fall due may be impacted and the Group could be forced to borrow at rates or liquidate assets at prices that may negatively affect its profitability.



14.3.4.3 A negative change in GFH's credit rating could limit its ability to raise funding and may increase its funding costs

GFH has a long-term issuer default rating of B with stable outlook from Fitch, a long-term corporate rating of BB- with stable outlook from Capital Intelligence and a B- rating with a stable outlook from S&P. These ratings, which are intended to measure GFH's ability to meet its debt obligations as they mature, are an important factor in determining the Group's cost of borrowing funds.

There is no assurance that GFH's ratings will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely if circumstances in the future so warrant. A downgrade of any of GFH's credit ratings, or a negative change in their outlook, may:

- limit GFH's or any other member of the Group's ability to raise funding;
- increase GFH's or any other member of the Group's cost of borrowing; and
- limit GFH's or any other member of the Group's ability to raise capital.

In addition, actual or anticipated changes in GFH's credit rating may negatively affect the market value of the Certificates.

14.3.5 Other financial and operational risks

14.3.5.1 The Group is exposed to the credit risk of borrowers and other counterparties and anticipated future growth in, or deterioration in the quality of, the Group's assets exposed to credit risk could result in an increase in its credit risk profile and a deterioration in its financial condition

Risks arising from adverse changes in the credit quality and recoverability of financing receivables, securities and amounts due from counterparties are inherent in the Group's business, principally in its commercial banking, investment banking and treasury activities. In particular, the Group is exposed to the risk that customers may not make payments in respect of financing advanced to them and that the collateral (if any) securing the payment of this financing may be insufficient. The Group regularly reviews and analyses its financing receivables and credit risks, and its provision for impairment losses on its financing receivables is based on, among other things, its analysis of current and historical delinquency rates and financing management and the valuation of the underlying assets, as well as numerous other management assumptions. However, these internal analyses and assumptions may give rise to inaccurate predictions of credit performance, particularly in a volatile economic climate.

To the extent that the Group's financing receivables increase significantly in the future and its credit exposure consequently increases, management will need to continually monitor the credit quality of the financing receivables.

Credit losses could also arise from a deterioration in the credit quality of specific counterparties, from a general deterioration in local or global economic conditions, or from systemic risks within financial systems, all of which could affect the recoverability and value of the Group's assets and require an increase in its impairment provisions.



In addition, the group has various off balance sheet positions and any adverse impact on its off balance sheet positions can have a significant impact on the group overall.

Any failure by the Group to maintain the quality of its assets through effective risk management policies could lead to higher impairment provisioning and result in higher levels of defaults and write-offs, all of which would be likely to reduce the Group's profitability and particularly that of its commercial banking business.

14.3.5.2 The Group is exposed to a range of operational risks. In particular, the Group is exposed to the risk of loss as a result of employee misrepresentation, misconduct and improper practice and through any failure of the Group's IT systems

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures (including, in particular, IT failures), natural disasters or the failure of external systems (for example, those of the Group's counterparties or vendors). The Group has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not possible to eliminate entirely each of the potential operational risks that the Group faces. Losses from the failure of the Group's system of internal controls could have a material adverse effect on its business generally and its reputation.

The Group's employees could engage in misrepresentation, misconduct or improper practice that could expose the Group to direct and indirect financial loss and damage to its reputation. It is not always possible to detect or deter these types of misconduct, and the precautions which the Group takes to detect and prevent such misconduct may not be effective in all cases. There can be no assurance that measures undertaken to combat these types of misconduct will be successful. Any such actions by employees could expose the Group to financial losses resulting from the need to reimburse clients, co-investors or other business partners who suffered loss or as a result of fines or other regulatory sanctions, and could damage the Group's reputation.

14.3.5.3 The Group is dependent on its IT systems which are subject to potential cyber-attack and any failure of these systems could materially disrupt the Group's business

In common with other financial institutions based in the GCC and elsewhere in the world, the threat to the security of the Group's information and customer data from cyber-attacks is real and continues to increase. Activists, rogue states and cyber criminals are among those targeting computer systems around the world. Risks to technology and cyber-security change rapidly and require continued focus and investment. Given the increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches of security.

Further, any failure or delay in recording or processing the Group's transaction data could subject it to claims for losses and regulatory fines and penalties. The Group has implemented and tested business continuity plans and processes as well as disaster recovery procedures, but there can be no assurance that these safeguards will be fully effective at all times or that they will protect the Group from all losses that could occur.



14.3.5.4 The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks

There can be no assurance that the Group's risk management and internal control policies and procedures will adequately control, or protect it against, all credit, liquidity, market, operational and other risks. In addition, certain risks may not be accurately quantified by the Group's risk management systems. Some of the Group's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than the Group's empirical data would otherwise indicate.

Other risk management methods depend upon evaluation of information regarding the markets in which the Group operates, its clients or other matters that are publicly available or information otherwise accessible to it. This information may not be accurate, complete, up-to-date or properly evaluated in all cases. Any material deficiency in the Group's risk management or other internal control policies or procedures may expose it to significant losses as a result of unidentified credit, liquidity, market or operational risks, should they occur.

14.3.5.5 The Group may not be able to recruit and retain qualified and experienced personnel, which could have an adverse effect on its business and its ability to implement its strategy

The Group's success and ability to maintain current business levels and sustain growth will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. The market for such personnel in the Middle East, particularly in the commercial and investment banking markets, is intensely competitive.

Although the group maintains a succession plan for the key management personnel, the loss of key personnel could delay or prevent the Group from implementing its strategies. The Group also does not carry key man insurance.

14.3.6 Regulatory, legal, Shari'a and reputational risks**14.3.6.1 Non-compliance with regulatory requirements may result in enforcement measures or subject the Group to significant penalties and could adversely affect its reputation**

Although the Group principally operates in Bahrain, it also conducts business in multiple other jurisdictions, each of which may have separate regulatory requirements affecting the Group. The regulations to which the Group is subject may not be uniform or harmonised, particularly regulations relating to matters such as money laundering, corruption and international sanctions and regulations relating to environmental protection and health and safety which apply particularly to its real estate development business. In addition, the Group may become subject to more stringent regulations in the future. It is also possible that laws and regulations could be amended or interpreted in a manner that would be adverse to the Group and its current operations. To the extent that existing regulations are amended or future regulations are adopted that impose restrictions on the Group's business (such as, for example, minimum standard conditions for its commercial and investment banking products), or negatively affect the performance of the investment products it offers, the Group's revenue could be adversely affected. A more stringent regulatory regime may also result in substantially higher compliance costs that would affect the Group's profitability. In



addition, to the extent that the Group's business expands, it could become subject to more intensive regulation, which would result in higher compliance costs resulting from greater regulatory limitations and requirements.

The Group's ability to comply with all applicable regulations is largely dependent on its maintenance of compliance, audit and reporting systems and procedures, and its ability to attract and retain personnel qualified to manage and monitor such systems and procedures. Although the Group is subject to oversight by regulatory authorities, performs regular internal audits and employs an external auditing firm to review its internal control systems, the Group cannot be certain that these systems and procedures will be fully effective in all circumstances, particularly in the case of deliberate employee misconduct or other frauds perpetrated against it.

The Group currently benefits from a CBB exemption that permits it to exclude certain assets from the CBB's large exposure and connected counterparty limits. This exemption is re-assessed by the CBB on an annual basis. If the CBB decides to no longer grant the exemption, this will negatively impact the Group's capital adequacy ratio which may lead to non-compliance with regulatory requirements and result in the Group becoming subject to potential enforcement measures and/or significant penalties.

Non-compliance with applicable regulatory requirements may result in enforcement measures being taken against the Group. There is a risk that, in the case of severe and/or repeated violations, licences or permits held by the Group which are necessary to conduct business could be revoked or limited. Possible sanctions could also include the imposition of fines (which may be substantial) and censures on the Group or its employees and/or the imposition of additional capital requirements.

14.3.6.2 The Group may be party to litigation and disputes, which could be material in terms of their impact on the Group

The current disputes are described under "*Material Litigation section 16.3*". In future the group may continue to become involved in disputes, legal claims, judicial proceedings and regulatory enforcement actions in the ordinary course of its business. Some of these may involve material amounts claimed from the Group or may have a materially negative impact on its reputation. There can be no assurance that the Group will be successful in all of the disputes to which it is or may become a party.

14.3.6.3 The Group conducts its business in accordance with Shari'a principles, and this can result in higher costs and possible losses if any activities engaged in are subsequently determined not to be Shari'a-compliant

The Group conducts its business in accordance with *Shari'a* principles as determined by its Shari'a Supervisory Board. As a result, the Group may not be able to exploit certain opportunities and compliance with certain *Shari'a* requirements may increase its costs when structuring transactions, which could result in higher volatility and/or lower returns associated with some of those transactions.

In addition, certain investments and structures in which the Group has invested may subsequently



be determined by the Shari'a Supervisory Board to no longer comply with *Shari'a* for various reasons, including human error, corporate actions such as mergers or acquisitions or accounting ratio issues. In these circumstances, the Group will be required to liquidate any non-compliant positions within a defined period. If this occurs at a time when market conditions, including pricing, are adverse, the Group could incur losses which could be significant.

14.3.6.4 The Group is exposed to reputational risks related to its operations and industry

All financial institutions depend on the trust and confidence of their customers to succeed in their business. The Group is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, cross selling and inadequate branding will harm its reputation. The Group's reputation may also be adversely affected by the conduct of third parties over whom it has no control, including entities to which it has advanced financing or in which it has invested. Any damage to the Group's reputation could cause existing customers to withdraw their business and lead potential customers to be reluctant to do business with the Group.

14.4 Share Exchange Offer is Shari'a compliant

KHCB Shareholders are notified that GFH is an Islamic (wholesale) financial institution and as such the GFH Shares offered at the discretion of the KHCB Shareholders are a Shari'a compliant investment.

15. OFFER FINANCE

15.1 Offer sources

Acquisition of the shares of Khaleeji Commercial Bank B.S.C. pursuant to an acquisition offer, using treasury shares of 72,034,189 ordinary shares (approximation subject to rounding as described in section 4.3.2 c) ,and cash consideration of BHD 4,502,136.82. The use of Treasury Shares was approved by the shareholders in the OGM held on 14 October 2021.

15.2 Confirmation of the Third Party

KPMG confirms that it has taken all reasonable steps to convince itself that sufficient resources are available to the Offeror to satisfy the full implementation and acceptance of the offer.

15.3 Payment of Cash Consideration

In accordance with TMA-2.19.3, the Offeror will deposit a sum equivalent to 100% of the consideration payable in cash under the Offer in an escrow account before the commencement of the Offer period.



16. ADDITIONAL INFORMATION

16.1 Arrangements

16.1.1 No arrangements have been made involving rights over shares, indemnity arrangements or any other agreement or understanding relating to relevant securities which may be an inducement to deal or refrain from dealing between GFH or any person acting in concert with GFH.

16.1.2 No arrangement, agreement or understanding, including any compensation agreement, exists in connection with the Offer between GFH and any person acting in concert with it and the directors of KHCB or the KHCB Shareholders.

16.2 Shareholding and dealings in Offeree Company

In the past 12 months, GFH (acting in concert together with its subsidiary, KHCB Asset Company) acquired 121,726,795 KHCB Shares representing 13.64% of KHCB Shares. GFH (acting in concert together with its subsidiary, KHCB Asset Company) holds 616,057,287 KHCB Shares representing 69.06% of the issued share capital of KHCB as of the date of this Revised Offer Document.

As disclosed in section 8 above, none of the Directors of GFH have any direct or deemed interest in the KHCB Shares

16.3 Material litigation

GFH is party to the following ongoing significant legal claims (in that claims in excess of USD 5,000,000):

- A claim filed by GFH at the courts of Qatar against QECHC and others to recover an amount of USD 30,700,000 plus, approximately, a further USD 5,000,000 as compensation in relation to the loss of GFH's shares in the Energy City Qatar project. The legal proceedings are ongoing.
- Arbitration proceedings instituted by Tunis Bay Alliance Golf Project at the International Court of Arbitration in Paris on against GFH and others for the recovery of USD 48,100,000 in respect of a Shareholders Agreement. The proceedings are in their initial stages. The said claim will be rebutted by GFH and others by way of defences and counterclaims.
- A claim filed by Saleh Al-Abdali Sons Group Company WLL and Mr. Hamad Saleh Al-Abdali located in Kuwait against GFH, before the High Court of Kuwait in respect of the plaintiffs' claim for the recovery of an amount of Euro 6,940,000/- related to the plaintiffs' investment in the Gulf German Residences project. The legal proceedings are ongoing.

16.4 Material liability

There are no material loans, mortgages, charges or guarantees other than those entered into in the normal course of business or other contingent liabilities of GFH at the date of this Offer Document. Please refer to section 6 for further information regarding the financial position of GFH.



16.5 Documents on display

During the Offer Period, the following documents (or copies thereof) may be inspected at the head office of GFH in Manama, Kingdom of Bahrain:

- 16.5.1 the Memorandum and Articles of Association of GFH;
- 16.5.2 notice of non-binding intention to potentially extend a proposed voluntary takeover offer from GFH to KHCB dated 7th June 2021;
- 16.5.3 notice of pre-conditional voluntary offer from GFH to KHCB dated 15th September 2021;
- 16.5.3 notice of Firm Intention from GFH to KHCB dated 15th October 2021; and.
- 16.5.4 written confirmation from KPMG addressed to the CBB dated 24 November 2019 confirming that they have taken all reasonable steps to convince themselves that sufficient resources are available to implement the Offer;

16.6 Conflicts of interest

Save as disclosed in section 8 above, none of the Directors of GFH have any direct or deemed interest in the KHCB Shares or may be considered as 'interested' shareholders as defined by the CBB Law and the TMA. Additionally, some of the board members and shareholders of GFH may have investments in related entities, suppliers and contractors transacting with the Offeror and/or the Offeree on an arm's length basis.



17. KEY PARTIES

<p>The Offeror</p>	<p>GFH Financial Group B.S.C. P.O. Box 10006 Manama, Kingdom of Bahrain</p> <p>Tel: (973) 17 538538 Fax: (973) 17 540006</p> <p>Website: www.gfh.com Email: iservice@gfh.com</p>
<p>Auditor to the Offeror</p>	<p>KPMG P.O. Box 710 Manama, Kingdom of Bahrain</p> <p>Tel: (973) 17 224807 Fax: (973) 17 227443</p>
<p>Receiving Agent</p>	<p>KFin Technologies (Bahrain) W.L.L. Zamil Tower, Office No.74, 7th Floor P.O. Box 514 Manama Kingdom of Bahrain Tel: (973) 17 215080</p>
<p>Issue Execution Advisor and Allotment Agent</p>	<p>Bahrain Clear B.S.C.(c) P.O. Box 3203 Manama, Kingdom of Bahrain</p> <p>Tel: (973) 17 108833</p>
<p>Central Securities Depository and Issue Registrar</p>	<p>Bahrain Clear B.S.C.(c) P.O. Box 3203 Manama, Kingdom of Bahrain</p> <p>Tel: (973) 17 108833</p>



SCHEDULE 1

Privacy Notice

1 What is the purpose of this document?

The Receiving Agent is committed to protecting the privacy and security of your personal information.

This privacy notice describes how we collect and use personal information about you during and after the completion of your acceptance of the Offer and the transfer of shares under the terms of the Acceptance and Transfer Form, in accordance with Law No. 30 of 2018 regarding the Personal Data Protection Law (PDPL).

The Receiving Agent is a “data manager”. This means that we are responsible for deciding how we hold and use personal information about you. We are required under the PDPL to notify you of the information contained in this privacy notice.

This notice applies to KHCB Shareholders in respect of the Offer and those who have taken up the Offer. This notice does not form part of any contract with you and we may update this notice at any time but if we do so, we will provide you with an updated copy of this notice as soon as reasonably practical.

It is important that you read and retain this notice, together with any other privacy notice we may provide on specific occasions when we are collecting or processing personal information about you, so that you are aware of how and why we are using such information and what your rights are under the PDPL.

2 Data protection principles

We will comply with data protection law. This says that the personal information we hold about you must be:

- used lawfully and fairly;
- collected only for a lawful purpose that we have explicitly specified to you and not used in any way that is not compatible with the purpose for which it was collected;
- adequate, relevant and not excessive for the purposes for which it was collected;
- correct, accurate and kept up to date;
- kept only as long as necessary for the purposes identified; and
- kept securely.

3 The kind of information we hold about you

Personal data, or personal information, means any information about an individual from which that person can be identified. It does not include data where the identity has been removed (anonymous data).

There are certain types of more sensitive personal data which require a higher level of protection, such as information about a person’s health or about criminal convictions.

We will collect, store, and use the following categories of personal information about you:

- personal contact details such as name, title, addresses, telephone numbers, and personal email addresses;
- date of birth;
- gender;
- bank account details and tax status information;
- start date and completion date of your acceptance of the Offer and the transfer of shares;
- copy of any identification documents;
- application information; and
- information about your use of our information and communications systems.

We may also collect, store and use the following more sensitive types of personal information:

- information about your race or ethnicity, religious beliefs and political opinions;
- biometric data; and
- information about criminal convictions and offences.

4 How is your personal information collected?

We collect personal information about KHCB Shareholders through the application process directly from the KHCB Shareholders. We may sometimes collect additional information from third parties including credit reference agencies or other background check agencies.

We may collect additional personal information through the transfer of shares by you.

5 How we will use information about you

We will only use your personal information when the law allows us to. Most commonly, we will use your personal information in the following circumstances:

- where we need to perform the contract we have entered into with you;
- where we need to comply with a legal obligation; and
- where it is necessary for legitimate interests pursued by us or a third party and your interests and fundamental rights and freedoms do not override those interests.

We may also use your personal information in the following situations, which are likely to be rare:

- where we need to protect your interests (or someone else's interests); and
- where it is needed in the public interest or for official purposes.

6 Situations in which we will use your personal information

We need all the categories of information in the list above primarily to allow us to perform our contract with you and to enable us to comply with legal obligations. In some cases we may use your personal information to pursue legitimate interests, provided your interests and fundamental rights and freedoms do not override those interests. The situations in which we will process your personal information are listed below:

- making a decision about your application and determining the terms on which you accept the offer;
- checking you are eligible to accept the Offer;
- making arrangements for the acceptance by you of the Offer;
- processing your application in respect of the Offer;



- sharing your information as reasonably necessary and / or desirable in connection with the Offer; and
- dealing with legal disputes involving you, or other applicants.

Some of the above grounds for processing will overlap and there may be several grounds which justify our use of your personal information.

6.1 If you fail to provide personal information

If you fail to provide certain information when requested, we may not be able to perform the contract we have entered into with you, or we may be prevented from complying with our legal obligations (such as to ensure the eligibility of those accepting the Offer).

6.2 Change of purpose

We will only use your personal information for the purposes for which we collected it, unless we reasonably consider that we need to use it for another reason and that reason is compatible with the original purpose. If we need to use your personal information for an unrelated purpose, we will notify you and we will explain the legal basis which allows us to do so.

Please note that we may process your personal information without your knowledge or consent, in compliance with the above rules, where this is required or permitted by law.

7 How we use sensitive personal information

Sensitive personal information require higher levels of protection. We have in place an appropriate policy document and safeguards which we are required by law to maintain when processing such data. We may process sensitive personal information in the following circumstances:

- with your explicit written consent;
- where we need to carry out our legal obligations or exercise rights in connection with employment;
- where it is needed to conduct or defend any proceedings; and
- where it is needed in the public interest, such as for equal opportunities monitoring.

Less commonly, we may process this type of information where it is needed in relation to legal claims or where it is needed to protect your interests (or someone else's interests) and you are not capable of giving your consent, or where you have already made the information public.

7.1 Situations in which we will use your sensitive personal information

In general, we will not process particularly sensitive personal information about you unless it is necessary for performing or exercising obligations.

We do not envisage that we will hold sensitive personal information.

Do we need your consent?

We do not need your consent if we use certain categories of your personal information in accordance with our written policy to carry out our legal obligations. In limited circumstances, we may approach you for your written consent to allow us to process certain data. If we do so, we will provide you with full details of the information that we would like and the reason we need it, so that you can carefully consider whether you wish to consent. You should be aware that it is not a condition of your contract with us that you agree to any request for consent from us.



8 Information about criminal convictions

We may only use information relating to criminal convictions where the law allows us to do so. This will usually be where such processing is necessary to carry out our obligations and provided we do so in line with our data retention policy.

We do not envisage that we will hold information about criminal convictions.

We will only collect information about criminal convictions if it is appropriate and where we are legally able to do so. Where appropriate, we will collect information about criminal convictions as part of the application process or we may be notified of such information directly by you in the course of you working for us.

We are allowed to use your personal information in this way to carry out our obligations. We have in place an appropriate policy and safeguards which we are required by law to maintain when processing such data.

9 Automated decision-making

Automated decision-making takes place when an electronic system uses personal information to make a decision without human intervention. We are allowed to use automated decision-making in the following circumstances without receiving your express written consent:

- where it is necessary to process your application in respect of the Offer;
- proceeding with our legitimate interests unless such is contrary to your fundamental interests;
- take action at your request with a view to concluding a contract; and
- to protect your vital interests.

You will not be subject to decisions that will have a significant impact on you based solely on automated decision-making, unless we have a lawful basis for doing so and we have notified you.

We do not envisage that any decisions will be taken about you using automated means, however we will notify you in writing if this position changes.

10 Data sharing

We may have to share your data with third parties, including third-party service providers and other entities in the group.

We require third parties to respect the security of your data and to treat it in accordance with the law. We may transfer your personal information outside the Kingdom of Bahrain.

If we do, you can expect a similar degree of protection in respect of your personal information.

10.1 Why might you share my personal information with third parties?

We will share your personal information with third parties where required by law, where it is necessary to administer the relationship with you or where we have another legitimate interest in doing so.

10.2 Which third-party service providers process my personal information?



“Third parties” includes third-party service providers (including contractors and designated agents) and other entities within our group. The following activities may be carried out by third-party service providers: registry, custody, administration, advisory, compliance and IT services.

10.3 How secure is my information with third-party service providers?

All our third-party service providers are required to take appropriate security measures to protect your personal information in line with our policies. We do not allow our third-party service providers to use your personal data for their own purposes. We only permit them to process your personal data for specified purposes and in accordance with our instructions.

10.4 What about other third parties?

We may share your personal information with other third parties. In this situation we will, so far as possible, share anonymised data with the other parties. We may also need to share your personal information with a regulator the Offeror, the Offeree and the other parties outlined in the Offer Document to effect the Offer and process your application or to otherwise comply with the law.

10.5 Transferring information outside the Kingdom of Bahrain

We may transfer the personal information we collect about you outside of the Kingdom of Bahrain in order to perform our contract with you. We anticipate the Data Protection Authority will issue a list of countries in which personal information may be transferred with an adequate level of protection.

If your personal information is to be transferred to countries not on the list, we will put in place appropriate measures to ensure that your personal information is treated by those third parties in a way that is consistent with and which respects the PDPL.

11 Data security

We have put in place measures to protect the security of your information. Details of these measures are available upon request.

Third parties will only process your personal information on our instructions and where they have agreed to treat the information confidentially and to keep it secure.

We have put in place appropriate security measures to prevent your personal information from being accidentally lost, used or accessed in an unauthorised way, altered or disclosed. In addition, we limit access to your personal information to those employees, agents, contractors and other third parties who have a business need to know. They will only process your personal information on our instructions and they are subject to a duty of confidentiality.

We have put in place procedures to deal with any suspected data security breach and will notify you and any applicable regulator of a suspected breach where we are legally required to do so.

12 Data retention

We will only retain your personal information for as long as necessary to fulfil the purposes we collected it for, including for the purposes of satisfying any legal, accounting, or reporting requirements. Details of retention periods for different aspects of your personal information are available in our retention policy which is available upon request. To determine the appropriate



retention period for personal data, we consider the amount, nature, and sensitivity of the personal data, the potential risk of harm from unauthorised use or disclosure of your personal data, the purposes for which we process your personal data and whether we can achieve those purposes through other means, and the applicable legal requirements.

In some circumstances we may anonymise your personal information so that it can no longer be associated with you, in which case we may use such information without further notice to you. Once the conditions precedent of the Offer have been satisfied and your shares have been transferred, or in the event that such conditions precedent are not met, we will retain and securely destroy your personal information in accordance with our data retention policy.

13 Rights of access, correction, erasure, and restriction

13.1 Your duty to inform us of changes

It is important that the personal information we hold about you is accurate and current. Please keep us informed if your personal information changes during following the signature of the offer and acceptance form but prior to the transfer of the shares.

13.2 Your rights in connection with personal information

Under certain circumstances, by law you have the right to:

- request access to your personal information (commonly known as a “data subject request”). This enables you to receive a copy of the personal information we hold about you and to check that we are lawfully processing it;
- request correction of the personal information that we hold about you. This enables you to have any incomplete or inaccurate information we hold about you corrected;
- request erasure of your personal information. This enables you to ask us to delete or remove personal information where there is no good reason for us continuing to process it. You also have the right to ask us to delete or remove your personal information where you have exercised your right to object to processing (see below);
- object to processing of your personal information where we are relying on a legitimate interest (or those of a third party) and there is something about your particular situation which makes you want to object to processing on this ground. You also have the right to object where we are processing your personal information for direct marketing purposes;
- request the restriction of processing of your personal information. This enables you to ask us to suspend the processing of personal information about you, for example if you want us to establish its accuracy or the reason for processing it; and
- object to processing of your personal information where such processing results in damage, whether material, moral and unjustified, to you or to others or where there are reasonable grounds to believe that such damage could result from such processing.

If you want to review, verify, correct or request erasure of your personal information, object to the processing of your personal data, or request that we transfer a copy of your personal information to another party, please contact Mr. Hani AlShaikh, Head of Operations at KFin Technologies, in writing at hani.alshaikh@kfintech.com.

13.3 No fee required

You will not have to pay a fee to access your personal information (or to exercise any of the other rights).



13.4 What we may need from you

We may need to request specific information from you to help us confirm your identity and ensure your right to access the information (or to exercise any of your other rights). This is another appropriate security measure to ensure that personal information is not disclosed to any person who has no right to receive it.

14 Right to withdraw consent

In the limited circumstances where you may have provided your consent to the collection, processing and transfer of your personal information for a specific purpose, you have the right to withdraw your consent for that specific processing at any time. To withdraw your consent, please contact Mr. Hani AlShaikh, Head of Operations at KFin Technologies, in writing at hani.alshaikh@kfintech.com. Once we have received notification that you have withdrawn your consent, we will no longer process your information for the purpose or purposes you originally agreed to, unless we have another legitimate basis for doing so in law.

15 Changes to this privacy notice

We reserve the right to update this privacy notice at any time, and we will provide you with a new privacy notice when we make any substantial updates. We may also notify you in other ways from time to time about the processing of your personal information.

If you have any questions about this privacy notice, please contact Mr. Hani AlShaikh, Head of Operations at KFin Technologies, in writing at hani.alshaikh@kfintech.com.



ANNEXURE 1

The following table indicates the dealings in GFH's shareholding during the period of 23 May 2021 to 23 November 2021 prior to the Offer Period: [Note: 6 months preceding the Last Practicable Date]

On Bahrain Bourse ("BHB"):

Date	Price Per Share (USD)	Sum of Volume	Sum of Value(USD)	Sum of Number of Transactions
5/23/2021	0.184	500,000	92,100.00	7
5/24/2021	0.182	815,000	148,480.00	10
5/25/2021	0.182	599,565	109,120.83	13
5/26/2021	0.183	800,000	145,800.00	8
5/27/2021	0.184	1,259,235	230,499.24	17
5/30/2021	0.186	800,000	148,594.88	10
5/31/2021	0.183	1,204,000	218,807.00	18
06/01/2021	0.184	1,650,000	303,550.00	9
06/02/2021	0.185	350,000	64,950.00	3
06/03/2021	0.183	651,100	119,350.20	6
06/06/2021	0.185	1,971,677	363,360.24	12
06/07/2021	0.185	2,919,686	540,317.04	9
06/08/2021	0.185	176,000	32,660.00	2
06/09/2021	0.186	1,202,619	223,713.99	22
06/10/2021	0.186	697,379	129,712.49	8
6/13/2021	0.188	400,425	74,779.47	5
6/14/2021	0.189	515,565	97,341.79	10
6/16/2021	0.187	695,376	130,140.06	16
6/17/2021	0.188	650,000	121,905.11	11
6/20/2021	0.199	696,000	137,538.00	14
6/21/2021	0.201	956,153	191,380.60	9
6/22/2021	0.206	931,406	190,358.08	14
6/23/2021	0.207	392,130	80,970.91	10
6/24/2021	0.208	401,100	83,325.50	5
6/27/2021	0.212	1,266,100	269,031.50	18
6/28/2021	0.208	481,531	101,703.04	14
6/29/2021	0.212	100,000	21,200.00	1
6/30/2021	0.205	343,231	70,362.36	5
07/01/2021	0.207	843,000	173,922.87	14
07/04/2021	0.208	193,565	40,161.52	3



07/05/2021	0.206	50,000	10,300.00	1
07/06/2021	0.201	106,574	21,430.46	4
07/07/2021	0.204	502,562	102,022.46	9
07/08/2021	0.205	153,896	31,548.68	4
07/11/2021	0.210	569,480	119,975.32	12
07/12/2021	0.212	500,000	105,300.00	7
7/13/2021	0.212	605,000	127,960.00	8
7/14/2021	0.210	589,805	124,089.05	10
7/15/2021	0.211	478,571	100,699.91	9
7/18/2021	0.211	97	20.08	1
7/25/2021	0.214	851,855	182,838.54	16
7/26/2021	0.213	168,854	35,850.80	9
7/27/2021	0.211	1,075,000	227,869.54	14
7/28/2021	0.211	17,000	3,570.00	1
7/29/2021	0.210	102,000	21,418.00	4
08/01/2021	0.209	349,500	73,045.50	8
08/02/2021	0.209	556,391	116,236.41	11
08/03/2021	0.209	624,433	130,806.50	9
08/04/2021	0.209	190,329	39,793.52	6
08/05/2021	0.210	399,255	83,843.55	13
08/08/2021	0.212	450,000	95,150.00	14
08/10/2021	0.212	748,150	158,925.95	18
08/11/2021	0.215	850,000	182,148.15	10
08/12/2021	0.220	1,801,350	390,178.75	26
8/15/2021	0.216	739,498	160,001.07	16
8/16/2021	0.217	700,000	151,899.01	9
8/17/2021	0.216	707,770	153,692.08	9
8/22/2021	0.205	390,400	80,119.20	9
8/23/2021	0.204	330,000	67,350.00	4
8/24/2021	0.208	1,616,590	335,268.54	29
8/25/2021	0.209	1,050,000	219,350.00	12
8/26/2021	0.209	1,253,000	261,872.63	20
8/29/2021	0.209	620,000	129,560.00	13
8/30/2021	0.209	793,431	165,827.08	20
8/31/2021	0.209	381,540	79,741.86	9
09/01/2021	0.209	800,000	167,200.00	18
09/02/2021	0.208	1,499,186	312,747.25	19
09/05/2021	0.207	162,930	33,767.51	4
09/06/2021	0.203	2,110,000	430,605.00	28
09/07/2021	0.208	788,386	162,256.36	13
09/08/2021	0.207	191,221	39,883.15	5



09/09/2021	0.207	614,253	127,054.35	14
09/12/2021	0.206	1,065,710	220,485.04	22
9/13/2021	0.208	1,974,069	408,732.28	26
9/14/2021	0.208	1,329,925	275,461.16	28
9/15/2021	0.204	2,524,760	515,398.82	35
9/16/2021	0.203	1,511,049	304,581.90	30
9/19/2021	0.204	1,500,214	305,043.44	33
9/20/2021	0.204	1,156,306	235,886.42	34
9/21/2021	0.202	1,793,000	359,795.52	44
9/22/2021	0.197	1,730,000	347,280.00	34
9/23/2021	0.204	1,900,000	383,266.33	39
9/26/2021	0.202	2,009,200	407,856.80	38
9/27/2021	0.203	1,115,110	225,699.18	31
9/28/2021	0.201	1,570,000	315,570.00	29
9/29/2021	0.201	1,863,700	374,703.70	54
9/30/2021	0.202	2,119,217	426,712.62	41
10/03/2021	0.204	3,154,400	638,230.00	56
10/04/2021	0.210	1,400,547	289,507.08	29
10/05/2021	0.210	2,163,000	453,430.00	39
10/06/2021	0.209	2,075,000	434,025.00	44
10/07/2021	0.207	3,275,410	680,485.28	67
10/10/2021	0.206	2,476,590	510,327.54	42
10/11/2021	0.206	1,838,000	378,628.00	36
10/12/2021	0.205	1,358,410	278,547.22	33
10/13/2021	0.205	3,153,874	643,890.30	61
10/14/2021	0.210	1,912,626	398,494.78	40
10/17/2021	0.211	2,557,000	538,413.85	54
10/19/2021	0.211	1,205,000	252,955.00	28
10/20/2021	0.210	3,739,667	789,639.85	58
10/21/2021	0.213	2,350,000	500,693.85	39
10/24/2021	0.222	2,814,637	614,743.50	38
10/25/2021	0.228	2,612,000	586,998.00	36
10/26/2021	0.237	3,330,149	781,117.81	50
10/27/2021	0.230	4,829,000	1,111,318.00	62
10/28/2021	0.240	3,457,000	826,784.00	53
10/31/2021	0.231	1,770,732	423,473.28	29
11/01/2021	0.231	2,753,919	634,263.71	46
11/02/2021	0.240	3,636,710	873,036.92	74
11/03/2021	0.264	3,678,475	956,881.98	61
11/04/2021	0.290	1,132,868	123,856.46	11
11/07/2021	0.290	3,479,053	401,102.06	44



11/08/2021	0.285	25,000	2,686.13	1
11/09/2021	0.300	950,000	109,451.88	15
11/10/2021	0.302	351,285	39,801.55	10
11/11/2021	0.309	205,550	23,602.29	7
11/14/2021	0.300	2,199,040	249,032.73	31
11/15/2021	0.300	2,385,363	270,630.58	27
11/16/2021	0.312	2,756,869	318,860.10	44
11/17/2021	0.334	5,480,166	678,113.19	67
11/18/2021	0.334	18,801	2,350.34	4
11/21/2021	0.328	100,000	12,365.60	3
11/22/2021	0.308	735,537	86,144.92	9
11/23/2021	0.306	564,144	63,233.48	8



On Dubai Financial Market (“DFM”):

Date	Price per Share (AED)	Sum of Volume	Sum of Value (AED)	Sum of Number of Transaction
23/05/2021	0.675	8,599,068	5,835,449.970	126
24/05/2021	0.672	6,501,486	4,364,216.140	82
25/05/2021	0.661	7,598,084	5,040,400.690	110
26/05/2021	0.660	7,681,571	5,061,991.490	120
27/05/2021	0.665	8,463,587	5,600,476.520	90
30/05/2021	0.668	6,656,798	4,451,721.040	85
31/05/2021	0.660	8,820,993	5,792,702.130	98
01/06/2021	0.665	7,579,925	5,028,637.650	95
02/06/2021	0.661	4,587,144	3,044,238.060	42
03/06/2021	0.663	3,606,400	2,380,404.710	45
06/06/2021	0.666	4,464,870	2,967,690.140	53
07/06/2021	0.677	18,643,298	12,521,219.750	174
08/06/2021	0.675	14,994,824	10,196,741.860	182
09/06/2021	0.677	8,016,114	5,440,406.750	91
10/06/2021	0.672	4,566,006	3,081,429.580	60
13/06/2021	0.679	10,589,482	7,140,107.590	114
14/06/2021	0.681	11,741,110	8,007,526.340	133
15/06/2021	0.679	10,099,847	6,875,227.800	128
16/06/2021	0.678	8,593,417	5,800,072.340	103
17/06/2021	0.685	12,670,013	8,649,705.840	138
20/06/2021	0.726	93,285,336	66,493,661.620	806
21/06/2021	0.725	27,322,572	19,793,410.840	331
22/06/2021	0.740	41,284,457	30,569,483.710	431
23/06/2021	0.749	24,575,254	18,339,865.370	234
24/06/2021	0.752	17,048,680	12,743,780.580	185
27/06/2021	0.781	49,857,753	39,072,141.070	502
28/06/2021	0.766	20,473,331	15,918,820.190	252
29/06/2021	0.763	10,564,656	8,068,011.980	156
30/06/2021	0.756	12,340,224	9,377,730.360	126
01/07/2021	0.758	4,589,187	3,483,031.580	66
04/07/2021	0.763	6,711,124	5,099,704.850	103
05/07/2021	0.755	4,758,099	3,598,025.350	90
06/07/2021	0.746	8,021,768	5,998,331.330	140
07/07/2021	0.746	7,207,043	5,335,613.920	115



08/07/2021	0.750	9,854,854	7,374,692.210	146
11/07/2021	0.770	27,438,402	21,021,622.870	308
12/07/2021	0.766	7,966,247	6,102,690.220	98
13/07/2021	0.765	6,422,569	4,909,299.610	74
14/07/2021	0.760	7,577,943	5,754,453.170	105
15/07/2021	0.762	7,903,854	6,015,716.060	121
18/07/2021	0.760	6,394,323	4,844,997.200	69
25/07/2021	0.765	4,291,164	3,283,978.480	81
26/07/2021	0.761	3,161,869	2,416,795.630	62
27/07/2021	0.755	10,268,507	7,798,164.540	103
28/07/2021	0.752	8,002,838	6,030,827.740	101
29/07/2021	0.748	9,163,131	6,870,180.340	109
01/08/2021	0.751	9,465,810	7,117,605.680	104
02/08/2021	0.758	4,880,689	3,700,309.320	73
03/08/2021	0.757	5,021,664	3,788,388.180	72
04/08/2021	0.760	9,049,339	6,884,154.920	83
05/08/2021	0.767	14,507,682	11,147,643.330	169
08/08/2021	0.770	5,826,329	4,488,580.820	88
09/08/2021	0.759	6,061,957	4,623,954.690	99
10/08/2021	0.766	4,017,689	3,070,065.720	73
11/08/2021	0.775	13,374,250	10,312,040.430	193
15/08/2021	0.784	29,734,212	23,302,534.400	278
16/08/2021	0.770	16,623,365	12,925,882.340	206
17/08/2021	0.769	11,232,648	8,666,594.630	148
18/08/2021	0.765	9,561,862	7,332,608.850	120
19/08/2021	0.754	14,524,648	10,974,314.420	211
22/08/2021	0.750	7,166,866	5,378,536.120	133
23/08/2021	0.752	22,968,988	17,189,292.800	189
24/08/2021	0.752	9,645,132	7,258,080.190	141
25/08/2021	0.755	5,495,203	4,160,021.820	99
26/08/2021	0.755	2,955,404	2,234,214.020	65
29/08/2021	0.753	4,464,045	3,363,909.140	81
30/08/2021	0.748	20,286,428	15,199,220.410	148
31/08/2021	0.748	7,969,217	5,979,570.190	132
01/09/2021	0.747	8,490,169	6,363,368.920	114
02/09/2021	0.747	11,130,984	8,314,745.470	95
05/09/2021	0.750	2,215,619	1,658,280.760	40
06/09/2021	0.740	6,700,749	4,971,220.180	90
07/09/2021	0.748	9,666,726	7,196,210.670	100
08/09/2021	0.750	25,146,055	18,961,614.920	290
09/09/2021	0.743	9,915,230	7,382,132.940	108



12/09/2021	0.743	5,320,479	3,963,298.210	65
13/09/2021	0.735	11,260,291	8,317,467.220	136
14/09/2021	0.728	17,218,819	12,628,988.430	140
15/09/2021	0.721	19,712,758	14,162,414.340	213
16/09/2021	0.733	10,221,570	7,415,935.720	145
19/09/2021	0.728	8,891,652	6,523,203.600	103
20/09/2021	0.720	5,848,658	4,214,534.860	115
21/09/2021	0.718	8,711,704	6,191,428.610	137
22/09/2021	0.705	10,480,900	7,478,244.500	129
23/09/2021	0.716	5,643,670	4,031,707.210	106
26/09/2021	0.722	5,972,521	4,303,487.780	89
27/09/2021	0.733	6,503,713	4,743,459.630	139
28/09/2021	0.726	5,108,233	3,723,637.460	97
29/09/2021	0.726	2,737,552	1,984,883.150	54
30/09/2021	0.725	5,553,125	4,035,044.120	76
03/10/2021	0.728	5,602,839	4,062,798.290	80
04/10/2021	0.740	8,515,149	6,274,592.200	134
05/10/2021	0.726	7,289,036	5,338,254.120	92
06/10/2021	0.738	3,079,287	2,253,950.400	78
07/10/2021	0.733	8,507,693	6,252,090.010	106
10/10/2021	0.742	6,483,139	4,763,437.480	76
11/10/2021	0.744	6,464,704	4,806,756.570	103
12/10/2021	0.740	6,604,648	4,876,793.980	87
13/10/2021	0.745	7,354,146	5,425,198.060	91
14/10/2021	0.754	13,993,751	10,526,295.790	213
17/10/2021	0.760	12,588,481	9,556,342.410	142
18/10/2021	0.758	5,440,220	4,132,228.300	71
19/10/2021	0.746	8,470,458	6,356,963.940	115
20/10/2021	0.761	10,939,874	8,316,141.180	139
24/10/2021	0.780	27,948,649	21,761,520.670	290
25/10/2021	0.800	22,452,930	17,742,858.340	283
26/10/2021	0.820	34,011,736	27,620,090.280	337
27/10/2021	0.830	30,661,237	25,327,257.450	401
28/10/2021	0.845	31,767,962	26,706,650.680	334
31/10/2021	0.840	19,398,710	16,449,480.170	261
01/11/2021	0.840	14,563,957	12,184,443.850	158
02/11/2021	0.874	22,685,085	19,557,093.170	254
03/11/2021	0.963	43,269,107	40,789,989.690	663
11/04/2021	1.100	97,730,008	105,595,135.580	1,070
11/07/2021	1.080	102,292,003	114,666,487.450	1,320
11/08/2021	1.130	65,288,888	73,047,518.790	785



11/09/2021	1.090	38,274,034	42,411,843.780	534
11/10/2021	1.090	10,478,096	11,390,603.600	169
11/11/2021	1.100	7,360,242	8,076,630.320	160
14/11/2021	1.100	19,505,677	21,726,998.700	364
15/11/2021	1.120	37,654,936	41,715,164.540	521
16/11/2021	1.260	109,342,604	129,166,122.440	1,260
17/11/2021	1.240	113,709,397	142,998,933.270	1,380
18/11/2021	1.230	28,482,729	34,976,431.130	426
21/11/2021	1.180	22,797,978	27,379,888.290	355
22/11/2021	1.110	40,248,659	45,560,857.460	526
23/11/2021	1.110	18,981,451	21,271,466.110	286



On Boursa Kuwait ("BK"):

Date	Price per Share (KWD)	Sum of Volume	Sum of Value (KWD)	Sum of Number of Transaction
23/05/2021	0.061	3,861,610	241,141.91	163
24/05/2021	0.061	4,091,442	250,656.01	175
25/05/2021	0.061	2,842,664	174,974.67	122
26/05/2021	0.062	3,175,746	195,896.02	145
27/05/2021	0.064	9,423,258	593,757.48	289
30/05/2021	0.063	13,219,898	853,451.03	366
31/05/2021	0.063	6,159,517	381,554.67	254
01/06/2021	0.062	4,890,438	306,959.00	166
02/06/2021	0.061	6,020,802	371,641.10	242
03/06/2021	0.062	5,556,702	341,302.27	189
06/06/2021	0.061	3,506,053	215,033.29	123
07/06/2021	0.061	5,921,472	361,382.93	170
08/06/2021	0.061	7,873,326	481,540.39	188
09/06/2021	0.061	9,061,980	561,354.99	303
10/06/2021	0.063	21,587,372	1,333,689.17	436
13/06/2021	0.065	20,308,046	1,304,845.44	542
14/06/2021	0.064	19,725,008	1,282,739.75	512
15/06/2021	0.063	12,150,163	772,128.29	398
16/06/2021	0.063	16,936,093	1,064,985.33	454
17/06/2021	0.063	7,335,008	464,494.35	276
20/06/2021	0.066	28,899,422	1,883,463.48	742
21/06/2021	0.066	23,202,336	1,525,262.91	619
22/06/2021	0.066	13,235,181	878,877.13	318
23/06/2021	0.067	32,645,625	2,163,959.11	758
24/06/2021	0.067	33,840,703	2,284,959.36	717
27/06/2021	0.064	38,374,996	2,550,681.86	955
28/06/2021	0.064	12,548,056	808,443.74	376
29/06/2021	0.063	2,575,812	163,598.17	144
30/06/2021	0.062	14,392,938	906,309.08	398
01/07/2021	0.063	8,278,054	517,881.14	235
04/07/2021	0.064	4,587,469	293,135.47	140
05/07/2021	0.063	7,469,638	471,113.93	182
06/07/2021	0.063	3,934,791	245,792.66	140
07/07/2021	0.064	9,144,750	580,179.03	237
08/07/2021	0.064	9,486,524	610,709.28	294
11/07/2021	0.066	13,324,042	877,649.02	390



12/07/2021	0.066	18,719,355	1,251,245.79	553
13/07/2021	0.066	4,568,295	302,789.91	234
14/07/2021	0.067	8,574,329	572,495.55	282
15/07/2021	0.069	27,013,396	1,849,488.52	610
25/07/2021	0.070	70,339,831	5,011,467.11	1,418
26/07/2021	0.070	29,248,254	2,036,677.88	626
27/07/2021	0.068	20,487,282	1,423,503.83	478
28/07/2021	0.068	8,506,932	579,562.65	319
29/07/2021	0.068	15,321,676	1,033,282.68	410
01/08/2021	0.067	9,551,974	640,664.28	219
02/08/2021	0.068	14,358,192	969,238.61	318
03/08/2021	0.068	8,774,093	597,513.75	219
04/08/2021	0.068	5,321,239	361,244.96	169
05/08/2021	0.069	26,084,684	1,804,813.40	581
10/08/2021	0.072	34,598,840	2,471,177.38	755
11/08/2021	0.073	22,067,117	1,596,320.24	542
12/08/2021	0.073	12,355,879	903,781.60	415
15/08/2021	0.074	22,474,868	1,646,037.39	522
16/08/2021	0.075	59,424,416	4,422,084.30	1,171
17/08/2021	0.076	50,063,867	3,791,746.03	1,120
18/08/2021	0.070	76,979,077	5,605,680.03	1,581
19/08/2021	0.071	18,890,942	1,333,312.01	695
22/08/2021	0.072	8,433,620	602,901.22	315
23/08/2021	0.071	3,309,981	236,987.18	163
24/08/2021	0.072	9,425,025	675,223.65	325
25/08/2021	0.068	40,307,947	2,820,650.84	717
26/08/2021	0.068	11,524,770	780,734.35	480
29/08/2021	0.067	9,791,693	653,902.37	404
30/08/2021	0.068	14,429,341	979,205.37	444
31/08/2021	0.067	7,819,809	528,528.98	268
01/09/2021	0.067	5,765,482	386,276.69	210
02/09/2021	0.067	4,297,491	287,116.73	178
05/09/2021	0.064	9,505,396	623,713.74	384
06/09/2021	0.064	12,746,919	819,003.51	402
07/09/2021	0.066	13,000,831	852,500.96	382
08/09/2021	0.065	16,427,638	1,088,696.88	437
09/09/2021	0.066	6,325,263	416,163.68	248
12/09/2021	0.066	5,854,552	386,663.43	190
13/09/2021	0.067	11,459,497	767,421.63	325
14/09/2021	0.068	15,800,978	1,071,766.64	389
15/09/2021	0.067	12,241,547	827,262.16	343



16/09/2021	0.069	13,975,859	942,855.13	411
19/09/2021	0.069	15,619,866	1,078,828.61	515
20/09/2021	0.068	17,331,879	1,183,586.71	401
21/09/2021	0.068	13,421,688	912,668.98	362
22/09/2021	0.069	18,974,094	1,298,905.67	426
23/09/2021	0.069	12,204,958	844,285.76	370
26/09/2021	0.067	38,068,470	2,601,296.38	909
27/09/2021	0.067	13,724,673	925,286.09	457
28/09/2021	0.066	13,021,351	866,834.62	448
29/09/2021	0.066	17,237,461	1,139,125.16	478
30/09/2021	0.066	10,188,512	674,026.17	411
03/10/2021	0.067	12,814,215	849,099.22	378
04/10/2021	0.068	18,581,228	1,248,223.61	431
05/10/2021	0.066	27,977,715	1,894,510.05	561
06/10/2021	0.067	23,549,276	1,579,828.27	573
07/10/2021	0.067	13,319,115	892,115.12	402
10/10/2021	0.068	17,626,223	1,188,804.42	488
11/10/2021	0.067	16,177,037	1,087,727.05	405
12/10/2021	0.066	7,029,448	468,096.25	268
13/10/2021	0.067	13,048,547	870,684.56	391
14/10/2021	0.070	54,662,528	3,783,185.29	1,253
17/10/2021	0.071	70,697,219	4,996,670.17	1,438
18/10/2021	0.070	32,263,796	2,278,346.08	752
19/10/2021	0.070	29,616,044	2,070,237.73	700
20/10/2021	0.070	17,079,919	1,195,669.31	439
24/10/2021	0.071	19,700,511	1,399,192.45	562
25/10/2021	0.071	38,790,551	2,773,228.32	842
26/10/2021	0.072	46,683,532	3,384,517.43	980
27/10/2021	0.074	58,009,568	4,259,366.48	1,009
28/10/2021	0.078	103,527,423	7,961,644.09	1,762
31/10/2021	0.079	71,092,152	5,651,896.15	1,305
01/11/2021	0.081	58,807,232	4,625,958.53	1,113
02/11/2021	0.085	123,515,848	10,321,026.28	2,049
03/11/2021	0.092	119,769,432	10,594,228.38	2,165
04/11/2021	0.101	184,326,900	18,302,126.29	3,274
07/11/2021	0.095	175,307,358	17,372,465.31	3,376
08/11/2021	0.092	96,145,746	8,995,371.53	1,863
09/11/2021	0.094	69,059,676	6,508,356.79	1,373
10/11/2021	0.093	35,188,560	3,282,252.63	784
11/11/2021	0.093	26,557,951	2,458,304.08	605
14/11/2021	0.092	44,381,361	4,122,652.87	946



15/11/2021	0.092	73,342,697	6,743,370.56	1,235
16/11/2021	0.098	78,678,917	7,436,724.59	1,249
17/11/2021	0.101	124,809,381	12,659,192.86	1,821
18/11/2021	0.101	48,947,177	4,970,559.73	749
21/11/2021	0.097	77,535,072	7,696,354.74	1,502
22/11/2021	0.097	53,512,704	5,192,703.65	999
23/11/2021	0.096	80,973,126	7,731,330.16	1,257



ANNEXURE 2

Trading price of the Offeree

The market price of KHCB Shares on certain key dates is given below:

On 23 rd November 2021, the Last Practicable Date	KHCB Shares closing price on 23 rd November 2021 was BHD 0.094 per share
On 3 rd November 2021, the Initial Last Practicable Date	KHCB Shares closing price on 3 rd November 2021 was BHD 0.081 per share
On 7 th June 2021, the last business day prior to the date of the initial announcement	KHCB Shares closing price on 7 th June 2021 was BHD 0.054 per share
On 15 th September 2021, the last business day prior to the date of announcement of the pre-conditional voluntary offer	KHCB Shares closing price on 15 th September 2021 was BHD 0.07 per share
On 14 th October 2021, the last Business Day prior to the date of the announcement of the Firm Intention	KHCB Shares closing price on 14 th October 2021 was BHD 0.069 per share

Over the six months prior to and including the Last Practicable Date, the total number of shares traded in KHCB stood at 147,822,277 shares in 567 transactions and with an average price of BHD 0.071 per share with a total value traded of BHD 10,678,155. The lowest closing price of BHD 0.050 per share was on 26th to 31st May 2021, and the highest closing price of BHD 0.100 per share was on 17th November 2021.

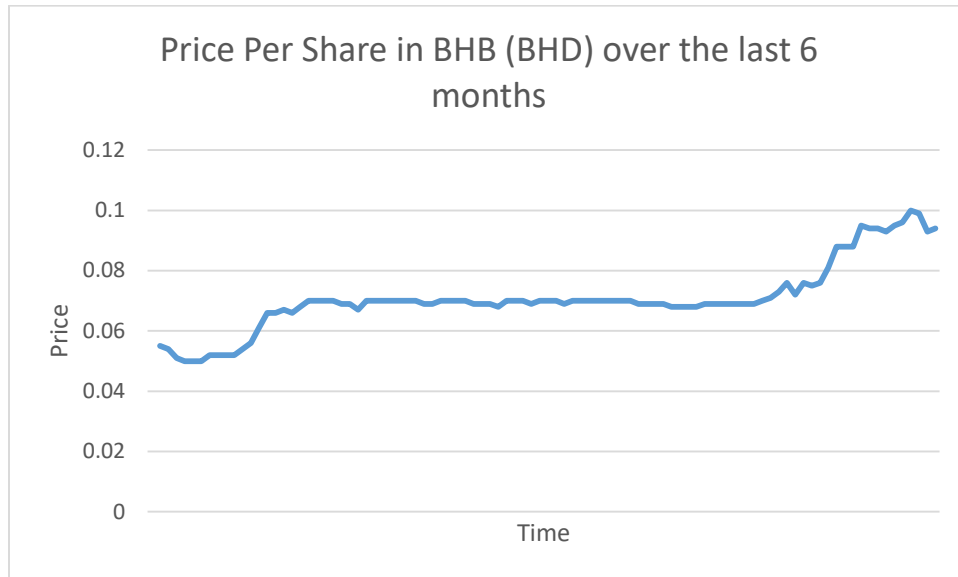
The following table details the closing price for the KHCB Shares at the end of each of the calendar months during the period commencing six months prior to the commencement of the Offer Period and ending on the latest practicable date prior to the posting of the Revised Offer Document:

Last six (6) month	Closing price per share (BHD)
May 2021	0.05
June 2021	0.067
July 2021	0.07
August 2021	0.07
September 2021	0.068
October 2021	0.075
23 rd November 2021	0.094



The volume weighted average price per KHCB Share in the six month period prior to and including the Last Practicable Date was BHD 0.072.

Market price movement for KHCB Shares for the period from 23rd May 2021 [Date - 6 months prior to the Last Practicable Date] to 23rd November 2021 [Last Practicable Date] at the BHB is given in the chart below:



The implied value of the Share Exchange Offer, as of the price of GFH shares on the Last Practicable Date, provided at the Share Exchange Ratio of 0.384 GFH Shares per KHCB Share and Cash Consideration of BHD 0.024 per KHCB Share, is BHD 0.068, which:

- (a) is below the market price per KHCB Share on the Last Practicable Date by BHD 0.026 per KHCB Share (on the basis of the market price per share on the Last Practicable Date of BHD 0.094 for KHCB shares, and USD 0.306 (equivalent to BHD 0.115) for GFH on BHB);
- (b) is below the volume weighted average price per KHCB Share in the six month period prior to and including the Last Practicable Date by BHD 0.004 per KHCB Share (on the basis of the volume weighted average price per share in the six month period prior to and including the Last Practicable Date of BHD 0.072 for KHCB and USD 0.198 (equivalent to BHD 0.075) for GFH on BHB); and

Trading price of the Offeror

The market price of the shares of GFH on certain key dates is given below:

On 23 rd November 2021, the Last Practicable Date	GFH Shares closing price on 23 rd November 2021 was USD 0.306 per share in BHB, AED 1.110 per share in DFM, and KWD 0.096 per share in BK.
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On 3 rd November 2021, the Initial Last Practicable Date	GFH Shares closing price on 3 rd November 2021 was USD 0.264 per share in BHB, AED 0.963 per share in DFM, and KWD 0.092 per share in BK.
On 7 th June 2021, the last business day prior to the date of the initial announcement	GFH Shares closing price on 7 th June 2021 was USD 0.185 per share in BHB, AED 0.677 per share in DFM, and KWD 0.061 per share in BK.
On 15 th September 2021, the last business day prior to the date of announcement of the pre-conditional voluntary offer	GFH Shares closing price on 15 th September 2021 was USD 0.204 per share in BHB, AED 0.721 per share in DFM, and KWD 0.067 per share in BK.
On 14 th October 2021, the last Business Day prior to the date of the announcement of the Firm Intention	GFH Shares closing price on 14 th October 2021 was USD 0.21 per share in BHB, AED 0.754 per share in DFM, and KWD 0.070 per share in BK.

Over the six months prior to and including the Last Practicable Date:

- In BHB: the total number of shares traded in GFH stood at 158,038,232 shares in 2,652 transactions and with an average price of USD 0.218 per share with a total value traded of USD 31,301,942. The lowest closing price of USD 0.182 per share was between 24th and 25th May 2021. The highest closing price of USD 0.334 was between 17th and 18th November 2021.
- In DFM: the total number of shares traded in GFH stood at 2,118,483,326 shares in 26,133 transactions and with an average price of AED 0.786 per share with a total value traded of AED 1882,323,537. The lowest closing price of AED 0.660 per share was on 26th and 31st May 2021. The highest closing price of AED 1.260 was on 16th November 2021.
- In BK: the total number of shares traded in GFH stood at 3,568,653,249 shares in 78,486 transactions and with an average price of KWD 0.071 per share with a total value traded of KWD 284,638,112. The lowest closing price of KWD 0.061 per share was between 23rd to 25th May 2021, on 2nd June, and between 6th to 9th June 2021. The highest closing price of KWD 0.101 was between 17th and 18th November 2021.

The following table details the closing price for the GFH Shares at the end of each of the calendar months during the period commencing six months prior to the commencement of the Offer Period and ending on the latest practicable date prior to the posting of the Revised Offer Document:

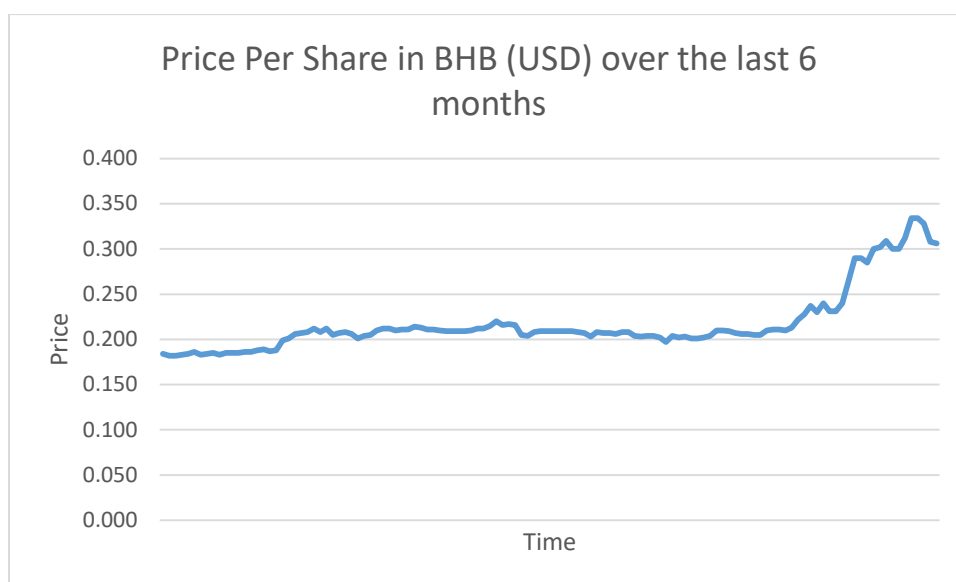
Last six (6) month	Closing price per share (USD) in BHB	Closing price per share (AED) in DFM	Closing price per share (KWD) in BK
May 2021	0.183	0.660	0.063
June 2021	0.205	0.756	0.062
July 2021	0.21	0.748	0.068
August 2021	0.209	0.748	0.067

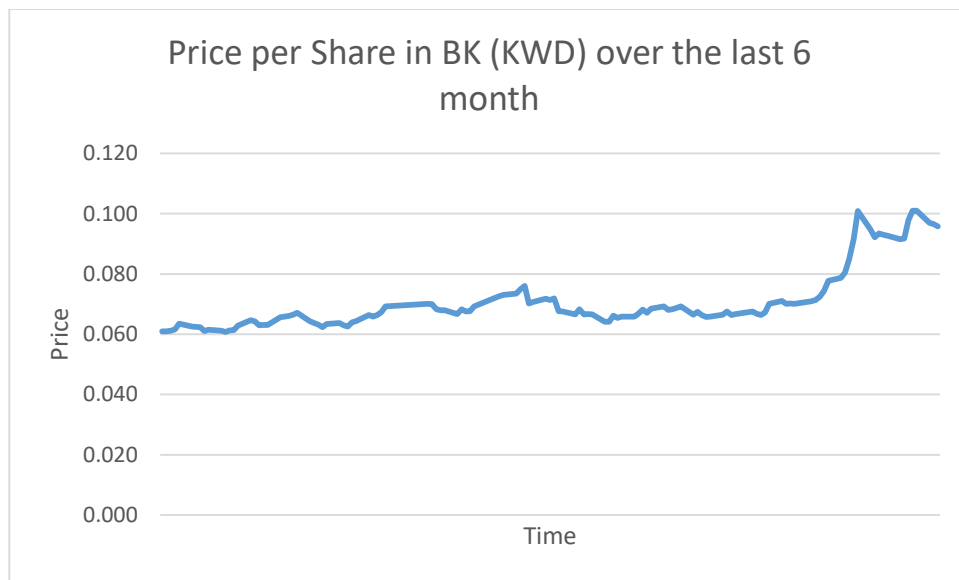
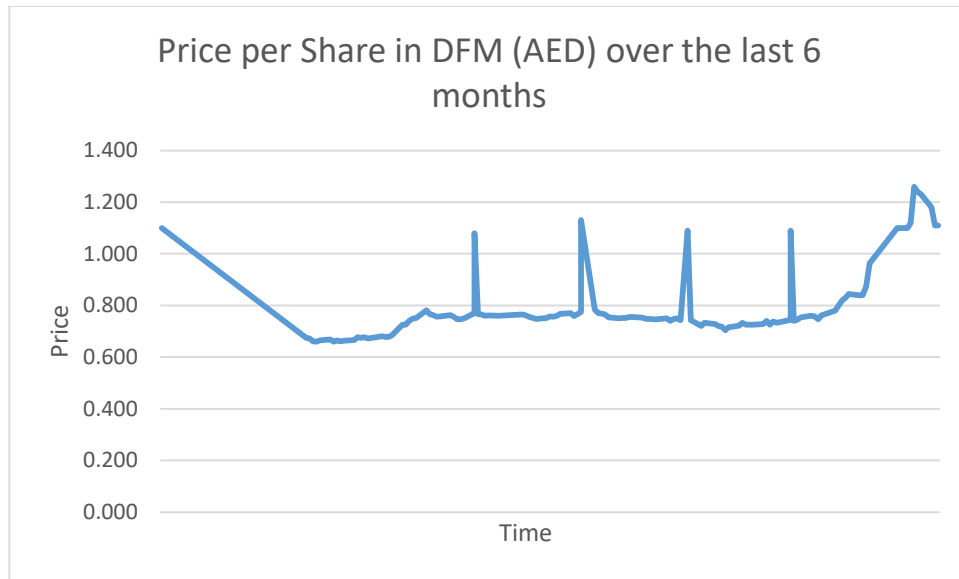


September 2021	0.202	0.725	0.066
October 2021	0.231	0.840	0.079
23 rd November 2021	0.306	1.110	0.096

The volume weighted average price per GFH Share in the six month period prior to and including the Last Practicable Date was USD 0.198 in BHB, AED 0.889 in DFM, and KWD 0.080 in BK.

Market price movement for GFH Shares for the period from 23rd May 2021 [Date - 6 months prior to the Last Practicable Date] to 23rd November 2021 [Last Practicable Date] in the 3 markets are given in the charts below:





Audited financial statements for the year ended 31 December 2020

GFH Financial Group BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an Islamic wholesale investment bank)
Registered Office	:	Bahrain Financial Harbour Office 2901, 29 th Floor Building 1398, East Tower Block 346, Road 4626 Manama, Kingdom of Bahrain Telephone +973 17 538538
Directors	:	Jassim Al Seddiqi, <i>Chairman</i> H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa, <i>Vice Chairman</i> Hisham Alrayes Amro Saad Omar Al Menhali Mazen Bin Mohammed Al Saeed Mosabah Saif Al Mutairy Ghazi Faisal Ebrahim Alhajeri Bashar Mohamed Al Mutawa Rashid Nasser Al Kaabi Mustafa Kheriba
Chief Executive Officer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

**CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

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**CHAIRMAN'S REPORT
for the year ended 31 December 2019**

Dear Shareholders,

On behalf of the Board of Directors of GFH Financial Group BSC ("GFH"), I am pleased to present the Group's financial results for the fiscal year ended 31 December 2019. The year 2019 not only marked another period of profitability and strong performance across the Group, but it also marked the GFH Financial Group's 20th anniversary.

Over the past 20 years, the Group underwent a tremendous transformation that was underpinned by a strategy of dynamic diversification and pursuit of value creation. We established strong revenue-generating business lines which now encompass Investment Management, Commercial Banking, Real Estate Development and Treasury & Proprietary Investments. We also maximized the potential for value creation by tapping into a range of asset classes, sectors and markets – pursuing opportunities both in our home markets in the GCC as well as the wider MENA region, India, Europe and the US. For example, we started the process of launching operations in the Kingdom of Saudi Arabia, and established dedicated education investment platforms with a regional reach.

Consequently, 2019 represented the fifth consecutive year that the Group has made gains on its financial position. In addition, the achievements of the Group and its subsidiaries in 2019 solidified the Group's position as one of the leading financial groups in the region and reinforced trust in its ability to deliver on investor and shareholder expectations – in spite of challenging market conditions that have affected both MENA and global markets alike.

The Group's total consolidated revenue was US\$335.69 million compared with US\$286.17 million in 2018, reflecting a healthy year-on-year increase of 17.3%. This growth is the outcome of the continued success of the Group's business lines, in addition to its focus on investments and activities that support steady income generation. Revenue increase was particularly aided by the strong performance of our investment management, real estate and treasury activities. Importantly, and as a result of these activities, we were able to deliver on our objective of achieving profitable exits, which for the year amounted to US\$100 million.

The successful execution of the Group's strategy was made possible by the expertise of our talented team, whose ability to identify new income yielding opportunities and to build on and extract value from existing assets has generated substantial returns and strong results for 2019. For the year, the Group reported consolidated net profit of US\$67.19 million as compared with US\$115.05 million from the previous year, a decrease of 41.6%, and a net profit attributable to shareholders of US\$80.11 million compared with US\$114.08 million for the previous year, a decrease of 29.8%.

The Group's total assets for the year grew from US\$4.99 billion in 2018 to US\$5.95 billion in 2019. The Group's total Assets plus fund under management (AUM) increased from US\$8.5 billion to US\$10 billion in 2019. The Group also ended the year with a Capital Adequacy Ratio of 13.96% and Return on Equity (ROE) ratio of 7.8%, confirming our sustained positive financial performance. The year also saw notable improvements to GFH's liquidity position, wherein the Group raised more than US\$1.5 billion in the face of challenging market conditions which paves the way for continued growth and investment. The Group was also able to once again achieve enhancements to its statement of financial position in 2019, in addition to optimizing its liability profile.

CHAIRMAN'S REPORT *(continued)*
for the year ended 31 December 2019

The outcomes of our efforts towards realizing our strategy have strengthened market confidence in the Group, whose ratings were affirmed by a number of international rating agencies such as Fitch Ratings, who maintained the Group's "B" rating with a stable outlook. Their rating took into account the Group's management's aim to reshape GFH's business model towards a greater focus on revenue generation, lower-risk investments, and shareholders' support. In addition, taking into consideration the Group's strong profitability and increased liquidity, both Capital Intelligence Ratings and Islamic International Rating Agency affirmed GFH's rating at 'BB' with a Stable outlook. Towards year-end, S&P Global Ratings also initiated coverage of GFH, assigning the Group a 'B' long-term issuer credit rating with a stable outlook.

The continuation of our financial performance and growth, combined with our dividend policy, enabled the Board to recommend cash dividend for our shareholders.

Additional board recommendations were discussed and raised as part of the Group's Ordinary General Meeting (OGM) which successfully concluded in December 2019 with several key approvals received from shareholders. One of these approvals included approval on the Board's recommendation to take required steps to issue Sukuk amounting up to US\$500 million in one or more issuances. Another notable approval is the appointment of a market maker, and the utilization of up to 3% of GFH's total issued shares for market making, for the financial year 2019 and until the upcoming AGM for the year ending 31st December 2022. Shareholders also approved the utilization of 140,000,000 shares, representing 3.8% of total issued shares of GFH, for the purpose of a strategic share acquisition in financial institutions, subject to Central Bank of Bahrain approval.

2019 served as a successful conclusion to the Group's first two decades of operations, and laid the groundwork to usher in a promising 2020 and another twenty years of delivering distinction and succeeding through our people. Not only the people that power GFH through their dedication, resilience and expertise in the face of challenging market conditions, but also our partners, investors and shareholders whose trust and cooperation has enabled our continued progress.

I would like to thank GFH's management team and our staff for their persisting outstanding performance this year, which allowed us to continue to find new ways to create value for our investors and shareholders. I would also like to extend our deepest appreciation to our shareholders and investors for their continued trust and confidence in GFH, our strategy and our ability to meet their expectations. We would also like to extend the utmost gratitude and appreciation for the continued support and guidance of the Central Bank of Bahrain, the Government of the Kingdom of Bahrain and its visionary leadership: His Majesty King Hamad Bin Isa Al Khalifa; His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister; and His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander of Bahrain Defence Force and First Deputy Prime Minister.

With twenty years now behind us and 2019 coming to a successful close, we are confident in our ability to mark another year of persistent progress and continued diversification and look forward to sharing with you developments on our progress, activities and successes over the year to come.

Sincerely,



Jassim Alseddiqi

Chairman

12 February 2020



12 February 2020
18 Jumada II 1441 AH

SHARIA SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS
Report on the activities of GFH Financial Group B.S.C.
for the financial year ending 31 December 2019

**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 2019.

Respective Responsibility of Sharia Supervisory Board

The Sharia Supervisory Board believes that as a general principle and practice, the Bank Management is responsible for ensuring that it conducts its business in accordance with Islamic Sharia rules and principles. The Sharia Supervisory Board responsibility is to express an independent opinion on the basis of its control and review of the Bank's operations and to prepare this report.

Basis of opinion

Based on Sharia Supervisory Board fatwas and decisions, AAOIFI standards and Sharia Audit plan, the Sharia Supervisory Board through its periodic meetings reviewed the Sharia Audit function reports and examined the compliance of documents and transactions in regards to Islamic Sharia rules and principles, in coordination with Sharia Implementation & Coordination function. Furthermore, the Bank's management explained and clarified the contents of Consolidated Balance Sheet, Consolidated Income Statement, Consolidated statement of Zakah and Charity fund, and attached notes for the financial year ended on 31st December 2019 to our satisfaction.

Opinion

The Sharia Supervisory Board believes that,

- The contracts, transactions and dealings entered into by the Bank are in compliance with Islamic Sharia rules and principles
- The distribution of profit and allocation of losses on investments was in line with the basis and principles approved by the Sharia Supervisory Board and in accordance to the Islamic Sharia rules and principles
- Any earnings resulted from sources or means prohibited by the Islamic Sharia rules and principles, have been directed to the Charity account.
- Zakah was calculated according to the Islamic Sharia rules and principles, by the net assets method. And the shareholders should pay their portion of Zakah on their shares as stated in the Zakah guide.
- The Bank was committed to comply with Islamic Sharia rules and principles, the Sharia Supervisory Board fatawa and guidelines, Sharia related policies and procedures, AAOIFI's Sharia standards, and Sharia directives issued by the CBB.

Praise be to Allah, Lord of the worlds.

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



Sheikh Nedham Yaqoubi



Sheikh Abdulla Al Manie



Sheikh Abdulaziz Al Qassar



Sheikh Fareed Hadi



KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: www.kpmg.com/bh
CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

GFH Financial Group BSC

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 2019, the consolidated statements of income, changes in owners' equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in owners' equity, its consolidated changes in restricted investment accounts and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on other regulatory requirements

As required by the 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 Commercial Companies Law, the CBB and Financial Institutions Law No 64 of 2006 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and Associated Resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG Fakhro
Partner Registration No. 100
12 February 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

US\$ 000's

	note	31 December 2019	31 December 2018
ASSETS			
Cash and bank balances	6	362,345	341,567
Treasury portfolio	7	1,588,661	818,000
Financing assets	8	1,272,777	1,208,947
Real estate investments	9	1,806,009	1,840,010
Proprietary investments	10	268,175	234,012
Co-investments	11	96,507	77,644
Assets held-for-sale	12	101,213	147,141
Receivables and prepayments	13	424,146	229,142
Property and equipment	14	25,440	92,902
Total assets		5,945,273	4,989,365
LIABILITIES			
Clients' funds		70,858	46,639
Placements from financial, non-financial institutions and individuals	15	2,447,249	1,628,389
Customer current accounts		147,487	177,906
Term financing	16	279,418	256,137
Liabilities directly associated with assets held-for-sale	12	39,936	42,749
Other liabilities	17	448,909	517,857
Total liabilities		3,433,857	2,669,677
Equity of investment account holders	18	1,218,545	896,910
OWNERS' EQUITY			
Share capital	19	975,638	975,638
Treasury shares	19	(73,419)	(85,424)
Statutory reserve		125,312	117,301
Fair value reserve		(4,831)	(4,725)
Foreign currency translation reserve		(29,425)	(43,380)
Retained earnings		10,070	98,318
Share grant reserve	20	1,198	1,086
Total equity attributable to shareholders of Bank		1,004,543	1,058,814
Non-controlling interests		262,932	323,408
Non-controlling interests held-for-sale	12	25,396	40,556
Total owners' equity		1,292,871	1,422,778
Total liabilities, equity of investment account holders, owners' equity and non-controlling interest		5,945,273	4,989,365

The consolidated financial statements were approved by the Board of Directors on 12 February 2020 and signed on its behalf by:



Jassim Al Seddiqi
Chairman



H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa
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 2019

US\$ 000's

		2019	2018
Continuing operations			
Investment banking income			
Asset management		2,880	2,572
Deal related income		92,971	40,100
		95,851	42,672
Commercial banking income			
Income from financing		83,113	70,465
Treasury and investment income		27,924	23,220
Fee and other income		15,189	7,539
Less: Return to investment account holders	18	(40,018)	(22,817)
Less: Finance expense		(18,418)	(23,050)
		67,790	55,357
Income from proprietary and co-investments			
Direct investment income, net		10,520	17,731
Restructuring related income	22	29,406	35,300
Dividend from co-investments		1,959	1,098
		41,885	54,129
Real estate income			
Development and sale		37,872	5,851
Rental and operating income		2,543	2,741
		40,415	8,592
Treasury and other income			
Finance income		24,081	1,446
Dividend and net gain on treasury investments		48,606	7,341
Income from settlement of liability		-	77,847
Other income, net		17,059	38,786
		89,746	125,420
Total income		335,687	286,170
Staff costs	23	50,590	53,135
Other operating expenses	24	51,845	64,377
Finance expense		111,330	39,534
Impairment allowances	25	54,264	17,614
Total expenses		268,029	174,660
Profit from continuing operations		67,658	111,510
(Loss) / profit from assets held-for-sale and discontinued operations, net	12	(467)	3,539
Profit for the year		67,191	115,049
Attributable to:			
Shareholders of the Bank		80,108	114,076
Non-controlling interests		(12,917)	973
		67,191	115,049
Earnings per share			
Basic and diluted earnings per share (US cents)		2.37	3.22
Earnings per share – continuing operations			
Basic and diluted earnings per share (US cents)		2.39	3.12





Jassim Al Seddiq
 Chairman

H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa
 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 2019

US\$ 000's

	Attributable to shareholders of the Bank							Non – controlling interests	Non – controlling interests held-for-sale	Total owners' equity	
	Share capital	Treasury shares	Statutory reserve	Investment fair value reserve	Foreign currency translation reserve	Retained earnings	Share grant reserve				Total
2019											
Balance at 1 January 2019 *	975,638	(85,424)	117,301	(4,725)	(43,380)	98,318	1,086	1,058,814	323,408	(note 12) 40,556	1,422,778
Profit for the year	-	-	-	-	-	80,108	-	80,108	(12,917)	-	67,191
Fair value changes during the year	-	-	-	(106)	-	-	-	(106)	-	-	(106)
Total recognised income and expense	-	-	-	(106)	-	80,108	-	80,002	(12,917)	-	67,085
Bonus shares issued (note 19)	55,000	-	-	-	-	(55,000)	-	-	-	-	-
Extinguishment of treasury shares (note 19)	(55,000)	50,549	-	-	-	4,451	-	-	-	-	-
Dividends declared (note 19)	-	-	-	-	-	(30,000)	-	(30,000)	-	-	(30,000)
Transfer to zakah and charity fund	-	-	-	-	-	(2,219)	-	(2,219)	(223)	-	(2,442)
Issue of shares under incentive scheme	-	-	-	-	-	-	112	112	-	-	112
Purchase of treasury shares	-	(183,174)	-	-	-	-	-	(183,174)	-	-	(183,174)
Sale of treasury shares	-	176,669	-	-	-	(26,596)	-	150,073	-	-	150,073
Treasury shares acquired for share incentive scheme (note 19)	-	(32,039)	-	-	-	-	-	(32,039)	-	-	(32,039)
Acquisition of NCI without a change in control (note 21)	-	-	-	-	-	(51,412)	-	(51,412)	(40,588)	-	(92,000)
Transfer to statutory reserve	-	-	8,011	-	-	(8,011)	-	-	-	-	-
Foreign currency translation differences	-	-	-	-	13,955	-	-	13,955	(6,748)	-	7,207
Disposal of subsidiary held-for-sale	-	-	-	-	-	431	-	431	-	(15,160)	(14,729)
Balance at 31 December 2019	975,638	(73,419)	125,312	(4,831)	(29,425)	10,070	1,198	1,004,543	262,932	25,396	1,292,871

* The Bank used to recognise gain / (loss) on sale of treasury shares in the statutory reserve. The Bank has regrouped the losses on sale of treasury shares of US\$ 24,818 thousand for the year ended 31 December 2018 to retained earnings.

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 2019 (continued)

US\$ 000's

	Attributable to shareholders of the Bank								Non – controlling interests	Non – controlling interests held-for-sale	Total owners' equity	
	Share capital	Share premium	Treasury shares	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Share grant reserve				Total
2018												
Balance at 1 January 2018 (as previously reported)	975,638	3,058	(58,417)	105,893	-	-	122,825	1,026	1,150,023	345,770	-	1,495,793
Impact of adoption of FAS 30	-	-	-	-	-	-	(16,586)	-	(16,586)	(13,092)	-	(29,678)
Impact of adoption of FAS 30 by associates	-	-	-	-	-	-	(965)	-	(965)	-	-	(965)
Balance at 1 January 2018 (restated)	975,638	3,058	(58,417)	105,893	-	-	105,274	1,026	1,132,472	332,678	-	1,465,150
Profit for the year	-	-	-	-	-	-	114,076	-	114,076	973	-	115,049
Foreign currency translation differences	-	-	-	-	-	(43,380)	-	-	(43,380)	(15,331)	-	(58,711)
Fair value changes during the year	-	-	-	-	(4,725)	-	-	-	(4,725)	-	-	(4,725)
Total recognised income and expense	-	-	-	-	(4,725)	(43,380)	114,076	-	65,971	(14,358)	-	51,613
Dividends declared for 2017	-	-	-	-	-	-	(82,412)	-	(82,412)	-	-	(82,412)
Transfer to zakah and charity fund	-	-	-	-	-	-	(2,432)	-	(2,432)	(522)	-	(2,954)
Derecognition on loss of control	-	-	-	-	-	-	(24)	-	(24)	(804)	-	(828)
Issue of shares under incentive scheme	-	-	-	-	-	-	62	60	122	98	-	220
Transfer to statutory reserve	-	-	-	11,408	-	-	(11,408)	-	-	-	-	-
Purchase of treasury shares	-	-	(160,973)	-	-	-	-	-	(160,973)	-	-	(160,973)
Sale of treasury shares	-	(3,058)	133,966	-	-	-	(24,818)	-	106,090	-	-	106,090
Non-controlling interests arising on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	6,316	40,556	46,872
Balance at 31 December 2018	975,638	-	(85,424)	117,301	(4,725)	(43,380)	98,318	1,086	1,058,814	323,408	40,556	1,422,778

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

US\$ 000's

	31 December 2019	31 December 2018
OPERATING ACTIVITIES		
Profit for the year	67,191	115,049
Adjustments for:		
Income from deal related income	(92,971)	(8,500)
Income from commercial banking	(22,133)	(20,686)
Income from proprietary investments	(12,344)	(8,859)
Income from dividend and gain / (loss) on treasury investments	(48,606)	(7,341)
Foreign exchange loss / (gain)	2,264	(434)
Restructuring related income	(29,406)	(113,147)
Other income	-	(6,902)
Finance expense	129,748	62,585
Impairment allowances	54,264	17,614
Depreciation and amortisation	2,173	2,099
	50,180	31,478
Changes in:		
Placements with financial institutions (original maturities of more than 3 months)	(280,706)	(168,286)
Financing assets	(108,524)	(21,209)
Other assets	(213,269)	9,458
CBB Reserve and restricted bank balance	(27,176)	(8,913)
Clients' funds	24,218	7,226
Placements from financial and non-financial institutions	818,860	769,893
Customer current accounts	(30,421)	(11,701)
Equity of investment account holders	321,635	(9,443)
Payables and accruals	(68,948)	(132,128)
Net cash generated from operating activities	485,849	466,375
INVESTING ACTIVITIES		
Payments for purchase of equipment	(860)	(2,814)
Proceeds from sale of proprietary, co-investment securities, net	2,156	26,512
Purchase of treasury portfolio, net	(353,003)	(249,502)
Proceeds from sale of a subsidiary	-	104,591
Proceeds from sale of investment in real estate	38,805	-
Purchase of investment in real estate	-	(2,931)
Dividends received from proprietary investments and co-investments	5,426	25,308
Advance paid for development of real estate	(25,792)	(13,021)
Acquisition of additional stake in a subsidiary	-	(17,276)
Net cash used in investing activities	(333,268)	(129,133)
FINANCING ACTIVITIES		
Financing liabilities, net	28,613	(9,810)
Finance expense paid	(106,078)	(55,665)
Dividends paid	(31,037)	(76,151)
Acquisition of NCI	(9,026)	-
Purchase of treasury shares, net	(65,140)	(54,883)
Net cash used in financing activities	(182,668)	(196,509)
Net (decrease)/increase in cash and cash equivalents during the year	(30,087)	140,733
Cash and cash equivalents at 1 January *	397,620	256,887
Cash and cash equivalents at 31 December	367,533	397,620
Cash and cash equivalents comprise: *		
Cash and balances with banks (excluding CBB Reserve balance and restricted cash)	278,251	284,649
Placements with financial institutions (original maturities of 3 months or less)	89,282	112,971
	367,533	397,620

* net of expected credit loss of US\$ 1,098 thousand (31 December 2018: US\$ 1,087 thousand)

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 2019**

31 December 2019	Balance at 1 January 2019			Movements during the year						Balance at 31 December 2019		
	No. of units (000)	Average value per share US\$	Total US\$ 000's	Investment/ (withdrawal) US\$ 000's	Revaluation US\$ 000's	Gross income US\$ 000's	Dividends paid US\$ 000's	Group's fees as an agent US\$ 000's	Administration expenses US\$ 000's	No. of units (000)	Average value per share US\$	Total US\$ 000's
Company												
Mena Real Estate Company KSCC	150	0.33	50	-	-	-	-	-	-	150	0.33	50
Al Basha'er Fund	13	7.03	91	-	13	-	-	-	-	13	8	104
Safana Investment (RIA 1) #	6,254	2.65	16,573	-	-	-	-	-	-	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5) #	3,434	2.65	9,100	-	-	-	-	-	-	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,447	-	13	-	-	-	-			28,460

31 December 2018	Balance at 1 January 2018			Movements during the year						Balance at 31 December 2018		
	No. of units (000)	Average value per share US\$	Total US\$ 000's	Investment/ (withdrawal) US\$ 000's	Revaluation US\$ 000's	Gross income US\$ 000's	Dividends paid US\$ 000's	Group's fees as an agent US\$ 000's	Administration expenses US\$ 000's	No. of units (000)	Average value per share US\$	Total US\$ 000's
Company												
Mena Real Estate Company KSCC	150	0.35	53	-	(3)	-	-	-	-	150	0.33	50
Al Basha'er Fund	13	7.03	91	-	-	-	-	-	-	13	7.03	91
Safana Investment (RIA 1) #	6,254	2.65	16,573	-	-	-	-	-	-	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5) #	3,529	2.65	9,352	(252)	-	-	(690)	-	-	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,702	(252)	(3)	-	(690)	-	-			28,447

#Represents restricted investment accounts of Khaleeji Commercial Bank BSC, a consolidated subsidiary

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

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

for the year ended 31 December 2019

US\$ 000's

	2019	2018
Sources of zakah and charity fund		
Contributions by the Group	2,437	2,954
Non-Islamic income (note 30)	336	48
Total sources	2,773	3,002
Uses of zakah and charity fund		
Utilisation of zakah and charity fund	(2,001)	(1,208)
Total uses	(2,001)	(1,208)
Surplus of sources over uses	772	1,794
Undistributed zakah and charity fund at 1 January	4,635	2,841
Undistributed zakah and charity fund at 31 December (note 17)	5,407	4,635
Represented by:		
Zakah payable	383	755
Charity fund	5,024	3,880
	5,407	4,635

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 2019

US\$ 000's

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

Consolidated financial statements

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

Investee name	Country of incorporation	Effective ownership interests 2019	Activities
GFH Capital Limited	United Arab Emirates	100%	Investment management
Khaleeji Commercial Bank BSC ('KHCB')	Kingdom of Bahrain	55.41%	Islamic retail bank
Al Areen Project companies		100%	Real estate development
Falcon Cement Company BSC (c) ('FCC')		51.72%	Cement manufacturing
Morocco Gateway Investment Company ('MGIC')		89.26%	Real estate development
Tunis Bay Investment Company ('TBIC') *	Cayman Islands	82.92%	Real estate development
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects")		80.27%	Real estate development
Gulf Holding Company KSCC	State of Kuwait	51.18%	Investment in real estate
Residential South Real Estate Development Company (RSRED) *	Bahrain	100%	Real estate development

* refer to note 21

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

Subsequent event

Subsequent to the year-end, the Group raised US\$ 300 million through issue of Sukuk certificates with corporate rate of 7.5% per annum and maturity of 5 years. The Sukuk Certificates are unsecured and listed on the London Stock Exchange.

2 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 ("AAOIFI") and in conformity with Commercial Companies Law. In line with the requirement of AAOIFI and the Rulebook issued by CBB, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards (IFRS).

3 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\$), which is also 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2019**

US\$ 000's

3 Basis of preparation (continued)

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 5.

Change in presentation:

Effective January 2019, the Group has changed its description and presentation of the statement of financial position and income statement to better align them with the various revenue generating activities of the Group and to enhance disclosures to enable users have a better understanding of the activities and financial performance of the Group. The below paragraphs and tables describe the Group's significant lines of business and sources of revenue they are associated with.

Activities:

The Group's primary activities include: a) to provide investment opportunities and manage assets on behalf of its clients as an agent, b) to provide commercial banking services , c) to undertake targeted development and sale of infrastructure and real estate projects for enhanced returns, d) to co-invest with clients and hold strategic proprietary assets as a principal. In addition, the Group also manages its treasury portfolio with the objective of earning higher returns from capital and money market opportunities.

Segments:

To undertake the above activities, the Group has organised itself in the following operating segments units:

Investment banking	<p>Investment banking segment focuses on private equity and asset management activities. Private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The Group acts as both a principal and an intermediary by acquiring, managing and realizing investments in investment assets for institutional and high net worth clients. The asset management unit is responsible for identifying and managing investments in income yielding real estate and leased assets in the target markets.</p> <p>Investment banking activities focuses on acquiring, managing and realizing investments to achieve and exceed benchmark returns.</p> <p>Investment banking activities produce fee-based, activity-based and asset-based income for the Group. Assets under this segment include proprietary private equity, co-investments and strategic non-banking investments.</p>
Commercial banking	This includes all sharia compliant corporate banking and retail banking activities of the Group provided through the Group's subsidiary, Khaleeji Commercial Bank BSC. The subsidiary also manages its own treasury and proprietary investment book within this operating segment.
Real Estate development	This business unit is primarily 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.
Corporate and treasury	All common costs and activities that are undertaken at the Group level, including treasury and residual investment assets, is considered as part of the Corporate and treasury activities of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2019**

US\$ 000's

3 Basis of preparation (continued)

Each of the above operating segments, except commercial banking which is a separate subsidiary has its own dedicated team of professionals and are supported by a common placement team and support 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 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. Expenses are not allocated to the business segment.

Sources of revenue:

The Group primarily earns its revenue from the following sources and presents its statement of income accordingly:

Activity/ Source	Products	Types of revenue
Investment banking activity	Deal-by-deal offerings of private equity, income yielding asset opportunities	<i>Deal related income</i> , earned by the Group from investee companies in connection with new acquisitions <i>Fee based income</i> , in the nature of management fees, performance fee, acquisition fee and exit fee which are contractual in nature
Commercial banking income	Islamic Shari'ah compliant corporate, institutional and retail banking financing and cash management products and services	Financing income, fees and investment income (net of direct funding costs)
Proprietary investments	Proprietary investments comprise the Group's strategic and co-investment exposure. This also includes non-banking subsidiaries and equity -accounted investees where the Bank has significant influence	Includes dividends, gain / (loss) on sale and remeasurement of proprietary investments, co-investments and share of profit / (loss) of equity accounted investees Income from restructuring of liabilities and funding arrangements are also considered as income from proprietary investments
Co-investment	Represent the Group's co-investment along with its clients in the products promoted by the Group	<i>Dividends, gain / (loss) on co-investments of the Bank</i>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

US\$ 000's

3 *Basis of preparation (continued)*

Activity/ Source	Products	Types of revenue
Real estate	Proprietary holdings of real estate for direct sale, development and sale, and/ or rental yields. This also includes the group's holding or participation in leisure and hospitality assets.	<i>Development and sale income</i> , from development and sale of real estate projects of the Group based on percentage of completion (POC) method. <i>Rental and operating income</i> , from rental and other ancillary income from investment in real estate.
Treasury operations	Represents the Bank's liquidity management operations, including its fund raising and deployment activities to earn a commercial profit margin.	Income arising from the deployment of the Bank's excess liquidity, through but not limited to short term placements with bank and financial institutions, money market instruments, capital market and other related treasury investments.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies 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 the Group except for changes arising from adoption of FAS 28 as set out below.

(a) Impact of new accounting standards and changes in accounting policies

There are no new AAOIFI standards and interpretations for financial year beginning on or after 1 January 2019 that would be expected to have a material impact on the Group.

i) New standards issued but not yet effective

a) FAS 31 – Investment Agency (Al-Wakala Bi Al-Istithmar)

The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations, as applicable, for the Islamic financial institutions from both perspectives i.e. the principal (investor) and the agent.

Principal (Investor)

The standard requires the principal either to follow the Pass through approach (as a preferred option) or the Wakala venture approach.

Pass through approach

A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. There is a rebuttable assumption that in all investment agency arrangements, the investor takes direct exposure on the underlying assets (including a business) at the back end. As a result, the investor shall account for the assets (including the business) in its books directly, according to appropriate accounting policies applicable on such assets (or business) in line with respective FAS or the generally accepted accounting principles in absence of a specific FAS on the subject.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)*Wakala venture approach*

Wakala venture approach can be adopted when the, if the investment agency contracts meets the conditions of the instrument being transferable and the investment is subject to frequent changes at the discretion of the agent. In case of this approach, the principal accounts for the investment in Wakala venture by applying the equity method of accounting.

Agent

The standard requires the agent either to follow the off- balance sheet approach or the on- balance sheet approach (only on exceptions by virtue of additional considerations attached to the investment agency contract).

Off-balance sheet approach

At inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach whereby, since the agent does not control the related assets / business and hence does not record the assets and related income and expenditure in its books of account. The agent shall not recognize the assets and / or liabilities owned by the investor(s) (principal(s)) in its books of account. If the agent previously owned such assets directly or through on-balance sheet equity of investment accountholders or similar instruments, the agent shall de-recognize the assets (and liabilities) from its books of account.

On-balance sheet approach

An agent may maintain multi-level investment arrangements based on independent permissible transactions with the agent itself. Notwithstanding the requirements of this standard with regard to investment agency arrangements, such secondary transactions shall be accounted for in line with the requirements of respective FAS in the books of the agent.

The agent shall consider the investment agency arrangement as a quasi-equity instrument for accounting purposes, if the investment agency instrument, by virtue of additional considerations attached to the instrument, is subordinated to all liabilities of the agent.

This standard shall be effective for the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

Transitional provisions

An entity may opt not to apply this standard only on such transactions:

- a. which were already executed before the adoption date of this standard for the entity; and
- b. their original maturity falls no later than 12 months after the adoption date of this standard for the entity.

This standard is not expected to have a significant impact on the Group. The standard shall be effective for the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

b) FAS 33 - Investment in Sukuk, shares and similar instruments

The objective of this standard is to set out the principles for the classification, recognition, measurement and presentation and disclosure of investment in Sukuk, shares and other similar instruments made by Islamic financial institutions. This standard shall apply to an institutions investments whether in the form of debt or equity securities. This standard replaces FAS 25 Investment in Sukuk, shares and similar instruments and produces revised guidance for classification and measurement of investments to align with international practices.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

The standard classifies investments into equity type, debt type and other investment instruments. Investments in equity instruments must be at fair value and will not be subject to impairment provisions as per FAS 30 "Impairment, Credit Losses and Onerous Commitments". In limited circumstances, where the institution is not able to determine a reliable measure of fair value of equity investments, cost may be deemed to be best approximation of fair value.

Investment can be classified and measured at amortized cost, fair value through equity or fair value through the income statement. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively. This standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

Transitional provisions

The standard shall be applicable on a retrospective basis. However, the cumulative effect, if any, attributable to profit and loss taking stakeholders, including investment accountholders related to previous periods, shall be adjusted with the investments fair value reserve pertaining to such class of stakeholders.

The Group is still in the process of estimating the impact of adoption of this standard on the consolidated financial statements.

c) FAS 34 - Financial Reporting for Sukuk-holders

The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders particularly Sukuk-holders.

This standard shall apply to Sukuk in accordance with Shari'ah principles and rules issued by an IFI or other institution (called "originator"), directly or through the use of a Special Purpose Vehicle (SPV) or similar mechanism. In respect of Sukuk which are kept on-balance sheet by the originator in line with requirements of FAS 29 "Sukuk in the books of the originator", the originator may opt not to apply this standard.

The standard classifies Sukuk as Business Sukuk and Non-business sukuk and lays down accounting treatment for Business and Non- business Sukuk.

This standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

Transitional provisions

An entity may opt not to apply this standard only on such transactions:

- a. which were already executed before the adoption date of this standard for the entity; and
- b. their original maturity falls no later than 12 months after the adoption date of this standard for the entity.

The Group is still in the process of estimating the impact of adoption of this standard on the consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(b) 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 re-measured 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.

If less than 100% of a subsidiary is acquired, then the Group elects on a transaction-by-transaction basis to measure non-controlling interests either at:

- Fair value at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary non-controlling interests; or
- the holders' proportionate interest in the recognised amount of the identifiable net assets of the acquiree, which means that goodwill recognised, or the gain on a bargain purchase, relates only to the controlling interest acquired.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(iv) Special purpose entities**

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

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

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

(v) Loss of control

When the Group loses 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) Equity accounted investees

This comprise investment in associates and joint ventures. 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 exist when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, where the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Associates and Joint ventures are accounted for under equity method. 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(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.

(c) Assets held-for-sale**(i) Classification**

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use within twelve months. A subsidiary acquired exclusively with a view to resale is classified as disposal group held-for-sale and income and expense from its operations are presented as part of discontinued operation.

(ii) Measurement

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. 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 inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on re-measurement are recognised in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

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 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.

(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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(ii) Transactions and balances (continued)**

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 are categorised as proprietary investments, co-investments and treasury portfolio. (Refer note 3 for the basis of the categorisation).

Investment securities comprise debt type and equity type instruments but exclude investment in subsidiaries and equity-accounted investees (note 4 (b) (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. This comprise investments in Sukuk.

At amortised cost

These are debt-type instruments that are managed on contract yield basis and are not designated as FVTIS.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)***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 management on a fair value basis.

At fair value through equity (FVTE)

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

(ii) Recognition and de-recognition

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

(iii) Measurement

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(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, price / earnings multiples and other valuation models with accepted economic methodologies for pricing financial instruments.

(g) Financing assets

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

(h) Assets acquired for leasing

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

(i) Placements with and from financial and other institutions

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

(j) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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US\$ 000's

4 **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(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 and equipment

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

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

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

Buildings and infrastructure on lease hold	15 – 30 years
Machinery	8 – 40 years
Other equipment comprising:	
Tools and dies	3 years
Computers	3 – 5 years
Furniture and fixtures	5 – 8 years
Motor vehicles	4 – 5 years

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US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying values of property 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 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 of 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 de-recognition 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(o) Impairment of exposures subject to credit risk**

The Group recognises loss allowances for the expected credit losses "ECLs" on:

- Bank balances;
- Placements with financial institutions;
- Financing assets;
- Lease rental receivables;
- Investments in Sukuk (debt-type instruments carried at amortised cost);
- Other receivables; and
- Undrawn financing commitments and financial guarantee contracts issued.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- Debt-type securities that are determined to have low credit risk at the reporting date; and
- other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of an exposure subject to credit risk has increased significantly since initial recognition when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

The Group assumes that the credit risk on exposure subject to credit risk increased significantly if it is more than 30 days past due. The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or
- the exposure is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher per S&P.

The Group applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL

Stage 1 includes exposures that are subject to credit risk on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes exposures that are subject to credit risk that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

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4 **SIGNIFICANT ACCOUNTING POLICIES** (continued)

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes exposures that are subject to credit risk that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- Exposures subject to credit risk that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive;
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover; and
- ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that an exposure is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a financing facility or advance by the Bank on terms that the Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for exposures subject to credit risk are deducted from the gross carrying amount of the assets.

(p) Impairment of equity investments classified at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The Group considers a decline of 30% to be significant and a period of nine months to be prolonged. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable measure of 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 estimated recoverable amount is below the carrying value of the investment.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(q) Impairment of non-financial assets**

The carrying amount of the Group's non-financial assets (other than those subject to credit risk covered above) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset 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 exceeds its estimated recoverable amount. Impairment losses are recognised in the 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.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. 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 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.

(r) Clients' 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.

(s) 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.

(t) Term financing

Term financing represents facilities from financial institutions, and financing raised through Sukuk. Term financing 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 term financing 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.

(u) Financial guarantees 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 37).

(v) Dividends and board remuneration

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(w) 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 Commercial Companies Law 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.

(x) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(y) 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

Income from investment banking activities is recognised when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/ contracts for each transaction. The assessment of whether economic benefits from a transaction will flow to the Group is determined when legally binding commitments have been obtained from underwriters and external investors for a substantial investment in the transaction.

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.

(z) Earnings prohibited by Shari'a

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(aa) Zakah**

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net assets method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment account holders and other accounts is the responsibility of investment account holders.

(bb) Employees benefits**(i) Short-term benefits**

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

(ii) Post employment benefits

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

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

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

(dd) Onerous contracts

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

(ee) Trade date accounting

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

(ff) 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.

(gg) Income tax

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

US\$ 000's

5 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

Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in note 4(o) and note 37(a);

(i) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(ii) 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 4 (f)).

(iii) Special purpose entities

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

Estimations***Impairment of exposures subject to credit risk***

Determining inputs into ECL measurement model including incorporation of forward looking information is set out in note 4(o) and note 37(a).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

US\$ 000's

**5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES
(continued)****(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 well recognised valuation techniques such as discounted cash flow, market multiple and recent transactions. 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 of investments carried at fair value through equity

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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US\$ 000's

**5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES
(continued)*****(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 using either sales comparable approach or the residual value basis or the market value of the property 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 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 4 (n). For equity-accounted investees with indicators of impairment, the recoverable amount is determined based on higher of fair value less costs to sell (FVLCTS); and value in use.

The recoverable amount for the equity-accounted investees was determined using a combination of income and market approaches of valuations. The objective of valuation techniques is to determine whether the recoverable amount is greater than the carrying amount.

(v) 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.

(vi) Consideration transferred and fair value of identifiable assets acquired and liabilities assumed in a business combination

The estimate in relation to consideration transferred and determination of fair value of identifiable assets acquired and liabilities assumed in a business combination are given in note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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US\$ 000's

6 CASH AND BANK BALANCES

	31 December 2019	31 December 2018
Cash	14,067	21,609
Balances with banks	198,418	225,024
Balances with Central Bank of Bahrain:		
- Current account	82,406	39,709
- Reserve account	67,454	55,225
	362,345	341,567

The reserve account with the Central Bank of Bahrain of US\$ 67,454 thousand (2018: US\$ 55,225 thousand) and balances with banks of US\$ 16,640 thousand (2018: US\$ 1,693 thousand) are not available for day-to-day operational purposes. The cash and bank balances are net of ECL of US\$ 8 thousand (2018: US\$ 134 thousand).

7 TREASURY PORTFOLIO

	31 December 2019	31 December 2018
Placements with financial institutions	546,575	289,558
Equity type investments		
<i>At fair value through income statement</i>		
- Structured notes *	239,807	-
Debt type investments		
<i>At fair value through income statement</i>		
- Quoted sukuk	284,904	100,527
<i>At amortised cost</i>		
- Quoted sukuk *	517,375	427,915
	1,588,661	818,000

* Includes structured notes of US\$ 239,807 thousand (31 December 2018: Nil) and quoted sukuk of US\$ 51,070 thousand (31 December 2018: US\$ 177,092 thousand) pledged against term financing of US\$ 215,326 thousand (31 December 2018: US\$ 142,447 thousand) (note 16).

a) Equity type investments - At fair value through income statement

	2019	2018
At 1 January	-	-
Additions	598,725	-
Disposals during the year, at carrying value	(359,248)	-
Fair value changes	330	-
At 31 December	239,807	-

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8 FINANCING ASSETS

	31 December 2019	31 December 2018
Murabaha	1,008,580	948,188
Musharaka	277	9,393
Wakala	13,280	13,281
Mudharaba	2,776	2,782
Istisnaa	4,597	5,448
Assets held-for-leasing	350,976	294,788
	1,380,486	1,273,880
Less: Impairment allowances	(107,709)	(64,933)
	1,272,777	1,208,947

Murabaha financing receivables are net of deferred profits of US\$ 68,233 thousand (2018: US\$ 66,546 thousand).

The movement on impairment allowances are as follows:

2019	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	12,632	9,801	42,500	64,933
Net movement between stages	(53)	(3,239)	3,292	-
Net charge for the year (note 25)	(430)	679	42,526	42,775
At 31 December 2019	12,149	7,241	88,319	107,709

2018	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	7,021	25,520	27,149	59,690
Net movement between stages	6,751	(12,711)	5,960	-
Net charge for the year (note 25)	(1,140)	(3,008)	13,546	9,398
Write-off	-	-	(4,155)	(4,155)
At 31 December 2018	12,632	9,801	42,500	64,933

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9 REAL ESTATE INVESTMENT

	31 December 2019	31 December 2018
Investment Property		
- Land	490,412	482,851
- Building	40,841	40,841
	531,253	523,692
Development Property		
- Land	797,535	811,684
- Building	477,221	504,634
	1,274,756	1,316,318
	1,806,009	1,840,010

(i) Investment property

Investment property includes land plots and buildings in Bahrain, UAE and Morocco. Investment property of carrying amount of US\$ 40.84 million (2018: US\$ 192.2 million) is pledged against Wakala facilities and Ijarah facility (note 16).

The fair value of the Group's investment property at 31 December 2019 was US\$ 543,850 thousand (31 December 2018: US\$ 536,804 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.

	2019	2018
At 1 January	523,692	616,263
Additions during the year	8,360	49,740
Disposals	-	(6,154)
Transfer to development property	-	(657)
De-recognition on deconsolidation of a subsidiary	-	(135,500)
Impairment allowances (note 25)	(799)	-
At 31 December	531,253	523,692

(ii) Development properties

This represent properties under development for sale in UAE, Bahrain, North Africa and India. Development property of US\$ Nil (31 December 2018: US\$ 42.3 million) is pledged against a Wakala facility.

	2019	2018
At 1 January	1,316,318	893,037
Acquisitions arising on consolidation of a subsidiary (note 21)	-	377,332
Additions during the year	44,553	93,712
Transfer from investment property	-	657
Disposals	(71,956)	(17,602)
Foreign currency translation impact	(14,159)	(30,818)
At 31 December	1,274,756	1,316,318

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10 PROPRIETARY INVESTMENTS

	31 December 2019	31 December 2018
Equity type investments		
<i>At fair value through income statement</i>		
- Unquoted equity securities	29,640	34,875
	29,640	34,875
<i>At fair value through equity</i>		
- Listed equity securities (at fair value) *	27,324	29,093
- Unquoted equity securities (at cost less impairment)	95,594	103,080
	122,918	132,173
Equity-accounted investees	115,617	66,964
	268,175	234,012

* Listed equity securities of US\$ 26,216 thousand (2018: US\$ 26,214 thousand) are pledged against Murabaha facility (note 16).

(i) Unquoted equity securities – At fair value through income statement

	2019	2018
At 1 January	34,875	34,875
Fair value changes during the year	(5,235)	-
At 31 December	29,640	34,875

(ii) Listed equity securities at fair value through equity

	2019	2018
At 1 January	29,093	103
Additions during the year	26,282	59,958
Disposals during the year, at carrying value	(27,945)	(26,243)
Fair value changes	(106)	(4,725)
At 31 December	27,324	29,093

(iii) Unquoted equity securities fair value through equity

	2019	2018
At 1 January	103,080	103,080
Distributions during the year	(7,486)	-
At 31 December	95,594	103,080

These are carried at cost less impairment in the absence of quoted prices or reliable measure of fair value.

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10 PROPRIETARY INVESTMENTS (continued)

(iv) Equity-accounted investees

Equity-accounted investees represents investments in the following material associates:

Name	Country of incorporation	% holding		Nature of business
		2019	2018	
Capital Real Estate Projects Company B.S.C. (c)	Kingdom of Bahrain	40%	40%	Real estate holding and development
Amlak II SPV	Cayman Islands	23.51%	23.51%	Purchase and sale of real estate in the Kingdom of Bahrain
Bahrain Aluminium Extrusion Company B.S.C (c) ('Balexco')	Kingdom of Bahrain	17.92%	17.32%	Extrusion and sale of aluminium products
Global Banking Corporation BSC (c)	Kingdom of Bahrain	28.69%	28.69%	Islamic wholesale banking
Enshaa Development Real Estate B.S.C. (c)	Kingdom of Bahrain	33.33%	33.33%	Holding plot of land in Kingdom of Bahrain.
AlAreen Hotel SPC	Kingdom of Bahrain	60%	-	Hospitality

	2019	2018
At 1 January	66,964	81,440
De-recognition on acquiring controlling stake (note 22)	-	(27,260)
Additions during the year (note 21)	41,225	9,623
Share of profit for the year, net	7,428	3,161
At 31 December	115,617	66,964

Equity-accounted investees includes the Group's investment of less than 20% in Balexco. As the Group exercises significant influence over the entity by way of its presence on the board of directors, the investment is accounted for as an investment in equity-accounted investee. The Group through shareholder's agreement agreed to exercise joint control with 40% shareholding over AlAreen Hotel SPC with another partner, hence, it is considered as an 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):

	2019	2018
Total assets	331,268	270,911
Total liabilities	29,621	79,755
Total revenues	88,292	74,884
Total profit / (loss)	35,553	(168)

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11 CO-INVESTMENTS

	31 December 2019	31 December 2018
<i>At fair value through equity</i>		
- Unquoted equity securities (at cost less impairment)	96,507	77,644
	96,507	77,644

	2019	2018
At 1 January	77,644	82,282
Additions during the year	29,513	9,900
Disposals during the year, at carrying value	(1,680)	(8,689)
Impairment charge for the year (note 25)	(8,970)	(5,849)
At 31 December	96,507	77,644

These are carried at cost less impairment in the absence of quoted price or a reliable measures of fair value.

12 ASSETS HELD-FOR-SALE AND LIABILITIES RELATED TO IT

	31 December 2019	31 December 2018
Assets	101,213	147,141
Liabilities	39,936	42,749
Non-controlling interests	25,396	40,556

Assets and related liabilities held-for-sale represents the assets and liabilities of Falcon Cement Company BSC (c) ('FCC'), the Group's subsidiary acquired in 2018. The Group has an active plan approved by the Board, to sell its stake in FCC, and accordingly, the asset, liabilities and non-controlling interests acquired are classified as held-for-sale in the consolidated statement of financial position. The net profit / (loss) from operations is presented in the condensed consolidated income statement as 'Profit / (loss) from assets held- for- sale and discontinued operations, net'. Interest acquired are classified as held-for-sale in the consolidated statement of financial position. The net profit / (loss) from operations is presented in the condensed consolidated income statement as 'Profit / (loss) from assets held- for- sale and discontinued operations, net'.

During the year, the Group disposed off its entire stake (along with the additional interests acquired during the year) in Sheffield Dubai Investment Company (SDIC) that was previously classified as 'held-for-sale' resulting in loss of control, accordingly, the assets and liabilities of SDIC were derecognised in the consolidated financial statements and the resulting gain of US\$ 8 million is included under 'deal related income'.

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13 RECEIVABLES AND PREPAYMENTS

	31 December 2019	31 December 2018
Investment banking receivables	53,262	22,588
Financing to projects, net	27,202	25,001
Receivable on sale of development properties	32,547	18,881
Advances and deposits	73,625	44,300
Employee receivables	14,616	17,292
Profit on sukuk receivable	8,619	7,485
Lease rentals receivable	45,363	30,570
Receivable from sale of investments	46,000	-
Re-possessed assets	35,844	2,263
Prepayments and other receivables	87,068	60,762
	424,146	229,142

During the year, the Group recognised reversal of US\$ 146 thousand (2018: reversal of US\$ 80 thousand) and charge of US\$ 2,029 thousand (2018: charge of US\$ 1,923 thousand) impairment allowance on other receivables and lease rentals receivable respectively (note 25).

14 PROPERTY AND EQUIPMENT

	31 December 2019	31 December 2018
Land	17,811	29,170
Buildings and infrastructure on leasehold land	2,191	45,981
Others including furniture, vehicles and equipment	5,438	17,751
	25,440	92,902

Depreciation on property and equipment during the year was US\$ 2,172 thousand (2018: US\$ 2,099 thousand)

15 PLACEMENTS FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS

These comprise placements in the form of murabaha and wakala contracts accepted from financial and other institutions and individuals (including corporates and individuals) as part of the Group's treasury activities. This includes US\$ 84 million (2018: US\$ 84 million) of funds placed by a non-financial entity which is subject to regulatory sanctions.

16 TERM FINANCING

	31 December 2019	31 December 2018
Murabaha financing	249,435	191,205
Wakala financing	-	24,797
Ijarah financing	24,653	26,743
Other borrowings	5,330	13,392
	279,418	256,137

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16 *TERM FINANCING (continued)*

	31 December 2019	31 December 2018
Current portion	240,721	197,054
Non-current portion	38,697	59,083
	279,418	256,137

Murabaha financing comprise:

- i) US\$ 6.8 million financing facility for a period of 3 years with profit rate of 6 month LIBOR plus a margin of 4.5% p.a. (subject to minimum 6% p.a.) The Murabaha financing is secured by a pledge over the Group's investment in shares of KHCB and matures in 2020;
- ii) US\$ 14 million facility obtained for general corporate purposes for a period of 5 years at a profit rate of 3 month LIBOR plus margin of 6% p.a. (subject to a minimum of 7% p.a.). The facility is secured by a pledge on Group's investment in shares of KHCB and matures in 2022; and
- iii) Short-term and medium-term facilities of US\$ 228,526 thousand (2018: US\$ 132,739 thousand) are secured by quoted sukuk of US\$ 51,070 thousand (2018: US\$ 152,845 thousand), structured notes of US\$ 239,807 thousand (2018: US\$ Nil thousand) (note 7) and equity type investments of US\$ 26,216 thousand (2018: US\$ 26,214 thousand) (note 10).

Ijarah financing facility

This represents facility obtained from a financial institution in 2016 to part finance the acquisition of an investment property of US\$ 40.84 million (note 9(i)), repayable over a period of 8 years at a profit rate of LIBOR plus margin of 5.7% p.a. (subject to minimum of 7% p.a.).

Other borrowings

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

17 **OTHER LIABILITIES**

	31 December 2019	31 December 2018
Employee related accruals	14,132	19,008
Board member allowances and accruals	1,799	3,500
Unclaimed dividends	12,608	13,676
Mudaraba profit accrual	23,637	11,348
Provision for employees' leaving indemnities	3,219	3,437
Zakah and Charity fund	5,407	4,635
Advance received from customers	114,704	203,314
Accounts payable	170,886	146,862
Other accrued expenses and payables	102,517	112,077
	448,909	517,857

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18 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

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

	31 December 2019	31 December 2018
Balances with banks	111,792	125,497
CBB reserve account	67,454	55,225
Placements with financial institutions	173,761	115,748
Debt type instruments – sukuk	517,377	427,923
Financing assets	348,161	172,517
	1,218,545	896,910

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

	2019	2018
Returns from jointly invested assets	(62,451)	(37,731)
Banks share as Mudarib	22,433	14,904
Return to investment account holders	(40,018)	(22,827)

The average gross rate of return in respect of unrestricted investment accounts was 5.12% for 2019 (2018: 4.21%). Approximately 3.28% (2018: 2.55%) was distributed to investors and the balance was either set aside for provisions and/or retained by the Group as a Mudarib fee. Unrestricted investment accounts include profit equalisation reserve of US\$ 9 thousand (2018: US\$ 9 thousand) and investment risks reserve of US\$ 5 thousand (2018: US\$ 5 thousand).

19 SHARE CAPITAL**Authorised:**

9,433,962,264 shares of US\$ 0.265 each (2018: 9,433,962,264 shares of US\$ 0.265 each)

Issued and fully paid up:

3,681,650,441 shares of US\$ 0.265 each (2018: 3,681,650,441 shares of US\$ 0.265 each)

	31 December 2019	31 December 2018
	2,500,000	2,500,000
	975,638	975,638

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

	2019	2018
At 1 January	975,638	975,638
Issue of bonus shares	55,000	-
Extinguishment of treasury shares	(55,000)	-
At 31 December	975,638	975,638

As at 31 December 2019, the Bank held 296,537,880 (31 December 2018: 255,455,953) of treasury shares. During the year, the Bank purchased 133,287,880 shares for US\$ 31.8 million in connection with employee long term incentive plan which is included in treasury shares.

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19 SHARE CAPITAL (continued)

Additional information on shareholding pattern

- (i) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.
- (ii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	2,292,177,483	7,464	62.26
1% up to less than 5%	735,902,932	14	19.99
5% to less than 10% #	653,570,026	2	17.75
Total	3,681,650,441	7,480	100

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

Includes treasury shares held by the Bank.

- (iii) As at 31 December 2019, the shareholders who hold more than 5% of the total outstanding shares are as below:

Shareholder name	Number of shares	% of total outstanding shares
Abu Dhabi Financial Group LLC and related entities	357,032,146	9.69
GFH Financial Group BSC (Treasury shares)	296,537,880	8.06

Appropriations and changes in capital structure

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

In the shareholders meeting held on 28 March 2019, the following were approved and effected during the year:

- Cash dividend of 3.34% of the paid-up share capital amounting to US\$ 30 million;
- Bonus shares of US\$ 55 million representing 5.97% of the nominal value of shares (1 share for every 16.74 shares held);
- Appropriation of US\$ 1 million towards charity for the year;
- Appropriation of US\$ 941 thousand towards zakah for the year;
- Transfer of US\$ 11.4 million to statutory reserve; and
- Extinguishment of 207,547,170 treasury shares held by the Bank as of the date of the AGM, after obtaining the approval of relevant authorities.

In the shareholders meeting held on 31 December 2019, the shareholders approved the use of 140 million of treasury shares for the purpose of strategic acquisition of another financial institutions.

Proposed appropriations

The Board of Directors proposes the following appropriations for 2019 subject to shareholders' and regulatory approval:

- Cash dividend of 5.12% of the paid-up share capital amounting to US\$ 50 million;
- Transfer of US\$ 8.01 million to statutory reserve; and
- US\$ 1 million towards charity and US\$ 568 thousand towards zakah for the year.

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20 SHARE GRANT RESERVE

	2019	2018
At 1 January	1,086	1,026
Issue of share under incentive scheme	112	158
Transfer between interests	-	(98)
At 31 December	1,198	1,086

21 ACQUISITION OF SUBSIDIARIES

- (i) During the year, the Group acquired additional stake in the following subsidiaries

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

	Current Stake	Additional stake acquired	Total stake
Tunis Bay Investment Company (TBIC)	51.41%	31.51%	82.92%
Residential South Real Estate Development Company (RSRED)	51.18%	48.82%	100%

The consideration transferred for the acquisition was in the form of cash and non-cash assets held. The change in net assets arising out of the acquisition of additional interests has the following effect on the consolidated financial statements:

	US\$ 000's
Carrying amount of NCI acquired (based on historical cost)	49,469
Consideration to NCI (based on transaction price)	(100,881)
Decrease in equity attributable to shareholders of the Bank	(51,412)

- (ii) During 2018, the Group acquired additional stake of 31.39% in Gulf Holding Company KSC (Holding) (GHC), a company incorporated in the State of Kuwait taking the Group's holding to 51.18% and obtaining control over GHC. Accordingly, GHC's assets, liabilities and results have been consolidated from the date the Group obtained control.

GHC has the following subsidiaries:

Name	Country of incorporation	Effective ownership interests	Activities
Residential South Real Estate Development Co SPC (RSRED)	Kingdom of Bahrain	100%	Undertake Villamar Project in Bahrain
AlAreen Down Town Real Estate Development Co SPC (AADT)		100%	Undertake AlAreen Down Town Project in Bahrain
The Royal Real Estate Development Co Holding Co SPC (RREDH)		100%	Holding investment in Villa Royale project and real estate development project in Morocco

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21 ACQUISITION OF SUBSIDIARIES (continued)

Consideration transferred and non-controlling interests

The consideration transferred in the acquisition of assets were partially in the form of cash and treasury shares of the Bank. The consideration transferred is generally measured at fair value and the stake held by shareholders other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets or fair value at the date of acquisition of the investee on a transaction by transaction basis based on the accounting policy choice of the Group.

Identifiable assets acquired and liabilities assumed

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

The reported amounts below represent the adjusted fair values of the acquired entities as at 30 June 2018, being the effective date of acquisition, have been reported on a provisional basis as permitted by accounting standards.

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

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

	US\$ 000's
Investment properties	40,373
Development properties	387,332
Cash and bank balances	1,547
Other receivables and pre-payments	26,280
Total assets	455,532
Sukuk financing *	202,784
Advances from customers	168,857
Other liabilities	70,817
Total liabilities	442,458
Total net identifiable assets	13,074

* sukuk financing was settled subsequent to acquisition

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21 *ACQUISITION OF SUBSIDIARIES (continued)*

	US\$ 000's
Carrying value of Group's previously held equity interest in investee	-
Consideration transferred	6,691
Non-controlling interests recognised	6,383
Total consideration	13,074

	US\$ 000's
Consideration paid	6,691
Less: Cash bank balances acquired on consolidation	(1,547)
Net cash paid for the purpose of consolidated statement cash flows	5,144

22 RESTRUCTURING RELATED INCOME

This represents income from restructuring of liabilities of a subsidiary. During the year, the Group agreed to settle a liability of US\$ 56 million to a contractor through for cash and partial stake (40%) in a subsidiary engaged in hospitality management. The excess of the the carrying amount of liability over the total consideration of cash and carrying value of the 40% stake in the subsidiary is recognised as 'restructuring related income' representing income from settlement of liabilities at lower amounts. As the investee is now jointly managed between the contractor and the Group (a joint venture), this has resulted in loss of control of the subsidiary and the carrying value of the joint venture is recognised as 'equity-accounted investee' and included under Proprietary investment.

2018 income of US\$ 35.3 million represents income from restructuring of liabilities of a subsidiary. In 2016, as part of total recoveries made by the Group following litigation settlements, the Group had acquired the holding company of a master developer for a project in the Kingdom of Bahrain under administration and insolvency proceedings which had net liabilities at the time of the settlement. Subsequently, the Group managed to get the company out of administration by restructuring the liabilities of the Company and negotiating settlements with creditors through a court administered process. The legal process of confirming creditors claims was completed in 2018 resulting in the Company being taken out of legal administration and handed back to the Group. Accordingly the difference between the previously recognised liability / provisions and the court approved amounts was reversed to the income statement.

23 STAFF COST

	2019	2018
Salaries and benefits	47,054	49,748
Social insurance expenses	3,536	3,387
	50,590	53,135

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23 *STAFF COST (continued)*

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

Performance year	Nature of award	Staff coverage	Summary of deferral and vesting conditions
Legacy share plan	Share Options	Select Senior Management	Initial lock-in period of 3 years and option exercise period over 10 years ending 2018 at an exercise price of USD 0.65 / share.
2013 Award	Deferred Annual Bonus	Select Senior Management	A portion of the annual incentive was awarded in the form of shares. In 2015, on introduction of the new share plan, the old plan was converted to a deferred cash settled incentive over a 3 years period from year of award.
2014 Award	Employee Share Purchase Plan	Covered persons in business and control functions who exceed total compensation thresholds as per CBB Remuneration Regulations and Bank's Variable Remuneration policy	Shares are released rateably over the 3 year deferral period. The issue price is determined based on a defined adjustment to market price on the date of the award. No future performance conditions or service conditions. Shares are entitled for dividends, if any, but released over the deferral period.
2015 – 2019 * Awards	Employee Share Purchase Plan & Deferred Annual Bonus		

Share incentive scheme

	2019		2018	
	No. of Shares	USD 000's	No. of Shares	USD 000's
Opening balance	26,547,980	10,408	35,872,407	9,568
Awarded during the period	24,531,867	6,259	10,073,642	4,502
Dividends	2,893,887	-	-	-
Forfeiture and other adjustments	-	-	-	-
Transfer to employees / settlement	(13,803,722)	(5,628)	(19,398,069)	(3,662)
Closing balance	40,170,012	11,039	26,547,980	10,408

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.

24 **OTHER OPERATING EXPENSES**

	2019	2018
Investment advisory expenses	14,186	14,477
Rent	4,976	4,990
Professional and consultancy fees	5,616	7,119
Legal expenses	3,502	156
Depreciation	2,172	2,099
Expenses relating to non-banking subsidiaries	4,562	15,475
Other operating expenses	16,831	20,061
	51,845	64,377

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25 IMPAIRMENT ALLOWANCES

	2019	2018
Bank balances (note 6)	(126)	132
Treasury portfolio (note 7)		
- Placements with financial institutions	161	948
- Debt type securities (Quoted sukuk at amortised cost)	19	(265)
Financing assets (note 8)	42,775	9,398
Investment property (note 9)	799	-
Co-investment (note 11)	8,970	5,849
Lease rental receivables (note 13)	2,029	1,923
Other receivables (note 13)	(146)	(80)
Commitments and financial guarantees	(217)	(291)
	54,264	17,614

26 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 transactions during the year and balances as at year end included in these consolidated financial statements are as follows:

Transactions	Related parties per FAS 1				Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose and other entities	
Sale of real estate development	-	-	60,000	-	60,000
Subscription in projects promoted by the Group	-	-	10,080	-	10,080
Repayment of term finance	-	-	25,800	-	25,800

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26 RELATED PARTY TRANSACTIONS (continued)

	Related parties per FAS 1				Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose and other entities	
2019					
Assets					
Financing assets	-	5,350	15,146	60,752	81,248
Proprietary investment	115,617	-	6,058	47,881	169,556
Co investment	-	-	-	51,950	51,950
Receivables and prepayments	2,393	-	5,000	60,642	68,035
Liabilities					
Clients' funds	72	-	-	15,409	15,481
Customer current account	-	4,732	-	-	4,732
Placements from financial, non-financial institutions and individuals	515	162	14,193	3,202	18,072
Payables and accruals	1,133	1,800	11,679	11,679	26,291
Equity of investment account holders	1,072	1,586	299,416	1,008	303,082

	Related parties per FAS 1				Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose and other entities	
2019					
Income					
Income from investment banking	-	-	-	95,771	95,771
Income from commercial banking	(151)	292	(10,027)	(29)	(9,915)
Income from proprietary and co-investments	7,410	-	-	2,358	9,768
Real estate income	-	50	13,392	-	13,442
Treasury and other income	313	-	-	1,301	1,614
Expenses					
Operating expenses	-	12,717 *	-	-	12,717
Finance expenses	-	-	623	-	623

* The amount presented excluded bonus to key management personnel for 2019 as allocation has not been finalized at the date of approval of these consolidated financial statements.

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26 RELATED PARTY TRANSACTIONS (continued)

	Related parties per FAS 1			Assets under management including special purpose and other entities	Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested		
2018					
Assets					
Financing assets	-	6,016	15,146	44,810	65,972
Proprietary investments	54,829	-	6,058	54,958	115,845
Co-investments	-	-	-	16,798	16,798
Receivables and prepayments	914	-	13,257	47,605	61,776
Liabilities					
Client's funds	129	-	-	14,412	14,541
Placements from financial, non-financial institutions and individuals	-	-	8,404	-	8,404
Customer current account	178	2,117	1,844	3,196	7,335
Term financing	-	-	24,797	-	24,797
Payables and accruals	-	3,499	3,132	8,364	14,995
Equity of investment account holders	1,273	3,634	28,592	1,241	34,740

	Related parties per FAS 1			Assets under management including special purpose and other entities	Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested		
2018					
Income					
Income from investment banking	-	-	23,500	18,710	42,210
Income from commercial banking	(32)	271	(7,308)	(350)	(7,419)
Income from proprietary and co-investments	3,256	-	-	585	3,841
Expenses					
Operating expenses	-	13,747	-	156	13,903
Finance expense	-	-	3,286	-	3,286

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26 RELATED PARTY TRANSACTIONS (continued)

Transactions	Related parties per FAS 1			Assets under management including special purpose and other entities	Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested		
Purchase of assets	-	-	25,000	-	25,000
Purchase of investments	-	-	29,700	-	29,700
Financing obtained	-	-	4,666	-	4,666
Financing repaid	-	-	(4,709)	-	(4,709)
Subscription in projects promoted by the Group	-	-	87,100	-	87,100
Discount on subscription	-	-	8,100	-	8,100

Key management personnel

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

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

The key management personnel compensation is as follows:

	2019	2018
Board members' remuneration, fees and allowance	3,095	4,536
Salaries, other short-term benefits and expenses	12,507	8,821
Post-employment benefits	210	390

27 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US\$ 1,975 million (31 December 2018: US\$ 1,677 million). During the year, the Group had charged management fees amounting to US\$ 2,880 thousand (2018: US\$ 2,571 thousand) to its assets under management.

28 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.

	2019	2018
<i>In thousands of shares</i>		
Weighted average number of shares for basic & diluted earnings	3,343,148	3,543,155

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28 EARNINGS PER SHARE*Diluted earnings per share*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share.

In case of the legacy share options granted to employees prior to 2014, as the average market value of shares during the current year was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2019. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above. The Bank does not have any other dilutive instruments.

29 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 (net assets method) by the Bank's Shari'a Supervisory Board and notified to shareholders annually. The zakah payable by shareholders for 31 December 2019 is US\$ 0.0001542/share and the current year calculations for zakah are yet to be approved by the Group's Shari'a 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.

30 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds. The Group receives interest from deposits placed with the CBB and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amount to US\$ 336 thousand (2018: US\$ 48 thousand).

31 SHARI'A SUPERVISORY BOARD

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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32 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation / settlement profile for assets and liabilities respectively. For undiscounted contractual maturity of financial liabilities, refer note 37.

31 December 2019	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	325,751	12,538	14,553	9,440	-	63	362,345
Treasury portfolio	841,711	33,826	240,602	224,091	248,431	-	1,588,661
Financing assets	216,818	124,980	125,343	462,580	343,056	-	1,272,777
Real estate investment	-	-	4,349	899,472	902,188	-	1,806,009
Proprietary investments	2,451	-	18,718	115,505	131,501	-	268,175
Co-investments	-	2,676	-	87,080	6,751	-	96,507
Assets held-for-sale	-	-	101,213	-	-	-	101,213
Receivables and prepayments	115,841	113,598	56,799	133,584	4,324	-	424,146
Property and equipment	-	-	-	-	25,440	-	25,440
Total assets	1,502,572	287,618	561,577	1,931,752	1,661,691	63	5,945,273
Liabilities							
Client's funds	55,931	-	-	14,927	-	-	70,858
Placements from financial, non-financial institutions and individuals	1,001,999	472,651	408,616	551,517	12,466	-	2,447,249
Customer current account	40,746	15,000	16,288	18,615	56,838	-	147,487
Term financing	47,649	30,888	164,059	23,431	13,391	-	279,418
Liabilities related to assets held-for-sale	-	-	39,936	-	-	-	39,936
Payables and accruals	37,029	44,519	30,893	325,153	11,315	-	448,909
Total liabilities	1,183,354	563,058	659,792	933,643	94,010	-	3,433,857
Equity of investment account holders	180,250	228,942	334,522	228,844	245,987	-	1,218,545
<i>Off-balance sheet items</i>							
Commitments	87,000	46,645	15,801	105,415	270	-	255,131
Restricted investment accounts	154	-	-	-	28,306	-	28,460

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32 MATURITY PROFILE (continued)

31 December 2018	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	309,281	9,525	16,087	6,610	-	64	341,567
Treasury portfolio	415,270	-	302,203	-	100,527	-	818,000
Financing assets	206,529	80,319	205,274	441,592	275,233	-	1,208,947
Real estate investment	-	-	-	868,530	971,480	-	1,840,010
Proprietary investments	-	-	-	165,011	69,001	-	234,012
Co-investments	-	-	-	-	77,644	-	77,644
Assets held-for-sale	-	101,213	45,928	-	-	-	147,141
Receivables and prepayments	10,143	33,687	60,988	109,372	14,952	-	229,142
Property and equipment	-	-	-	-	92,902	-	92,902
Total assets	941,223	224,744	630,480	1,591,115	1,601,739	64	4,989,365
Liabilities							
Clients' funds	29,532	-	3,179	13,928	-	-	46,639
Placements from financial and non-financial institutions and individuals	283,914	422,702	688,949	221,562	11,262	-	1,628,389
Customer current account	48,551	18,178	19,740	22,560	68,877	-	177,906
Term financing	36,998	18,022	32,334	32,084	136,699	-	256,137
Liabilities related to assets held-for-sale	-	39,936	2,813	-	-	-	42,749
Payables and accruals	54,562	26,324	34,654	402,317	-	-	517,857
Total liabilities	453,557	525,162	781,669	692,451	216,838	-	2,669,677
Equity of investment account holders	161,409	116,220	261,812	147,247	210,222	-	896,910
<i>Off-balance sheet items</i>							
Commitments	55,804	69,480	46,981	74,200	8,016	-	254,481
Restricted investment accounts	141	-	-	28,306	-	-	28,447

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33 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS**(a) Industry sector****31 December 2019****Assets**

Cash and bank balances

Treasury portfolio

Financing Assets

Real estate investments

Proprietary investment

Co-investment

Asset held-for-sale

Receivables and prepayments

Property and equipment

Total assets**Liabilities**

Client's funds

Placements from financial, non-financial institutions and individuals

Customer accounts

Term financing

Liabilities related to assets held-for-sale

Payables and accruals

Total liabilities**Equity of Investment account holders****Off-balance sheet items**

Commitments

Restricted investment accounts

	Banks and financial institutions	Real estate	Others	Total
Cash and bank balances	358,145	4,190	10	362,345
Treasury portfolio	1,525,963	-	62,698	1,588,661
Financing Assets	20,842	548,799	703,136	1,272,777
Real estate investments	-	1,806,009	-	1,806,009
Proprietary investment	106,938	93,419	67,818	268,175
Co-investment	-	96,507	-	96,507
Asset held-for-sale	-	-	101,213	101,213
Receivables and prepayments	148,905	169,645	105,596	424,146
Property and equipment	-	20,155	5,285	25,440
Total assets	2,160,793	2,738,724	1,045,756	5,945,273
Client's funds	3,197	15,376	52,285	70,858
Placements from financial, non-financial institutions and individuals	1,788,063	-	659,186	2,447,249
Customer accounts	5,725	19,687	122,075	147,487
Term financing	246,429	32,989	-	279,418
Liabilities related to assets held-for-sale	-	-	39,936	39,936
Payables and accruals	18,060	312,685	118,164	448,909
Total liabilities	2,061,474	380,737	991,646	3,433,857
Equity of Investment account holders	22,379	316,878	879,288	1,218,545
Commitments	-	162,886	92,245	255,131
Restricted investment accounts	104	25,746	2,610	28,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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33 *Concentration of assets, liabilities and equity of investment account holders (continued)*
(a) *Industry sector (continued)*

	Banks and financial institutions	Real estate	Others	Total
31 December 2018				
Assets				
Cash and bank balances	340,374	951	242	341,567
Treasury portfolio	220,757	220,615	376,628	818,000
Financing assets	29,474	436,097	743,376	1,208,947
Real estate investments	-	1,840,010	-	1,840,010
Proprietary investment	68,103	93,295	72,614	234,012
Co-investment	49	23,214	54,381	77,644
Asset held-for-sale	-	-	147,141	147,141
Receivables and prepayments	28,867	125,791	74,484	229,142
Property and equipment	-	18,411	74,491	92,902
Total assets	687,624	2,758,384	1,543,357	4,989,365
Liabilities				
Client's funds	5,694	14,397	26,548	46,639
Placements from financial, non-financial institutions and individuals	901,257	6,255	720,877	1,628,389
Customer accounts	4,177	20,775	152,954	177,906
Term financing	190,989	26,628	38,520	256,137
Liabilities related to assets held-for-sale	-	-	42,749	42,749
Payables and accruals	45,000	370,046	102,811	517,857
Total liabilities	1,147,117	438,101	1,084,459	2,669,677
Equity of Investment account holders	16,134	34,202	846,574	896,910
Off-balance sheet items				
Commitments	1,361	148,566	104,554	254,481
Restricted investment accounts	91	25,750	2,606	28,447

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

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33 Concentration of assets, liabilities and equity of investment account holders (continued)

(b) Geographic region

	GCC countries	MENA	Asia	North America	Others	Total
31 December 2019						
Assets						
Cash and bank balances	303,516	606	1,393	51,649	5,181	362,345
Treasury portfolio	1,338,826	10,028	-	29,900	209,907	1,588,661
Financing assets	1,242,257	-	37	14,307	16,176	1,272,777
Real estate investment	983,421	470,551	352,037	-	-	1,806,009
Proprietary investment	267,078	-	-	-	1,097	268,175
Co-investments	18,942	-	49,198	18,452	9,915	96,507
Assets held-for-sale	101,213	-	-	-	-	101,213
Receivables and prepayments	257,548	30,825	25,730	41,363	68,680	424,146
Property and equipment	23,185	2,255	-	-	-	25,440
Total assets	4,535,986	514,265	428,395	155,671	310,956	5,945,273
Liabilities						
Client's funds	55,409	521	-	14,928	-	70,858
Placements from financial, non-financial institutions and individuals	2,342,735	102,496	-	-	2,018	2,447,249
Customer accounts	145,165	-	1,639	-	683	147,487
Financing liabilities	97,212	-	-	-	182,206	279,418
Liabilities for assets held-for-sale	39,936	-	-	-	-	39,936
Payables and accruals	246,009	123,157	65,701	13,408	634	448,909
Total liabilities	2,926,466	226,174	67,340	28,336	185,541	3,433,857
Equity of investment account holders	1,211,821	-	4,883	-	1,841	1,218,545
Off-balance sheet items						
Commitments	255,131	-	-	-	-	255,131
Restricted investment accounts	25,850	-	-	-	2,610	28,460

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).

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33 *Concentration of assets, liabilities and equity of investment account holders (continued)*
 (b) *Geography sector (continued)*

	GCC countries	MENA	Asia	North America	Others	Total
31 December 2018						
Assets						
Cash and bank balances	239,632	516	101	80,609	20,709	341,567
Treasury portfolio	818,000	-	-	-	-	818,000
Financing assets	1,137,300	-	101	29,415	42,131	1,208,947
Real estate investment	973,441	470,057	396,512	-	-	1,840,010
Proprietary investment	231,238	-	-	-	2,774	234,012
Co-investments	1,671	-	58,114	5,850	12,009	77,644
Assets held-for-sale	147,141	-	-	-	-	147,141
Receivables and prepayments	154,451	4,299	22,173	21,320	26,899	229,142
Property plant and equipment	90,704	2,198	-	-	-	92,902
Total assets	3,793,578	477,070	477,001	137,194	104,522	4,989,365
Liabilities						
Investors' funds	32,188	521	1	13,929	-	46,639
Placements from financial institutions, other entities and individuals	1,531,898	94,021	-	2,470	-	1,628,389
Customer current accounts	176,580	-	599	-	727	177,906
Term financing	256,137	-	-	-	-	256,137
Liabilities related to assets held-for-sale	42,749	-	-	-	-	42,749
Other liabilities	394,639	30,671	87,427	2,296	2,824	517,857
Total liabilities	2,434,191	125,213	88,027	18,695	3,551	2,669,677
Equity of investment account holders	889,525	-	5,918	1,467	-	896,910
Off-balance sheet items						
Commitments	253,802	-	-	-	679	254,481
Restricted investment accounts	25,841	-	2,606	-	-	28,447

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34 OPERATING SEGMENTS

The Group has three distinct operating segments, Real Estate Development, Investment Banking 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.
- **Corporate and treasury -** All common costs and activities treasury and residual investment assets, excluding those that are carried independently by the reportable segments which are included within the respective segment, are considered as part of the Corporate and treasury activities of the Group.

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. Segment revenue and expenses were net-off inter segment revenue and expenses.

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 33 (b) to the consolidated financial statements.

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34 OPERATING SEGMENTS (continued)

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

	Real estate development	Investment banking	Commercial banking	Corporate and Treasury	Total
31 December 2019					
Segment revenue*	54,803	155,149	67,790	57,945	335,687
Segment expenses (including impairment allowances)	(27,238)	(103,704)	(91,733)	(45,354)	(268,029)
Segment result	27,565	51,445	(23,943)	12,124	67,191
Segment assets	2,336,179	552,598	2,492,711	563,785	5,945,273
Segment liabilities	515,354	1,264,444	740,630	913,429	3,433,857
<i>Other segment information</i>					
Finance expense	14,829	61,681	18,418	34,820	129,748
Impairment allowance	49	130	54,081	4	54,264
Equity accounted investees	46,300	57,317	12,000	-	115,617
Equity of investment account holders	-	-	1,217,950	595	1,218,545
Commitments	25,541	-	214,090	15,500	255,131

* Includes segment result of discontinued operations, net.

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34 OPERATING SEGMENTS (continued)

	Real estate development	Investment banking	Commercial banking	Corporate and Treasury	Total
31 December 2018					
Segment revenue *	102,812	68,370	55,350	23,220	249,752
Segment expenses (including impairment allowances) *	(16,124)	(37,888)	(49,641)	(31,050)	(134,703)
Segment result	86,688	30,482	5,709	(7,830)	115,049
Segment assets	2,035,664	686,688	2,246,159	20,854	4,989,365
Segment liabilities	1,238,147	558,787	817,529	55,214	2,669,677
<i>Other segment information</i>					
Finance expense	29,338	9,896	23,049	301	62,584
Impairment allowance	-	-	(16,679)	(935)	(17,614)
Equity accounted investees	5,702	49,127	12,135	-	66,964
Equity of investment account holders	-	-	896,320	590	896,910
Commitments	114,314	-	122,167	18,000	254,481

*Includes segment result of discontinued operations, net.

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35 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 2019 and 31 December 2018, 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\$ 192,101 thousand (31 December 2018: US\$ 180,724 thousand) (note 10 and 11), the estimated fair values of the Group's other financial assets are not significantly different from their book values as at 31 December 2019.

Investments amounting to US\$ 192,101 thousand (31 December 2018: US\$ 180,724 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 2019, the fair value of term financing was estimated at US\$ 279,418 thousand (carrying value US\$ 279,418 thousand) (31 December 2018: fair value US\$ 256,137 thousand (carrying value US\$ 256,137 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 term financing as these are largely floating rate instruments.

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).

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35 FINANCIAL INSTRUMENTS (continued)

b) FAIR VALUE HIERARCHY (continued)

31 December 2019

	Level 1	Level 2	Level 3	Total
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
<i>i) Proprietary investments</i>				
Investment securities carried at fair value through:				
- income statement	-	-	29,640	29,640
- equity	27,324	-	-	27,324
	27,324	-	29,640	56,964
<i>ii) Treasury portfolio</i>				
Investment securities carried at fair value through income statement	284,904	239,807	-	524,711
	284,904	239,807	-	524,711
	312,228	239,807	29,640	581,675

31 December 2018

	Level 1	Level 2	Level 3	Total
	US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
<i>i) Proprietary investments</i>				
Investment securities carried at fair value through:				
- income statement	-	-	34,875	34,875
- equity	29,093	-	-	29,093
	29,093	-	34,875	63,968
<i>ii) Treasury portfolio</i>				
Investment securities carried at fair value through income statement	100,527	-	-	100,527
	100,527	-	-	100,527
	129,620	-	34,875	164,495

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

	2019	2018
At 1 January	34,875	34,875
De-recognized on loss of control	-	-
Total gains / (losses) in income statement	(5,235)	-
At 31 December	29,640	34,875

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36 COMMITMENTS AND CONTINGENCIES

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

	31 December 2019	31 December 2018
Undrawn commitments to extend finance	182,695	88,045
Financial guarantees	31,395	34,122
Capital commitments for infrastructure development projects	17,541	55,407
Purchase commitments for investment in real estate	-	58,907
Commitment to lend	23,500	18,000
	255,131	254,481

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 as at 31 December 2019 due to the performance of any of its projects.

Litigations and claims

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

37 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, term financing and other payable balances. Accounting policies for financial assets and liabilities are set out in note 4.

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.

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37 FINANCIAL RISK MANAGEMENT

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

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

a) Credit risk

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

Management of investment and credit risk

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

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

- Ensuring that the Group has in place investment and credit policies, covering credit assessment, risk reporting, documentary and legal procedures, whilst the Compliance Department is responsible for ensuring compliance with regulatory and statutory requirements.
- Overseeing the establishment of the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are governed by the Board approved Delegated Authority Limits (DAL) Matrix.
- Reviewing and assessing credit risk. Risk Management department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.

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37 *FINANCIAL RISK MANAGEMENT (continued)*

- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

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37 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Exposures subject to credit risk

31 December 2019

Placements with financial institutions

Grade 1 -6 Low-Fair Risk

Gross carrying amount

Less expected credit losses

Net carrying amount**Financing facilities**

Grade 8 -10 Impaired

Past due but not impaired

*Grade 1-6 Low-Fair Risk**Grade 7 Watch list*Past due comprises:

Up to 30 days

30-60 days

60-90 days

Neither past due nor impaired

*Grade 1-6 Low-Fair Risk**Grade 7 Watch list*

Gross carrying amount

Less expected credit losses

Net carrying amount**Assets acquired for leasing***Grade 1-6 Low-Fair Risk*

Past due but not impaired

*Grade 1-6 Low-Fair Risk**Grade 7 Watch list*Past due comprises:

Up to 30 days

30-60 days

60-90 days

	Stage 1	Stage 2	Stage 3	Total
Grade 1 -6 Low-Fair Risk	547,684	-	-	547,684
Gross carrying amount	547,684	-	-	547,684
Less expected credit losses	(1,109)	-	-	(1,109)
Net carrying amount	546,575	-	-	546,575
Grade 8 -10 Impaired	-	5,126	193,454	198,580
Past due but not impaired				
<i>Grade 1-6 Low-Fair Risk</i>	89,188	18,011	149	107,348
<i>Grade 7 Watch list</i>	24	18,215	16	18,255
<u>Past due comprises:</u>				
Up to 30 days	79,706	10,735	48	90,489
30-60 days	48	4,928	109	5,085
60-90 days	9,458	20,563	8	30,029
Neither past due nor impaired				
<i>Grade 1-6 Low-Fair Risk</i>	666,548	32,141	1,683	700,372
<i>Grade 7 Watch list</i>	231	4,721	3	4,955
Gross carrying amount	755,991	78,214	195,305	1,029,510
Less expected credit losses	-10,153	-7,487	-81,525	-99,165
Net carrying amount	745,838	70,727	113,780	930,345
<i>Grade 1-6 Low-Fair Risk</i>	-	-	93,202	93,202
Past due but not impaired				
<i>Grade 1-6 Low-Fair Risk</i>	33,549	19,896	2,040	55,485
<i>Grade 7 Watch list</i>	-	8,679	-	8,679
<u>Past due comprises:</u>				
Up to 30 days	29,761	19,793	279	49,833
30-60 days	3,788	6,920	1,761	12,469
60-90 days	-	1,862	-	1,862

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for the year ended 31 December 2019

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37 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	183,589	5,966	286	189,841
Grade 7 Watch list	-	3,769	-	3,769
Gross carrying amount	217,138	38,310	95,528	350,976
Less expected credit losses	-372	-997	-7,175	-8,544
Net carrying amount	216,766	37,313	88,353	342,432
Other assets				
Grade 1-6 Low-Fair Risk	18,923	-	-	18,923
Past due but not impaired				
Grade 1-6 Low-Fair Risk	14,599	-	-	14,599
<u>Past due comprises:</u>				
60-90 days	14,599	-	-	14,599
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	248,172	-	-	248,172
Gross carrying amount	296,293	-	-	296,293
Less: expected credit losses	-156	-	-	-156
Net carrying amount	296,137	-	-	296,137
Investment in Sukuk				
Sovereign	408,615	-	-	408,615
Non-investment grade		-	3,493	3,493
Investment grade	108,789	-	-	108,789
Gross carrying amount	517,404	-	3,493	520,897
Less: expected credit losses	-29	-	-3,493	-3,522
Net carrying amount	517,375	-	-	517,375
Balances with banks				
Grade 1-6 Low-Fair Risk	362,353	-	-	362,353
Gross carrying amount	362,353	-	-	362,353
Less: expected credit losses	(8)	-	-	(8)
Net carrying amount	362,345	-	-	362,345

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37 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2019

Commitments and financial guarantees*Grade 8 -10 Impaired**Grade 1-6 Low-Fair Risk**Grade 7 Watch list*

Gross carrying amount (note 37)

Less: expected credit losses

Net carrying amount

	Stage 1	Stage 2	Stage 3	Total
	-	15,500	4,406	19,906
	230,915	5,077	-	235,992
	-	32	-	32
	230,915	20,609	4,406	255,930
	-464	-133	-202	-799
	230,451	20,476	4,204	255,131

Total net carrying amount

2,915,487	128,516	206,337	3,250,340
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37 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Placements with financial institutions				
Grade 8 -10 Impaired	24,358	-	-	24,358
Neither past due nor impaired	266,153	-	-	266,153
Grade 1-6 Low-Fair Risk				
Gross carrying amount	290,511	-	-	290,511
Less expected credit losses	(953)	-	-	(953)
Net carrying amount	289,558	-	-	289,558
Financing facilities				
Grade 8 -10 Impaired	2,841	186	199,281	202,308
Past due but not impaired				
Grade 1-6 Low-Fair Risk	74,690	28,467	8,883	112,040
Grade 7 Watch list	37	40,457	-	40,494
<u>Past due comprises:</u>				
Up to 30 days	72,380	41,686	-	114,066
30-60 days	2,347	4,623	-	6,970
60-90 days	-	22,615	8,883	31,498
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	565,064	49,944	-	615,008
Grade 7 Watch list	369	8,873	-	9,242
Gross carrying amount	643,001	127,927	208,164	979,092
Less expected credit losses	(8,449)	(9,801)	(40,168)	(58,418)
Net carrying amount	634,552	118,126	167,996	920,674
Assets acquired for leasing				
Grade 8-10 Low-Fair Risk	-	838	49,371	50,209
Past due but not impaired				
Grade 1-6 Low-Fair Risk	34,456	6,334	-	40,790
Grade 7 Watch list	-	10,202	-	10,202
<u>Past due comprises:</u>				
Up to 30 days	32,392	5,111	-	37,503
30-60 days	2,064	8,560	-	10,624
60-90 days	-	2,865	-	2,865

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37 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	188,046	5,414	-	193,460
Grade 7 Watch list	-	127	-	127
Gross carrying amount	222,502	22,915	49,371	294,788
Less expected credit losses	(281)	(369)	(5,865)	(6,515)
Net Carrying amount	222,221	22,546	43,506	288,273
Other assets				
Grade 8-10 Impaired	-	-	-	-
Past due but not impaired				
Grade 1-6 Low-Fair Risk	17,930	-	-	17,930
<u>Past due comprises:</u>				
60-90 days	17,930	-	-	17,930
Neither past due nor impaired				
Grade carrying amount	136,207	-	-	136,207
Gross carrying amount	172,067	-	-	172,067
Less: expected credit losses	(236)	-	-	(236)
Net carrying amount	171,831	-	-	171,831
Investment in Sukuk				
Sovereign	333,548	-	-	333,548
Non-investment grade	-	-	3,493	3,493
Investment grade	94,375			94,375
Gross carrying amount	427,923		3,493	431,416
Less: expected credit losses	(8)		(3,493)	(3,501)
Net carrying amount	427,915			427,915
Balances with banks				
Grade 1-6 Low-Fair Risk	341,701	-	-	341,701
Gross carrying amount	341,701	-	-	341,701
Less: expected credit losses	(134)	-	-	(134)
Net carrying amount	341,567	-	-	341,567

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37 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Commitments and financial guarantees				
Grade 8-10 Impaired	-	-	4,430	4,430
Grade 1-6 Low-Fair Risk	243,011	7,000	-	250,011
Grade 7 Watch list	-	40	-	40
Gross carrying amount (note 37)	243,011	7,040	4,430	254,481
Less: expected credit losses				
Net carrying amount	243,011	7,040	4,430	254,481
Total net carrying amount	2,330,655	147,712	215,932	2,694,299

Significant increase in credit risk

When determining whether the risk of default on an exposure subject to credit risk has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

- 1 Downgrade in risk rating according to the approved ECL policy;
- 2 Facilities restructured during previous twelve months;
- 3 Qualitative indicators; and
- 4 Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances.

Credit risk grades

The Group allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Exposers are rated 1 to 10 with 1 to being good and 7 being watch list and 8, 9 and 10 default grades. The monitoring typically involves use of the following data.

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*37 FINANCIAL RISK MANAGEMENT (continued)***Corporate exposures**

- Information obtained during periodic review of customer files- e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Data from credit reference agencies. press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

Retail exposures

- Internally collected data on customer behaviour -e.g. utilisation of credit card facilities
- Affordability metrics
- External data from credit reference agencies including industry-standard credit scores

All exposures

- Payment record this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions. The analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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*37 FINANCIAL RISK MANAGEMENT (continued)***Determining whether credit risk has increased significantly**

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Qualitative indicators, including different criteria used for different portfolios credit cards, commercial real estate etc.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Definition of default

The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material obligation to the Group; or
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information. The Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

37 FINANCIAL RISK MANAGEMENT (continued)

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2018 included the key indicators for the selected countries such as the unemployment rates, interest rates and the GDP growth.

Modified exposures subject to credit risk

The contractual terms of an exposure subject to credit risk may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance of financing assets is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default (refer note 4). A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

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*37 FINANCIAL RISK MANAGEMENT (continued)***Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financing assets secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

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37 FINANCIAL RISK MANAGEMENT (continued)

2019	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2019
Balance at 1 January 2019	14,776	10,392	49,843	75,011
Transfer to 12-month ECL	3,549	(2,966)	(583)	-
Transfer to lifetime ECL non- credit-impaired	(1,326)	1,602	(276)	-
Transfer to lifetime ECL credit- impaired	(2,286)	(2,273)	4,559	-
Net re-measurement of loss allowance	(63)	(3,637)	3,700	-
Charge for the period	(255)	(343)	40,839	40,241
Balance at 31 December	14,395	2,775	98,082	115,252

Break down of ECL by category of assets in the consolidated statement of financial position and off-balance sheet commitments:

2019	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2019
Balances with banks	8	-	-	8
Treasury portfolio	1,138	-	3,493	4,631
Financing assets	10,525	8,484	88,700	107,709
Other financial receivables	2,260	(5,842)	5,687	2,105
Financing commitments and financial guarantees	464	133	202	799
Balance at 31 December	14,395	2,775	98,082	115,252

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

US\$ 000's

37 FINANCIAL RISK MANAGEMENT (continued)

2018	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2018
Balance at 1 January	7,902	27,950	31,548	67,400
Transfer to 12-month ECL	8,456	(8,186)	(270)	-
Transfer to lifetime ECL non-credit-impaired	(838)	1,056	(218)	-
Transfer to lifetime ECL credit-impaired	(607)	(6,534)	7,141	-
Net re-measurement of loss allowance	(137)	(3,894)	15,796	11,765
Write-off	-	-	(4,154)	(4,154)
Balance at 31 December 2018	14,776	10,392	49,843	75,011

2018	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2018
Balances with banks	134	-	-	134
Treasury portfolio	961	-	3,493	4,454
Financing assets	12,631	9,801	40,168	62,600
Assets acquired for leasing and lease rentals receivables	281	368	5,864	6,513
Other financial assets	238	-	-	238
Financing commitments and financial guarantees	531	223	318	1,072
Balance at 31 December 2018	14,776	10,392	49,843	75,011

Renegotiated facilities

During the year, facilities of US\$ 100,576 thousands (2018: BD 44,817 thousand) were renegotiated, out of which US\$ 2,907 thousand (2018: US\$ 23,358 thousand) are classified as neither past due nor impaired as of 31 December 2019. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of US\$ 440,406 thousand (2018: US\$ 379,031 thousand) only instalments of US\$ 97,149 thousand (2018: US\$ 104,161 thousand) are past due as at 31 December 2019.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

US\$ 000's

*37 FINANCIAL RISK MANAGEMENT (continued)***Allowances for impairment**

The Group makes provisions for impairment on individual assets classified under grades 8,9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Bank has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Non-accrual basis

The Group classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognized in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. During the year, the Group has written off financing facilities amounting to US\$ Nil (2018: 4,154 thousand) which were fully impaired. The Bank has recovered US\$ 2,557 thousand from a financing facility written off in previous years (2018: US\$ 263 thousand).

Collaterals

The Group holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/ pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. 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.

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 33 (a) and (b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

US\$ 000's

37 FINANCIAL RISK MANAGEMENT (continued)

	As at 31 December 2019			As at 31 December 2018		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
<u>Against impaired</u>						
Property	53,531	86,111	139,642	107,350	43,997	151,347
Other	5,008	-	5,008	5,817	-	5,817
<u>Against past due but not impaired</u>						
Property	93,952	63,525	157,477	56,756	51,013	107,769
Other	3,069	-	3,069	7,769	-	7,769
<u>Against neither past due nor impaired</u>						
Property	256,578	237,881	494,459	232,459	219,310	451,769
Other	24,615	-	24,615	32,934	-	32,934
Total	436,753	387,517	824,270	443,085	314,320	757,405

The average collateral coverage ratio on secured facilities is 130.5% as at 31 December 2019 (31 December 2018: 136.05%).

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

Concentration by Sector	As at 31 December 2019			As at 31 December 2018		
	Financing assets	Assets acquired for leasing	Total	Financing assets	Assets acquired for leasing	Total
Banking and finance	20,841	-	20,841	27,475	-	27,475
Real estate	220,675	309,164	529,839	181,453	284,059	465,512
Construction	135,379	-	135,379	145,366	-	145,366
Trading	151,788	-	151,788	206,920	-	206,920
Manufacturing	37,016	-	37,016	36,817	-	36,817
Others	364,646	33,268	397,914	322,645	4,212	326,857
Total carrying amount	930,345	342,432	1,272,777	920,676	288,271	1,208,947

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

US\$ 000's

37 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk

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

Management of liquidity risk

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

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

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

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 33 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows					Total	Carrying amount
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years		
31 December 2019							
Financial liabilities							
Clients' funds	55,931	-	-	14,926	-	70,857	70,858
Placements from financial, non-financial institutions and individuals	1,061,149	579,770	469,679	386,881	4,859	2,502,338	2,447,249
Customer current accounts	40,746	15,000	16,288	18,615	56,838	147,487	147,487
Term financing	47,744	31,377	166,966	19,899	21,212	287,198	279,418
Liabilities related to assets held-for-sale	-	-	39,936	-	-	39,936	39,936
Payables and accruals	36,729	44,519	30,894	325,453	11,315	448,910	448,909
Total liabilities	1,242,299	670,666	723,763	765,774	94,224	3,496,726	3,433,857
Equity of investment account holders							
Commitment and contingencies	186,358	236,726	345,896	236,624	254,350	1,259,954	1,218,545
	87,000	46,645	15,801	105,415	270	255,131	255,131

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

US\$ 000's

37 FINANCIAL RISK MANAGEMENT (continued)

To manage the liquidity risk arising from financial liabilities, the Group aims to hold liquid assets comprising cash and cash equivalents, investment in managed funds and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Further, the Group is focussed on developing a pipeline of steady revenues and has undertaken cost reduction exercises that would improve its operating cash flows.

	Gross undiscounted cash flows						Carrying amount
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	
31 December 2018							
Financial liabilities							
Clients' funds	32,710	-	-	13,929	-	46,639	46,639
Placements from financial and non-financial institutions and individuals	289,948	431,520	713,760	233,801	7,677	1,676,706	1,628,389
Customer current accounts	48,550	18,178	19,740	22,560	68,878	177,906	177,906
Term financing	37,689	20,805	156,137	37,368	24,950	276,949	256,137
Liabilities related to assets held-for-sale	-	39,936	2,813	-	-	42,749	42,749
Other liabilities	54,563	26,323	34,654	402,317	-	517,857	517,857
Total liabilities	463,460	536,762	927,104	709,975	101,505	2,738,806	2,669,677
Equity of investment account holders	166,362	119,361	268,888	151,227	215,905	921,743	896,910
Commitment and contingencies	55,804	69,480	46,981	74,200	8,016	254,481	254,481

Measures of liquidity

Liquidity is managed at an entity level and is not a Group wide measure. The Bank follows certain internal measures of liquidity. These metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for the Group. These are liquidity coverage ratio, net stable funding ratio and stock of liquid assets.

For this purpose, the liquidity coverage ratio is based on an internally defined management criteria which identifies the amount of liquid assets (including inter-bank placements) the Bank holds that can be used to offset the net cash outflows for 30, 60 and 90 days time horizon. The net stable funding ratio measures the amount of long-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

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

	Liquid asset / Total asset	
	2019	2018
At 31 December	26.47%	17.61%
Average for the year	24.33%	9.71%
Maximum for the year	26.47%	17.61%
Minimum for the year	22.21%	5.53%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

US\$ 000's

37 FINANCIAL RISK MANAGEMENT (continued)

c) Market risks

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

Management of market risks

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

Exposure to profit rate risk

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

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

31 December 2019	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Treasury portfolio	817,109	27,041	219,800	-	-	1,063,950
Financing assets	216,818	124,980	125,343	462,580	343,056	1,272,777
Total assets	1,033,927	152,021	345,143	462,580	343,056	2,336,727
Liabilities						
Client's fund	55,931	-	-	14,927	-	70,858
Placements from financial institutions, non-financial institutions and individuals	1,001,999	472,651	408,616	551,517	12,466	2,447,249
Term financing	47,649	30,888	164,059	23,431	13,391	279,418
Total liabilities	1,105,579	503,539	572,675	589,875	25,857	2,797,525
Equity of investment account holders	180,250	228,942	334,522	228,844	245,987	1,218,545
Profit rate sensitivity gap	(251,902)	(580,460)	(562,054)	(356,139)	71,212	(1,679,343)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

US\$ 000's

37 FINANCIAL RISK MANAGEMENT (continued)

31 December 2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Treasury portfolio	117,031	-	172,527	43,042	384,873	717,473
Financing assets	108,477	24,807	98,910	228,207	748,546	1,208,947
Total assets	225,508	24,807	271,437	271,249	1,133,419	1,926,420
Liabilities						
Investors' funds	32,711	-	-	13,928	-	46,639
Placements from financial institutions, other entities and individuals	529,953	377,891	671,463	45,298	3,784	1,628,389
Term financing	36,998	18,022	142,034	32,084	26,999	256,137
Total liabilities	599,662	395,913	813,497	91,310	30,783	1,931,165
Equity of investment account holders	409,431	193,905	239,707	53,867	-	896,910
Profit rate sensitivity gap	(783,585)	(565,011)	(781,767)	126,072	1,102,636	(901,655)

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

100 bps parallel increase / (decrease)

At 31 December
Average for the year
Maximum for the year
Minimum for the year

2019	2018
±10,838	±9,017
±13,103	±4,340
±15,898	±11,495
±10,337	±7,975

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:

Placements with financial institutions
Financing assets
Debt type investments
Placements from financial institutions, other entities and individuals
Term financing
Equity of investment account holders

2019	2018
3.27%	3.22%
6.71%	5.96%
6.85%	5.24%
4.02%	6.22%
6.71%	3.61%
1.83%	6.15%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

US\$ '000's

37 FINANCIAL RISK MANAGEMENT (continued)

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:

	2019 US\$ '000 Equivalent	2018 US\$ '000 Equivalent
Sterling Pounds	9,511	(1,715)
Euro	(674)	(1,020)
Australian Dollars	12,223	12,273
Kuwaiti Dinar	41,867	227,797
Jordanian Dinar	6	6
Egyptian Pound	22,458	-
Moroccan Dirham	150,263	191,170
Tunisian Dinar	309,800	253,749
Indian Rupee	306,004	(597,608)
Other GCC Currencies (*)	(1,679,101)	(652,045)

(*) 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:

	2019 US\$ '000 Equivalent	2018 US\$ '000 Equivalent
Sterling Pounds	±476	±86
Euros	±34	±51
Australian dollar	±611	±614
Kuwaiti dinar	±2,093	±11,390
Egyptian Pound	±1,123	-
Jordanian Dinar	±0.32	±0.32
Moroccan Dirham	±7,513	±574
Tunisian Dinar	±15,490	±9,559
Indian rupee	±15,300	±12,687

Exposure to other market risks

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019**

US\$ 000's

37 FINANCIAL RISK MANAGEMENT (continued)**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.

38 CAPITAL MANAGEMENT

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

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

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

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.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

US\$ 000's

38 CAPITAL MANAGEMENT (continued)

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.

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:

	2019	2018
Total risk weighted exposures	8,026,750	7,370,110
CET 1	1,078,076	1,169,103
AT1	9,452	9,468
Tier 1 capital	1,087,528	1,178,571
Tier 2 capital	36,008	35,202
Total regulatory capital	1,123,536	1,213,773
Total regulatory capital expressed as a percentage of total risk weighted assets	14.00%	16.47%

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.

39 COMPARATIVES

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

Audited financial statements for the year ended 31 December 2018

GFH Financial Group BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an Islamic wholesale investment bank)
Registered Office	:	Bahrain Financial Harbour Office 2901, 29 th Floor Building 1398, East Tower Block 346, Road 4626 Manama, Kingdom of Bahrain Telephone +973 17 538538
Directors	:	Jassim Al Siddiqi, <i>Chairman</i> H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa, <i>Vice Chairman</i> Hisham Alrayes Amro Saad Omar Al Menhali Mazen Bin Mohammed Al Saeed Mosabah Saif Al Mutairy Ghazi F. Alhajeri Bashar Mohamed Al Mutawa Rashid Nasser Al Kaabi Mustafa Kheriba
Chief Executive Officer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

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CHAIRMAN'S REPORT
for the year ended 31 December 2018

Dear Shareholders,

On behalf of the Board of Directors of GFH Financial Group, I am pleased to present the Group's financial results for the fiscal year ended 31 December 2018, marking another period of enhanced profitability and strengthened performance across the Group and its subsidiaries.

This marks the fourth consecutive year that GFH has made solid gains across the top and bottom line, an achievement made all the more gratifying against the backdrop of challenging market conditions that have impacted the MENA region and other global markets where we have historically invested and continue to pursue value creation and growth.

The Group's demonstrated ability to deliver steady and sustained financial and operational improvements has been instrumental in solidifying trust in GFH and its position as one of the foremost financial groups in the region.

At the center of this continued progress has been a highly successful transformation that has seen GFH develop into what is today a fully-fledged financial group with a sound financial base and a well-diversified model that has established strong revenue generating business lines active in Commercial and Investment Banking, Real Estate and Asset Management. Our diversification has also focused on ensuring we are able to effectively take advantage of opportunities across diverse assets classes as well as sectors and regions with high potential. This includes our home markets of the GCC as well as North Africa, India, Europe and the US.

In line with our strategy and objectives, during 2018, the focus of our efforts were three-fold. They included the continued deployment of the Group's knowledge, talent and track record to identify and close promising new income yielding investments, to further build and extract value from our existing assets and to secure timely and profitable exits in support of our primary goal, which remains delivering superior returns to our investors and shareholders.

Our successful execution across all of these areas underpins our strong results for 2018. For the year, the Group reported consolidated net profit of US\$115 million as compared with US\$103.19 million from the previous year, an increase of 11.4%, and a net profit attributable to shareholders of US\$114.08 million compared with US\$104.18 for the previous year, an increase of 9.5%.

The Group's total consolidated revenue was US\$246.21 million compared with US\$204.36 million in 2017, reflecting a healthy year-on-year increase of 20.5%. Growth resulted from a successfully diversified business model and solid contributions from across its investment and commercial banking, real estate and asset management business lines in addition to increases in other income generated through strategic initiatives undertaken by the Group. Importantly, GFH also continued to deliver on its strategy of achieving profitable exits, which for the year amounted to US\$120 million.

Total assets for the year grew from US\$4.11 billion in 2017 to US\$4.99 billion in 2018. The Group also ended the year with a Capital Adequacy Ratio of 17.3% and Return on Equity (ROE) ratio of 11.1%, verifying robust financial health. Improvements were also seen in GFH's liquidity position. The Group raised more than US\$1 billion despite tough market conditions, positioning itself for further growth and investment. Enhancements to the balance sheet were again achieved in 2018 and the Group's liability profile was optimised. During the year, GFH repaid the entire amount of a US\$200 million Sukuk, which was originally drawn in 2007, and achieved early payment of a Wakala facility. Also of note during the year, GFH took active steps to support its share price and market capitalisation, acquiring treasury shares up to 7% of the Group's total issued shares.

Gains made throughout the year, coupled with these initiatives, have resulted in further strengthening market confidence in the Group, whose ratings were affirmed by a number of international ratings agencies. This included Fitch, which maintained the Group's "B" rating with a stable Outlook, despite tough local and regional market conditions and downgrades.

CHAIRMAN'S REPORT *(continued)*
for the year ended 31 December 2018

Strong results enabled the Board to recommend robust cash dividend to shareholders for the year, subject to approval by the General Assembly. These dividends reflect GFH's progressive policy and continue to make the Group one of the strongest dividend payers in the region. Similarly, solid returns were also delivered to our investors throughout the year. In 2018, a total of US\$28.5 million was paid to investors across all of the Groups' managed funds and investments.

Looking at some of the key highlights of the past year, we continued to identify and close a number of strategic investments. The Group successfully expanded its international portfolio of income yielding real estate assets. In the UK, we acquired the Westside Office Business Park in Hemel Hempstead, a prime office market, located just north of London. Significant investments were also made in the US including the acquisition of two trophy Chicago suburban office properties in a deal valued at US\$150 million. With a continued focus on investing in the future and strong defensive sectors, GFH now plans to establish dedicated healthcare and education real estate platforms in 2019 allowing us to better capture and leverage opportunities in these segments.

On the private equity front, the Group made its first technology investment during 2018. In a US\$150 million deal, it acquired the UAE-based ENTERTAINER, one of the leading incentive providers and lifestyle technology platforms in the region with global reach and operations. Having already doubled its size over the past two years, we are working closely with our partners in this investment, including Al-Futtaim, to build further market share and derive value from the high growth technology and lifestyle sectors.

Strong progress from across the Group's existing assets was also reported. The Group's commercial banking business, Khaleeji Commercial Bank performed well. A Total assets of the Bank grew 8.7% from US\$2.08 Billion in 2017 to US\$2.26 Billion in 2018. While customer deposits also increased by 8.3% from US\$1.3 Billion to US\$1.42 Billion. The Bank's corporate finance division also witnessed a positive growth trajectory.

The Group's other assets also continued to perform well and support revenue generation and dividends to investors. These included our investments in AMA International, Jeddah Mall, US Industrial Real Estate I & II, Sheffield Private School, US Data Center and our Diversified US Office Portfolio.

In our real estate and infrastructure portfolio, we successfully took assets with relatively low book value and have begun turning them into revenue generators such as hotels and retail centres. This includes our land banks in Bahrain, Dubai, India, Tunisia and Morocco, which will provide the Group with a range of markets and classes from which we can realise benefit over the medium to longer term. Particular progress was made in our India project, where we successfully inaugurated the first integrated township in the Navi Mumbai Airport Influence Notified Area, a housing development called Wadhwa Wise City, where pre-sale of units has begun.

Significantly, in our home market of Bahrain, great strides were made in furthering our landmark Villamar project, for which we acquired the majority Sukuk and are rapidly taking the development towards expected completion. New master planning was also commenced at Al Areen, which is being upgraded with the aim to establish another key tourism, exhibition and sports and leisure destination in Bahrain following the project's completion in 2019. Supporting economic and social development in the Kingdom and support for the achievement of its Vision 2030 goals is at the heart of what we do and underpins our position as one of the most significant and active investors in the Kingdom.

Further, in line with our efforts to return value to shareholders and investors, a number of strategic exits were achieved during the year. Among these were the sale of the Lost Paradise of Dilmun in a deal valued at US\$60 million. The Group also exited its 70% stake in the Dubai-based Philadelphia Private School, which it acquired in October 2014, delivering a return of 33% over a three year investment period.

CHAIRMAN'S REPORT *(continued)*
for the year ended 31 December 2018

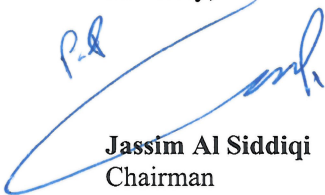
With another year of measurable progress behind us, we have entered 2019 with even stronger foundations upon which to grow and execute on our strategy. 2019 marks 20 years of focus and dedication that has seen GFH effectively navigate many highs and lows. We are extremely proud of the position in which we have emerged today at this important milestone for the Group and redouble our commitment to all of our partners, shareholders and investors that have been instrumental in our journey and ultimate success.

We have every confidence that we can build on this momentum and deliver further top and bottom line growth both outright and from across our various business lines including achieving greater contributions from our real estate activities. In terms of our focus, three key themes will continue to guide our strategy with further planned investments in education and healthcare, the well performing US markets and growth private equity. We will also continue to seek cross listings and a strengthening of our position in strong liquidity markets with plans to establish operations in Saudi Arabia and the UK that will better enable us to access capital and opportunity.

In concluding, I would like to thank GFH's management team and our staff for their continued contributions and stellar performance again this year. I would also like to extend our deep appreciation to our shareholders and investors for their sustained confidence in GFH, to the Central Bank of Bahrain for its ongoing guidance and support and the Government of the Kingdom of Bahrain for its visionary leadership under His Royal Majesty King Hamad bin Isa Al Khalifa, His Royal Highness the Prime Minister Prince Khalifa bin Salman Al Khalifa and His Royal Highness the Crown Prince and Deputy Supreme Commander Prince Salman bin Hamad Al Khalifa.

We look forward to another year that will take GFH from strength to strength and to sharing our progress over this next phase of growth and development for the Group and the markets in which we operate.

Sincerely,



Jassim Al Siddiqi
Chairman

11 February 2019



10 February 2019
5 Jumada II 1440 AH

SHARIA SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS
Report on the activities of GFH Financial Group B.S.C.
for the financial year ending 31 December 2018

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

The Sharia Supervisory Board of GFH Financial Group have reviewed the Bank's investment activities and compared them with the previously issued fatawa and rulings during the financial year 31st December 2018.

Respective Responsibility of Sharia Supervisory Board

The Sharia Supervisory Board believes that as a general principle and practice, the Bank Management is responsible for ensuring that it conducts its business in accordance with Islamic Sharia rules and principles. The Sharia Supervisory Board responsibility is to express an independent opinion on the basis of its control and review of the Bank's operations and to prepare this report.

Basis of opinion

Based on Sharia Supervisory Board fatwas and decisions, AAOIFI standards and Sharia Audit plan, the Sharia Supervisory Board through its periodic meetings reviewed the Sharia Audit function reports and examined the compliance of documents and transactions in regards to Islamic Sharia rules and principles, in coordination with Sharia Implementation & Coordination function. Furthermore, the Bank's management explained and clarified the contents of Consolidated Balance Sheet, Consolidated Income Statement, Consolidated statement of Zakah and Charity fund, and attached notes for the financial year ended on 31st December 2018 to our satisfaction.



The Sharia Supervisory Board believes that,

- The contracts, transactions and dealings entered into by the Bank are in compliance with Islamic Sharia rules and principles
- The distribution of profit and allocation of losses on investments was in line with the basis and principles approved by the Sharia Supervisory Board and in accordance to the Islamic Sharia rules and principles
- Any earnings resulted from sources or means prohibited by the Islamic Sharia rules and principles, have been directed to the Charity account.
- Zakah was calculated according to the Islamic Sharia rules and principles, by the net assets method. And the shareholders should pay their portion of Zakah on their shares as stated in the Zakah guide.
- The Bank was committed to comply with Islamic Sharia rules and principles, the Sharia Supervisory Board fatawa and guidelines, Sharia related policies and procedures, AAOIFI's Sharia standards, and Sharia directives issued by the CBB.

Praise be to Allah, Lord of the worlds.

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

Sheikh Nedham Yaqoubi

Sheikh Abdulla Al Manie

Sheikh Abdulaziz Al Qassar

Sheikh Fareed Hadi



KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: www.kpmg.com/bh
CR No. 6220

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

GFH Financial Group BSC
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 2018, the consolidated statements of income, changes in owners' equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in owners' equity, its consolidated changes in restricted investment accounts and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on other regulatory requirements

As required by the Commercial Companies Law and Volume 2 of Rule Book issued by the Central Bank of Bahrain ("CBB"), 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 Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and Associated Resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG Fakhro
Partner Registration No. 100
11 February 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

US\$ 000's

	note	31 December 2018 *	31 December 2017
ASSETS			
Cash and bank balances	6	341,567	216,445
Placements with financial institutions		289,558	95,569
Financing assets	7	920,676	992,502
Investment securities	8	773,134	521,408
Assets acquired for leasing		288,271	257,806
Investment property	9	523,692	616,263
Development properties	10	1,316,318	893,037
Equity-accounted investees	11	66,964	81,440
Assets held-for-sale	20	147,141	-
Property and equipment	12	92,902	117,135
Other assets	13	229,142	318,852
Total assets		4,989,365	4,110,457
LIABILITIES			
Investors' funds		46,639	39,413
Placements from financial institutions, other entities and individuals	14	1,628,389	858,496
Customer current accounts		177,906	189,607
Financing liabilities	15	256,137	365,062
Liabilities directly associated with assets held-for-sale	20	42,749	-
Other liabilities	16	517,857	255,733
Total liabilities		2,669,677	1,708,311
Equity of investment account holders	17	896,910	906,353
OWNERS' EQUITY			
Share capital	18	975,638	975,638
Share premium		-	3,058
Treasury shares	18	(85,424)	(58,417)
Statutory reserve		92,483	105,893
Fair value reserve		(4,725)	-
Foreign currency translation reserve		(43,380)	-
Retained earnings		123,136	122,825
Share grant reserve	19	1,086	1,026
Total equity attributable to shareholders of Bank		1,058,814	1,150,023
Non-controlling interests		323,408	345,770
Non-controlling interests held-for-sale	20	40,556	-
Total owners' equity (page 9)		1,422,778	1,495,793
Total liabilities, equity of investment account holders and owners' equity		4,989,365	4,110,457

* December 2018 results reflect the adoption of FAS 30. Prior periods have not been restated. Refer note 4(a)iii for further details.

The consolidated financial statements were approved by the Board of Directors on 11 February 2019 and signed on its behalf by:


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


Hisham Alrayes
Chief Executive Officer & Board member

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2018

US\$ 000's

	note	2018	2017
Continuing operations			
Income from investment banking activities		40,100	121,294
Fees and commission income		7,989	6,631
Income from placements with financial institutions		3,980	3,177
Income from financing assets and assets acquired for leasing		72,799	73,377
Share of profits of equity-accounted investees, net	11	3,161	(248)
Income from investment securities, net	21	33,725	11,313
Foreign exchange gain, net		1,252	4,050
Income from settlement of liabilities	22	113,147	-
Other income, net	23	55,472	48,211
Income before return to investment account holders and finance expense		331,625	267,805
Return to investment account holders before Group's share as Mudarib		(37,731)	(39,480)
Bank's share as Mudarib		14,904	19,726
Return to investment account holders	17	(22,827)	(19,754)
Less: Finance expense		(62,585)	(43,692)
Total income		246,213	204,359
Staff cost			
Staff cost	24	53,135	40,914
Investment advisory expenses		14,477	8,778
Other operating expenses	25	49,477	49,387
Total expenses		117,089	99,079
Profit before impairment allowances			
Profit before impairment allowances		129,124	105,280
Less: Impairment allowances, net	26	(17,614)	(9,381)
Profit for the year from continuing operations		111,510	95,899
Discontinued operations			
Profit from operations of non-banking subsidiaries, net	1	3,539	7,289
Profit for the year		115,049	103,188
Profit for the year attributable to:			
Shareholders of the Bank		114,076	104,182
Non-controlling interests		973	(994)
		115,049	103,188
Earnings per share			
Basic and diluted earnings per share (US cents)		3.22	3.58
Earnings per share – continuing operations			
Basic and diluted earnings per share (US cents)		3.12	3.30

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

Hisham Alrayes
Chief Executive Officer & Board member

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2018

US\$ 000's

	Attributable to shareholders of the Bank								Non – controlling interests	Non – controlling interests held-for-sale	Total owners' equity	
	Share capital	Share premium	Treasury shares	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Share grant reserve				Total
2018												
Balance at 1 January 2018 (as previously reported)	975,638	3,058	(58,417)	105,893	-	-	122,825	1,026	1,150,023	345,770	-	1,495,793
Impact of adoption of FAS 30 (note 4(a)iii)	-	-	-	-	-	-	(16,586)	-	(16,586)	(13,092)	-	(29,678)
Impact of adoption of FAS 30 by associates	-	-	-	-	-	-	(965)	-	(965)	-	-	(965)
Balance at 1 January 2018 (restated)	975,638	3,058	(58,417)	105,893	-	-	105,274	1,026	1,132,472	332,678	-	1,465,150
Profit for the year (page 8)	-	-	-	-	-	-	114,076	-	114,076	973	-	115,049
Foreign currency translation differences	-	-	-	-	-	(43,380)	-	-	(43,380)	(15,331)	-	(58,711)
Fair value changes during the year	-	-	-	-	(4,725)	-	-	-	(4,725)	-	-	(4,725)
Total recognised income and expense	-	-	-	-	(4,725)	(43,380)	114,076	-	65,971	(14,358)	-	51,613
Dividends declared for 2017 (note 18)	-	-	-	-	-	-	(82,412)	-	(82,412)	-	-	(82,412)
Transfer to zakah and charity fund (page 13)	-	-	-	-	-	-	(2,432)	-	(2,432)	(522)	-	(2,954)
Derecognition on loss of control	-	-	-	-	-	-	(24)	-	(24)	(804)	-	(828)
Issue of shares under incentive scheme (note 19)	-	-	-	-	-	-	62	60	122	98	-	220
Transfer to statutory reserve	-	-	-	11,408	-	-	(11,408)	-	-	-	-	-
Purchase of treasury shares	-	-	(160,973)	-	-	-	-	-	(160,973)	-	-	(160,973)
Sale of treasury shares	-	(3,058)	133,966	(24,818)	-	-	-	-	106,090	-	-	106,090
Non-controlling interests arising on acquisition of subsidiaries (note 20)	-	-	-	-	-	-	-	-	-	6,316	40,556	46,872
Balance at 31 December 2018	975,638	-	(85,424)	92,483	(4,725)	(43,380)	123,136	1,086	1,058,814	323,408	40,556	1,422,778

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2018 (continued)

US\$ 000's

	Attributable to shareholders of the Bank							Non-controlling interests	Total owners' equity	
	Share capital	Share premium	Treasury shares	Capital adjustment account	Statutory reserve	Retained earnings	Share grant reserve			Total
2017										
Balance at 1 January 2017	597,995	-	(340)	24,320	93,768	191,379	902	908,024	213,683	1,121,707
Profit for the year (page 8)	-	-	-	-	-	104,182	-	104,182	(994)	103,188
Total recognised income and expense	-	-	-	-	-	104,182	-	104,182	(994)	103,188
Issuance of share capital	314,530	2,896	-	(24,320)	-	-	-	293,106	176,754	469,860
Bonus shares issued	59,799	-	-	-	-	(59,799)	-	-	-	-
Dividends declared	-	-	-	-	-	(59,799)	-	(59,799)	-	(59,799)
Transfer to zakah and charity fund	-	-	-	-	-	(3,509)	-	(3,509)	-	(3,509)
Acquisition of additional interests in subsidiaries and resulting changes in non-controlling interests, net (note 20)	-	-	-	-	1,707	(39,211)	(40)	(37,544)	(34,816)	(72,360)
Transfer to statutory reserve	-	-	-	-	10,418	(10,418)	-	-	-	-
Issue of shares under staff incentive scheme, net of forfeitures (note 24)	3,314	3,564	-	-	-	-	164	7,042	-	7,042
De-recognition of a subsidiary on loss of control	-	-	-	-	-	-	-	-	(8,857)	(8,857)
Purchase of treasury shares	-	-	(82,839)	-	-	-	-	(82,839)	-	(82,839)
Sale of treasury shares	-	(3,402)	24,762	-	-	-	-	21,360	-	21,360
Balance at 31 December 2017	975,638	3,058	(58,417)	-	105,893	122,825	1,026	1,150,023	345,770	1,495,793

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

US\$ 000's

	2018	2017
OPERATING ACTIVITIES		
Profit for the year	115,049	103,188
Adjustments for:		
Income from investment banking activities	(8,500)	(80,511)
Income from investment securities	(33,725)	(11,313)
Share of profit of equity-accounted investees, net	(3,161)	(7,041)
Foreign exchange gain, net	(434)	(4,050)
Other income	(6,902)	(18,000)
Income from settlement of liabilities	(113,147)	-
Finance expense	62,585	43,692
Depreciation and amortisation	2,099	6,279
Impairment allowances	17,614	9,381
	31,478	41,625
Changes in:		
Placements with financial institutions	(168,286)	3,193
Financing assets	9,256	(21,912)
Asset acquired for leasing	(30,465)	(11,549)
Other assets	9,458	(97,437)
Investors' funds	7,226	(5,152)
Placements from financial institutions, other entities and individuals	769,893	287,981
Customer current accounts	(11,701)	(3,176)
Other liabilities	(132,128)	9,049
Equity of investment account holders	(9,443)	(115,837)
CBB reserve account	(8,913)	6,354
Net cash generated from operating activities	466,375	93,139
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(2,814)	(921)
Purchase of investment securities	(336,120)	(220,030)
Purchase of additional stake in an associate	(5,730)	-
Proceeds from sale of investment securities	118,860	51,875
Dividend and income from investment securities	25,308	14,857
Net cash paid for acquisition of a subsidiary	(17,276)	-
(Purchase) / sale of investment and development properties	(15,952)	1,857
Proceeds from sale of private equity subsidiaries	104,591	53,694
Net cash used in investing activities	(129,133)	(98,668)
FINANCING ACTIVITIES		
Financing liabilities, net	(9,810)	126,255
Finance expense paid	(55,665)	(36,245)
Purchase of treasury shares, net	(54,883)	(65,139)
Dividends paid	(76,151)	(59,799)
Acquisition of additional stake in a subsidiary	-	(15,228)
Net cash used in financing activities	(196,509)	(50,156)
Net increase / (decrease) in cash and cash equivalents	140,733	(55,685)
Cash and cash equivalents at 1 January	256,887	312,572
CASH AND CASH EQUIVALENTS at 31 December	397,620	256,887
Cash and cash equivalents comprise *		
Cash and balances with banks (excluding CBB reserve account and restricted bank balances)	284,649	169,619
Placements with financial institutions (with original maturity of three months or less)	112,971	87,268
	397,620	256,887

* net of expected credit loss of US\$ 1,041 thousand (1 January 2018: US\$ 7 thousand)

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2018**

31 December 2018	Balance at 1 January 2018			Movements during the year						Balance at 31 December 2018		
	No. of units (000)	Average value per share US\$	Total US\$ 000's	Investment/ (withdrawal) US\$ 000's	Revaluation US\$ 000's	Gross income US\$ 000's	Dividends paid US\$ 000's	Group's fees as an agent US\$ 000's	Administration expenses US\$ 000's	No. of units (000)	Average value per share US\$	Total US\$ 000's
Company												
Mena Real Estate Company KSCC	150	0.35	52	-	(3)	-	-	-	-	150	0.33	49
Al Basha'er Fund	13	7.03	93	-	-	-	-	-	-	13	7.03	93
Safana Investment (RIA 1) #	6,254	2.65	16,588	-	-	-	-	-	-	6,254	2.65	16,588
Shaden Real Estate Investment WLL (RIA 5) #	3,529	2.65	9,361	(252)	-	-	(690)	-	-	3,434	2.65	9,109
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,726	(252)	(3)	-	(690)	-	-			28,472

31 December 2017	Balance at 1 January 2017			Movements during the year						Balance at 31 December 2017		
	No. of units (000)	Average value per share US\$	Total US\$ 000's	Investment/ (withdrawal) US\$ 000's	Revaluation US\$ 000's	Gross income US\$ 000's	Dividends paid US\$ 000's	Group's fees as an agent US\$ 000's	Administration expenses US\$ 000's	No. of units (000)	Average value per share US\$	Total US\$ 000's
Company												
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	6.85	637	(532)	(12)	-	-	-	-	13	7.03	93
Safana Investment (RIA 1) #	6,304	2.65	16,721	(133)	-	-	-	-	-	6,254	2.65	16,588
Shaden Real Estate Investment WLL (RIA 5) #	3,652	2.65	9,686	(325)	-	-	-	-	-	3,529	2.65	9,361
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			29,729	(965)	(12)	-	-	-	-			28,726

#Represents restricted investment accounts of Khaleeji Commercial Bank BSC

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

for the year ended 31 December 2018

US\$ 000's

	2018	2017
Sources of zakah and charity fund		
Contributions by the Group	2,954	4,468
Non-Islamic income (note 31)	48	45
Total sources	3,002	4,513
Uses of zakah and charity fund		
Utilisation of zakah and charity fund	(1,208)	(3,833)
Total uses	(1,208)	(3,833)
Surplus of sources over uses	1,794	680
Undistributed zakah and charity fund at 1 January	2,841	2,160
Undistributed zakah and charity fund at 31 December (note 16)	4,635	2,840
Represented by:		
Zakah payable	755	13
Charity fund	3,880	2,827
	4,635	2,840

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

US\$ 000's

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

Consolidated financial statements

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

Investee name	Country of incorporation	Parent / Owning Company	Effective ownership interests 2018	Activities
GFH Capital Limited	United Arab Emirates	GFH	100%	Investment management
Khaleeji Commercial Bank BSC ('KHCB')	Kingdom of Bahrain		55.41%	Islamic retail bank
Al Areen Hotels SPC			100%	Hospitality management
Al Areen Project companies			100%	Real estate development
Falcon Cement Company BSC (c) *			51.72%	Cement manufacturing
Morocco Gateway Investment Company ('MGIC')			89.26%	Real estate development
Tunis Bay Investment Company ('TBIC')	Cayman Islands		51.41%	Real estate development
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together “India Projects”)			77.20%	Real estate development
Sheffield Dubai Investment Company *			61.18%	Holding Company for educational institutions
Gulf Holding Company KSCC *	State of Kuwait		51.18%	Investment in real estate
Surooh Company ('Surooh')	Cayman Islands	KHCB	10.00%	Construct and sell properties at “Oryx Hills”.

* refer note 20

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 Group disposed of its investment in a wholly owned subsidiary AlAreen Leisure and Tourism Company – Lost Paradise of Dilmun Water Park as part of settlement of liabilities (note 22). Also, the Group disposed of its entire stake in GCL CPOL Management Company, a wholly owned subsidiary. Accordingly, the assets and liabilities of these subsidiaries were deconsolidated on loss of control. The net operations of the subsidiaries till loss of control is presented as ‘Profit from operations of non-banking subsidiaries, net’ under discontinued operations in the consolidated income statement including comparative representing amounts for 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

US\$ 000's

2 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 ("AAOIFI") and in conformity with Commercial Companies Law. In line with the requirement of AAOIFI and the Rulebook issued by CBB, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standard (IFRS).

3 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 5.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies 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 except for changes arising from adoption of FAS 30 as set out below.

(a) Impact of new accounting standards and changes in accounting policies**i) New standards effective from 1 January 2018**

There were no new relevant standards there were issued and effective from 1 January 2018.

ii) New standards issued but not yet effective***FAS 31 – Investment Agency (Al-Wakala Bi Al-Istithmar)***

The objective of this standard is to establish principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations as applicable, for the Islamic financial institutions from both perspectives as principal (investor) and agent. The standard is effective for the financial periods beginning on or after 1 January 2020 and expected to impact presentation of income and expenses, including variable consideration, from Wakala arrangements. The Group is currently evaluating the impact from adoption of the standard.

FAS 33 – Investment in Sukuk, shares and similar instruments

The standards replaces FAS 25 and produces revised guidance for classification and measurement of investments to align with international practices. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively. The standard is effective for the financial periods beginning on or after 1 January 2020 and the Group is currently evaluating the impact from adoption of the standard, however, given the nature of investments of the Group, the adoption of this standard is not expected to have a material impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)*FAS 35 – Risk reserves*

The standard shall apply to risk reserves that are established by an Islamic financial institution, to mitigate the credit, market, equity investment, liquidity, rate of return or displaced commercial risks faced by the stakeholders (mainly the profit and loss taking investors). The standard does not mandatorily require the Islamic financial institutions to maintain risk reserves, however, if a reserve is established, such reserves shall follow the requirements of the standards in its entirety. The standard is effective for the financial periods beginning on or after 1 January 2020. Currently the Group is not providing for Profit Equalisation Reserve and Investment Risk Reserve on a risk adjusted basis and it remains at the choice of the Group. The Group is currently working on adopting Basel and IFSB guidance on profit rate risk management and the Risk Reserve policy will be addressed as part of this exercise.

iii) Early adoption of FAS 30 – Impairment, Credit Losses and Onerous Commitments

AAOIFI issued FAS 30 Impairment, Credit losses and onerous commitments in 2017 with effective date of 1 January 2020 with early adoption permitted. The Group early adopted the standard as of 1 January 2018 as mandated by the CBB. The objective of this standard is to establish the principles of assessing impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets. FAS 30 replaces FAS 11 Provisions and Reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments that deals with impairment.

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets 1) Credit Losses approach, 2) Net Realizable Value approach (“NRV”) and 3) Impairment approach. For the purpose of this standard, the assets and exposures are categorized, as under:

- Assets and exposures subject to credit risk (subject to credit losses approach):
 - Receivables; and
 - Off-balance sheet exposures.
- Inventories (subject to net realizable value approach); and
- Other financing and investment assets subject to risks other than credit risk (subject to impairment approach).

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

Expected credit losses

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment loss is the amount by which the carrying amount of asset exceeds its recoverable amount.

The adoption of FAS 30 has resulted in changes in accounting policies for exposures that are subject to credit risk and adjustments to the amounts previously recognised in the consolidated financial statements as of the year ended 31 December 2017. As permitted by the transitional provisions of FAS 30, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of exposures that are subject to credit risk as at the date of transition were recognised in the opening balance of retained earnings.

FAS 30 also amends disclosures required under other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'. Set out below are the FAS 30 transition impact disclosures for the Group.

- **Changes in accounting policies**

The key changes to the Group's accounting policies resulting from the adoption of FAS 30 are summarised in note 4(o). Since the comparative financial information has not been restated, the accounting policies in respect of the financial instruments for comparative periods are based on respective standards as disclosed in the audited financial statements for the year ended 31 December 2017.

- **Impact of adopting FAS 30**

The adoption of FAS 30 as at 1 January 2018 has resulted in decrease in retained earnings by US\$ 16,586 thousand:

	Retained earnings	Non - controlling interests
Balance as of 1 January 2018 (as previously reported)	122,825	345,770
<u>Impact on recognition of expected credit losses</u>		
Bank balances and placements with financial institutions	(5)	(2)
Investment in sukuk	(4)	(4)
Financing assets	(12,983)	(10,447)
Assets acquired for leasing and lease rental receivables	(2,523)	(2,031)
Other receivables	(316)	-
Commitments and financial guarantees	(755)	(608)
	(16,586)	(13,092)
Balance as of 1 January 2018 (restated)	106,239	332,678

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

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4 SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Exposures subject to ECL**

The following table reconciles the carrying amounts of exposures subject to credit risk under FAS 11 to the carrying amounts under FAS 30 on 1 January 2018

	31 December 2017	Effect of re- measurement *	1 January 2018
Bank balances and placements with financial institutions	290,501	(7)	290,494
Financing assets	992,502	(23,430)	969,072
Investment in sukuk	300,655	(8)	300,647
Assets acquired for leasing and lease rental receivables	280,591	(4,554)	276,037
Other receivables	238,584	(316)	238,268
Commitments and financial guarantees	229,689	(1,363)	228,326
	2,332,522	(29,678)	2,302,844

* including those attributable to non-controlling interests

The following table sets out the carrying amounts of exposures subject to credit risk as of 1 January 2018 by stage:

1 January 2018	Stage 1	Stage 2	Stage 3	Total
Bank balances	194,932	-	-	194,932
Placements with financial institutions	95,569	-	-	95,569
Financing assets	654,741	221,053	116,708	992,502
Assets acquired for leasing and lease rental receivables	210,119	43,517	26,955	280,591
Investment in sukuk	300,265	-	390	300,655
Other receivables	238,584	-	-	238,584
Commitments and financial guarantees	176,018	50,265	3,406	229,689
	1,870,228	314,835	147,459	2,332,522

Movement on ECL on various stages during the year:

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2018	7,902	27,950	31,548	67,400
Transfer to Stage 1	8,456	(8,186)	(270)	-
Transfer to Stage 2	(838)	1,056	(218)	-
Transfer to Stage 3	(607)	(6,534)	7,141	-
Net transfers	7,011	(13,664)	6,653	-
Charge for the period, net (note 26)	(137)	(3,894)	15,796	11,765
Write-off	-	-	(4,154)	(4,154)
Balance at 31 December 2018	14,776	10,392	49,843	75,011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(b) 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 re-measured 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.

If less than 100% of a subsidiary is acquired, then the Group elects on a transaction-by-transaction basis to measure non-controlling interests either at:

- Fair value at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary non-controlling interests; or
- the holders' proportionate interest in the recognised amount of the identifiable net assets of the acquiree, which means that goodwill recognised, or the gain on a bargain purchase, relates only to the controlling interest acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(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 28.

(v) Loss of control

When the Group loses 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

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 exist 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 internally on a fair value basis (refer to note 4(f)iii).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(c) Assets held-for-sale**(i) Classification**

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use within twelve months. A subsidiary acquired exclusively with a view to resale is classified as disposal group held-for-sale and income and expense from its operations are presented as part of discontinued operation.

(ii) Measurement

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. 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 inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on re-measurement are recognised in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

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 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(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 comprise of debt and equity instruments, but exclude investment in subsidiaries and equity-accounted investees (note 4 (a)(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:

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for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)*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. This represents investments in Sukuk.

At amortised cost

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

Equity-type instruments

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

At fair value through income statement (FVTIS)

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

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

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

At fair value through equity (FVTE)

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

(ii) Recognition and de-recognition

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

(iii) Measurement

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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, price / earnings multiples and other valuation models with accepted economic methodologies for pricing financial instruments.

(g) Financing assets

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

(h) Assets acquired for leasing

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

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US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(i) Placements with and from financial and other institutions**

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

(j) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and 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 and equipment

Property 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.

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US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Buildings and infrastructure on lease hold	15 – 30 years
Machinery	8 – 40 years
Other equipment comprising:	
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 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 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 of intangible assets.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 de-recognition 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 exposures subject to credit risk**Policy applicable from 1 January 2018**

The Group recognises loss allowances for ECLs on:

- Bank balances;
- Placements with financial institutions;
- Financing assets;
- Assets acquired for leasing and lease rental receivables;
- Investments in Sukuk (debt-type instruments carried at amortised cost);
- Other receivables; and
- Undrawn financing commitments and financial guarantee contracts issued.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- Debt-type securities that are determined to have low credit risk at the reporting date; and
- other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of an exposure subject to credit risk has increased significantly since initial recognition when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

The Group assumes that the credit risk on exposure subject to credit risk increased significantly if it is more than 30 days past due. The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or
- the exposure is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher per S&P.

The Group applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**Stage 1: 12-months ECL**

Stage 1 includes exposures that are subject to credit risk on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes exposures that are subject to credit risk that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes exposures that are subject to credit risk that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- Exposures subject to credit risk that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.
- ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that an exposure is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a financing facility or advance by the Bank on terms that the Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for exposures subject to credit risk are deducted from the gross carrying amount of the assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**Policy applicable before 1 January 2018**

The Group assesses at each reporting date whether there is objective evidence an exposure subject to credit risk is impaired. Objective evidence that exposures subject to credit risk are impaired can include default or delinquency by a borrower, restructuring of financing facility 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. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets carried at amortised cost

These include financing assets, Sukuk (debt-type instruments), and other receivables. 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 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 income statement. Recovery of written off financial assets is credited to impairment charge for the year. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level.

All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

(p) Impairment of equity investments classified at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The Group considers a decline of 30% to be significant and a period of nine months to be prolonged. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable measure of 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 estimated recoverable amount is below the carrying value of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(q) Impairment of non-financial assets**

The carrying amount of the Group's non-financial assets (other than those subject to credit risk covered above) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset 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 exceeds its estimated recoverable amount. Impairment losses are recognised in the 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.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. 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 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.

(r) 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.

(s) 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.

(t) Financing liabilities

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

(u) 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 37).

(v) Dividends and board remuneration

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(w) 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.

(x) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(y) 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

Income from investment banking activities is recognised when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/ contracts for each transaction. The assessment of whether economic benefits from a transaction will flow to the Group is determined when legally binding commitments have been obtained from underwriters and external investors for a substantial investment in the transaction.

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.

(z) Earnings prohibited by Shari'a

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(aa) Zakah**

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net assets method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment account holders and other accounts is the responsibility of investment account holders.

(bb) Employees benefits**(i) Short-term benefits**

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

(ii) Post employment benefits

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

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the 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
for the year ended 31 December 2018**

US\$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**(cc) Provisions**

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

(dd) Onerous contracts

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

(ee) Trade date accounting

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

(ff) 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.

(gg) Income tax

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018**

US\$ 000's

5 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**Applicable to 2018 only**

Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in note 4(o) and note 38(a);

Applicable to 2017 and 2018**(i) Going concern**

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(ii) 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 4 (e)).

(iii) Special purpose entities

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

Estimations**Applicable to 2018 only****Impairment of exposures subject to credit risk**

Determining inputs into ECL measurement model including incorporation of forward looking information is set out in note 4(o) and note 38(b).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018**

US\$ 000's

**5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING
POLICIES (continued)*****Applicable to 2018 and 2017******(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. 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 of investments carried at fair value 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 12 months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of the investee companies' financial health, industry and sector performance.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018**

US\$ 000's

**5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING
POLICIES (continued)*****(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 using either sales comparable approach or the residual value basis or the market value of the property 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 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 4 (n). For equity-accounted investees with indicators of impairment, the recoverable amount is determined based on higher of fair value less costs to sell (FVLCTS); and value in use.

The recoverable amount for the equity-accounted investees was determined using a combination of income and market approaches of valuations. The objective of valuation techniques is to determine whether the recoverable amount is greater than the carrying amount.

(v) Estimating of 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.

(vi) Consideration transferred and fair value of identifiable assets acquired and liabilities assumed in a business combination

The estimate in relation to consideration transferred and determination of fair value of identifiable assets acquired and liabilities assumed in a business combination are given in note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

US\$ 000's

6 CASH AND BANK BALANCES

	31 December 2018	31 December 2017
Cash	21,609	21,460
Balances with banks	225,024	80,365
Balances with Central Bank of Bahrain:		
- Current account	39,709	68,308
- Reserve account	55,225	46,312
	341,567	216,445

The reserve account with the Central Bank of Bahrain and bank balances of US\$ 1,693 thousand are not available for day-to-day operational purposes. The cash and bank balances are net of ECL of US\$ 134 thousand.

7 FINANCING ASSETS

	31 December 2018	31 December 2017
Murabaha	952,372	948,528
Musharaka	9,393	18,350
Wakala	13,281	56,981
Mudharaba	2,782	3,016
Istisnaa	5,448	-
	983,276	1,026,875
Less: Impairment allowances	(62,600)	(34,373)
	920,676	992,502

Murabaha financing receivables are net of deferred profits of US\$ 66,546 thousand (2017: US\$ 61,111 thousand).

The movement on impairment allowances are as follows:

2018	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	7,021	25,520	24,815	57,356
Net movement between stages	6,751	(12,711)	5,960	-
Net charge for the year (note 26)	(1,140)	(3,008)	13,546	9,398
Write-off	-	-	(4,154)	(4,154)
At 31 December 2018	12,632	9,801	40,167	62,600

2017

	Specific	Collective	Total
At 1 January 2017	55,786	11,590	67,376
Net charge for the year (note 26)	2,183	(98)	2,085
Adjusted on write-off of assets	(35,088)	-	(35,088)
At 31 December 2017	22,881	11,492	34,373

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8 INVESTMENT SECURITIES

	31 December 2018	31 December 2017
Equity type investments		
<i>At fair value through income statement:</i>		
- Unquoted securities	34,875	34,875
	34,875	34,875
<i>At fair value through equity:</i>		
- Listed securities (at fair value)	29,093	103
- Unquoted securities (at cost)	180,724	185,775
	209,817	185,878
Debt type investments		
<i>At fair value through income statement:</i>		
- Quoted sukuk	100,527	-
<i>At amortised cost:</i>		
- Quoted sukuk *	427,915	300,265
- Unquoted sukuk **	-	390
	427,915	300,655
	773,134	521,408

* Includes sukuk of US\$ 129,676 thousand pledged against medium-term borrowing of US\$ 109,570 thousand (note 15).

** Unquoted sukuk are net of expected credit loss of US\$ 3,501 thousand (2017: nil).

a) Equity type investments - At fair value through income statement

	2018	2017
At 1 January	34,875	40,557
Disposals during the year, at carrying value	-	(5,305)
De-recognition of investment on deconsolidation of subsidiary	-	(377)
At 31 December	34,875	34,875

b) Equity type investments - At fair value through equity

	2018	2017
At 1 January	185,878	289,256
Additions during the year	76,426	293,729
Disposals during the year, at carrying value	(39,958)	(6,895)
Fair value changes	(4,725)	-
Write-offs of fully provided investments during the year	-	(7,926)
De-recognition on acquiring controlling stake (note 20)	(1,955)	(378,709)
Impairment charge for the year (note 26)	(5,849)	(3,577)
At 31 December	209,817	185,878

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8 INVESTMENT SECURITIES (continued)

Unquoted equity securities US\$ 180,724 thousand (31 December 2017: US\$ 185,775 thousand) classified at fair value through equity, but measured at cost less impairment in the absence of reliable measure of fair value, are primarily investment in equities of companies carrying out real estate and infrastructure development projects in different countries. The Group plans to exit these investments principally by means of strategic sell outs or sale of underlying assets.

During the year, the Group recognised an impairment of US\$ nil (2017: US\$ 3,577 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.

9 INVESTMENT PROPERTY

Investment property includes land plots and buildings in Bahrain, UAE and Morocco. Investment property of carrying amount of US\$ 192.2 million (2017: US\$ 192.2 million) is pledged against Wakala facilities and Ijarah facility (note 15).

The fair value of the Group's investment property at 31 December 2018 was US\$ 674,247 thousand (31 December 2017: US\$ 624,710 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.

	2018	2017
At 1 January	616,263	488,436
Additions during the year	49,740	137,310
Disposals	(6,154)	(2,715)
Transfer to development property (note 10)	(657)	-
Depreciation charge for the year	-	(194)
De-recognition on deconsolidation of a subsidiary	(135,500)	(4,479)
Impairment allowances (note 26)	-	(2,095)
At 31 December	523,692	616,263

10 DEVELOPMENT PROPERTIES

Development properties represent real estate under development and for sale in UAE, Bahrain, North Africa and India. Development property of US\$ 42.3 million is pledged against a Wakala facility (note 15).

	2018	2017
At 1 January	893,037	280,972
Acquisitions arising on consolidation of a subsidiary (note 20)	377,332	571,970
Additions during the year	93,712	40,095
Transfer from investment property (note 9)	657	-
Disposals	(17,602)	-
Foreign currency translation impact	(30,818)	-
At 31 December	1,316,318	893,037

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11 EQUITY-ACCOUNTED INVESTEEES

Equity-accounted investees represents investments in the following material associates:

Name	Country of incorporation	% holding		Nature of business
		2018	2017	
Falcon Cement Company BSC (c) #	Kingdom of Bahrain	-	31.72%	Manufacturing and trading of cement
Capital Real Estate Projects Company B.S.C. (c)	Kingdom of Bahrain	40%	40%	Real estate holding and development
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) ('Balxco')	Kingdom of Bahrain	17.32%	17.32%	Extrusion and sale of aluminium products
Global Banking Corporation BSC (c)	Kingdom of Bahrain	28.69%	20%	Islamic wholesale banking
Enshaa Development Real Estate B.S.C. (c)	Kingdom of Bahrain	33.33%	33.33%	Holding plot of land in Kingdom of Bahrain.

Consolidated during the year

The movement on equity-accounted investees is given below:

	2018	2017
At 1 January	81,440	79,010
De-recognition on acquiring controlling stake (note 20)	(27,260)	-
Investment recognised on deconsolidation of a subsidiary	-	5,286
Additions during the year	9,623	111
Share of profit / (loss) for the year, net	3,161	(248)
Dividends received during the year	-	(2,719)
At 31 December	66,964	81,440

Equity-accounted investees includes the Group's investment of less than 20% in Balxco. As the Group exercises significant influence over the entity 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):

	2018	2017
Total assets	270,911	233,676
Total liabilities	79,755	107,212
Total revenues	74,884	132,578
Total (loss) / profit	(168)	13,095

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12 PROPERTY AND EQUIPMENT

	31 December 2018	31 December 2017
Land	29,170	40,051
Buildings and infrastructure on leasehold land	45,981	56,092
Others including furniture, vehicles and equipment	17,751	20,992
	92,902	117,135

Depreciation on property and equipment during the year was US\$ 2,099 thousand (2017: US\$ 1,660 thousand)

13 OTHER ASSETS

	31 December 2018	31 December 2017
Investment banking receivables	22,588	123,506
Financing to projects, net	25,001	21,175
Receivable on sale of development properties	18,882	10,000
Advances and deposits	44,300	38,156
Employee receivables	17,292	18,302
Profit on sukuk receivable	7,485	5,815
Lease rentals receivable	30,570	22,785
Prepayments and other receivables	63,024	79,113
	229,142	318,852

During the year, the Group recognised reversal of US\$ 80 thousand (2017: charge of US\$ 114 thousand) and charge of US\$ 1,923 thousand (2017: charge of US\$ 460 thousand) impairment allowance on other receivables and lease rentals receivable respectively (note 26).

14 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 are subject to regulatory sanctions.

15 FINANCING LIABILITIES

	31 December 2018	31 December 2017
Murabaha financing	40,852	153,899
Wakala financing	24,797	54,167
Sukuk liability	-	25,364
Ijarah financing	26,628	15,607
Other borrowings	163,860	116,025
	256,137	365,062

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15 *FINANCING LIABILITIES (continued)*

	31 December 2018	31 December 2017
Current portion	197,054	145,687
Non-current portion	59,083	219,375
	256,137	365,062

Murabaha financing comprise:

- i) US\$ 20 million financing facility for a period of 3 years with profit rate of 6 month LIBOR plus a margin of 4.5% p.a. (subject to minimum 6% p.a.) The Murabaha financing is secured by a pledge over the Group's investment in shares of KHCB and matures in 2020;
- ii) US\$ 15 million facility obtained for general corporate purposes for a period of 5 years at a profit rate of 3 month LIBOR plus margin of 6% p.a. (subject to a minimum of 7% p.a.). The facility is secured by a pledge on Group's investment in shares of KHCB and matures in 2022; and
- iii) Short-term and medium-term facilities of US\$ 132,739 thousand (2017: US\$ 109,570 thousand) through pledge over sukuk of US\$ 152,845 thousand (2017: US\$ 129,676 thousand) (note 8).

Wakala financing comprise:

- i) US\$ 35 million facility from a financial institution repayable in 3 years starting November 2016 and maturing in 2019 at a profit rate of LIBOR plus margin of 7.65% p.a. (subject to a minimum of 8% p.a.). The facility is secured by a pledge over the Group's investment property of carrying value of US\$ 24.7 million (31 December 2017: US\$ 24.7 million) and development property of carrying value of US\$ 44.5 million (31 December 2017: US\$ 42.3 million); and
- ii) a syndicate facility from a number of financial institutions availed in 2009 and repayable over a period of six years till April 2019 at a profit rate of 6% p.a. The facility is secured by a pledge over the Group's investment property with a carrying value of US\$ 136 million (31 December 2017: US\$ 136 million).

Sukuk liability

The Sukuk is backed by a pool of assets of the Group and has a liquidity facility provided by the Bank to support timely payments of distributions. The Sukuk were settled during the year.

Ijarah financing facility

This represents facility obtained from a financial institution in 2016 to part finance the acquisition of an investment property of US\$ 40.84 million, repayable over a period of 8 years at a profit rate of LIBOR plus margin of 5.7% p.a. (subject to minimum of 7% p.a.).

Other borrowings

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

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16 OTHER LIABILITIES

	31 December 2018	31 December 2017
Employee related accruals	19,008	11,358
Board member allowances and accruals	3,500	4,450
Unclaimed dividends	13,676	7,611
Mudaraba profit accrual	11,348	7,586
Provision for employees' leaving indemnities	3,437	3,994
Zakah and Charity fund (page 13)	4,635	2,840
Advance received from customers	203,314	53,888
Accounts payable	146,862	41,697
Accrued expenses and other payables	112,077	122,309
	517,857	255,733

17 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

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

	31 December 2018	31 December 2017
Balances with banks	125,497	16,813
CBB reserve account	55,225	46,312
Placements with financial institutions	115,748	90,103
Debt type instruments – sukuk	427,923	300,263
Financing assets	172,517	452,862
	896,910	906,353

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

	2018	2017
Returns from jointly invested assets	(37,731)	(39,480)
Banks share as Mudarib	14,904	19,726
Return to investment account holders	(22,827)	(19,754)

The average gross rate of return in respect of unrestricted investment accounts was 4.36% for 2018 (2017: 4.12%). Approximately 2.55% (2017: 2.18%) was distributed to investors and the balance was either set aside for provisions and/or retained by the Group as a Mudarib fee. Unrestricted investment accounts include profit equalisation reserve of US\$ 9 thousand (2017: US\$ 9 thousand) and investment risks reserve of US\$ 5 thousand (2017: US\$ 5 thousand).

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18 SHARE CAPITAL**Authorised:**

9,433,962,264 shares of US\$ 0.265 each (2017: 9,433,962,264 shares of US\$ 0.265 each)

Issued and fully paid up:

3,681,650,441 shares of US\$ 0.265 each (2017: 3,681,650,441 shares of US\$ 0.265 each)

31 December 2018	31 December 2017
2,500,000	2,500,000
975,638	975,638

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

	2018	2017
At 1 January	975,638	597,995
Investment offering (note 20)	-	314,530
Issue of bonus shares	-	59,799
Issue of shares under incentive scheme	-	3,314
At 31 December	975,638	975,638

Investment offering

In 2017, after obtaining the requisite approvals, the Group offered to its investors in certain infrastructure projects and investment funds to acquire their holdings in return for pre-determined number of the Bank's shares (note 20). Subscriptions for 1,186,904,148 shares of the Bank were made up to the final closing period of 15 August 2017. Shares were issued to the subscribers resulting in increase in share capital by US\$ 314,530 thousand. Excess over the par value of US\$ 0.265 per share has been considered as share premium and reflected accordingly under share premium account (including transfer from capital adjustment account).

As at 31 December 2018, the Bank held 255,455,953 (31 December 2017: 106,467,804) treasury shares.

Additional information on shareholding pattern

- (i) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.
- (ii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	2,521,384,919	7,834	68.49
1% up to less than 5%	971,816,218	10	19.03
5% to less than 10% #	188,449,304	1	12.48
Total	3,681,650,441	7,845	100

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

Includes treasury shares held by the Bank.

- (iii) As at 31 December 2018, the shareholders who hold more than 5% of the total outstanding shares are as below:

Shareholder name	Number of shares	% of total outstanding shares
Abu Dhabi Financial Group LLC and related entities	530,692,012	14.41%

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18 *SHARE CAPITAL (continued)*

Appropriations and changes in capital structure

Appropriations, if any, are made when approved by the shareholders. In the ordinary and extraordinary general meeting held on 27 March 2018, shareholders approved the following appropriations for 2017:

- a) Cash dividend of 8.72% of the paid-up share capital amounting to US\$ 82.4 million;
- b) US\$ 1 million towards charity;
- c) US\$ 784 thousand towards zakah; and
- d) Transfer of US\$ 10 million to statutory reserve.

Proposed appropriations

The Board of Directors proposes the following appropriations for 2018 subject to shareholders' approval in annual general meeting:

- Dividend of 8.71% of the paid-up share capital amounting to US\$ 85 million in the form of:
 - Cash dividend of 3.07% amounting to US\$ 30 million,
 - Bonus shares at the rate of 5.6% of par value at 1 share for every 17.7 ordinary shares,
- Transfer of US\$ 11.4 million to statutory reserve; and
- US\$ 1 million towards charity and US\$ 941 thousand towards zakah for the year.

19 SHARE GRANT RESERVE

	2018	2017
At 1 January	1,026	902
Issue of share under incentive scheme	158	164
Transfer between interests	(98)	(40)
At 31 December	1,086	1,026

20 ACQUISITION OF SUBSIDIARIES

Acquisitions in 2018

- (i) During the year, the Group acquired additional stake of 31.39% in Gulf Holding Company KSC (Holding) (GHC), a company incorporated in the State of Kuwait taking the Group's holding to 51.18% and obtaining control over GHC. Accordingly, GHC's assets, liabilities and results have been consolidated from the date the Group obtained control.

GHC has the following subsidiaries:

Name	Country of incorporation	Effective ownership interests	Activities
Residential South Real Estate Development Co SPC (RSRED)	Kingdom of Bahrain	100%	Undertake Villamar Project in Bahrain
AlAreen Down Town Real Estate Development Co SPC (AADT)		100%	Undertake AlAreen Down Town Project in Bahrain
The Royal Real Estate Development Co Holding Co SPC (RREDH)		100%	Holding investment in Villa Royale project and real estate development project in Morocco

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20 ACQUISITION OF SUBSIDIARIES (continued)

Consideration transferred and non-controlling interests

The consideration transferred in the acquisition of assets were partially in the form of cash and treasury shares of the Bank. The consideration transferred is generally measured at fair value and the stake held by shareholders other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets or fair value at the date of acquisition of the investee on a transaction by transaction basis based on the accounting policy choice of the Group.

Identifiable assets acquired and liabilities assumed

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

The reported amounts below represent the adjusted fair values of the acquired entities as at 30 June 2018, being the effective date of acquisition, have been reported on a provisional basis as permitted by accounting standards.

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

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

	US\$ 000's
Investment properties	40,373
Development properties	387,332
Cash and bank balances	1,547
Other receivables and pre-payments	26,280
Total assets	455,532
Sukuk financing *	202,784
Advances from customers	168,857
Other liabilities	70,817
Total liabilities	442,458
Total net identifiable assets	13,074

* sukuk financing was settled subsequent to acquisition (refer note 22)

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20 ACQUISITION OF SUBSIDIARIES (continued)

	US\$ 000's
Carrying value of Group's previously held equity interest in investee	-
Consideration transferred	6,691
Non-controlling interests recognised	6,383
Total consideration	13,074
	US\$ 000's
Consideration paid	6,691
Less: Cash bank balances acquired on consolidation	(1,547)
Net cash paid for the purpose of consolidated statement cash flows	5,144

- (ii) During the year, the Group acquired additional stake in the following entities resulting in the Group obtaining control over these entities as at 31 December 2018. The Group has acquired these entities with an intention to subsequent disposal within 12 months, accordingly, the asset, liabilities and non-controlling interests relating to these entities were classified as "held-for-sale".

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

	Current Stake	Additional stake acquired	Total stake
Falcon Cement Company BSC (c) (FCC)	31.72%	20%	51.72%
Sheffield Dubai Investment Company (SDIC)	4.67%	61.18%	65.85%

Consideration transferred and non-controlling interests

The consideration transferred for the acquisition was in the form of cash and assets held by the Group. The consideration transferred is generally measured at fair value and the stake held by shareholders other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets or fair value at the date of acquisition of the investee on a transaction by transaction basis based on the accounting policy choice of the Group.

Identifiable assets acquired and liabilities assumed

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

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities as at 31 December 2018, being the effective date of acquisition, and have been reported on a provisional basis as permitted by accounting standards.

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20 ACQUISITION OF SUBSIDIARIES (continued)

The Group, as on date of issue of this consolidated financial statements, has not yet concluded on the determination of fair value of tangible and intangible assets acquired, liabilities assumed and residual goodwill, if any, arising from the acquisition. The estimates of fair values for tangible and intangible assets acquired and liabilities assumed is subject to significant judgement and shall be determined by management using appropriate valuation approaches and asset appraisals at the effective date.

	FCC	SDIC
Property, plant and equipment	66,031	361
Inventories	13,372	-
Trade receivables	12,362	-
Due from related parties	417	1,528
Cash and bank balances	73	1,307
Other assets	281	1,013
Total assets	92,536	4,209
Bank borrowings	23,335	-
Trade and other payables	16,601	2,813
Total liabilities	39,936	2,813
Total net identifiable assets and liabilities (A)	52,600	1,396

	FCC	SDIC
Carrying value of Group's previously held equity interest in investee companies	27,260	1,955
Value of consideration transferred in assets and cash	8,621	26,000
Non-controlling interests recognised	25,396	15,160
Total consideration (B)	61,277	43,115
Intangibles including goodwill (B-A) (provisional)	8,677	41,719

The Group has an active plan approved by the Board, to sell its stake in FCC and SDIC, and accordingly, the asset and liabilities acquired are classified as held-for-sale in the consolidated statement of financial position. The equity of the remaining stake held by external parties in these entities are classified as "non-controlling interests related to assets held-for-sale"

Acquisitions in 2017

Pursuant to the approval by the shareholders in their Extraordinary General Meeting held on 1 March 2017, the Bank offered its shares in exchange for the holdings of its investors in various infrastructure projects and investment funds. The Group had acquired additional stake in the following infrastructure projects resulting in the Group obtaining control over these projects as at 31 December 2017, and accordingly, these have been consolidated with the results of the Group. The Group's existing stake and additional stake acquired are given below:

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

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20 ACQUISITION OF SUBSIDIARIES (continued)

Consideration transferred and non-controlling interests

The consideration for the acquisition was in the form of shares of GFH. Given the nature of the repurchase transaction and the basis of determination of swap ratios for each asset by the shareholders, the transaction has been treated similar to a capital increase through transfer of non-cash assets in which the value of the asset received has been considered as the basis of measurement for increase in equity. The Group has used the acquisition-date expected realisable value of assets and settlement amount of liabilities of the entities acquired for the acquisition accounting and as consideration received for shares issued resulting in no gain or loss on initial recognition. The remaining stake held by investors other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets.

Identifiable assets acquired and liabilities assumed

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

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities as at 30 September 2017, being the effective date of acquisition.

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

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

	TBIC	India Projects
Property, plant and equipment	56	-
Cash and bank balances	184	-
Development properties	206,794	365,176
Other assets	608	40,566
Total assets	207,642	405,742
Other payables	1,897	54,617
Total liabilities	1,897	54,617
Total net identifiable assets and liabilities	205,745	351,125

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20 ACQUISITION OF SUBSIDIARIES (continued)

	TBIC	India Projects
Carrying value of Group's previously held equity interest in investee companies	30,000	51,207
Value of consideration transferred in shares	75,779	221,723
Non-controlling interests recognised	99,966	78,195
Total consideration	205,745	351,125

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

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

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

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

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

21 INCOME FROM INVESTMENT SECURITIES

	2018	2017
Dividend income	5,698	2,470
Gain on sale of investment	5,190	1,588
Changes in the fair value of Sukuk carried at fair value through income statement	3,772	(5,305)
Income from sukuk	19,065	12,560
	33,725	11,313

22 INCOME FROM SETTLEMENT OF LIABILITIES

This includes:

- (i) Income of US\$ 35.3 million arising from restructuring of liabilities of a subsidiary. In 2016, as part of total recoveries made by the Group under litigation settlements, the Group had acquired the holding company of a master developer for a project in the Kingdom of Bahrain under administration and insolvency proceedings which had net liabilities at the time of the settlement. Subsequently, the Group managed to get the company out of administration by restructuring the liabilities of the Company and negotiating settlements with creditors through a court administered process. The legal process of confirming claims for settlement has been completed in 2018 resulting in the Company being taken out of legal administration and handed back to the Group. The final court judgment confirmed the final amounts due to each creditor and hence the difference between the previously recognised liability / provisions and the court approved amounts have been reversed to the income statement as they were no longer required.
- (ii) During the year, the Group agreed to settle sukuk liability with a financial institution of US\$ 203 million at a lower amount, resulting in a gain of US\$ 77.8 million (net of associated costs). The settlement was in the form of cash and other non cash assets.

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23 OTHER INCOME

This mainly includes US\$ 22 million received in cash during the year on settlement of litigations and income from non-banking subsidiaries of US\$ 18.3 million and rental income of US\$ 2.5 million.

24 STAFF COST

	2018	2017
Salaries and benefits	49,748	37,969
Social insurance expenses	3,387	2,945
	53,135	40,914

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

Performance year	Nature of award	Staff coverage	Summary of deferral and vesting conditions
Legacy share plan	Share Options	Select Senior Management	Initial lock-in period of 3 years and option exercise period over 10 years ending 2018 at an exercise price of USD 0.65 / share.
2013 Award	Deferred Annual Bonus	Select Senior Management	A portion of the annual incentive was awarded in the form of shares. In 2015, on introduction of the new share plan, the old plan was converted to a deferred cash settled incentive over a 3 years period from year of award.
2014 Award	Employee Share Purchase Plan	Covered persons in business and control functions who exceed total compensation thresholds as per CBB Remuneration Regulations and Bank's Variable Remuneration policy	Shares are released rateably over the 3 year deferral period. The issue price is determined based on a defined adjustment to market price on the date of the award. No future performance conditions or service conditions. Shares are entitled for dividends, if any, but released over the deferral period.
2015 – 2018 * Awards	Employee Share Purchase Plan & Deferred Annual Bonus		

Share incentive scheme

	2018		2017	
	No. of Shares	USD 000's	No. of Shares	USD 000's
Opening balance	35,872,407	9,568	29,430,640	3,712
Awarded during the period	10,073,642	4,502	12,504,545	6,878
Dividends	-	-	2,714,064	-
Forfeiture and other adjustments	-	-	-	-
Transfer to employees / settlement	(19,398,069)	(3,662)	(8,776,842)	(1,022)
Closing balance	26,547,980	10,408	35,872,407	9,568

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.

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25 OTHER OPERATING EXPENSES

	2018	2017
Rent	4,898	4,797
Professional and consultancy fees	6,902	3,741
Legal expenses	5,184	2,194
Board member allowance	4,831	5,556
Depreciation (note 12)	2,099	1,660
Expenses relating to non-banking subsidiaries	16,087	21,222
Other operating expenses	9,476	10,217
	49,477	49,387

26 IMPAIRMENT ALLOWANCES

	2018	2017
Bank balances	132	-
Placements with financial institutions	948	-
Financing assets (note 7)	9,398	2,085
Investment securities		
- Equity securities (note 8(b))	5,849	3,577
- Debt type securities	(265)	1,050
Investment property (note 9)	-	2,095
Lease rental receivables (note 13)	1,923	460
Other receivables (note 13)	(80)	114
Commitments and financial guarantees	(291)	-
	17,614	9,381

27 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group. A significant portion of the Group's management fees are from entities over which the Group exercises influence (assets under management). Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The transactions with these entities are based on agreed terms.

The significant related party transactions during the year and balances as at year end included in these consolidated financial statements are as follows:

Transactions	Related parties per FAS 1				Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose and other entities	
Purchase of assets	-	-	25,000	-	25,000
Purchase of investments	-	-	29,700	-	29,700
Financing obtained	-	-	4,666	-	4,666
Financing repaid	-	-	(4,709)	-	(4,709)
Subscription in projects promoted by the Group	-	-	87,100	-	87,100
Discount on subscription	-	-	8,100	-	8,100

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27 RELATED PARTY TRANSACTIONS (continued)

	Related parties per FAS 1				Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose and other entities	
2018					
Assets					
Financing assets	-	6,016	15,146	15,089	36,251
Due from financial institutions	-	-	-	100,088	100,088
Equity-accounted investees	54,829	-	-	-	54,829
Investment securities	-	-	6,058	72,467	78,525
Other assets	1,225	-	13,257	61,463	75,945
Liabilities					
Investors' funds	129	-	-	14,412	14,541
Customer current account	178	2,117	1,844	3,196	7,335
Due to financial and other institutions	-	-	249,117	-	249,117
Financing liabilities	-	-	24,797	-	24,797
Other liabilities	-	3,499	3,132	8,364	14,995
Equity of investment account holders	1,273	3,634	28,592	1,241	34,740

	Related parties per FAS 1				Total
	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose and other entities	
2018					
Income					
Investment banking income	-	-	23,500	16,600	40,100
Fee and commission income	-	-	-	2,110	2,110
Income from financing assets	-	353	989	-	1,342
Share of profit of equity-accounted investees	3,256	-	-	-	3,256
Income from investment securities, net	-	-	-	964	964
Expenses					
Finance expense	-	-	10,655	-	10,655
Staff cost *	-	9,211	-	-	9,211
Other operating expenses	-	4,536	-	156	4,692
Return to investment account holders	32	82	928	29	1,071

* The amount presented excluded bonus to key management personnel for 2018 as allocation has not been finalized at the date of approval of these consolidated financial statements.

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27 RELATED PARTY TRANSACTIONS (continued)

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

Key management personnel

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

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

The key management personnel compensation is as follows:

	2018	2017
Board members' remuneration, fees and allowance	4,536	5,475
Salaries, other short-term benefits and expenses	8,821	6,712
Post-employment benefits	390	117

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28 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US\$ 1,677 million (31 December 2017: US\$ 1,623 million). During the year, the Group had charged management fees amounting to US\$ 2,570 thousand (2017: US\$ 1,840 thousand) to its assets under management.

29 EARNINGS PER SHARE

Basic earnings per share

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

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

In thousands of shares

Weighted average number of shares for basic & diluted earnings

	2018	2017
	3,543,155	2,888,874

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share.

In case of the legacy share options granted to employees prior to 2014, as the average market value of shares during the current year was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2018. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above. The Bank does not have any other dilutive instruments.

30 ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed (net assets method) by the Bank's Shari'a Supervisory Board and notified to shareholders annually. The zakah payable by shareholders for 31 December 2018 is US\$ 0.0007665/share and the current year calculations for zakah are yet to be approved by the Group's Shari'a 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.

31 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds. The Group receives interest from deposits placed with the CBB and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amount to US\$ 48 thousand (2017: US\$ 45 thousand).

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32 SHARI'A SUPERVISORY BOARD

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

33 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation / settlement profile for assets and liabilities respectively. For undiscounted contractual maturity of financial liabilities, refer note 38.

31 December 2018	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	309,281	9,525	16,087	6,610	-	64	341,567
Placements with financial institutions	117,031	-	172,527	-	-	-	289,558
Financing assets	193,784	70,904	186,523	349,889	119,576	-	920,676
Equity-accounted investees	-	-	-	28,035	38,929	-	66,964
Investment securities	298,239	-	129,676	136,979	208,240	-	773,134
Asset acquired for leasing	12,745	9,414	18,751	91,703	155,658	-	288,271
Investment property	-	-	-	475,731	47,961	-	523,692
Development properties	-	-	-	628,168	688,150	-	1,316,318
Assets held-for-sale	-	101,213	45,928	-	-	-	147,141
Property and equipment	-	-	-	-	92,902	-	92,902
Other assets	10,143	33,687	60,988	109,372	14,952	-	229,142
Total assets	941,223	224,743	630,480	1,826,487	1,366,368	64	4,989,365
Liabilities							
Investors' funds	29,532	-	3,179	13,928	-	-	46,639
Placements from financial institutions, other entities and individuals	283,914	422,702	688,949	221,562	11,262	-	1,628,389
Customer current account	48,551	18,178	19,740	22,560	68,877	-	177,906
Financing liabilities	36,998	18,022	32,334	32,084	136,699	-	256,137
Liabilities related to assets held-for-sale	-	39,936	2,813	-	-	-	42,749
Other liabilities	54,562	26,324	34,654	402,317	-	-	517,857
Total liabilities	453,557	525,162	781,669	692,451	216,838	-	2,669,677
Equity of investment account holders	161,409	116,220	261,812	147,247	210,223	-	896,910
<i>Off-balance sheet items</i>							
Commitments	55,804	69,480	46,981	74,200	8,016	-	254,481
Restricted investment accounts	143	-	-	28,329	-	-	28,472

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33 MATURITY PROFILE (continued)

31 December 2017	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	190,863	8,520	12,788	4,210	-	64	216,445
Placements with financial institutions	92,789	-	2,780	-	-	-	95,569
Financing assets	190,800	84,438	144,589	338,208	234,467	-	992,502
Investment securities	170,979	5,288	-	305,021	40,120	-	521,408
Asset acquired for leasing	5,035	4,536	8,788	53,286	186,161	-	257,806
Investment property	-	135,500	-	427,280	53,483	-	616,263
Development properties	-	-	-	204,551	688,486	-	893,037
Equity-accounted-investees	-	-	-	53,277	28,163	-	81,440
Property and equipment	-	-	-	-	117,135	-	117,135
Other assets	143,277	14,969	32,439	118,722	9,445	-	318,852
Total assets	793,743	253,251	201,384	1,504,555	1,357,460	64	4,110,457
Liabilities							
Investors' funds	608	5,596	17,896	15,313	-	-	39,413
Placements from financial institutions, other entities and individuals	277,506	74,468	212,150	290,958	3,414	-	858,496
Customer current account	115,771	28,027	17,024	9,973	18,812	-	189,607
Financing liabilities	6,225	101,390	38,072	196,039	23,336	-	365,062
Other liabilities	20,547	13,206	56,587	165,393	-	-	255,733
Total liabilities	420,657	222,687	341,729	677,676	45,562	-	1,708,311
Equity of investment account holders	416,408	86,658	126,928	40,297	236,062	-	906,353
<i>Off-balance sheet items</i>							
Commitments	10,247	53,941	70,915	94,583	3	-	229,689
Restricted investment accounts	-	11,995	-	16,731	-	-	28,726

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34 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS**(a) Industry sector****31 December 2018****Assets**

Cash and bank balances
Placements with financial institutions
Financing assets
Investment securities
Assets acquired for leasing
Investment properties
Development properties
Equity-accounted investees
Assets held-for-sale
Property and equipment
Other assets

Total assets**Liabilities**

Investors' funds
Placements from financial institutions, other entities and individuals
Customer current accounts
Financing liabilities
Liabilities related to assets held-for-sale
Other liabilities

Total liabilities**Equity of Investment account holders****Off-balance sheet items**

Commitments
Restricted investment accounts

	Banks and financial institutions	Real estate	Others	Total
Cash and bank balances	340,374	951	242	341,567
Placements with financial institutions	189,471	100,087	-	289,558
Financing assets	29,474	152,038	739,164	920,676
Investment securities	66,212	162,199	544,723	773,134
Assets acquired for leasing	-	284,059	4,212	288,271
Investment properties	-	523,692	-	523,692
Development properties	-	1,316,318	-	1,316,318
Equity-accounted investees	33,227	17,837	15,900	66,964
Assets held-for-sale	-	-	147,141	147,141
Property and equipment	-	18,411	74,491	92,902
Other assets	28,867	125,791	74,484	229,142
Total assets	687,625	2,701,383	1,600,357	4,989,365
Investors' funds	5,694	14,397	26,548	46,639
Placements from financial institutions, other entities and individuals	901,257	6,255	720,877	1,628,389
Customer current accounts	4,177	20,775	152,954	177,906
Financing liabilities	190,989	26,628	38,520	256,137
Liabilities related to assets held-for-sale	-	-	42,749	42,749
Other liabilities	45,000	370,046	102,811	517,857
Total liabilities	1,147,117	438,101	1,084,459	2,669,677
Equity of Investment account holders	16,134	34,202	846,574	896,910
Off-balance sheet items				
Commitments	1,361	148,566	104,554	254,481
Restricted investment accounts	91	25,750	2,631	28,472

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34 Concentration of assets, liabilities and equity of investment account holders (continued)

(a) Industry sector (continued)

	Banks and financial institutions	Real estate	Others	Total
31 December 2017				
Assets				
Cash and bank balances	215,644	595	206	216,445
Placements with financial institutions	95,569	-	-	95,569
Financing assets	29,207	214,947	748,348	992,502
Investment securities	66,250	143,295	311,863	521,408
Assets acquired for leasing	-	257,626	180	257,806
Investment properties	-	616,263	-	616,263
Development properties	-	893,037	-	893,037
Equity-accounted investees	22,461	17,930	41,049	81,440
Property and equipment	-	18,194	98,941	117,135
Other assets	9,003	140,386	169,463	318,852
Total assets	438,134	2,302,273	1,370,050	4,110,457
Liabilities				
Investors' funds	3,425	30,268	5,720	39,413
Placements from financial institutions, other entities and individuals	338,621	-	519,875	858,496
Customer current accounts		28,607	161,000	189,607
Financing liabilities	202,192	124,295	38,575	365,062
Other liabilities	-	175,161	80,572	255,733
Total liabilities	544,238	358,331	805,742	1,708,311
Equity of Investment account holders	30,314	43,905	832,134	906,353
Off-balance sheet items				
Commitments	18,999	99,622	111,068	229,689
Restricted investment accounts	-	26,092	2,634	28,726

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34 Concentration of assets, liabilities and equity of investment account holders (continued)

(b) Geographic region

	GCC countries	MENA	Asia	North America	Others	Total
31 December 2018						
Assets						
Cash and bank balances	239,632	516	101	80,609	20,709	341,567
Placements with financial institutions	289,558	-	-	-	-	289,558
Financing assets	849,029	-	101	29,415	42,131	920,676
Investment securities	694,387	-	58,114	5,850	14,783	773,134
Assets acquired for leasing	288,162	-	109	-	-	288,271
Investment properties	446,692	77,000	-	-	-	523,692
Development properties	526,749	393,057	396,512	-	-	1,316,318
Assets held-for-sale	147,141	-	-	-	-	147,141
Equity-accounted investees	66,964	-	-	-	-	66,964
Property and equipment	90,704	2,198	-	-	-	92,902
Other assets	154,560	4,299	22,064	21,320	26,899	229,142
Total assets	3,793,578	477,070	477,001	137,194	104,522	4,989,365
Liabilities						
Investors' funds	32,188	521	1	13,928	-	46,639
Placements from financial institutions, other entities and individuals	1,531,898	94,021	-	2,470	-	1,628,389
Customer current accounts	176,580	-	599	-	727	177,906
Financing liabilities	256,137	-	-	-	-	256,137
Liabilities related to assets held-for-sale	42,749	-	-	-	-	42,749
Other liabilities	394,639	30,671	87,427	2,296	2,824	517,857
Total liabilities	2,434,198	125,213	88,027	18,694	3,545	2,669,677
Equity of investment account holders	889,525	-	5,918	1,467	-	896,910
Off-balance sheet items						
Commitments	253,802	-	-	-	679	254,481
Restricted investment accounts	25,838	-	2,634	-	-	28,472

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).

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34 Concentration of assets, liabilities and equity of investment account holders (continued)

(b) Geography sector (continued)

31 December 2017

	GCC countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	166,645	601	27	-	49,172	216,445
Placements with financial institutions	95,569	-	-	-	-	95,569
Financing assets	910,568	-	95	29,237	52,602	992,502
Investment securities	437,814	103	65,191	8,475	9,825	521,408
Assets acquired for leasing	257,806	-	-	-	-	257,806
Investment properties	403,763	77,000	-	-	135,500	616,263
Development properties	102,474	395,565	394,998	-	-	893,037
Equity-accounted investees	81,440	-	-	-	-	81,440
Property and equipment	114,853	2,282	-	-	-	117,135
Other assets	166,157	817	8,462	23,734	119,682	318,852
Total assets	2,737,089	476,368	468,773	61,446	366,781	4,110,457
Liabilities						
Investors' funds	23,580	520	-	15,313	-	39,413
Placements from financial institutions, other entities and individuals	771,894	86,602	-	-	-	858,496
Customer current accounts	169,710	-	1,539	-	18,358	189,607
Financing liabilities	256,375	14,787	-	-	93,900	365,062
Other liabilities	165,454	22,086	60,500	7,693	-	255,733
Total liabilities	1,387,013	123,995	62,039	23,006	112,258	1,708,311
Equity of investment account holders	891,690	-	6,591	-	8,072	906,353
Off-balance sheet items						
Commitments	215,460	10,930	-	-	3,299	229,689
Restricted investment accounts	26,118	-	-	-	2,634	28,752

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35 OPERATING SEGMENTS

The Group has three distinct operating segments, Real Estate Development, Investment Banking 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 34(b) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

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35 OPERATING SEGMENTS (continued)

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

	Real estate development	Investment banking	Commercial banking	Unallocated / Elimination	Total
31 December 2018					
Segment revenue	102,812	68,370	55,350	23,220	249,752
Segment expenses (including impairment allowances)	(16,124)	(37,888)	(49,641)	(31,050)	(134,703)
Segment result *	86,688	30,482	5,709	(7,830)	115,049
Segment assets	2,035,664	686,688	2,246,159	20,854	4,989,365
Segment liabilities	1,238,147	558,787	817,529	55,214	2,669,677
<i>Other segment information</i>					
Finance expense	29,338	9,896	23,049	302	62,585
Impairment allowance	-	-	(16,679)	(935)	(17,614)
Equity accounted investees	5,702	49,127	12,135	-	66,964
Equity of investment account holders	-	-	896,320	590	896,910
Commitments	114,314	-	122,167	18,000	254,481

* Includes segment result of discontinued operations, net.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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US\$ 000's

35 OPERATING SEGMENTS (continued)

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

*Includes segment result of discontinued operations, net.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018**

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36 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 2018 and 31 December 2017, 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\$ 180,724 thousand (31 December 2017: US\$ 185,775 thousand) (note 8), the estimated fair values of the Group's other financial assets are not significantly different from their book values as at 31 December 2017.

Investments amounting to US\$ 180,724 thousand (31 December 2017: US\$ 185,775 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 2018, the fair value of financing liabilities was estimated at US\$ 365,062 thousand (carrying value US\$ 365,062 thousand) (31 December 2017: fair value US\$ 159,545 thousand (carrying value US\$ 159,545 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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

US\$ 000's

36 FINANCIAL INSTRUMENTS (continued)

b) FAIR VALUE HIERARCHY (continued)

31 December 2018	Level 1	Level 2	Level 3	Total
Equity securities carried at fair value through:				
- income statement	-	-	34,875	34,875
- equity	26,319	-	-	26,319
Debt securities carried at fair value through income statement	100,527	-	-	100,527
	126,846	-	34,875	161,721

31 December 2017	Level 1	Level 2	Level 3	Total
Equity securities carried at fair value through:				
- income statement	-	-	34,875	34,875
- equity	103	-	-	103
	103	-	34,875	34,978

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

	2018	2017
At 1 January	34,875	42,153
De-recognized on loss of control	-	(1,973)
Total gains / (losses) in income statement	-	(5,305)
At 31 December	34,875	34,875

37 COMMITMENTS AND CONTINGENCIES

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

	31 December 2018	31 December 2017
Undrawn commitments to extend finance	88,045	129,302
Financial guarantees	34,122	73,960
Capital commitments for infrastructure development projects	55,407	20,000
Purchase commitments for investment in real estate	58,907	-
Commitment to invest	-	6,427
Commitment to lend	18,000	-
	254,481	229,689

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 as at 31 December 2018 due to the performance of any of its projects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

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37 COMMITMENTS AND CONTINGENCIES (continued)*Litigations and claims*

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

38 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 4.

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**for the year ended 31 December 2018**

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38 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Exposures subject to credit risk

31 December 2018

Placements with financial institutions

	Stage 1	Stage 2	Stage 3	Total
Grade 8 -10 Impaired	24,358	-	-	24,358
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	266,153	-	-	266,153
Gross carrying amount	290,511	-	-	290,511
Less expected credit losses	(953)	-	-	(953)
Net carrying amount	289,558	-	-	289,558

Financing facilities

Grade 8 -10 Impaired	2,841	186	199,281	202,308
Past due but not impaired				
Grade 1-6 Low-Fair Risk	74,690	28,467	8,883	112,040
Grade 7 Watch list	37	40,857	-	40,894
<u>Past due comprises:</u>				
Up to 30 days	72,380	42,086	-	114,466
30-60 days	2,347	4,623	-	6,970
60-90 days	-	22,615	8,883	31,498
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	568,848	49,944	-	618,792
Grade 7 Watch list	369	8,873	-	9,242
Gross carrying amount	646,785	128,327	208,164	983,276
Less expected credit losses	(12,631)	(9,801)	(40,168)	(62,600)
Net carrying amount	634,154	118,526	167,996	920,676

Assets acquired for leasing (including lease rentals receivables)

Grade 8 -10 Impaired	-	838	49,371	50,209
Past due but not impaired				
Grade 1-6 Low-Fair Risk	34,456	6,334	-	40,790
Grade 7 Watch list	-	10,202	-	10,202
<u>Past due comprises:</u>				
Up to 30 days	32,393	5,112	-	37,505
30-60 days	2,064	8,560	-	10,624
60-90 days	-	2,865	-	2,865

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	188,044	5,414	-	193,458
Grade 7 Watch list	-	127	-	127
Gross carrying amount	222,500	22,915	49,371	294,786
Less expected credit losses	(281)	(369)	(5,865)	(6,515)
Net carrying amount	222,219	22,546	43,506	288,271
Other assets				
Grade 8 -10 Impaired	-	-	-	-
Past due but not impaired				
Grade 1-6 Low-Fair Risk	17,930	-	-	17,930
<u>Past due comprises:</u>				
60-90 days	17,930	-	-	17,930
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	136,207	-	-	136,207
Gross carrying amount	154,137	-	-	154,137
Less: expected credit losses	(236)	-	-	(236)
Net carrying amount	153,901	-	-	153,901
Investment in Sukuk				
Sovereign	333,548	-	-	333,548
Non-investment grade	-	-	3,493	3,493
Investment grade	94,375	-	-	94,375
Gross carrying amount	427,923	-	3,493	431,416
Less: expected credit losses	(8)	-	(3,493)	(3,501)
Net carrying amount	427,915	-	-	427,915
Balances with banks				
Grade 1-6 Low-Fair Risk	320,092	-	-	320,092
Gross carrying amount	320,092	-	-	320,092
Less: expected credit losses	(134)	-	-	(134)
Net carrying amount	319,958	-	-	319,958

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2018

Commitments and financial guarantees

Grade 8 -10 Impaired

Grade 1-6 Low-Fair Risk

Grade 7 Watch list

Gross carrying amount (note 37)

Less: expected credit losses

Net carrying amount

	Stage 1	Stage 2	Stage 3	Total
Grade 8 -10 Impaired	-	-	4,429	4,429
Grade 1-6 Low-Fair Risk	243,012	7,000	-	250,012
Grade 7 Watch list	-	40	-	40
Gross carrying amount (note 37)	243,012	7,040	4,429	254,481
Less: expected credit losses	(531)	(223)	(318)	(1,072)
Net carrying amount	242,481	6,817	4,111	253,409

Total net carrying amount

2,290,186	147,889	215,613	2,653,688
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31 December 2017

Neither past due nor
impaired - Carrying amount

Impaired

Gross amount

Allowance for impairment

Impaired- Carrying amount

Past due but not impaired –
carrying amount

Less : Collective impairment

Total – carrying amount

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

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38 FINANCIAL RISK MANAGEMENT (continued)**a) Credit risk (continued)****Significant increase in credit risk**

When determining whether the risk of default on an exposure subject to credit risk has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

- 1 Downgrade in risk rating according to the approved ECL policy;
- 2 Facilities restructured during previous twelve months;
- 3 Qualitative indicators; and
- 4 Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances

Credit risk grades

The Group allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Exposers are rated 1 to 10 with 1 to being good and 7 being watch list and 8, 9 and 10 default grades. The monitoring typically involves use of the following data.

Corporate exposures

- Information obtained during periodic review of customer files- e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Data from credit reference agencies, press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

Retail exposures

- Internally collected data on customer behaviour -e.g. utilisation of credit card facilities
- Affordability metrics
- External data from credit reference agencies including industry-standard credit scores

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

US\$ 000's

*38 FINANCIAL RISK MANAGEMENT (continued)**a) Credit risk (continued)***All exposures**

- Payment record this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions. The analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Qualitative indicators, including different criteria used for different portfolios credit cards, commercial real estate etc.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

US\$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)**a) Credit risk (continued)**

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Definition of default

The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material obligation to the Group.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information. The Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2018 included the key indicators for the selected countries such as the unemployment rates, interest rates and the GDP growth.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

US\$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)**a) Credit risk (continued)****Modified exposures subject to credit risk**

The contractual terms of an exposure subject to credit risk may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance of financing assets is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default (refer note 4). A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

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*38 FINANCIAL RISK MANAGEMENT (continued)**a) Credit risk (continued)*

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financing assets secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2018
Balance at 1 January	7,902	27,950	31,548	67,400
Transfer to 12-month ECL	8,456	(8,186)	(270)	-
Transfer to lifetime ECL non-credit-impaired	(838)	1,056	(218)	-
Transfer to lifetime ECL credit-impaired	(607)	(6,534)	7,141	-
Net re-measurement of loss allowance	(137)	(3,894)	15,796	11,765
Write-off	-	-	(4,154)	(4,154)
Balance at 31 December	14,776	10,392	49,843	75,011

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US\$ 000's

*38 FINANCIAL RISK MANAGEMENT (continued)**a) Credit risk (continued)*

Break down of ECL by category of assets in the consolidated statement of financial position and off-balance sheet commitments:

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total 2018
Balances with banks	134	-	-	134
Placements with financial institutions	953	-	-	953
Financing assets	12,631	9,801	40,168	62,600
Assets acquired for leasing and lease rentals receivables	281	369	5,865	6,515
Investment in sukuk	8	-	3,493	3,501
Other financial assets	236	-	-	236
Financing commitments and financial guarantees	531	223	318	1,072
Balance at 31 December	14,774	10,393	49,844	75,011

Renegotiated facilities

During the year, facilities of US\$ 44,817 thousands (2017: BD 66,737 thousand) were renegotiated, out of which US\$ 23,358 thousand (2017: US\$ 5,305 thousand) are classified as neither past due nor impaired as of 31 December 2018. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of US\$ 379,031 thousand (2017: US\$ 310,790 thousand) only instalments of US\$ 104,161 thousand (2017: US\$ 35,416 thousand) are past due as at 31 December 2018.

Allowances for impairment

The Group makes provisions for impairment on individual assets classified under grades 8,9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Bank has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Non-accrual basis

The Group classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognized in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. During the year, the Bank has written off financing facilities amounting to US\$ nil (2017: US\$ 35,088 thousand) which were fully impaired. The Bank has recovered US\$ 698 thousand from a financing facility written off in previous years (2017: US\$ 268 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Collaterals

The Group holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/ pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. 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.

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 34 (a) and (b).

	As at 31 December 2018			As at 31 December 2017		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
<u>Against impaired</u>						
Property	107,350	43,997	151,347	75,717	15,501	91,218
Other	5,817	-	5,817	5,769	-	5,769
<u>Against past due but not impaired</u>						
Property	56,756	51,013	107,769	54,610	56,838	111,448
Other	7,769	-	7,769	13,745	-	13,745
<u>Against neither past due nor impaired</u>						
Property	232,459	219,310	451,769	257,223	208,422	465,645
Other	32,934	-	32,934	67,814	53	67,867
Total	443,085	314,320	757,405	474,878	280,814	755,692

The average collateral coverage ratio on secured facilities is 136.05% as at 31 December 2018 (31 December 2017: 126.86%).

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38 FINANCIAL RISK MANAGEMENT (continued)**a) Credit risk (continued)**

An analysis of concentrations of credit risk of the commercial banking business at the reporting date is shown below: needs to include columns for "Sukuk" and bank balances and "placements with FIs"

Concentration by Sector	As at 31 December 2018			As at 31 December 2017		
	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Banking and finance	27,475	-	27,475	29,207	-	29,207
Real estate	181,453	284,059	465,511	157,666	280,411	438,077
Construction	145,366	-	145,366	95,271	-	95,271
Trading	206,920	-	206,920	240,560	-	240,560
Manufacturing	36,817	-	36,817	119,602	-	119,602
Others	322,645	4,212	326,857	350,196	180	350,376
Total carrying amount	920,676	288,271	1,208,947	992,502	280,591	1,273,093

b) Liquidity risk

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

Management of liquidity risk

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

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

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

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 33 for the expected maturity profile of assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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38 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

	Gross undiscounted cash flows						Carrying amount
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	
31 December 2018							
Financial liabilities							
Investors' funds	32,710	-	-	13,929	-	46,639	46,639
Placements from financial institutions, other entities and individuals	289,948	431,520	713,760	233,801	7,677	1,676,706	1,628,389
Customer current accounts	48,550	18,178	19,740	22,560	68,878	177,906	177,906
Financing liabilities	37,689	20,805	156,137	37,368	24,950	276,949	256,137
Liabilities related to assets held-for-sale	-	39,936	2,813	-	-	42,749	42,749
Other liabilities	54,563	26,323	34,654	402,317	-	517,857	517,857
Total liabilities	463,460	536,762	927,104	709,975	101,505	2,738,806	2,669,677
Equity of investment account holders							
Commitment and contingencies	166,362	119,361	268,888	151,227	215,905	921,743	896,910
	55,804	69,480	46,981	74,200	8,016	254,481	254,481

To manage the liquidity risk arising from financial liabilities, the Group aims to hold liquid assets comprising cash and cash equivalents, investment in managed funds and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Further, the Group is focussed on developing a pipeline of steady revenues and has undertaken cost reduction exercises that would improve its operating cash flows.

	Gross undiscounted cash flows						Carrying amount
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	
31 December 2017							
Financial liabilities							
Investors' funds	4,018	5,596	14,486	15,313	-	39,413	39,413
Placements from financial institutions, other entities and individuals	297,652	176,701	187,041	227,080	3,484	891,958	858,496
Customer current accounts	115,771	28,027	17,024	9,973	18,812	189,607	189,607
Financing liabilities	7,401	8,622	152,783	193,773	27,975	390,554	365,062
Other liabilities	20,547	13,206	56,587	165,393	-	255,733	255,733
Total liabilities	445,389	232,152	427,921	611,532	50,271	1,767,265	1,708,311
Equity of investment account holders							
Commitment and contingencies	416,408	86,658	126,928	40,297	236,062	906,353	906,353
	10,247	53,941	70,915	94,583	3	229,689	229,689

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

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38 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Measures of liquidity

Liquidity is managed at an entity level and is not a Group wide measure. The Bank follows certain internal measures of liquidity. These metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for the Group. These are liquidity coverage ratio, net stable funding ratio and stock of liquid assets.

For this purpose, the liquidity coverage ratio is based on an internally defined management criteria which identifies the amount of liquid assets (including inter- bank placements) the Bank holds that can be used to offset the net cash outflows for 30, 60 and 90 days time horizon. The net stable funding ratio measures the amount of long-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

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

	Liquid asset / Total asset	
	2018	2017
At 31 December	17.61%	7.59%
Average for the year	9.71%	9.56%
Maximum for the year	17.61%	10.76%
Minimum for the year	5.53%	7.59%

c) **Market risks**

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

Management of market risks

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

Exposure to profit rate risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

US\$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

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

31 December 2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Placements with financial institutions	117,031	-	172,527	-	-	289,558
Financing assets	108,437	24,788	98,300	208,239	480,912	920,676
Investment securities (Sukuk)	-	-	-	43,042	384,873	427,915
Assets acquired for leasing (including lease rental receivable)	40	19	610	19,968	267,634	288,271
Total assets	225,508	24,807	271,437	271,249	1,133,419	1,926,420
Liabilities						
Investors' funds	32,710	-	-	13,928	-	46,639
Placements from financial institutions, other entities and individuals	529,953	377,891	671,463	45,298	3,784	1,628,389
Financing liabilities	36,998	18,022	142,034	32,084	26,999	256,137
Total liabilities	599,661	395,913	813,497	91,310	30,783	1,931,166
Equity of investment account holders	409,431	193,905	239,707	53,867	-	896,910
Profit rate sensitivity gap	(783,585)	(565,011)	(781,767)	126,072	1,102,636	(901,655)

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for the year ended 31 December 2018

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38 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

31 December 2017	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Placements with financial institutions	92,789	-	2,780	-	-	95,569
Financing assets	135,862	33,560	142,900	199,650	480,530	992,502
Investment securities (Sukuk)	-	-	753	390	299,512	300,655
Assets acquired for leasing (including lease rental receivable)	-	18	-	20,629	259,944	280,591
Total assets	228,651	33,578	146,433	220,669	1,039,986	1,669,317
Liabilities						
Investors' funds	4,018	5,596	14,486	15,313	-	39,413
Placements from financial institutions, other entities and individuals	280,721	70,675	204,100	303,000	-	858,496
Financing liabilities	6,225	101,390	38,072	196,039	23,336	365,062
Total liabilities	290,964	177,661	256,658	514,352	23,336	1,262,971
Equity of investment account holders	506,975	176,549	186,280	36,546	3	906,353
Profit rate sensitivity gap	(569,288)	(320,632)	(296,505)	(330,229)	1,016,647	(500,007)

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

100 bps parallel increase / (decrease)

At 31 December
Average for the year
Maximum for the year
Minimum for the year

	2018	2017
	±9,017	±5,250
	±4,340	±3,511
	±11,495	±5,250
	±7,975	±73

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

US\$ '000's

*38 FINANCIAL RISK MANAGEMENT (continued)**c) Market risk (continued)*

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

	2018	2017
Placements with financial institutions	3.22%	1.87%
Financing assets	5.96%	6.12%
Debt type investments	5.24%	5.20%
Placements from financial institutions, other entities and individuals	6.22%	2.60%
Financing liabilities	3.61%	4.58%
Equity of investment account holders	6.15%	2.07%

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:

	2018 US\$ '000 Equivalent	2017 US\$ '000 Equivalent
Sterling Pounds	(1,715)	1,416
Euro	(1,020)	(220)
Australian dollars	12,273	4,607
Kuwaiti dinar	227,797	16,842
Jordanian Dinar	6	6
Moroccan Dirham	11,478	5,576
Tunisian Dinar	191,170	171,763
Indian rupee	253,749	253,838
Other GCC Currencies (*)	(597,608)	(51,540)

(*) 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:

	2018 US\$ '000 Equivalent	2017 US\$ '000 Equivalent
Sterling Pounds	±86	±494
Euros	±51	±36
Australian dollar	±614	±611
Kuwaiti dinar	±11,390	±1,134
Jordanian Dinar	±0.32	±0.32
Moroccan Dirham	±574	±279
Tunisian Dinar	±9,559	±8,588
Indian rupee	±12,687	±1.19

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for the year ended 31 December 2018**

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38 FINANCIAL RISK MANAGEMENT (continued)**c) Market risk (continued)****Exposure to other market risks**

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. The Group's equity type instruments carried at cost are exposed to risk of changes in equity values. The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 5(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.

39 CAPITAL MANAGEMENT

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2018**

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39 CAPITAL MANAGEMENT (continued)

- *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.

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:

	2018	2017
Total risk weighted exposures	7,370,110	7,911,983
CET 1	1,169,103	1,340,550
AT1	9,468	7,304
Tier 1 capital	1,178,571	1,347,854
Tier 2 capital	35,202	27,096
Total regulatory capital	1,213,773	1,374,950
Total regulatory capital expressed as a percentage of total risk weighted assets	16.47%	17.36%

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.

40 COMPARATIVES

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