RISK AND CAPITAL MANAGEMENT

DISCLOSURES

These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports and PD-3.1.6 Semi-annual Disclosures, CBB Rule Book, Volume II for Islamic Banks. This document should be read in conjunction with the condensed consolidated interim financial information for the six months period ended 30 June 2018 and the qualitative disclosures in the annual report for the year ended 31 December 2017. Information already included in the condensed consolidated financial information are not repeated.

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1 Executive summary

The Central Bank of Bahrain's ("CBB") Basel 3 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2015. These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports of the CBB Rule Book, Volume II for Islamic Banks and Section PD-3.1.6: Publication of reviewed (Unaudited) quarterly financial statements for locally incorporated banks. Section PD-1.3 reflect the requirements of Basel 2 - Pillar 3 and the Islamic Financial Services Board's ("IFSB") recommended disclosures for Islamic banks and PD 3.1.6 highlights the requirement to make quantitative disclosures described in PD-1.3 on their web site along with the half yearly financial statements.

GFH Financial Group ("GFH/ the Bank") was incorporated in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136. The Bank operates as an Islamic Wholesale Investment Bank under a license granted by the Central Bank of Bahrain ("CBB"). The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association

The condensed consolidated interim financial information for the six months period comprise of financial statements of the Bank and its subsidiaries (together referred to as "the Group") as at 30 June 2018. This document should be read in conjunction with the condensed consolidated interim financial information as at 30 June 2018 as certain disclosures which have made in the condensed consolidated interim financial information as at 30 June 2018 have not been reproduced in this document. The Group's financial statements are prepared and published on a full consolidation basis, with all material subsidiaries being consolidated in accordance with AAOIFI.

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

As at 30 June 2018 the Group's total capital ratio stood at a healthy 22.25%.

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

The Group's total risk weighted assets as at 30 June 2018 amounted to USD 5,583,360 thousand. Credit risk accounted for 95 percent, operational risk 4 percent, and market risk 1 percent of the total risk weighted assets respectively. Tier I and total regulatory capital were USD 1,203,503 thousand and USD 1,242,407 thousand respectively, as at 30 June 2018.

At 30 June 2018, Group's CET1 and T1 capital and total capital adequacy ratios were 21.39%, 21.56% and 22.25% respectively.

2 Group Structure

The principal material subsidiaries and associates as at 30 June 2018 and their treatment for consolidated capital adequacy purposes are as follows:

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

IT & Telecom Technology Investment Company (together "India Projects")		
Gulf Holding Company KSC ©	Commercial entity	Risk weighting of investment exposure

Associates	**Entity classification as per PCD Module for consolidated capital adequacy**	**Treatment by the Bank for Consolidated and Solo basis**
Bahrain Aluminium Extrusion Company BSC (c)	Commercial entity	Risk weighting of investment exposure
Falcon Cement Company BSC (c)	Commercial entity	Risk weighting of investment exposure
Global Banking Corporation BSC (c) ('GBCorp') [ii]	Financial entity	Regulatory adjustment (deduction from capital) [ii]
Enshaa Development Real Estate BSC (c)	Commercial entity	Risk weighting of investment exposure
Capital Real Estate Projects BSC (c)	Commercial entity	Risk weighting of investment exposure

[i] These are pass-through entities and hence the underlying assets are risk weighted.

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

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

The Central Bank of Bahrain, vide its letter dated 11 July 2018 has continued the exemption to GFH Financial Group (granted earlier vide letter dated 20 June 2017) from including the assets acquired via recovery and via the shares swap as part of the Large Exposure and Connected Counterparty limits.

KHCB, a banking subsidiary of the Bank, is a locally incorporated commercial bank and the specific quantitative and qualitative disclosures pertaining to all the risks of KHCB have been disclosed in the Pillar III Disclosures of KHCB for June 2018, which can be accessed through the following link [**http://www.khcbonline.com/en/InvestorRelations/financial-reports.] This document provides the risk and capital management disclosures of the GFH. The KHCB specific disclosures and requirements that are disclosed in the disclosures of KHCB have not been reproduced in this document.**

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

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

<u>Composition of Capital disclosure - As at 30 June 2018</u>

Statement of financial position under the regulatory scope of consolidation and reconciliation of published financial statements to regulatory reporting as at 30 June 2018.

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

USD 000's

As at 30 June 2018	Balance sheet as in published financial statements	Consolidated PIRI data	Reference
ASSETS			
Cash and bank balance	171,456	168,307	
Placement with financial institutions	67,879	67,879	
Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30	*(5)*	*(5)*	A
Financing assets	961,235	961,235	
Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30	*(21,077)*	*(21,077)*	A
Investment securities	571,444	1,067,275	
Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30	*(8)*	*(8)*	A
Of which significant investments in financial entities	*18,000*	*18,000*	C
Of which insignificant investments in financial entities	*40,896*	*40,896*	B
Assets acquired for leasing	264,989	264,989	
Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30	*(4,554)*	*(4,554)*	A
Investment properties	525,853	485,480	
Development properties	1,272,620	257,274	
Equity-accounted investees	85,441	85,441	
Of which equity investments in financial entities	*22,909*	*22,909*	C
Property, plant and equipment	113,630	22,536	
Other assets	295,662	208,903	
Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30	*(347)*	*(347)*	A
Total assets	**4,330,209**	**3,589,319**	
LIABILITIES			
Investors' fund	27,072	27,072	
Placements from financial institutions, other entities and individuals	947,184	947,184	
Customer current accounts	165,751	165,751	
Financing liabilities	471,447	245,327	

Other liabilities	440,894	133,026	
Total liabilities	**2,052,348**	**1,518,360**	
Equity of investment account holders	**832,116**	**832,116**	
OWNERS' EQUITY			
Share capital	975,638	975,638	D
Treasury shares	(50,815)	(50,815)	E
Statutory reserve	102,863	102,863	F
Retained earnings	93,897	188,431	
Investment fair value reserve	3,342	3,342	I
Share grant reserve	1,115	1,115	I
Foreign currency translation reserve	(11,866)	-	I
Total equity attributable to shareholders of the Bank	**1,114,174**	**1,126,040**	
Non-controlling interests	331,571	112,803	
Total owners' equity	**1,445,745**	**1,238,843**	
Total liabilities, equity of investment account holders and owners' equity	**4,330,209**	**3,589,319**	

The table below shows the total assets and shareholders' equity of the Bank's subsidiaries as at 30 June 2018 which are unconsolidated for capital adequacy calculation purposes.

Entity name	**Principal activities**	**Total Assets* USD'000**	**Total Shareholders' equity * USD'000**
Morocco Gateway Investment Company	Real estate development	75,049	37,220
Al Areen Hotels SPC	Hospitality management	98,623	179,442
Al Areen Leisure and Tourism Company – The Lost Paradise of Dilmun SPC	Amusement and theme park	35,533	48,348
Energy City Navi Mumbai & Mumbai IT Technology Company	Real estate development	384,995	57,141
Tunis Bay Investment Company	Real estate development	108,567	37,220
Gulf Holding Company	Real estate development	455,532	13,073

**The numbers disclosed are before considering intercompany eliminations.*

Composition of Capital Common Template (transition)

USD 000's

	Component of regulatory capital reported by bank	Amounts subject to pre-2015 treatment	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1): instruments and reserves			
Directly issued qualifying common share capital plus related stock surplus	975,637	-	D
Statutory reserves	102,863	-	F
Retained earnings	93,897	-	
Accumulated other comprehensive income and losses (and other reserves)	4,457	-	I
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	67,995	-	
Common Equity Tier 1 capital before regulatory adjustments	**1,244,849**		
Common Equity Tier 1 capital: regulatory adjustments			
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(50,815)	-	E
Total regulatory adjustments to Common equity Tier 1	**-**	-	
Common equity Tier 1 capital (CET 1)	**1,194,034**		
Additional Tier 1 capital: instruments			
Instrument issued by banking subsidiaries to third parties	9,470	-	
Additional Tier 1 capital (AT1)	**9,470**		
Tier 1 capital (T1 = CET1 + AT1)	**1,203,504**		
Tier 2 capital: instruments and provisions			
Instruments issued by banking subsidiaries to third parties	14,394	-	
Expected Credit Losses (ECL) Stage 1 & 2	24,510	-	A
Tier 2 capital before regulatory adjustments	**38,904**		
Tier 2 capital: regulatory adjustments			
Total regulatory adjustments to Tier 2 capital	-	-	
Total Tier 2 capital (T2)	**-**	-	
Total capital (TC = T1+T2)	**1,242,408**		
Total risk weighted assets	**5,583,360**		
Capital ratios and buffers			
Common Equity Tier 1 (CET1) (as a percentage of risk weighted assets)	**21.39%**		
Tier 1 (T1) (as a percentage of risk weighted assets)	**21.56%**		
Total capital (as a percentage of risk weighted assets)	**22.25%**		

	Component of regulatory capital reported by bank	Amounts subject to pre-2015 treatment	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
National minima including CCB (if different from Basel III)			
CBB Common Equity Tier 1 minimum ratio	9.00%		
CBB Tier 1 minimum ratio	10.50%		
CBB total capital minimum ratio	12.50%		
Amounts below the thresholds for deduction (before risk weighting)			
Non-significant investments in the capital of other financial entities	1,700	*39,196*	b
Significant investment in common stock of financial entities	40,909		c
Applicable caps on the inclusion of provisions in Tier 2			
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap) - Expected Credit Losses (ECL) Stage 1 & 2	24,510		a

Disclosure template for main features of regulatory capital instruments		
1	Issuer	GFH Financial Group BSC (c)
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GFH *(DFM)* GFH *(BHSE)* GFH *(KSE)*
3	Governing law(s) of the instrument Regulatory treatment	All applicable laws and regulations in the Kingdom of Bahrain.
4	Transitional CBB rules	NA
5	Post-transitional CBB rules	NA
6	Eligible at solo/group/group & solo	Yes
7	Instrument type (types to be specified by each jurisdiction)	Common shares
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	USD 976 million
9	Par value of instrument	USD 0.265
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1999
12	Perpetual or dated	NA
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable Coupons / dividends	NA
17	Dividends	Dividends as decided by the shareholders
18	Coupon rate and any related index	NA

19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA

3 Capital structure and capital adequacy ratio

The Bank's regulator CBB sets and monitors capital requirements for the Bank as a whole (i.e. at a consolidated level). The banks are required to maintain minimum capital adequacy ratio of 12.5% on a consolidated basis [i.e. CET1 – 6.5%, AT1-1.5%, Tier 2 – 2% and CCB – 2.5%] and a capital adequacy ratio of 8% on a solo basis [i.e. CET1 – 4.5%, AT1 – 1.5% and Tier 2 – 2%].

The risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

For calculation of risk weighted assets the Group has adopted the standardised approach to credit and market risk and basic indicator approach for operational risk under the revised framework.

The Bank's regulatory capital position at 30 June 2018 was as follows:

USD 000's

Eligible Capital	**30 June 2018**
Common Equity Tier 1 (CET 1)	
Issue and fully paid ordinary shares	975,637
Treasury shares	(50,815)
Statutory reserve	102,863
Retained earnings	21,392
Current interim cumulative net profit	72,505
Accumulated other comprehensive income and losses (and other reserves)	4,457
Total CET1 capital before minority interest	**1,126,039**
Total minority interest in banking subsidiaries given recognition in CET1 capital	67,995
Total CET 1 capital prior to regulatory adjustments	**1,194,034**
Less: Investment in own shares	-
Total Common Equity Tier 1 capital after to the regulatory adjustments	**1,194,034**
Other capital (AT1 & T2)	
Instruments issued by banking subsidiaries to third parties	
- AT1	9,470
Total Tier 1 Capital	**1,203,504**
Instruments issued by banking subsidiaries to third parties	
- T2	14,394
- Expected Credit Losses (ECL) Stages 1 & 2	24,510
Total Capital	**1,242,408**

USD 000's

Risk weighted exposures	**30 June 2018**
Credit risk:	
- Self-financed assets	5,146,925
- Assets financed by EIAH (30%)	132,536
Market risk	53,715
Operational risk	250,189
Total Risk weighted exposures	**5,583,365**

CET1	**21.39%**
T1	**21.56%**
Total Capital Adequacy ratio (Total Capital)	**22.25%**

The Bank's paid up capital consists only of one class of shares with voting rights.

4 Credit risk

4.1 Capital requirements for credit risk

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

Rating of exposures and risk weighting

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

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

Following is the analysis for credit risk as computed for regulatory capital adequacy purposes: *USD 000's*

Asset categories for credit risk	Gross credit exposures	Average risk weights	Total credit risk weighted exposure
Self financed assets			
Cash items	35,230	0%	-
Total claims on sovereigns	20,069	0%	-
Standard Risk Weights for Claims on Banks	36,703	20%-50%	16,617
Preferential Risk Weight for Claims on Locally Incorporated Banks	21,384	20%	4,277
Short-term Claims on Banks	535	20% - 50%	109
Claims on Corporates including Takaful Companies and Category 3 Investment Firms (Unsecured portion after Credit Risk Mitigant)	673,614	100%	673,614
Past Due Facilities	181,622	100% - 150%	252,154
Investments in Securities and Sukuk	284,069	150% - 250%	455,553
Holdings of Real Estate	1,303,151	100% - 400%	3,707,720
Others Assets	36,882	100%	36,882
Total self financed assets (A)	**2,593,259**	**159%**	**5,146,926**
Total regulatory capital required (A x 12.5%)		**12.5%**	**643,366**
Financed by EIAH			
Total claims on sovereigns	296,215	0%	-
Total Claims on PSEs	76,626	20%-100%	39,667
Standard Risk Weights for Claims on Banks	54,385	20% - 100%	31,983
Preferential Risk Weight for Claims on Locally Incorporated Banks	50,030	20%	10,006
Claims on Corporates including Takaful Companies and Category 3 Investment Firms (Unsecured portion after Credit Risk Mitigant)	360,130	100%	360,130
Total financed by EIAH (B)	**837,386**	**49%**	**441,786**
Considered for credit risk (C) = (B x 30%)		**30%**	**132,536**
Total regulatory capital required (C x 12.5%)		**12.5%**	**16,567**
TOTAL GROSS CREDIT EXPOSURES	**3,430,644**	**-**	**-**
TOTAL RISK WEIGHTED EXPOSURE	**-**	**-**	**5,279,462**
TOTAL REGULATORY CAPITAL REQUIRED			**659,933**

4.2 Quantitative information on credit risk

4.2.1 Gross and average credit exposure

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

USD 000's

	Average [1] Exposure	**Gross Exposure**		
		Self – Financed	**Financed by EIAH**	**Total**
Bank balances	182,688	87,427	84,029	171,456
Placements with financial institutions	96,452	-	67,879	67,879
Financing assets	945,181	567,055	394,180	961,235
Investment securities	553,671	247,370	324,074	571,444
Assets acquired-for-leasing	265,862	264,989	-	264,989
Investment properties	568,877	525,853	-	525,853
Development properties	1,088,574	1,272,620	-	1,272,620
Equity-accounted investees	85,168	85,441	-	85,441
Property, plant and equipment	115,503	113,630	-	113,630
Other assets	249,593	295,662	-	295,662
Total funded Credit Exposure	**4,151,569**	**3,460,047**	**870,162**	**4,330,209**
Financial guarantees	56,697	53,988	-	53,988
Commitments	90,798	87,584	-	87,584
Undrawn commitments to extend finance	97,091	87,239	-	87,239
Total unfunded Credit Exposure	**244,586**	**228,811**	**-**	**228,811**

[1] Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis for six months period ended 30 June 2018. Assets funded by EIAH are geographically classified in GCC countries, and are placed with Banks and financial institutions having maturity profile of up to 3 months.

4.2.2 Credit exposure by geography

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

USD 000's

	GCC countries	MENA	Asia	Others	Total
Assets					
Bank balances	134,236	1,402	27	35,791	171,456
Placements with financial institutions	67,879	-	-	-	67,879
Financing assets	883,999	-	95	77,140	961,235
Investment securities	493,035	103	60,406	17,900	571,444
Assets acquired for leasing	464,880	-	109	-	264,989
Investment properties	448,853	77,000	-	-	525,853
Development properties	532,153	396,038	344,429	-	1,272,620
Equity-accounted investees	85,441	-	-	-	85,441
Property, plant and equipment	111,130	2,500	-	-	113,630
Other assets	193,702	135	46,442	55,383	295,662
Total	**3,215,308**	**477,178**	**451,508**	**176,483**	**4,330,209**
Off-Balance sheet					
Restricted investment accounts	26,119	-	-	2,633	28,752
Commitments	86,934	650	-	-	87,584
Financial guarantees	43,438	10,550	-	-	53,988
Undrawn financing facilities	87,239	-	-	-	87,239

4.2.3 Credit exposure by sector

The classification of credit exposure by industry was as follows:

USD 000's

	Banks and financial institutions	Development Infrastructure	Others	Total
Assets				
Bank balances	168,308	2,941	207	171,456
Placements with financial institutions	67,879	-	-	67,879
Financing assets	29,177	263,740	668,318	961,235
Investment securities	34,893	142,589	393,962	571,444
Assets acquired for leasing	-	264,822	167	264,989
Investment properties	-	525,853	-	525,853
Development properties	-	1,272,620	-	1,272,620
Equity-accounted investees	22,909	17,885	44,647	85,441
Property, plant and equipment	-	18,503	95,127	113,630
Other assets	48,479	140,490	106,693	295,662
Total	**371,645**	**2,649,443**	**1,309,121**	**4,330,209**
Off-Balance sheet items				
Restricted investment accounts	-	26,119	2,633	28,752
Commitments		87,584	-	87,584
Financial guarantees	1,361	25,136	27,491	53,988
Undrawn financing facilities	-	27,625	59,614	87,239

4.2.4 Exposure by maturity

The maturity profile of exposures based on maturity was as follows: *USD 000's*

	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	Maturity not stated	Total
Assets							
Bank balances	143,331	6,844	16,676	4,541	-	64	171,456
Placements with financial institutions	65,099	2,780	-	-	-	-	67,879
Financing assets	105,416	72,934	199,908	346,357	236,620	-	961,235
Investment securities	194,560	2,320	-	319,447	55,117	-	571,444
Assets acquired for leasing	10,844	8,263	15,204	80,862	149,816	-	264,989
Investment properties	-	-	-	476,731	49,122	-	525,853
Development properties	-	-	-	634,230	638,390	-	1,272,620
Equity-accounted investees	-	-	2,453	49,904	33,084	-	85,441
Property, plant and equipment	-	-	-	-	113,630	-	113,630
Other assets	37,902	46,537	87,360	123,863	-	-	295,662
Total assets	**557,152**	**139,678**	**321,601**	**2,035,935**	**1,275,779**	**64**	**4,330,209**
Off-Balance sheet items							
Restricted investment accounts	-	-	-	28,752	-	-	28,752
Commitments	-	-	-	87,584	-	-	87,584
Financial guarantees	-	-	-	53,988	-	-	53,988
Undrawn financing facilities	5,020	25,126	22,405	34,688	-	-	87,239

The table above shows the maturity profile of the Group's assets and unrecognized commitments on the basis of their contractual maturity, here available. For other items, (including past due receivables), the maturity profile is on the basis of their expected realization. The total assets are as per the assets of the condensed consolidated interim financial information.

4.2.5 Exposures in excess of regulatory limits

The CBB has set single exposure limit of 15% of the Bank's total capital base on exposures to individual and a combined exposure limit of 25% of total capital base of closely connected counterparties. The excess amount of any exposure above the mentioned thresholds must be risk weighted at 800%, unless it is an exempt exposure in accordance with the requirements of CBB rulebook.
The Central Bank of Bahrain, vide its letter dated 11 July 2018 has continued the exemption to GFH Financial Group (granted earlier vide letter dated 20 June 2017) from including the assets acquired via recovery and via the shares swap as part of the Large Exposure and Connected Counterparty limits.

With this exemption from Central Bank of Bahrain, there are no single exposure limit of 15% of the Bank's total capital and no combined exposure limit of 25% of total capital base of closely connected counterparties

4.2.6 Impaired facilities and past due exposures

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

Movement in impairment provisions during the period:

USD 000's

30 June 2018	**Financing receivables**	**Financing to projects**	**Receivable from investment banking services**	**Other receivables**
At 1 January	70,150	141,588	8,964	71,374
Charge for the period	2,114	-	-	-
Write back during the period	-	-	-	-
Write off during the period	-	-	-	-
At 30 June	**72,264**	**141,588**	**8,964**	**71,374**

Analysis of past due and impaired and past due but not impaired receivables:

USD 000's

As at 30 June 2018	**Past due but not impaired amounts ***	**Gross impaired amounts**
Up to 3 months	436,679	-
Over 3 months to 1 year	8,573	229,975
1 to 3 years	17,042	39,259
Over 3 years	4,049	189,254
Total	**466,343**	**458,488**

* The Bank believes that the past due exposures are not further impaired on the basis of the assessment of the level of future expected cash flows from the counterparty and / or the stage of collection of amounts owed to the Bank.

Geographical concentration of impaired and past due receivables:

USD 000's

As at 30 June 2018	**Gross impaired amounts**	**Specific impairment allowance**	**Net exposure**				**Collective impairment**
			Net impaired	**Past due but not impaired**	**Neither past due nor impaired**	**Total**	
GCC Countries	380,197	210,893	169,304	439,936	432,368	1,041,608	22,432
Other MENA	3,457	3,448	9	-	-	9	-
Other Asia	-	-	-	4,065	2,024	6,089	3
Europe	63,061	63,061	-	22,342	29,374	51,716	655
UK	11,773	4,569	7,204	-	-	7,204	-
USA	-	-	-	-	71,047	71,047	-
Total	**458,488**	**281,971**	**176,517**	**466,343**	**534,813**	**1,177,673**	**23,090**

Industry/sector wise breakdown of impaired and past due receivables:

USD 000's

As at 30 June 2018	Gross impaired amounts	Specific impairment allowance	Net exposure				Collective impairment
			Net impaired	Past due but not impaired	Neither past due nor impaired	Total	
Development Infrastructure	322,256	246,123	76,133	183,173	238,350	497,656	11,260
Banks and financial institution	-	-	-	29,867	26,172	56,039	-
Others	136,232	35,847	100,385	253,302	282,406	636,093	11,830
Total	**458,488**	**281,970**	**176,518**	**466,342**	**546,928**	**1,189,788**	**23,090**

4.2.6.1 Credit risk mitigation

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

4.2.7 Related party and intra-group transactions

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties in the normal course of its business. For the purpose of identification of related parties the Bank follows the guidelines issued by Central Bank of Bahrain and definitions as per FAS issued by AAOIFI. Detailed break up of related parties transactions and exposures as at and for the six months period ended 30 June 2018 are as follows:

USD 000's

30 June 2018	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose entities	Total
Assets					
Financing assets	-	398	15,140	14,182	29,720
Equity-accounted investees	73,258	-	-	-	73,258

Investment securities	-	-	6,058	73,057	79,115
Other assets	8,939	-	-	54,190	63,129
Liabilities					
Investors' funds	137	-	-	13,442	13,579
Customer current accounts	180	377	1,840	4,117	6,514
Financing liabilities	-	-	30,111	-	30,111
Other liabilities	-	-	-	22,805	22,805
Equity of investment holders	1,379	5,989	45,172	1,334	53,874

30 June 2018	**Associates**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management including special purpose entities**	**Total**
Income					
Income from investment banking services	-	-	15,000	16,600	31,600
Fee and commission income	-	-	-	1,108	1,108
Income from financing assets	-	178	491	-	669
Share of profit of equity-accounted investees	3,999	-	-	-	3,999
Income from investment securities, net	-	-	-	(86)	(86)
Other income	-	-	-	69	69
Expenses					
Return to investment account holders	(19)	(80)	(302)	(8)	(409)
Finance expense	-	-	(1,637)	-	(1,637)
Staff cost	-	(4,774)	-	-	(4,774)
Other expenses	-	-	-	-	-

4.2.8 Exposure to highly leveraged and other high risk counterparties

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

4.2.9 Restructured facilities

As at 30 June 2018, the Bank does not have any restructured facilities. For the disclosures pertaining to restructured facilities of KHCB, please refer the disclosures of KHCB

4.2.10 Equity investments held in banking book

The Bank does not have a trading book and hence all of its equity investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include unquoted equity securities and significant investments in commercial entities.

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

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

Information on equity investments (including significant commercial entities)	USD 000's
Privately held	112,351
Quoted in an active market	23,021
Managed funds	-
Realised gain/ (loss) during the period	3,342
Unrealised gain recognized in the balance sheet not through income statement	-

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

USD 000's

	Gross exposure*	Risk weight	Risk weighted exposure	Capital charge @12.5%
Listed equity investments	22,918	100%	22,918	2,750
Unlisted equity investments	220,242	150%	330,362	39,643
Significant investment in the common shares of financial entities >10%	40,909	250%	102,273	12,273
Premises occupied by the Bank	17,875	100%	17,875	2,145
All other holdings of real estate	725,578	200%	1,451,156	174,139
Investments in listed real estate companies	103	300%	309	37
Investment in unlisted real estate companies	559,595	400%	2,238,380	268,606
Total	**1,587,220**		**4,163,273**	**499,593**

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

5 Market risk

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

USD 000's

	30 June 2018	Maximum during the period	Minimum during the period
Foreign exchange risk – A	4,297	4,297	4,170
Risk weighted assets – B (A*12.5)	53,713	53,713	52,125
Capital requirement – (B*12.5%)	6,714	6,714	6,516

6 Operational risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the approach agreed with the CBB. The bank's average gross income for the last three financial years is multiplied by a fixed coefficient alpha of 15% set by CBB and a multiple of 12.5x is used to arrive at the risk weighted assets that are subject to capital charge.

USD 000's

	Average gross income	Risk weighted assets	Capital charge at 12%
Operational risk	133,434	250,189	30,023

Litigations, claims and contingencies

The Group has certain claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Based on the advice of the Bank's external legal counsel, 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.

7 Other types of risk

7.1 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

Liquidity ratios	30 June 2018	Maximum	Minimum
Liquid assets : Total assets	5.53%	8.03%	5.53%
Liquid assets : Total deposits	12.14%	16.98%	12.14%
Short term assets : Short term liabilities*	70.61%	70.61%	65.60%
Illiquid assets : Total assets	94.47%	94.47%	91.97%

* Based on maturity profile of assets and liabilities of one year or less of the Group.

The maturity profile of the Group's financial liabilities based on contractual cash flows are as follows:

USD 000's

	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Investors' funds	9,810	-	3,833	13,429	-	27,072
Placements from financial and other institutions	342,896	123,573	191,505	284,667	4,543	947,184
Customer current accounts	56,087	-	-	109,663	-	165,750
Financing liabilities	27,471	17,772	9,877	390,378	25,949	471,447
Other liabilities	143,396	30,983	70,170	180,045	16,300	440,894
Total liabilities	**579,660**	**172,328**	**275,385**	**978,182**	**46,792**	**2,052,347**
Equity of investment account holders	**321,029**	**88,507**	**130,007**	**50,241**	**242,337**	**832,121**

7.2 Management of profit rate risk in the banking book

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

US$ 000's

30 June 2018	**Up to 3 months**	**3 to 6 months**	**6 months - 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets						
Placement with financial institutions	65,099	2,780	-	-	-	67,879
Financing assets	105,416	72,934	199,908	346,357	236,620	961,235
Asset acquired for leasing (including lease rental)	10,844	8,263	15,204	80,862	149,816	264,989
Investment securities	194,600	2,320	-	319,484	55,077	571,481
Total assets	**375,959**	**86,297**	**215,112**	**746,703**	**441,513**	**1,865,584**
Liabilities						
Investors' funds	9,810	-	3,833	13,429	-	27,072
Placements from financial and other institutions	342,896	123,573	191,505	284,667	4,543	947,184
Customer current accounts	56,087	-	-	109,664	-	165,751
Financing liabilities	27,471	17,772	9,877	390,378	25,949	471,447
Total liabilities	**436,264**	**141,345**	**205,215**	**798,138**	**30,492**	**1,611,454**
Equity of investment account holders	360,330	88,507	90,702	50,241	242,337	832,117
Profit rate sensitivity gap	**(420,635)**	**(143,555)**	**(80,805)**	**(101,676)**	**(168,684)**	**(577,987)**

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. An analysis of the Group's sensitivity to an increase or decrease in market profit rates for a 200bps increase / (decrease) is as below:

US$ 000's

200 bps parallel increase / (decrease)	**2018**
At 30 June 2018	±3,756
Average for the period	± 2,796
Maximum for the period	± 3,756
Minimum for the period	± 1,836

7.3 Concentration risk

This risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business. Concentration risk can arise from exposure to specific classes of assets, sector, country, revenue streams, counterparty, a group of counterparties, etc. Concentration risk is mitigated by limits, diversification by assets, geography counterparty quality etc. The geographical and sector concentration of credit exposures has been disclosed in paragraphs 4.2.2 and 4.2.3.

7.4 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. In addition to the identified credit risk exposures the Bank's counterparty credit risk from markets as such is limited to the fair value of contracts of foreign exchange risk management instruments the overall exposure to which is usually not significant. For other credit market transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks for counterparty, sector and geography.
The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank. As at 30 June 2018, the Bank did not have any open positions on foreign exchange contracts.

7.5 Reputational risk (non-performance risk)

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base, lead to costly litigation that could have an adverse impact on liquidity or capital of the Bank. Being an Islamic Investment Bank, reputation is an important asset and among the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments and poor communication to investors. A well developed and coherently implemented communication strategy helps the Bank to mitigate reputational risks.

7.6 Displaced commercial risk

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

7.7 Other risks

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

8 Product disclosures

8.1 Equity of Investment Account Holders (EIAH)

The Bank does not have significant amount under EIAH and does not use EIAH as a main source of its funding. The Bank does not, as a focused product proposition, offer EIAH products to its clients. The current EIAH deposits have been accepted on a case-by-case basis considering the Bank's relationship with its customers. The EIAH holder authorises the Bank to invest the funds in any investments approved by the Bank's Sharia'a Board without any preconditions. All EIAH accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. In accordance with the principles of Sharia'a, the entire investment risk is on the investor. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence. The Bank charges a Mudarib fee as its share of profit. Early withdrawal is at the discretion of the Bank and is subject to the customer giving reasonable notice for such withdrawal and agreeing to forfeit a share of the profit earned on such account.
Currently, the Bank comingles the EIAH funds with its funds for investments only into interbank placements and hence is not subject to any significant profit re-pricing or maturity mismatch risks. The Bank has an element of displaced commercial risk on EIAH which is mitigated by setting up and maintaining an appropriate level of Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) to smoothen return to EIAH holders.

Profit Equalisation reserve (PER) is created by allocations from gross income of the Mudarabah before adjusting the Mudarib (Bank) share. Investment Risk Reserves (IRR) comprises amounts appropriated out of the income of investment account holders after deduction of the Mudarib share of income. Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts. All terms of the EIAH are agreed upfront with the customers and form part of the agreement with the customer. Till date, the Bank has not made any withdrawals on PER or IRR. Any movements on these accounts are therefore only on account of additional reserves added. The historical returns data on EIAH of the Bank is as follows:

USD 000's

	30 June 2018	**31 December 2017**
Total EIAH as at 30 June / 31 December	1,245	1,152
Average EIAH balance	1,245	1,149
Average rate of return earned (%)	0.43%	0.88%
Total profits on EIAH assets earned	6	11
Distributed to investor	5	10
Allocated to IRR	0.2	0.2
Allocated to PER	0.2	0.4
Bank's share of profits	0.3	0.6
Average declared rate of return (%)	0.43%	0.88%

The information disclosed above pertains to EIAH directly promoted by the Bank. For the qualitative disclosures pertaining to EIAH of KHCB, please refer the disclosures of KHCB.

8.2 Restricted investment accounts

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

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

Within the Bank, the abovementioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Shari'a, Financial Control, Legal, Investment Administration and the Risk Management Departments.

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

There were no annual distributions made in RIA for the past five years.
For the qualitative disclosures pertaining to RIA's of KHCB, please refer the disclosures of KHCB