GFH Financial Group BSC
(Formerly Gulf Finance House BSC)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

Commercial registration	:	44136 (registered with Central Bank of Bahrain as a Islamic wholesale investment Bank)
Registered Office	:	Bahrain Financial Harbour Office 2901, 29th Floor, Building 1398, East Tower, Block 346, Road 4626 Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	:	Ahmed Al Mutawa, *Chairman* Mosabah Saif Al Mautairy, *Vice Chairman* Bashar Muhammad Almutawa Mohammed Ali Talib Sheikh Mohammed Bin Duaij Al Khalifa Khalid Alkhazraji Faisal Abdulla Bubshait Yousef Ibrahim Alghanim
Chief Executive Offcer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

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CHAIRMAN'S REPORT
for the year ended 31 December 2015

IN THE NAME OF ALLAH, THE BENEFICIENT, THE MERCIFUL, PRAYERS AND PEACE BE UPON THE LAST APOSTLE AND MESSENGER, OUR PROPHET MOHAMMED.

Dear Shareholders,

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

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

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

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

In October, we announced our acquisition of an industrial real estate portfolio in the United States, in a deal worth US$108 million. The portfolio includes 17 income-generating industrial, warehousing and distribution assets across six U.S. states with an overall occupancy rate of 98 per cent, and comprising of approximately 1.81 million square feet. This portfolio is projected to give annual investment returns with cash-on-cash yield and double digits of internal rate of return (IRR).

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

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

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

Private Equity
In July 2015, GFH acquired an 80 per cent stake in a leading Dubai-based private school value at AED154 million. This was the second private school that GFH acquired a majority stake within a 12 month period. This investment was made for multiple reasons, such as the school's positive reputation and steady year-on-year growth in student enrolment. With the UAE's growing population and economy, we expect above average yield and profitable returns from such investments as there is increasing demand for high quality educational institutions offering internationally recognized qualifications. GFH's strategy is focused on investing in cash yielding opportunities in defensive sectors, such as education, which also offer significant growth potential.

CHAIRMAN'S REPORT *(continued)*
for the year ended 31 December 2015

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

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

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

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

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

Distributions and exits
Throughout the year, GFH has distributed more than US$ 54 million of dividends and capital redemptions to its investors with underlying investments in the Bahrain, UAE, KSA, USA and India. This includes: 7 per cent from Philadelphia Private School and 9 per cent from Sheffield Private School in the UAE, 11 per cent from the mall in Jeddah, 9 per cent from the Diversified US Residential Portfolio (DURP), and US$28 million back to our investors in India.

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

CHAIRMAN'S REPORT *(continued)*
for the year ended 31 December 2015

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

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

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

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

Sincerely,

Dr. Ahmed Al-Mutawa
Chairman

24 February 2016

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

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2015, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in owners' equity, its consolidated changes in restricted investment accounts and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on other regulatory requirements

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

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

KPMG

KPMG Fakhro
Partner Registration No. 137
24 February 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2015

US$ 000's

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

The consolidated financial statements consisting of pages 5 to 78 were approved by the Board of Directors on 24 February 2016 and signed on its behalf by:

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

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

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2015

US$ 000's

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

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2015

US$ 000's

2015	Attributable to shareholders of the Bank									Non – controlling interests	Total owners' equity
	Share capital	Treasury shares	Capital adjustment account	Statutory reserve	Retained earnings / (accumulated losses)	Fair value reserve	Share grant reserve	Foreign currency translation reserve	Total		
Balance at 1 January 2015											
As previously reported	1,253,626	(912)	(475,582)	69,251	(165,851)	(2,345)	1,129	(780)	678,536	187,194	865,730
Impact of consolidation (note 2 (a))	-	-	-	809	(37,757)	(21)	-	-	(36,969)	188,894	151,925
As restated	1,253,626	(912)	(475,582)	70,060	(203,608)	(2,366)	1,129	(780)	641,567	376,088	1,017,655
Profit for the year	-	-	-	-	(5,520)	-	-	-	(5,520)	17,545	12,025
Fair value changes	-	-	-	-	-	(203)	-	-	(203)	-	(203)
Foreign currency translation differences	-	-	-	-	-	-	-	(302)	(302)	(117)	(419)
Total recognised income and expense	**-**	**-**	**-**	**-**	**(5,520)**	**(203)**	**-**	**(302)**	**(6,025)**	**17,428**	**11,403**
Conversion of Murabaha to capital (note 18)	241,361	-	(181,361)	-	-	-	-	-	60,000	-	60,000
Capital reduction (note 18)	(896,992)	-	679,665	-	217,327	-	-	-	-	-	-
Purchase of treasury shares	-	(4,594)	-	-	-	-	-	-	(4,594)	-	(4,594)
Sale of treasury shares	-	1,453	-	-	-	-	-	-	1,453	-	1,453
Loss on sale of treasury shares	-	-	(302)	-	-	-	-	-	(302)	-	(302)
Transfer to income statement on disposal of investments	-	-	-	-	-	2,339	-	-	2,339	-	2,339
Transfer to statutory reserve	-	-	-	1,995	(1,995)	-	-	-	-	-	-
Share grants vesting expense, net of forfeitures	-	-	-	-	-	-	(236)	-	(236)	-	(236)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(3,979)	(3,979)
Derecognition on loss of control (note 33)	-	-	-	-	377	-	-	1,082	1,459	(191,777)	(190,318)
Balance at 31 December 2015	**597,995**	**(4,053)**	**22,420**	**72,055**	**6,581**	**(230)**	**893**	**-**	**695,661**	**197,760**	**893,421**

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2015 *(continued)* US$ 000's

	Attributable to shareholders of the Bank										
2014 (restated)	Share Capital	Treasury shares	Capital adjustment account	Statutory reserve	Accumulated losses	Fair value reserve	Foreign currency translation reserve	Share grant reserve (note 24)	Total	Non – controlling interests	Total owners' equity
Balance at 1 January 2014											
As previously reported	972,281	(912)	(229,656)	68,146	(310,185)	-	-	1,242	500,916	-	500,916
Impact of consolidation (note 2 (a))	-	-	-	-	(40,872)	(49)	-	-	(40,921)	182,501	141,580
As restated	972,281	(912)	(229,656)	68,146	(351,057)	(49)	-	1,242	459,995	182,501	642,496
Profit for the year	-	-	-	-	14,983	-	-	-	14,983	12,368	27,351
Fair value changes	-	-	-	-	-	(2,317)	-	-	(2,317)	-	(2,317)
Foreign currency translation differences	-	-	-	-	-	-	(780)	-	(780)	(1,080)	(1,860)
Total recognised income and expense	-	-	-	-	14,983	(2,317)	(780)	-	11,886	11,288	23,174
Transfer to statutory reserve	-	-	-	1,914	(1,914)	-	-	-	-	-	-
Conversion of Murabaha to capital (note 18)	415,725	-	(245,325)	-	-	-	-	-	170,400	-	170,400
Share issue related expenses	-	-	(601)	-	-	-	-	-	(601)	-	(601)
Capital reduction	(134,380)	-	-	-	134,380	-	-	-	-	-	-
Share grants vesting expense, net of forfeitures (note 22)	-	-	-	-	-	-	-	(113)	(113)	-	(113)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	182,299	182,299
Balance at 31 December 2014	1,253,626	(912)	(475,582)	70,060	(203,608)	(2,366)	(780)	1,129	641,567	376,088	1,017,655

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2015 US$ 000's

	2015	2014 (restated)
OPERATING ACTIVITIES		
Profit for the year	**12,025**	27,351
Adjustments for:		
Impairment allowances	17,016	14,120
Income from investment securities	(12,825)	2,038
Gain from assets held-for-sale	-	(1,392)
Share of profit of equity-accounted investees	(3,025)	(6,505)
Foreign exchange loss / (gain)	147	(57)
Management and other fees	-	75
Finance expenses	16,758	7,163
Other income	(18,515)	(41,963)
Depreciation and amortisation	2,994	6,013
Investment banking income	(23,822)	(16,152)
	(9,247)	(9,309)
Changes in:		
Financing assets	(76,793)	(139,686)
Asset acquired for leasing	(69,281)	(28,966)
Other assets	29,582	14,577
Investor's funds	(13,384)	(21,103)
Placements from financial, other entities and individual	632	(46,260)
Customer current accounts	62,766	91,050
Other liabilities	(59,651)	(68,199)
Equity of investment account holders	49,357	127,695
Movement in CBB reserve	(5,290)	(4,748)
Net cash used in operating activities	**(91,309)**	(84,949)
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(663)	(10,932)
Proceeds from assets held-for-sale	-	14,559
Purchase of investment securities	(208,147)	(234,021)
Dividends received	11,942	-
Proceeds from sale of investment securities	144,289	230,710
Acquisition of development property	-	(1,329)
Payment for acquisition of properties	-	(21,977)
Net cash flow on acquisition of subsidiaries	-	7,341
Dividends received from equity-accounted investees	-	5,360
Advance for acquisition of investment	-	1,954
Derecognition of a subsidiary on loss of control	(11,007)	-
Net cash used in investing activities	**(63,586)**	(8,335)
FINANCING ACTIVITIES		
Financing liabilities, net	(31,073)	(33,568)
Finance expense paid	(8,335)	(14,243)
Proceeds from issue of convertible murabaha	60,000	170,400
Purchase of treasury shares, net	(3,141)	-
Dividends paid (including non-controlling interests)	(1,753)	(10)
Net cash generated from financing activities	**15,698**	122,579
Net (decrease) / increase in cash and cash equivalents during the year	**(139,197)**	29,295
Cash and cash equivalents at 1 January	333,657	304,362
CASH AND CASH EQUIVALENTS at 31 December	**194,460**	333,657
Cash and cash equivalents comprise:		
Cash and balances with banks	72,112	85,175
Placements with financial institutions	122,348	248,482
	194,460	333,657

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

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2015

31 December 2015	**Balance at 1 January 2015**			**Movements during the period**						**Balance at 31 December 2015**		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revalua- tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	7.89	734	-	(88)	-	-	-	-	93	6.95	646
Safana Investment (RIA 1)	8,313	2.65	22,050	-	-	-	-	-	-	8,313	2.65	22,050
Janayen Holding Limited (RIA 4)	48,082	0.25	12,095	-	58	10,737	-	-	(344)	48,082	0.48	22,546
Shaden Real Estate Investment WLL (RIA 5)	8,100	2.65	21,485	(11,597)	-	-	-	-	-	3,728	2.65	9,888
Locata Corporation Pty Ltd (RIA 6)	2,633	0.94	2,475	-	-	-	-	-	-	2,633	0.94	2,475
			58,891	**(11,597)**	**(30)**	**10,737**	**-**	**-**	**(344)**			**57,657**

31 December 2014 (restated)	Balance at 1 January 2014			Movements during the period						Balance at 31 December 2014		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revalua- tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	53	-	(1)	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	8.39	780	-	(46)	-	-	-	-	93	7.89	734
Al Hayreth French Property Fund	17	1,379.63	23,523	(9,316)	(2,790)	(11,417)	-	-	-	-	-	-
Safana Investment (RIA 1)	8,323	2.65	22,077	-	-	-	-	-	-	8,313	2.65	22,050
Janayen Holding Limited (RIA 4)	48,082	0.29	13,963	-	13	599	(1,979)	-	(501)	48,082	0.25	12,095
Shaden Real Estate Investment WLL (RIA 5)	8,100	2.65	21,485	-	-	-	-	-	-	8,100	2.65	21,485
Locata Corporation Pty Ltd (RIA 6)	2,948	0.90	2,655	-	-	-	-	-	-	2,633	0.94	2,475
			84,536	(9,316)	(2,824)	(10,818)	(1,979)	-	(501)			58,891

The accompanying notes 1 to 41 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 2015 US$ 000's

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

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

for the year ended 31 December 2015 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. During the year, the Bank's GDR listed in London stock exchange were delisted.

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

Consolidated financial statements

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

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

** Refer note 2(a)*

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

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been consistently applied by Group.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and in conformity with Bahrain Commercial Companies Law. In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standard (IFRS).

New standards, amendments and interpretations effective from 1 January 2015

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

FAS 23 – Consolidation

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
(a) Statement of compliance (continued)

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

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

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

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

(a) If the investee subject to consolidation is a business, the Bank / Company shall apply acquisition accounting on the date of obtaining control (as per the amended FAS 23) when an investee is consolidated for the first time on transition;
(b) The acquisition accounting values of assets, liabilities and non-controlling interests should be rolled forward until the beginning of the year immediately preceding the year of adoption; and
(c) The difference between the values determined in Step (b) and the carrying amount of the investment is recognised in equity at the beginning of the immediately preceding year.

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

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

for the year ended 31 December 2015 US$ 000's

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
(a) Statement of compliance (continued)

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

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

Impact of changes in accounting policies:

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

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

for the year ended 31 December 2015 US$ 000's

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
(a) Statement of compliance (continued)

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

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

Consolidated income statement

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Statement of compliance (continued)

New standards, amendments and interpretations issued but not yet effective

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

FAS 27 – Investments Accounts

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

(b) Basis of preparation

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

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

(c) Basis of consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation (continued)

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

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

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

(ii) Subsidiaries

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

***(iii)* Non-controlling interests (NCI)**

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

(iv) Special purpose entities

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Loss of control

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

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

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

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

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

(vii) Transactions eliminated on consolidation and equity accounting

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

(d) Foreign currency transactions

(i) Functional and presentation currency

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

2 *SIGNIFICANT* ACCOUNTING POLICIES (continued)

(ii) Transactions and balances

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

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

(iii) Other group companies

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

(iv) Foreign operations

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

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

(e) Offsetting of financing instruments

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

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

(f) Investment securities

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

(i) Classification

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

Debt-type instruments

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment securities (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. Currently, the Group does not have any investment under this category.

At amortised cost

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

Equity-type instruments

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

At fair value through income statement (FVTIS)

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

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

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

At fair value through equity (FVTE)

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

(ii) Recognition and de-recognition

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

(iii) Measurement

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment securities (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 equity is transferred to the income statement.

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

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

(g) Financing assets

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

(h) Assets acquired for leasing

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

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

(k) Investment property

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

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

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

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

(l) Development properties

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

(m) Property, plant and equipment

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Property, plant and equipment (continued)

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

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

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

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in the consolidated statement of income in the year of derecognition.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if appropriate.

(n) Intangible assets

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Intangible assets (continued)

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

(o) Inventories

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

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

(p) Impairment of assets

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

Financial assets carried at amortised cost

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

Investments carried at fair value through equity (FVTE)

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
(p) Impairment of assets (continued)

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment to settle the liability, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (refer note 38 for details).

(t) Dividends and board remuneration

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

(u) Share capital and reserves

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

Treasury shares

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

Statutory reserve

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

Capital adjustment account

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

(v) Equity of investment account holders

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
(v) Equity of investment account holders (continued)

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

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

(w) Assets held-for-sale and discounted operations

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
(w) Assets held-for-sale and discontinued operations (continued)

iii) Discontinued operations

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

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

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

(x) Revenue recognition

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

Banking business

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Revenue recognition (continued)

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

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

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

(y) *Industrial business*

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

(z) Earnings prohibited by Shari'a

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

(aa) Zakah

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

(bb) Employees benefits

(i) Short-term benefits

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

(ii) Post employment benefits

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) Employment benefits (continued)

(ii) Post employment benefits (continued)

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

(iii) Share-based employee incentive scheme

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

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

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

(cc) Provisions

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

(dd) Onerous contracts

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

(ee) Trade date accounting

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

(ff) Deposit Protection Scheme

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Judgements

(i) Classification of investments

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

(ii) Special purpose entities

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

***(iii)* Classification as held-for-sale**

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

Estimations

- ***Fair value of investments***

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

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

  Equity-type instruments classified as investments at FVTE but carried at cost less impairment due to the absence of reliable measure of fair value are tested for impairment. A significant portion of the Group's equity-type investments comprise investments in real estate and infrastructure development projects (2015: US$ 292,449 thousand; 2014: US$ 290,787 thousand). In making an assessment of impairment, the Group evaluates among other factors, ease of raising liquidity for the project, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. The Group has exposures to investments and projects that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions are adequate and reflect prevailing conditions, long term asset objectives and available information. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

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

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

- ***Impairment of financing assets***
  Financing assets are evaluated for impairment on a basis described in accounting policy, refer to note 2 (g). Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying assets/ collaterals.

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3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department. For evaluation of the portfolio for impairment on a collective basis, management, where available, uses estimates based on historical loss experience for assets and loss experience in the industry for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio. For the purposes of a collective evaluation of impairment, financing assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The methodology and assumptions used for the grading process and estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In view of the management, the current level of provisioning is adequate and no additional impairment allowances are required on a collective basis.

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

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

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

4 CASH AND BANK BALANCES

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

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

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5 FINANCING ASSETS

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

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

The movement on impairment allowances are as follows:

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

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

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6 INVESTMENT SECURITIES

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

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

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

b) Equity type investments - At fair value through equity

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

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

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6 INVESTMENT SECURITIES (continued)

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

Impairment allowance has been established based on management's assessment of the current market conditions, the marketability of the investments and the assessment of recoverable amounts.

7 INVESTMENT PROPERTY

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

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

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

The fair value of the Group's investment property at 31 December 2015 was US$ 273,370 thousand (31 December 2014: US$ 304,111 thousand) based on a valuation carried out by an independent third party external valuers who have recent experience in the location and category of the asset being valued.

8 DEVELOPMENT PROPERTIES

Development properties represents land in UAE, Bahrain, project in Morocco and villas in Bahrain. The land has been held for development and sale in the normal course of business. During the year, the Bank commenced development of one of the investment property (land in Bahrain) for the purpose of sale.

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9 EQUITY-ACCOUNTED INVESTEES

Equity-accounted investees represents investments in:

Name	Country of incorporation	% holding		Nature of business
		2015	2014	
Falcon Cement Company BSC (c) (note 33)	Kingdom of Bahrain	32%	-	Manufacturing and trading of cement
United Arab Cement Company J.S.C.(note 33)	Syrian Arab Republic	38.9%	-	Manufacturing of cement
Libya Investment Company (note 33)	Cayman Islands	38.9%	-	Holding company
Amlak II SPV	Cayman Islands	23.51%	23.51%	Purchase and sale of real estate in the Kingdom of Bahrain
Bahrain Aluminium Extrusion Company B.S.C. (c) (Balexco) (note 33)	Kingdom of Bahrain	18%	-	Extrusion and sale of aluminium products
Technal Middle East W.L.L.	Kingdom of Bahrain	-	50%	Marketing, distribution, providing technical assistance relating to aluminium and other materials.
Balexco Doha Trading W.L.L.	State of Qatar	-	44%	Trading in aluminium profiles, systems and accessories

The movement in equity-accounted investees is given below:

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

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

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

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

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10 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and infrastructure on leasehold land	Plant and machinery	Tools and dies	Computers	Furniture and fixtures	Motor vehicles	Capital WIP	2015 Total	2014 Total
Cost:										
At 1 January	17,809	19,743	127,741	15,458	18,188	29,146	2,086	40,779	270,950	123,583
Acquired in a business combination	-	-	-	-	-	-	-	-	-	136,474
Additions	-	627	177	693	406	241	423	5,214	7,781	12,494
Disposals	-	(1,308)	-	-	(34)	(817)	(111)	-	(2,270)	-
Transfers	-	-	-	-	862	408	96	(1,366)	-	-
Foreign exchange difference	-	-	-	-	-	-	(4)	(500)	(504)	(1,601)
Derecognition on loss of control (note 33)	-	(19,062)	(127,918)	(16,151)	(105)	(4,522)	(1,016)	(42,792)	(211,566)	-
At 31 December	**17,809**	**-**	**-**	**-**	**19,317**	**24,456**	**1,474**	**1,335**	**64,391**	270,950
Accumulated depreciation:										
At 1 January	-	13,998	33,898	13,534	17,091	24,984	1,070	-	104,575	98,572
Charge for the year	-	207	2,116	524	478	(493)	162	-	2,994	6,013
Foreign exchange difference	-	-	-	-	-	-	(1)	-	(1)	(10)
Derecognition on loss of control (note 33)	-	(14,205)	(36,014)	(14,058)	(98)	(4,064)	(340)	-	(68,779)	-
At 31 December	-	-	-	-	**17,471**	**20,427**	**891**		**38,789**	104,575
Net book value:										
At 31 December	**17,809**	**-**	**-**	**-**	**1,846**	**4,029**	**583**	**1,335**	**25,602**	166,375

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11 INTANGIBLE ASSETS

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

12 OTHER ASSETS

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

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

13 INVESTORS' FUNDS

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

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14 PLACEMENTS FROM FINANCIAL, OTHER ENTITIES AND INDIVIDUALS

These comprise placements in the form of murabaha and wakala contracts accepted from financial and other institutions (including corporates and individuals) as part of the Group's treasury activities. This includes US$ 84 million of funds placed by a non-financial entity originally in Euro currency in 2010, which were subject to regulatory sanctions and are re-denominated into US$. Subsequent to the year end, these regulatory sanctions have been formally lifted.

15 FINANCING LIABILITIES

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

Murabaha financing

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

Wakala financing

Wakala financing is a syndicate facility from a number of financial institutions. Wakala financing is repayable over a period of six years till April 2019 at an agreed profit rate of 6%. The Wakala financing facility is secured by a pledge over the Group's investment property of carrying value of US$ 122 million (note 7).

Sukuk liability

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

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

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

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15 FINANCING LIABILITIES (continued)

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

16 OTHER LIABILITIES

	31 December 2015	31 December 2014
Employee related accruals	3,430	2,902
Unclaimed dividends	5,861	5,784
Mudaraba profit accrual	7,509	8,363
Provision for employees' leaving indemnities	1,999	1,878
Zakah and Charity fund (page 11)	2,675	5,050
Provision against financial guarantees (note 38)	35,000	35,000
Accounts payable	64,266	50,645
Accrued expenses and other payables	15,237	40,250
	135,977	149,872

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17 EQUITY OF INVESTMENT ACCOUNT HOLDERS

Equity of investment accounts comprise Mudarabah deposits accepted by the Group. The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes as at 31 December:

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

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

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

The average gross rate of return in respect of unrestricted investment accounts was 1.923% for 2015 (2014: 2.60%). Approximately 1.93% (2014: 2.60% / US$ 20 thousand) was distributed to investors and the balance was either set aside for provisions and/or retained by the Group as a Mudarib fee. Unrestricted investment accounts include profit equalisation reserve of US$ 7 thousand (2014: US$ 7 thousand) and investment risks reserve of US$ 3 thousand (2014: US$ 3 thousand).

18 SHARE CAPITAL

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

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

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

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18 SHARE CAPITAL (continued)

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

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

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

At 31 December 2015, the Bank held 24,503,697 (31 December 2014: 5,204,536) treasury shares.

Additional information on shareholding pattern

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

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

Categories*	**Number of shares**	**Number of shareholders**	**% of total outstanding shares**
Less than 1%	1,977,561,272	10,802	87.64
1% up to less than 5%	156,019,032	5	6.91
5% to less than 10%	123,003,099	1	5.45
Total	**2,256,583,403**	**10,808**	**100.00**

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

(iii) As at 31 December 2015, the shareholders who hold more than 5% of the total outstanding shares are as below:

Shareholder name	**Number of shares**	**% of total outstanding shares**
Integrated Capital PJSC	123,003,099	5.45

19 SHARE GRANT RESERVE

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

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20 INCOME FROM INVESTMENT SECURITIES

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

21 OTHER INCOME

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

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

22 STAFF COST

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

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

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

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

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

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22 STAFF COST (continued)

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

23 OTHER OPERATING EXPENSES

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

24 IMPAIRMENT ALLOWANCES

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

25 INCOME FROM INDUSTRIAL BUSINESS, NET

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

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26 TOTAL FINANCE INCOME AND EXPENSE

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

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27 RELATED PARTY TRANSACTIONS

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

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

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

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

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27 RELATED PARTY TRANSACTIONS (continued)

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

Key management personnel

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

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

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

The key management personnel compensation is as follows:

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

28 ASSETS UNDER MANAGEMENT

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

29 EARNINGS PER SHARE

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

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

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

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

During the year, all the note holders of the convertible murabaha have exercised their rights to convert the notes to equity shares of the Bank. Further, in case of the share awards granted to employees prior to 2014, as the average market value of shares during the current year was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2015. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above.

30 ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders for the year ended 31 December 2015 is US$ 285 thousand (2014: US$ 285 thousand) subject to approval of shareholders. Zakah payable for KHCB during the year as computed by the Shari'a Supervisory Board of KHCB is US$ 265 thousand.

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

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31 EARNINGS PROHIBITED BY SHARI'A

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

32 SHARI'A SUPERVISORY BOARD

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

33 DERECOGNITION OF A SUBSIDIARY ON LOSS OF CONTROL

Restructuring of CIC

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

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

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33 RESTRUCTURING OF CIC (continued)

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

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

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

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

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34 MATURITY PROFILE

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

31 December 2015	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	122,165	-	-	-	-	-	122,165
Placements with financial institutions	121,924	-	424	-	-	-	122,348
Financing assets	122,039	44,928	106,919	206,549	378,986	-	859,421
Investment securities	168,523	-	8,688	235,341	160,901	-	573,453
Asset acquired for leasing	1,414	-	-	1,252	177,204	-	179,870
Investment property	-	-	-	207,346	50,586	-	257,932
Development properties				161,137	18,440	-	179,577
Equity-accounted-investees	2,472	-	-	78,802	-	-	81,274
Property, plant and equipment	-	-	-	-	-	25,602	25,602
Other assets	35,144	3,503	40,945	113,270	53,271	-	246,133
Total assets	573,681	48,431	156,976	1,003,697	839,388	25,602	**2,647,775**
Financial liabilities							
Investors' funds	5,291	-	-	-	-	-	5,291
Placements from financial institutions, other entities and individuals	120,077	26,241	60,042	129,504	4,226	-	340,090
Customer current account	109,196	29,247	13,462	7,885	14,672	-	174,462
Financing liabilities	4,120	4,716	39,293	105,490	-	-	153,619
Other liabilities	52,239	18,761	17,276	47,701	-	-	135,977
Total liabilities	290,923	78,965	130,073	290,580	18,898	**-**	**809,439**
Equity of investment account holders	361,080	93,562	126,721	70,337	293,215		944,915
Off-balance sheet items							
Commitments	50,756	58,989	85,915	16,178	2,956	-	**214,794**
Restricted investment accounts	22,546	-	2,634	32,477	-	-	**57,657**

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34 MATURITY PROFILE (continued)

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

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

(a) Industry sector

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

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35 Concentration of assets, liabilities and equity of investment account holders (continued)
(a) Industry sector (continued)

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

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

(b) Geographic region

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

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

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

(b) Geography sector (continued)

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

36 OPERATING SEGMENTS

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

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

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

- **Asset Management:** The Asset Management unit is responsible for identifying and managing investments in yielding real estate in the target markets of the GCC, Europe and the US. The objective in this unit is to find leveraged real estate investments which will produce strong cash on cash returns for investors whilst minimizing overall risk.

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

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

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

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

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

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36 OPERATING SEGMENTS (continued)

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

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

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

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36 OPERATING SEGMENTS (continued)

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

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

37 FINANCIAL INSTRUMENTS

a) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. This represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

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

Other than certain investments carried at cost of US$ 326,991 thousand (31 December 2014: US$ 287,974 thousand) (note 6), the estimated fair values of the Group's other financial assets are not significantly different from their book values as at 31 December 2015.

Investments amounting to US$ 326,991 thousand (31 December 2014: US$ 287,974 thousand) in unquoted equity securities are carried at cost less impairment in the absence of a reliable measure of fair value. Such investments are either private equity investments managed by external investment managers or represent investments in development infrastructure projects promoted by the Group for which a reliable estimate of fair value cannot be determined. The Group intends to exit these investments principally by means of strategic sell outs, sale of underlying assets or through initial public offerings.

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

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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37 FINANCIAL INSTRUMENTS (continued)

b) FAIR VALUE HIERARCHY (continued)

31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities carried at fair value through:				
- income statement	377	-	60,347	60,724
- equity	15,242	-	1,973	17,215
	15,619	**-**	**62,320**	**77,939**

31 December 2014	Level 1	Level 2	Level 3	Total
Investment securities carried at fair value through:				
- income statement	24,470	-	62,482	86,952
- equity	24,479	-	1,973	26,452
	48,949	-	64,455	113,404

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

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

38 COMMITMENTS AND CONTINGENCIES

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

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

38 COMMITMENTS AND CONTINGENCIES (continued)

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

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

Performance obligations

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

Litigations, claims and contingencies

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. Accordingly, no provision for these claims has been made in the condensed consolidated interim financial information. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

39 FINANCIAL RISK MANAGEMENT

Overview

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

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

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

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

39 FINANCIAL RISK MANAGEMENT (continued)

Risk management framework

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

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

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

a) Credit risk

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

Management of investment and credit risk

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

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

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

39 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (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.

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39 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Exposure to credit risk

31 December 2015	**Bank balances**	**Placement with financial institutions**	**Financing assets**	**Investment securities – debt type instruments**	**Assets acquired for leasing**	**Other financial assets**
Neither past due nor impaired - Carrying amount	104,863	122,348	715,142	164,358	161,096	152,351
Impaired						
Gross amount	-	-	39,775	5,308	554	635,636
Allowance for impairment	-	-	(27,279)	(1,143)	(66)	(575,498)
Impaired- Carrying amount	**-**	**-**	**12,496**	**4,165**	**488**	**60,138**
Past due but not impaired – carrying amount	**-**	**-**	**141,024**	**-**	**20,138**	**33,644**
Less : Collective impairment	**-**	**-**	**(9,241)**	**-**	**(1,852)**	**-**
Total – carrying amount	**104,863**	**122,348**	**859,421**	**168,523**	**179,870**	**246,133**

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

for the year ended 31 December 2015 US$ 000's

39 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Impaired receivables

Impaired receivables are those for which the Group determines that it is probable that it will be unable to collect all or a portion of payments due according to the contractual terms of the receivables agreement(s). These exposures are graded "Impaired" in the Group's assessment process.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its receivables. This allowance is a specific loss component that relates to individually significant exposures based on individual assessment for impairment.

The movement in the impairment allowances for investment securities is given in note 6. The movement in impairment allowance for other financial assets are as given below:

2015	**Financing receivables**	**Financing to projects**	**Receivable from investment banking services**	**Other receivables**	**Total**
At 1 January 2015	70,150	85,588	153,630	75,311	384,679
Impairment charge for the year	-	4,500	-	-	4,500
At 31 December 2015	**70,150**	**90,088**	**153,630**	**75,311**	**389,179**

2014	Financing receivables	Financing to projects	Receivable from investment banking services	Other receivables	Total
At 1 January 2014	70,150	83,382	153,630	74,311	381,473
Impairment charge for the year	-	2,206	-	1,000	3,206
At 31 December 2014	70,150	85,588	153,630	75,311	384,679

Receivables with renegotiated terms

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

39 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Write-off policy

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

Concentration risk

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

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

Collaterals

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

for the year ended 31 December 2015 US$ 000's

39 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

	As at 31 December 2015			As at 31 December 2014		
	Financing assets	**Assets acquired for leasing (including lease rentals receivable)**	**Total**	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Against impaired						
Property	9,390	504	9,894	13,133	-	13,133
Equities	-	-	-	-	-	-
Other	1,228	-	1,228	-	-	-
Against past due but not impaired						
Property	79,308	23,459	102,767	31,141	19,698	50,839
Equities	-	-	-	5,037	-	5,037
Other	12,483	-	12,483	14,817	-	14,817
Against neither past due nor impaired						
Property	197,194	161,952	359,146	211,865	98,692	310,557
Equities	790	-	790	17,759	-	17,759
Other	106,785	-	106,785	130,907	-	130,907
Total	407,178	185,915	593,093	424,659	118,390	543,049

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

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39 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:

Concentration by Sector	**As at 31 December 2015**			As at 31 December 2014		
	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	73,496	-	**73,496**	109,504	1,329	110,833
Real estate:						
- Property	17,172	180,684	**197,856**	101,700	112,679	214,379
- Infrastructure Development	52,228	-	**52,228**	11,040	-	11,040
- Land	62,488	-	**62,488**	28,220	-	28,220
Construction	99,029	-	**99,029**	98,175	-	98,175
Trading	298,289	-	**298,289**	233,231	-	233,231
Manufacturing	35,666	-	**35,666**	43,499	-	43,499
Others	205,159	2,605	**207,764**	157,259	-	157,259
Total carrying amount	**843,527**	**183,289**	**1,026,816**	782,628	114,008	896,636

b) Liquidity risk

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

Management of liquidity risk

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

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

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

for the year ended 31 December 2015 US$ 000's

39 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

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

	Gross undiscounted cash flows						
31 December 2015	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Financial liabilities							
Investors' funds	5,291	-	-	-	-	5,291	5,291
Placements from financial institutions, other entities and institutions	121,555	26,296	60,042	131,657	4,225	343,775	340,090
Customer current accounts	109,196	29,247	13,462	7,886	14,873	174,664	174,462
Financing liabilities	4,120	4,716	39,293	108,257	-	156,386	153,619
Other liabilities	52,239	18,761	17,276	47,701	-	135,977	135,977
Total liabilities	292,401	79,020	130,073	295,501	19,098	816,093	**809,439**
Equity of investment account holders	402,922	94,246	128,574	72,394	321,794	1,019,930	**994,915**

To manage the liquidity risk arising from financial liabilities, the Group aims to hold liquid assets comprising cash and cash equivalents, investment in managed funds and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

Further, the Group is focussed on developing a pipeline of steady revenues and has undertaken cost reduction exercises that would improve its operating cash flows.

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

for the year ended 31 December 2015 US$ 000's

39 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Measures of liquidity

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

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

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

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

	2015	2014
Net stable funding ratio	1.02	1.55

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

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

c) Market risks

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

Management of market risks

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

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39 FINANCIAL RISK MANAGEMENT (continued)

c) Market risks (continued)

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 2015	**Up to 3 months**	**3 to 6 months**	**6 months-1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets						
Placements with financial institutions	121,924	-	424	-	-	122,348
Financing assets	122,040	44,938	106,920	206,549	378,974	859,421
Investment securities (Sukuk)	168,523	-	-	-	-	168,523
Assets acquired for leasing (including lease rental receivable)	1,414	-	-	1,252	180,623	183,289
Total assets	**413,901**	**44,938**	**107,344**	**207,801**	**559,597**	**1,333,581**
Liabilities						
Investors' funds	5,291	-	-	-	-	5,291
Placements from financial and other institutions	120,077	26,241	60,042	129,503	4,227	340,090
Financing liabilities	4,120	4,716	39,293	105,490	-	153,619
Customer current account	20,737	-	-	-	-	20,737
Total liabilities	**150,225**	**30,957**	**99,335**	**234,993**	**4,227**	**519,737**
Equity of investment account holders	**361,080**	**93,562**	**126,721**	**70,337**	**293,215**	**944,915**
Profit rate sensitivity gap	**(97,404)**	**(79,581)**	**(118,712)**	**(97,529)**	**262,155**	**(131,071)**

31 December 2014	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Placements with financial institutions	248,482	-	-	-	-	248,482
Financing assets	139,692	61,536	53,942	195,873	331,585	782,628
Assets acquired for leasing	-	-	1,408	2,199	112,517	116,124
Investments in sukuk	95,432	-	-	-	-	95,432
Total assets	483,606	61,536	55,350	198,072	444,102	1,242,666
Liabilities						
Investors' funds	14,885	-	-	-	-	14,885
Placements from financial, other institutions and individuals	145,015	13,439	32,387	145,503	3,111	339,455
Customer current accounts	3,498	-	-	-	-	3,498
Financing liabilities	24,197	38,949	36,634	131,344	18,216	249,340
Total liabilities	187,595	52,388	69,021	276,847	21,327	607,178
Equity of investment account holders	345,132	131,844	147,507	276,210	-	900,693
Profit rate sensitivity gap	(49,121)	(122,696)	(161,178)	(354,985)	422,775	(265,205)

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39 FINANCIAL RISK MANAGEMENT (continued)

c) Market risks (continued)

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

Overall, profit rate risk positions are managed by Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

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

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

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Groups major exposure is in GCC currencies, which are primarily pegged to the US Dollar. The Group had the following significant net exposures denominated in foreign currency as of 31 December from its financial instruments:

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

(*) These currencies are pegged to the US Dollar.

for the year ended 31 December 2015 US$ 000's

39 FINANCIAL RISK MANAGEMENT (continued)

c) Market risks (continued)

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:

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

Exposure to other market risks

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

d) Operational risk

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

40 CAPITAL MANAGEMENT

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Group does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

40 CAPITAL MANAGEMENT (continued)

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

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

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

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

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

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

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

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

for the year ended 31 December 2015 US$ 000's

40 CAPITAL MANAGEMENT (continued)

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

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

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board of Directors. The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

41 COMPARATIVES

In addition to the restatement discussed in note 2 (a) due to impact of adopting changes in accounting standards and impact of de-recogition of CIC on loss of control (note 33), certain prior year amounts have been regrouped to conform to the current year's presentation. Such regrouping did not affect previously reported profit for the year or owners' equity except for the effect of change in accounting policy described in note 2 (a).