GFH Financial Group BSC

CONSOLIDATED
FINANCIAL STATEMENTS

31 DECEMBER 2017

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an 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 17 538538
Directors	:	H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa, *Chairman* Dr. Ahmed Al Mutawa, *Vice Chairman* Kamal Abdullah Bahamdan Mazen Bin Mohammed Al Saeed Mosabah Saif Al Mautairy Rashid Nasser Al Kaabi Ghazi F. Alhajeri Bashar Mohamed Al Mutawa Jassim AlSeddiqi (Resigned on 12 November 2017) Hisham Alrayes
Chief Executive Officer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

GFH Financial Group BSC

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for the year ended 31 December 2017

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CHAIRMAN'S REPORT
for the year ended 31 December 2017

CHAIRMAN'S REPORT

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 Financial Group, I am pleased to present the Group's financial results for the fiscal year ended 31 December 2017. The year was once again marked by significantly enhanced performance and levels of profitability resulting from a successful transformation that has seen GFH firmly establish itself as a highly-diversified and financially sound banking and investment group.

We are especially pleased with the strong results we have delivered despite macroeconomic and geopolitical challenges that have persisted in the MENA region and other global markets where GFH invests. Our ability to effectively navigate turbulent circumstances and continue to identify promising areas of opportunity is grounded in the deep knowledge imbedded across the Group and the sharp and focused approach we take to developing the right strategies for value creation and executing them. In doing so, we look to leverage our expertise and track record in order to continue to grow each of our business lines and to maximise our investments and asset, across the multiple sectors and geographies in which we are active including the GCC, North Africa, India, Europe and the US. We are also hopeful that with the strong foundations we have built, and the strategies adopted, we will be well placed to capitalise on rising oil prices and forecasts that have provided the region with greater optimism during 2018.

For the year, GFH reported net profit attributable to shareholders of US$104.2 million compared with US$217.12 million for the previous year and a consolidated net profit of US$103.2 million for the year as compared with US$233.05 million for the prior-year. These results, in real terms, reflect year-on-year growth in all areas of the business when excluding US$464 million in one-off income from the settlement of litigation by the Group in the fourth quarter of 2016. All business lines across the Group have delivered strong performances during the year, with further details on the major developments achieved within each division noted below.

Investment Banking:

Real Estate Investments

GFH's real estate equity investments continued to perform soundly in 2017 providing steady returns for the Group and our investors. This year again, the US real estate market provided us with both strong results from existing assets as well as new opportunities for investment and exits.

In April 2017, GFH acquired a $105 million US data center portfolio which consists of two selected state-of-the-art, build-to-suit data center facilities located in high technology business parks in Chester and Lebanon, Virginia.

The portfolio is fully leased to a single tenant (investment grade rated) on a triple net basis. GFH has entered a very attractive market for data centers in Virginia which is one of the nation's top ranked data center markets due to multiple favourable factors including the region's dense fiber network, highly reliable and low-cost power, low risk of natural disasters and targeted data center tax incentives. Exposure to the data centers portfolio has given Investors the opportunity to become a part of an industry that is in high demand, in continuous development, and has demonstrated immense growth on a national scale and globally.

In September, GFH also took advantage of strong market conditions in the US and demand to achieve an exit comprising of the sale of one of the properties included in its Diversified US Residential Portfolio (DURP). Acquired in 2014, the portfolio consisted of two multifamily residential property complexes in two US residential markets - Atlanta and Houston. GFH investors made an IRR of 11% over the approximate. three years investment period.

During the last quarter of 2017, GFH further invested nearly US$100 million in two large US commercial property investments. GFH launched a US$60 million portfolio of 10 suburban office properties in Philadelphia, Chicago and Washington DC metropolitan areas. The transaction was a joint venture with Exeter Property Group to acquire the portfolio with GFH holding a 95% stake and Exeter co-investing 5%. The portfolio, which is 95% occupied with long-term, diversified, credit-rated tenants, is expected to generate a yield of 9% and an IRR of 10% for our investors. Another transaction undertaken in December 2017, which involves a joint-venture investment with Lincoln Property Company, was the acquisition of a trophy asset located in suburban Chicago. It is currently underwritten by GFH and will be provided to our investors in 2018.

Other existing investments in US real estate similarly delivered strong returns in 2017 with our industrial asset portfolio generating a weighted average cash-on-cash return exceeding 9% for our investors. We remain bullish on the US real estate market as we see value opportunities in various sub sectors of investing therein.

Private Equity

2017 also saw continued strong activity and sound performance in GFH's private equity business line.
Looking at the Group's education investments, the year continued with strong momentum. The portfolio, which was established in 2014, enables GFH and its investors to leverage positive demographic trends and the growing need from international standard education in the GCC region. During the year, we took further steps to build and add value to our portfolio across the UAE and Bahrain comprising of both high quality international K-12 and university level institutions. We also continued to work hard to enhance performance and results at our schools while maintaining steady cash flows and attractive returns.

Later in December, the Group concluded another major education transaction valued at up to $150 million with Inspired, a leading global group of premium schools operating in Europe, Africa, Latin America and Australia. The deal saw Inspired acquire a part of GFH's US$300 million educational portfolio in the GCC. GFH undertook this partnership to add even greater value to its education assets by leveraging Inspired's vast international experience and network. Continued progress was also made throughout the year in the enhancement of performance at several of its key schools including The British School of Bahrain, which boasts over 2,600 students and is only one of five schools in Bahrain to gain an "Outstanding" ranking.

Similarly, GFH's Dubai-based Sheffield Private School, a provider of UK curriculum at the foundation, primary and secondary school levels and with more than 1600 international students at the start of the academic year, continued to go from strength to strength. During 2017, the School succeeded in upgrading its rankings from both government and private sector organisations as a result of its focus on providing world-class education. The School's annual review and inspection by the Government of Dubai's Knowledge and Human Development Authority (KHDA) saw its ratings raised to "Good" from "Acceptable".

We have built a strong pipeline of transactions which we will launch in 2018 and are confident that given the unique characteristics and partnerships that we have developed, these will be very successful investments for the Group and our investors.

Commercial Banking

Khaleeji Commercial Bank (KHCB), GFH's commercial banking subsidiary, achieved a significant milestone in 2017, successfully listing in December on the Dubai Financial Market with which the Bank's shares now trade in Dubai and Bahrain. For the year, KHCB reported profit before impairment of US$ 22 million, and is looking for further growth during 2018.

Real Estate Development

GFH Properties, which was launched in 2016 as the dedicated real estate development arm of the Group, also continued to advance key landmark projects across the GCC, MENA region and India in 2017 and build and enhance the value of its assets.

In August, the Group completed the acquisition of US$1.2bn infrastructure portfolio in Africa and the Middle East. The acquisition came as part of GFH's new strategy approved in the last shareholders' Extraordinary General Meeting in March 2017. The acquisition was funded by a US$315 million capital increase taking GFH's issued and paid up capital to US$975 million. The acquisition has made GFH one of the select companies in the region that control a very large developable land bank, with a development capacity in excess of 200 million square feet across Africa, GCC and India.

Looking at the Group's Bahrain projects, the Harbour Row project located in the Bahrain Financial Harbour, made significant progress in 2017. Onsite works reached approximately 30% completion and the first phase of sales saw more than 40% of offered stocks sold within an eight-month period. Villamar, the iconic US$700 million residential and commercial complex spread over 35,900 square meters at the Bahrain Financial Harbour, progressed according to plan. During the year, Gulf Holding Company, the project's owner, successfully entered an operational stage following a five-year adjournment. It effectively rebuilt its legal standing with the offering of its shareholders an exit option. Importantly, the project's contractor, in January of 2017, fully mobilized to site with a labor force exceeding 600. By year end, structural works were completed for Towers A and B lifestyle apartments and more than 70% of the internal works of Tower B units are targeted to be handed over as planned by the end of 2018. The project is also in the final stages of announcing a 5-star internationally acclaimed operator to run a 400+ key hotel, a step that comes in line with will the Bahraini government's plans to reposition the Kingdom as a key regional tourism market.

The Bahrain-based Al Areen project, which was acquired in late 2016, progressed considerably in 2017 as a result of efforts on several fronts to enhance the overall development and remove the mother company from liquidation. Settlements have been reached with most creditors and it is expected that in the 1st quarter of 2018, the project company will be out of sequester and will be able to resume its functions. GFH has developed a plan to upgrade the development and, as such, has completed a new design for the landscaping, which includes soft and hard landscaping, street lighting, and the completion of a new access road. Works are anticipated to commence during the 1st quarter of 2018. Additionally, a MOU has been signed with an international luxury hotel chain, for the operation of the existing Al Areen Palace and SPA. An agreement was also reached with them to produce a new concept design for the water park "The Lost Paradise of Dilmun Water Park" along with the adjacent hotel.

In the UAE, California Village, a mixed-use development and gated community located in Dubailand, further progressed in 2017. Following mobilization, which commenced in 2016, site work has moved swiftly ahead. A full marketing strategy has been developed in 2017 and is now being finalized in support of the offering of built units for sale in 2018.

In North Africa, the Tunis Bay project also achieved new milestones in 2017. This included further development of the Joint Venture agreement for the project's golf course and surrounding villas. Works commenced on the golf course and associated infrastructure and sample villas have been built. This is in addition to the commencement of infrastructure works for Phase 1 as a result of the signing of an agreement with a well-known contractor for the infrastructure works for Phases 1 and 2. Additionally, a framework agreement was signed with a consortium of Tunisian investors to develop the mall within Phase 1. The final agreement is to be concluded in the 1st quarter 2018 with works commencing a year later.

The 'Gateway to Morocco' project also pushed ahead in 2017. Although the Investment Agreement is still pending with the Ministerial Committee, tenders for Phase 1 construction works have been developed and prices received from four well-known contractors. Additionally, building permit applications have been submitted to the local authorities.

The Mumbai Economic Development Zone (MEDZ) took notable steps forward in 2017. The Wadhwa Group, has started site preparation works, which are in progress. This includes the associated roads for the township. Permissions have also been obtained from the Railways Department for construction of a rail-under-bridge, which ensures connectivity to the National Highway with work under progress on the same. The project is expected to be launched for sales in 2018. The Adani Group, the joint development partner, has received initial planning approvals, and is in process to clear local government regulations for planning permission on the site.

Distributions to Investors

Throughout 2017, GFH delivered record distributions and dividend payments for the past eight years to investors in line with the Group's progressive dividend policy. Dividends amounting to US$ 21.52 million was paid across all our managed investments to our investors. GFH also focused on exits during the period, and accordingly achieved a record exit during the year, amounting to US$ 1.2 billion from various projects.

Debts and Liabilities

In 2017, the Group continued to strengthen its financial position, taking further steps to optimize overall financing liabilities in order to improve liquidity, enhance the balance sheet and raise its overall investment ratings and risk profile. Due to GFH's strong execution and performance, the Group's credit rating was improved during the year with Fitch upgrading GFH to "B" with a positive outlook, based on the strengthening of GFH capital position and the reduction of associated legacy uncertainties.

Related Parties

During the year, we have worked with our directors, partners and associates in several projects and transactions that are listed in note 25 of the consolidated financial statements.

Conclusion

In line with these results and the Group's progressive dividend policy, we are happy to announce the Board's recommendation for the distribution of a 8.7% cash dividend (US$85 million) to shareholders, subject to approval at the General Assembly and by our regulators. The Group's continued strong shareholder returns underscores our commitment to delivering value on which we will remained focused throughout 2018. We enter 2018 better positioned than ever to continue to invest, grow and prosper across the Group. As we go forward, I would like to take this opportunity to acknowledge the hard work and deep dedication of GFH's management team and staff to ensuring the success of the Group and our ability to continue to deliver on our promises and achieve new heights year after year.

I would also like to extend our great appreciation to our shareholders and investors. It is their belief in GFH that serves as our foundations and allows us to go from strength to strength. Likewise, we are extremely grateful for the continued support and guidance provided to us throughout the year by the Central Bank of Bahrain, the Government of the Kingdom of Bahrain and our visionary leaders: His Royal Majesty King Hamad bin Isa Al Khalifa, His Royal Highness the Prime Minister Prince Khalifa bin Salman Al Khalifa and His Royal Highness the Crown Prince and Deputy Supreme Commander Prince Salman bin Hamad Al Khalifa.

We remain highly confident of what the future holds for GFH and of the strong value and returns that we will continue to bring to our shareholders, partners and investors. We look forward to keeping you apprised of our activities, progress and anticipated successes in the months and year ahead.

Sincerely,

Shaikh Ahmed Bin Khalifa Al Khalifa
Chairman

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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 2017, 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 2017, 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 (CBB) Rule Book, we report that:

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

KPMG

KPMG Fakhro
Partner Registration No. 100
13 February 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

US$ 000's

	note	31 December 2017	31 December 2016
ASSETS			
Cash and bank balances	4	216,445	156,448
Placements with financial institutions		95,569	213,898
Financing assets	5	992,502	961,490
Investment securities	6	521,408	527,203
Assets acquired for leasing		257,806	246,257
Investment property	7	616,263	488,436
Development properties	8	893,037	280,972
Equity-accounted investees	9	81,440	79,010
Intangible assets		-	54,891
Property, plant and equipment	10	117,135	169,153
Other assets	11	318,852	125,643
Total assets		**4,110,457**	3,303,401
LIABILITIES			
Investors' funds		39,413	44,565
Placements from financial institutions, other entities and individuals	12	858,496	570,515
Customer current accounts		189,607	192,783
Financing liabilities	13	365,062	168,992
Other liabilities	14	255,733	182,649
Total liabilities		**1,708,311**	1,159,504
Equity of investment account holders	15	**906,353**	1,022,190
OWNERS' EQUITY			
Share capital	16	975,638	597,995
Share premium		3,058	-
Treasury shares	16	(58,417)	(340)
Capital adjustment account		-	24,320
Statutory reserve		105,893	93,768
Retained earnings		122,825	191,379
Share grant reserve	17	1,026	902
Total equity attributable to shareholders of Bank		**1,150,023**	908,024
Non-controlling interests		345,770	213,683
Total owners' equity (page 9)		**1,495,793**	1,121,707
Total liabilities, equity of investment account holders and owners' equity		**4,110,457**	3,303,401

The consolidated financial statements consisting of pages 7 to 77 were approved by the Board of Directors on 13 February 2018 and signed on its behalf by:

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

Dr. Ahmed Al Mutawa
Vice Chairman &
Chairman of the Audit committee

Hisham Alrayes
Chief Executive Officer &
Board member

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

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2017

US$ 000's

	note	2017	2016
Continuing operations			
Income from investment banking activities	19	121,294	3,322
Fees and commission income		6,631	15,399
Income from placements with financial institutions		3,177	1,818
Income from financing assets and assets acquired for leasing		73,377	70,148
Share of profits of equity-accounted investees	9	(248)	846
Income from investment securities, net	20	11,313	3,888
Foreign exchange gain / (loss), net		4,050	(2,424)
Gain on sale of investment property		-	46,082
Other income, net	21	48,211	8,820
Operating income before return to investment account holders and finance expense		**267,805**	147,899
Return to investment account holders before Group's share as Mudarib		(39,480)	(43,200)
Bank's share as Mudarib		19,726	24,219
Return to investment account holders	15	**(19,754)**	(18,981)
Less: Finance expense		(43,692)	(23,437)
Operating income		**204,359**	105,481
Income from settlement of litigations	18	-	464,567
Total income		**204,359**	570,048
Staff cost	22	40,914	53,964
Investment advisory expenses		8,778	16,504
Other operating expenses	23	49,387	49,072
Total expenses		**99,079**	119,540
Profit before impairment allowances		**105,280**	450,508
Less: Impairment allowances	24	(9,381)	(221,112)
Profit for the year from continuing operations		**95,899**	229,396
Discontinued operations			
Profit from operations of non-banking subsidiaries, net	19	7,289	3,652
Profit for the year		**103,188**	233,048
Profit for the year attributable to:			
Shareholders of the Bank		104,182	217,125
Non-controlling interests		(994)	15,923
		103,188	233,048
Earnings per share			
Basic and diluted earnings per share (US cents)		**3.58**	8.80
Earnings per share – continuing operations			
Basic and diluted earnings per share (US cents)		**3.30**	8.65

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

Dr. Ahmed Al Mutawa
Vice Chairman &
Chairman of the Audit committee

Hisham Alrayes
Chief Executive Officer &
Board member

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2017 US$ 000's

2017	Attributable to shareholders of the Bank								Non-controlling interests	Total owners' equity
	Share Capital	Share premium	Treasury shares	Capital adjustment account	Statutory reserve	Retained earnings	Share grant reserve	Total		
Balance at 1 January 2017	597,995	-	(340)	24,320	93,768	191,379	902	908,024	213,683	1,121,707
Profit for the year (page 8)	-	-	-	-	-	104,182	-	104,182	(994)	103,188
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**104,182**	**-**	**104,182**	**(994)**	**103,188**
Issuance of share capital (note 16)	314,530	2,896	-	(24,320)	-	-	-	293,106	176,754	469,860
Bonus shares issued (note 16)	59,799	-	-	-	-	(59,799)	-	-	-	-
Dividends declared (note 16)	-	-	-	-		(59,799)	-	(59,799)	-	(59,799)
Transfer to zakah and charity fund (note 16)	-	-	-	-		(3,509)	-	(3,509)	-	(3,509)
Acquisition of additional interests in subsidiaries and resulting changes in non-controlling interests, net (note 18)	-	-	-	-	1,707	(39,211)	(40)	(37,544)	(34,816)	(72,360)
Transfer to statutory reserve	-	-	-	-	10,418	(10,418)	-	-	-	-
Issue of shares under incentive scheme, net of forfeitures (note 22)	3,314	3,564	-	-	-	-	164	7,042	-	7,042
Derecognition of a subsidiary on loss of control	-	-	-	-	-	-	-	-	(8,857)	(8,857)
Purchase of treasury shares	-	-	(82,839)	-	-	-	-	(82,839)	-	(82,839)
Sale of treasury shares	-	(3,402)	24,762	-	-	-	-	21,360	-	21,360
Balance at 31 December 2017	**975,638**	**3,058**	**(58,417)**	**-**	**105,893**	**122,825**	**1,026**	**1,150,023**	**345,770**	**1,495,793**

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2017 *(continued)* US$ 000's

2016	Share capital	Treasury shares	Capital adjustment account	Statutory reserve	Retained earnings	Investment fair value reserve	Share grant reserve	Total	Non – controlling interests	Total owners' equity
	Attributable to shareholders of the Bank									
Balance at 1 January 2016	597,995	(4,053)	22,420	72,055	(4,033)	(230)	893	685,047	197,760	882,807
Profit for the year (page 11)	-	-	-	-	217,125	-	-	217,125	15,923	233,048
Transfer to income statement on disposal	-	-	-	-	-	230	-	230	-	230
Total recognised income and expense	-	-	-	-	217,125	230	-	217,355	15,923	233,278
Purchase of treasury shares	-	(6,878)	-	-	-	-	-	(6,878)	-	(6,878)
Sale of treasury shares	-	10,591	-	-	-	-	-	10,591	-	10,591
Gain on sale of treasury shares	-	-	1,900	-	-	-	-	1,900	-	1,900
Transfer to statutory reserve	-	-	-	21,713	(21,713)	-	-	-	-	-
Share grants vesting expense, net of forfeitures	-	-	-	-	-	-	9	9	-	9
Balance at 31 December 2016	597,995	(340)	24,320	93,768	191,379	-	902	908,024	213,683	1,121,707

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2017 US$ 000's

	2017	2016
OPERATING ACTIVITIES		
Profit for the year	**103,188**	233,048
Adjustments for:		
Income from investment banking activities	(80,511)	-
Income from investment securities	(11,313)	(3,888)
Share of loss / (profit) of equity-accounted investees	248	(846)
Foreign exchange (gain) / loss	(4,050)	2,424
Other income	(18,000)	(14,073)
Gain on sale of investment and development properties	-	(46,082)
Income from settlement of litigations	-	(464,567)
Profit from operations of non-banking subsidiaries	(7,289)	(3,655)
Finance expense	43,692	23,437
Depreciation and amortisation	6,279	3,784
Impairment allowances	9,381	221,112
	41,625	(49,306)
Changes in:		
Placements with financial institutions	3,193	(5,108)
Financing assets	(21,912)	(102,069)
Asset acquired for leasing	(11,549)	(66,387)
Other assets	(97,437)	90,405
Investors' funds	(5,152)	16,837
Placements from financial institutions, other entities and individuals	287,981	230,425
Customer current accounts	(3,176)	38,731
Other liabilities	9,049	(64,457)
Equity of investment account holders	(115,837)	77,275
CBB reserve account	6,354	(2,613)
Net cash generated from operating activities	**93,139**	163,733
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(921)	(1,118)
Purchase of investment securities	(220,030)	(93,546)
Proceeds from sale of investment securities	51,875	91,531
Dividend and income from investment securities	14,857	9,422
Proceeds from sale of investment and development properties	1,857	7,353
Proceeds from sale of private equity subsidiaries	53,694	-
Net cash (used in) / generated from investing activities	**(98,668)**	13,642
FINANCING ACTIVITIES		
Financing liabilities, net	126,255	(42,310)
Finance expense paid	(36,245)	(20,666)
(Purchase) / sale of treasury shares, net	(65,139)	3,713
Dividends paid	(59,799)	-
Acquisition of additional shares in a subsidiary	(15,228)	-
Net cash used in financing activities	**(50,156)**	(59,263)
Net (decrease) / increase in cash and cash equivalents	**(55,685)**	118,112
Cash and cash equivalents at 1 January	312,572	194,460
CASH AND CASH EQUIVALENTS at 31 December	**256,887**	312,572
Cash and cash equivalents comprise:		
Cash and balances with banks (excluding CBB reserve account and restricted bank balances)	169,619	103,782
Placements with financial institutions (with original maturity of three months or less)	87,268	208,790
	256,887	312,572

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

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2017

31 December 2017	**Balance at 1 January 2017**			**Movements during the year**						**Balance at 31 December 2017**		
Company	No. of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	6.85	637	(532)	(12)	-	-	-	-	13	7.03	93
Safana Investment (RIA 1)	6,304	2.65	16,721	(133)	-	-	-	-	-	6,254	2.65	16,588
Shaden Real Estate Investment WLL (RIA 5)	3,652	2.65	9,686	(300)	-	-	-	-	-	3,529	2.65	9,386
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			29,729	**(965)**	**(12)**	**-**	**-**	**-**	**-**			**28,752**

31 December 2016	Balance at 1 January 2016			Movements during the year						Balance at 31 December 2016		
Company	No. of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	6.95	646	-	(9)	-	-	-	-	93	6.85	637
Safana Investment (RIA 1)	8,313	2.65	22,050	(5,329)	-	-	-	-	-	6,304	2.65	16,721
Janayen Holding Limited (RIA 4)	48,082	0.47	22,546	(22,610)	-	64	-	-	-	-	-	-
Shaden Real Estate Investment WLL (RIA 5)	3,728	2.65	9,888	(202)	-	-	-	-	-	3,652	2.65	9,686
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			57,815	(28,141)	(9)	64	-	-	-			29,729

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

for the year ended 31 December 2017 US$ 000's

	2017	2016
Sources of zakah and charity fund		
Contributions by the Group	4,468	-
Non-Islamic income (note 29)	45	95
Total sources	**4,513**	95
Uses of zakah and charity fund		
Utilisation of zakah and charity fund	(3,833)	(610)
Total uses	**(3,833)**	(610)
Surplus / (Deficit) of uses over sources	680	(515)
Undistributed zakah and charity fund at 1 January	2,160	2,675
Undistributed zakah and charity fund at 31 December (note 14)	**2,840**	2,160

Represented by:		
Zakah payable	13	267
Charity fund	2,827	1,893
	2,840	2,160

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

for the year ended 31 December 2017 US$ 000's

1 REPORTING ENTITY

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

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

Consolidated financial statements

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

<table>
<tr><th>Investee name</th><th>Country of incorporation</th><th>Parent / Owning Company</th><th>Effective ownership interests 2017</th><th>Activities</th></tr>
<tr><td>GFH Capital Limited</td><td>United Arab Emirates</td><td rowspan="9">GFH</td><td>100%</td><td>Investment management</td></tr>
<tr><td>Khaleeji Commercial Bank BSC ('KHCB') *</td><td>Kingdom of Bahrain</td><td>55.41%*</td><td>Islamic retail bank</td></tr>
<tr><td>Morocco Gateway Investment Company ('MGIC') *</td><td rowspan="3">Cayman Islands</td><td>89.26%</td><td>Real estate development</td></tr>
<tr><td>Tunis Bay Investment Company ('TBIC') *</td><td>51.41%</td><td>Real estate development</td></tr>
<tr><td>Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects") *</td><td>77.20%</td><td>Real estate development</td></tr>
<tr><td>Al Areen Hotels SPC</td><td rowspan="3">Kingdom of Bahrain</td><td>100%</td><td>Hospitality management</td></tr>
<tr><td>Al Areen Project companies</td><td>100%</td><td>Real estate development</td></tr>
<tr><td>Al Areen Leisure and Tourism Company – The Lost Paradise of Dilmun SPC ('LPOD')</td><td>100%</td><td>Amusement and theme park</td></tr>
<tr><td>GCL CPOL Management Company</td><td>Cayman Islands</td><td>100%</td><td>Acquire commercial office asset in USA</td></tr>
<tr><td>Surooh Company ('Surooh')</td><td rowspan="2">Cayman Islands</td><td rowspan="2">KHCB</td><td>10.00%</td><td>Construct and sell properties at "Oryx Hills".</td></tr>
<tr><td>Eqarat Al Khaleej ('Eqarat')</td><td>19.80%</td><td>Buy, sell and rent income producing properties across the GCC.</td></tr>
</table>

** Refer note 18*

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 2017

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017 and are expected to be relevant to the Group.

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

New standards, amendments and interpretations issued but not yet effective

FAS 30 – Impairment, credit losses and onerous commitments

AAOIFI has issued FAS 30 *Impairment, Credit losses and onerous commitments* in 2017. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions. FAS 30 will replace FAS 11 *Provisions and Reserves* and parts of FAS 25 *Investment in Sukuk, shares and similar instruments* that deals with impairment.

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets 1) Credit Losses approach, 2) Net Realizable Value approach ("NRV") and 3) Impairment approach.

For the purpose of this standard, the assets and exposures shall be categorized, as under:

a. Assets and exposures subject to credit risk (subject to credit losses approach):
   i. Receivables; and
   ii. Off-balance sheet exposures;

b. Inventories (subject to net realizable value approach)

c. Other financing and investment assets and exposures subject to risks other than credit risk (subject to impairment approach) , excluding inventories; and

Credit losses approach for receivables and off-balance sheet exposures uses a dual measurement approach, under which the loss allowance is measured as either a 12-month expected credit loss or a lifetime expected credit loss.

Expected credit losses

FAS 30 introduces the credit losses approach with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets which are subject to credit risk. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted. As mandated by the regulator in Bahrain, all Islamic banks are required to early adopt FAS 30 from 1 January 2018.

The Group will adopt FAS 30 on 1 January 2018 and will not restate the comparative information. The Group has assessed that the estimated impact of credit losses approach on the date of initial application of FAS 30 will reduce total assets by approximately US$ 25 million and shareholders' equity by approximately US$ 14 million as at 1 January 2018. The estimated impact relates primarily to the increase in the allowance for credit losses under the new impairment requirements. The Group continues to revise, refine and validate the impairment models and related process controls which may change the actual impact on adoption.

b) Basis of preparation

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

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

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

c) Basis of consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

(ii) Subsidiaries

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

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

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

(iv) Special purpose entities

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) *Basis of consolidation (continued)*

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

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

(v) Loss of control

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

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

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

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation (continued)

(vii) Transactions eliminated on consolidation and equity accounting

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

d) Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Foreign operations

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

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

e) Offsetting of financing instruments

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

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

f) Investment securities

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

(i) Classification

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

Debt-type instruments

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

At fair value through income statement (FVTIS)

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

At amortised cost

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

Equity-type instruments

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

At fair value through income statement (FVTIS)

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

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

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

At fair value through equity (FVTE)

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

(ii) Recognition and de-recognition

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Investment securities (continued)

(iii) Measurement

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

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

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

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

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

g) Financing assets

Financing assets comprise 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Assets acquired for leasing

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

i) Placements with and from financial and other institutions

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

j) Cash and cash equivalents

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

k) Investment property

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

A property is transferred to investment property when, there is change in use, evidenced by:

(i) end of owner-occupation, for a transfer from owner-occupied property to investment property; or

(ii) (ii) commencement of an operating ijara to another party, for a transfer from a development property to investment property.

Further, an investment property is transferred to development property when, there is a change in use, evidenced by:

(i) commencement of own use, for a transfer from investment property to owner-occupied property;

(ii) commencement of development with a view to sale, for a transfer from investment in real estate to development property.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

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

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

The assets' residual values, useful lives and methods of depreciation are reviewed annually and adjusted prospectively if appropriate.

n) Intangible assets

Goodwill

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

Other Intangible assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Intangible assets (continued)

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

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

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

o) Impairment of assets

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

Financial assets carried at amortised cost

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

Investments carried at fair value through equity (FVTE)

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

o) 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.

p) Investors funds

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

q) Customers' current accounts

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

r) Financing liabilities

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

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

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

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

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 (note 35).

t) Dividends and board remuneration

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

u) Share capital and reserves

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

Treasury shares

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

Statutory reserve

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

v) Equity of investment account holders

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Equity of investment account holders (continued)

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) Revenue recognition

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

Banking business

Commission income

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

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

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

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

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

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

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

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

Non banking business

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

x) 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.

y) 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.

z) Employees benefits

(i) Short-term benefits

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

(ii) Post employment benefits

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

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

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

(iii) Share-based employee incentive scheme

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Employment benefits (continued)

(iii) Share-based employee incentive scheme (continued)

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.

aa) 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.

bb) 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.

cc) 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.

dd) Investment account holder protection scheme

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

ee) Income tax

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

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

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

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.

Estimations

(i) Fair value of investments

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

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

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

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

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

(iii) Impairment of investment property

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

(iv) Impairment of other receivables

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

(v) Impairment of financing assets

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

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 the purposes of a collective evaluation of impairment, financing assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The methodology and assumptions used for the grading process and estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

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

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

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

(vii) Estimating net realisable value of development property

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

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4 CASH AND BANK BALANCES

	31 December 2017	31 December 2016
Cash	21,513	18,271
Balance with banks	80,365	53,281
Balance with Central Bank of Bahrain		
- Current account	68,255	32,230
- Reserve account	46,312	52,666
	216,445	156,448

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

5 FINANCING ASSETS

	31 December 2017	31 December 2016
Murabaha	948,528	924,587
Musharaka	18,350	23,249
Wakala	56,981	77,947
Mudharaba	3,016	3,064
Istisna	-	19
	1,026,875	1,028,866
Less: Impairment allowances – specific	(22,881)	(55,786)
Less: Impairment allowances – collective	(11,492)	(11,590)
	992,502	961,490

Murabaha financing receivables are net of deferred profits of US$ 61,111 thousand (2016: US$ 82,238 thousand).

The movement on impairment allowances are as follows:

2017	**Specific**	**Collective**	**Total**
At 1 January	55,786	11,590	67,376
Net charge for the year (note 24)	2,183	(98)	2,085
Adjusted on write-off of assets	(35,088)	-	(35,088)
At 31 December	**22,881**	**11,492**	**34,373**

2016	Specific	Collective	Total
At 1 January	27,278	9,241	36,519
Net charge for the year (note 24)	35,951	2,349	38,300
Adjusted on write-off of assets	(7,443)	-	(7,443)
At 31 December	55,786	11,590	67,376

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6 INVESTMENT SECURITIES

	31 December 2017	31 December 2016
Equity type investments		
At fair value through income statement:		
- Quoted securities	-	377
- Unquoted securities	34,875	40,180
	34,875	40,557
At fair value through equity:		
- Unquoted managed funds (at fair value)	-	1,973
- Listed securities (at fair value)	103	103
- Unquoted securities (at cost)	185,775	287,180
	185,878	289,256
Debt type investments		
At amortised cost		
- Quoted sukuk *	300,265	194,809
- Unquoted sukuk	390	2,581
	300,655	197,390
	`521,408	527,203

* Includes sukuk of US$ 129,676 thousand pledged against medium-term borrowing of US$ 109,570 thousand (note 13).

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

	2017	2016
At 1 January	40,557	60,724
Disposals during the year, at carrying value	(5,305)	(18,117)
De-recognition of investment on deconsolidation of subsidiary	(377)	
Fair value changes	-	(2,050)
At 31 December	**34,875**	40,557

b) Equity type investments - At fair value through equity

	2017	2016
At 1 January	289,256	344,206
Additions during the year	293,729	52,685
Disposals during the year, at carrying value	(6,895)	(33,037)
Write-offs of fully provided investments during the year	(7,926)	(13,557)
Elimination on consolidation of subsidiaries (note 18)	(378,709)	-
Impairment charge for the year (note 24)	(3,577)	(61,041)
At 31 December	**185,878**	289,256

Unquoted equity securities US$ 185,775 thousand (2016: US$ 287,180 thousand) classified at fair value through equity, but measured at cost less impairment in the absence of reliable measure of fair value, are primarily investment in equities of companies carrying out real estate and infrastructure development projects in different countries. The Group plans to exit these investments principally by means of strategic sell outs or sale of underlying assets.

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6 INVESTMENT SECURITIES (continued)

During the year, the Group recognised an impairment of US$ 3,577 thousand (2016: US$ 61,041 thousand) on such assets. Impairment allowance has been established based on management's assessment of the current market conditions, the marketability of the investments and the assessment of recoverable amounts.

7 INVESTMENT PROPERTY

	2017	2016
At 1 January	488,436	257,932
Acquisitions arising from settlement	-	207,707
Additions during the year	137,310	53,827
Disposals	(2,715)	(38,133)
Transfer to development property	-	19,395
Depreciation charge for the year	(194)	(692)
De-recognition on deconsolidation of a subsidiary	(4,479)	-
Impairment charge (note 24)	(2,095)	(11,600)
At 31 December	**616,263**	488,436

Investment property includes land plots and buildings in Bahrain, UAE , Morocco and USA. Investment property of carrying amount of US$ 192.2 million (2016: US$ 192.2 million) is pledged against Wakala facilities, Ijarah facility and Sukuk liability (note 13).

The fair value of the Group's investment property at 31 December 2017 was US$ 624,710 thousand (31 December 2016: US$ 521,187 thousand) based on a valuation carried out by an independent third party external valuers who have recent experience in the location and category of the asset being valued.

8 DEVELOPMENT PROPERTIES

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

	2017	2016
At 1 January	280,972	179,577
Acquisitions arising from settlement	-	125,512
Acquisitions arising on consolidation of subsidiaries (note 18)	571,970	-
Additions during the year	40,095	-
Disposals	-	(4,722)
Transfer to investment property	-	(19,395)
At 31 December	**893,037**	280,972

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9 EQUITY-ACCOUNTED INVESTEES

Equity-accounted investees represents investments in:

Name	Country of incorporation	% holding 2017	% holding 2016	Nature of business
Falcon Cement Company BSC (c)	Kingdom of Bahrain	31.72%	31.72%	Manufacturing and trading of cement
United Arab Cement Company J.S.C.*	Syrian Arab Republic	38.9%	38.9%	Manufacturing of cement
Libya Investment Company *	Cayman Islands	38.9%	38.9%	Holding company
Amlak II SPV	Cayman Islands	23.51%	23.51%	Purchase and sale of real estate in the Kingdom of Bahrain
Bahrain Aluminium Extrusion Company B.S.C. (c) ('Balexco')	Kingdom of Bahrain	17.32%	17.32%	Extrusion and sale of aluminium products
Global Banking Corporation BSC (c)	Kingdom of Bahrain	20%	20%	Islamic wholesale banking
Ensha Development Company	Kingdom of Bahrain	33.33%	33.33%	Holding plot of land in Kingdom of Bahrain.

** fully impaired*

The movement in equity-accounted investees is given below:

	2017	2016
At 1 January	79,010	81,274
Acquisitions on settlement	-	27,900
Investment recognised on deconsolidation of subsidiary	5,286	
Additions during the year	111	5,454
Share of profit for the year, net	(248)	846
Dividends during the year	(2,719)	-
Impairment charge for the year (note 23)	-	(36,464)
At 31 December	**81,440**	79,010

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):

	2017	2016
Total assets	233,676	344,908
Total liabilities	107,212	111,448
Total revenues	132,578	66,563
Total net profit	13,095	5,981

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10 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and infrastructure on leasehold land	Computers	Furniture, machinery and other equipment	Motor Vehicles	Capital WIP	2017 Total	2016 Total
Cost:								
At 1 January	40,051	105,726	19,804	31,885	5,773	8,487	211,726	64,391
Acquired in a business combination (note 18)	-	2,588	-	-	-	-	2,588	145,875
Additions	-	20	769	668	111	523	2,091	3,614
Disposals	-	-	-	-	(13)	(1,149)	(1,162)	(2,154)
Transfers	-	-	-	-	(49)	-	(49)	-
Capitalisation of WIP	-	66	1,101	13	27	(1,207)	-	-
Derecognition on loss of control	-	(52,115)	-	(4,462)	-	(941)	(57,518)	-
At 31 December	**40,051**	**56,285**	**21,674**	**28,104**	**5,849**	**5,713**	**157,676**	211,726
Accumulated depreciation:								
At 1 January	-	1,454	18,520	21,641	958	-	42,573	38,789
Charge for the year (note 23)	-	3,384	1,039	1,648	208	-	6,279	3,784
Disposals	-	-	-	-	(13)	-	(13)	-
Transfers	-	-	-	-	(36)	-	(36)	-
Derecognition on loss of control	-	(4,645)	-	(3,617)	-	-	(8,262)	-
At 31 December	**-**	**193**	**19,559**	**19,672**	**1,117**	**-**	**40,541**	42,573
Net book value:								
At 31 December	**40,051**	**56,092**	**2,115**	**8,432**	**4,732**	**5,713**	**117,135**	169,153

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11 OTHER ASSETS

	31 December 2017	31 December 2016
Investment banking receivables *	123,506	-
Financing to projects, net	20,020	18,003
Receivable on sale of:		
- Investment properties	-	37,952
- Development properties	10,000	10,000
Advances and deposits	38,156	19,835
Employee receivables	18,302	19,786
Profit on sukuk receivable	5,815	3,902
Lease rentals receivable	22,785	6,825
Prepayments and other receivables	80,268	9,340
	318,852	125,643

* Of this, an amount of US$ 104,591 thousand has been subsequently received in January 2018.

During the year, the Group recognised Nil (2016: US$ 51,500 thousand), US$ 114 thousand (2016: US$ 20,714 thousand) and US$ 460 thousand (2016: US$ 626 thousand) impairment allowance on financing to projects, other receivables and lease rentals receivable respectively (note 24).

12 PLACEMENTS FROM FINANCIAL INSITUTIONS, OTHER ENTITIES AND INDIVIDUALS

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

13 FINANCING LIABILITIES

	31 December 2017	31 December 2016
Murabaha financing	153,899	-
Wakala financing	54,167	66,959
Sukuk liability	25,364	50,059
Ijarah financing	15,607	16,571
Other borrowings	116,025	35,403
	365,062	168,992

	31 December 2017	31 December 2016
Current portion	145,687	45,210
Non-current portion	219,375	123,782
	365,062	168,992

13 FINANCING LIABILITIES (continued)

Murabaha financing

Murabaha financing (i) (2017)
Murabaha financing comprise US$ 20 million financing facility for a period of 3 years with profit rate of 6 month LIBOR plus a margin of 4.5% p.a. (subject to minimum 6% p.a.) The Murabaha financing is secured by a pledge over the Group's investment in shares of KHCB.

Murabaha financing (ii) (2017)
A US$ 15 million facility has been obtained for general corporate purposes for a period of 5 years at a profit rate of 3 month LIBOR plus margin of 6% (subject to a minimum of 7% p.a.). The facility is secured by a pledge on Group's investment in shares of KHCB.

Further, during the year, the Group obtained two medium-term facilities of US$ 109,570 thousand secured by pledge over sukuk of US$ 129,676 thousand (note 6).

Wakala financing

Wakala financing (i) (2016)
Wakala financing comprise of a facility from a financial institution. The facility is for an amount of US$ 35 million, repayable over a period of 3 years annually from November 2017 till November 2019 at a profit rate of LIBOR plus margin of 7.65% (subject to a minimum of 8%). The facility is secured by a pledge over the Group's investment property of carrying value of US$ 24.7 million (31 December 2016: US$ 24.7 million) (note 7) and development property of carrying value of US$ 44.5 million (31 December 2016: US$ 42.3 million) (note 8).

Wakala financing (ii) (2009)
Wakala financing comprise is a syndicate facility from a number of financial institutions. Wakala financing is repayable over a period of six years till April 2019 at an agreed profit rate of 6%. The Wakala financing facility is secured by a pledge over the Group's investment property having a carrying value of US$ 136 million (31 December 2016: US$ 136 million) (note 7).

Sukuk liability
The Sukuk is backed by a pool of assets of the Group and has a liquidity facility provided by the Bank to support timely payments of distributions. The Sukuk were traded on the London Stock Exchange. Currently, the Sukuk certificates stand cancelled from admission to trading.

The final Sukuk instalment is payable 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$ 55.1 million (31 December 2016: 55.1 million) and an investment property with carrying value of US$ 31.5 million (31 December 2016: US$ 31.5 million)

Ijarah facility
Represents facility from a financial institution for acquisition of a property repayable over a period of 8 years at a profit rate of LIBOR plus margin of 5.7% (subject to minimum of 7% p.a.). The Ijarah is for an investment property of the Group with a carrying value of US$ 40.84 million (31 December 2016: US$ 40.84 million)

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

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14 OTHER LIABILITIES

	31 December 2017	31 December 2016
Employee related accruals	23,205	25,179
Unclaimed dividends	7,530	5,844
Mudaraba profit accrual	7,586	7,812
Provision for employees' leaving indemnities	2,816	3,109
Zakah and Charity fund (page 13)	2,840	2,160
Provision against financial guarantees	3,000	-
Accounts payable	175,768	48,177
Accrued expenses and other payables	32,988	90,368
	255,733	182,649

15 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

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

	31 December 2017	31 December 2016
Balances with banks	16,813	45,389
CBB reserve account	46,312	52,666
Placements with financial institutions	90,103	157,635
Debt type instruments – sukuk	300,263	197,390
Financing assets	452,862	569,110
	906,353	1,022,190

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

	2017	2016
Returns from jointly invested assets	39,480	43,200
Banks share as Mudarib	(19,726)	(24,219)
Return to investment account holders	**19,754**	18,981

The average gross rate of return in respect of unrestricted investment accounts was 4.12% for 2017 (2016: 4.39%). Approximately 2.18% (2016: 1.93%) was distributed to investors and the balance was either set aside for provisions and/or retained by the Group as a Mudarib fee. Unrestricted investment accounts include profit equalisation reserve of US$ 9 thousand (2016: US$ 7 thousand) and investment risks reserve of US$ 5 thousand (2016: US$ 3 thousand).

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16 SHARE CAPITAL

	31 December 2017	31 December 2016
Authorised:		
9,433,962,264 shares of US$ 0.265 each (2016: 5,660,377,358 shares of US$ 0.265 each)	**2,500,000**	1,500,000
Issued and fully paid up:		
3,681,650,441 shares of US$ 0.265 each (2016: 2,256,583,403 shares of US$ 0.265 each)	**975,638**	597,995

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

	2017	2016
At 1 January	597,995	597,995
Investment offering	314,530	-
Issue of bonus shares	59,799	-
Issue of shares under incentive scheme	3,314	-
At 31 December	**975,638**	597,995

Investment offering

After obtaining the requisite approvals, the Group offered to its investors in certain infrastructure projects and investment funds to acquire their holdings in return for pre-determined number of the Bank's shares (note 18). Subscriptions for 1,186,904,148 shares of the Bank were made up to the final closing period of 15 August 2017. Shares were issued to the subscribers resulting in increase in share capital by US$ 314,530 thousand. Excess over the par value of US$ 0.265 per share has been considered as share premium and reflected accordingly under share premium account (including transfer from capital adjustment account).

At 31 December 2017, the Bank held 106,467,804 (31 December 2016: 2,211,891) treasury shares.

Additional information on shareholding pattern

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

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

Categories*	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	2,647,628,504	8,311	71.91
1% up to less than 5%	739,144,187	11	20.08
5% to less than 10%	294,877,750	1	8.01
10% to less than 20%	-	-	
Total	**3,681,650,441**	**8,323**	**100**

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

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16 SHARE CAPITAL (continued)

(iii) As at 31 December 2017, 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	294,877,750	8.01

Appropriations and changes in capital structure

Appropriations, if any, are made when approved by the shareholders. In the ordinary and extraordinary general meetings held on 1 March 2017, shareholders approved the following:

a) Dividend of 20% of the paid-up share capital amounting to US$ 119.6 million comprising 10% cash and 10% bonus shares;

b) Appropriation of US$ 2 million towards charity reserve;

c) Appropriation of US$ 1.5 million towards zakah fund; and

d) Authorise board of directors to issue new shares upto 300,000,000 for the benefit of GFH Employee Benefit Trust towards staff performance incentive program.

e) Increase the authorised share capital of the Bank from US$ 1.5 billion to US$ 2.5 billion divided into 9,433,962,264 shares at par value of US$ 0.265 per share;

f) Issue of upto 1,700,000,000 new shares for acquisition of a number of infrastructure projects and investment funds; and

g) Issue of upto 1,700,000,000 new shares at a nominal value of US$ 0.265 per share and a share premium to be determined by the Board of Directors as per market conditions, to be used for the acquisition of a number of financial institutions and strategic assets.

The Bank is in the process of amending the memorandum and articles of association to reflect the above.

17 SHARE GRANT RESERVE

	2017	2016
At 1 January	902	893
Issue of share under incentive scheme	164	9
Transfer between interests	(40)	-
At 31 December	**1,026**	902

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18 ACQUISITION OF SUBSIDIARIES

i) Acquisitions in 2017

Pursuant to the approval by the shareholders in their Extraordinary General Meeting held on 1 March 2017, the Bank has offered its shares in exchange for the holdings of its investors in various infrastructure projects and investment funds. The Group had acquired additional stake in the following infrastructure projects resulting in the Group obtaining control over these projects as at 30 September 2017, and accordingly, these have been consolidated with the results of the Bank.

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

	Current Stake	Additional stake acquired	Total stake
TBIC	13%	38.41%	51.41%
India Projects	7.52%	70.21%	77.73%

Consideration transferred and non-controlling interests

The consideration for the acquisition of assets were in the form of shares of GFH. Given the nature of the repurchase transaction and the basis of determination of swap ratios for each asset by the shareholders, the transaction has been treated similar to a capital increase through transfer of non-cash assets in which the value of the asset received has been considered as the basis of measurement for increase in equity. The Group has used the acquisition-date expected realisable value of assets and settlement amount of liabilities of the entities acquired for the acquisition accounting and as consideration received for shares issued resulting in no gain or loss on initial recognition. The remaining stake held by investors other than the Group in the subsidiaries is recognised in the consolidated financial statements under "Non-controlling interests" based on the proportionate share of non-controlling shareholders' in the recognised amounts of the investee's net assets.

Identifiable assets acquired and liabilities assumed

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

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities as at 30 September 2017, being the effective date of acquisition, and have been reported on a provisional basis as permitted by accounting standards.

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

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18 ACQUISITION OF SUBSIDIARIES (continued)

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

	TBIC	India Projects
Property, plant and equipment	56	-
Cash and bank balances	184	-
Development properties	206,794	365,176
Other assets	608	40,566
Total assets	**207,642**	**405,742**
Other payables	1,897	54,617
Total liabilities	**1,897**	**54,617**
Total net identifiable assets and liabilities	**205,745**	**351,125**

	TBIC	India Projects
Carrying value of Group's previously held equity interest in investee companies	30,000	51,207
Value of consideration transferred in shares	75,779	221,723
Non-controlling interests recognised	99,966	78,195
Total consideration	**205,745**	**351,125**

Also, during the year, the Group has acquired additional interests in the following existing subsidiaries.

	Current stake	Additional stake acquired	Total Stake
KHCB	46.97%	8.44%	55.41%
MGIC	33.53%	55.89%	89.42%

The acquisition of additional interests had the following effect on the consolidated financial statements:

Proportionate share of net assets acquired (at book value)	36,223
Consideration	69,100

Consideration for acquisition of additional stake in KHCB was in cash and MGIC was in the form of 203,291,786 shares in the Bank.

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18 ACQUISITION OF SUBSIDIARIES (continued)

ii) Acquisitions in 2016

In 2016, the Group was a plaintiff and defendant in a number of court cases in connection with previous investment transactions and dealings. During the year, the Group's Board of Directors agreed a full and final out of court settlement with the various counterparties involved. Due to contractual restrictions on disclosures, the Board of Directors is unable to disclose any further information.

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

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

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

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

Acquisition of businesses/ subsidiaries

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

Consideration

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

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18 ACQUISITION OF SUBSIDIARIES (continued)

Assessment of identifiable assets acquired and liabilities assumed

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

19 Income from investment banking activities

This mainly comprise US$ 80,511 thousand from placement of private equity subsidiaries and US$ 40,783 thousand from other investment products.

In 2016, the Group acquired a Bahrain-based educational institution held through two subsidiaries, one subsidiary holding the operations and another holding the property. During the year, the Group sold its entire stake in the subsidiaries holding the operations and the property resulting in the Group losing control over the subsidiaries. Accordingly, the Group had derecognized the operations of the educational institution and property on loss of control.

The disposal had the following impact on the consolidated financial statements for the year ended 31 December 2017:

Gross consideration received	207,919
Less: Net assets derecognised on loss of control	127,408
Gain on disposal of subsidiaries	**80,511**

The effect of disposal for the purpose of cash flow statement is given below:

Gross consideration received during the year	55,728
Less: Cash and bank balance deconsolidated on loss of control	(2,034)
Net cash generated from disposal of subsidiaries	**53,694**

Total profit of US$ 7,289 thousand from operations of the subsidiaries till the date of loss of control has been presented as “Discontinued Operations” in the consolidated income statement. The comparative for the previous year includes net profit from industrial business that was discontinued in 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20 INCOME FROM INVESTMENT SECURITIES

	2017	2016
Dividend income	2,470	1,728
Gain on exit of investment	1,588	1,417
Changes in the fair value of investments carried at fair value through income statement	(5,305)	(7,220)
Income from sukuk	12,560	7,963
	11,313	3,888

21 OTHER INCOME

Other income includes US$ 18 million relating to a real estate sale transaction with a related party , US$ 5.84 million arising on settlement of liabilities and US$ 18.96 million revenue from operations of non-banking subsidiaries. For the previous year, other income primarily comprises recoveries on previously impaired receivables of US$ 5.98 million and revenue from operations of non-banking subsidiaries of US$ 1.81 million.

22 STAFF COST

	2017	2016
Salaries and benefits	37,969	51,299
Social insurance expenses	2,945	2,665
	40,914	53,964

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

<table>
<tr><th>Performance year</th><th>Nature of award</th><th>Staff coverage</th><th>Summary of deferral and vesting conditions</th></tr>
<tr><td>Legacy share plan</td><td>Share Options</td><td>Select Senior Management</td><td>Initial lock-in period of 3 years and option exercise period over 10 years ending 2018 at an exercise price of USD 0.65 / share.</td></tr>
<tr><td>2013 Award</td><td>Deferred Annual Bonus</td><td>Select Senior Management</td><td>A portion of the annual incentive was awarded in the form of shares. In 2015, on introduction of the new share plan, the old plan was converted to a deferred cash settled incentive over a 3 years period from year of award.</td></tr>
<tr><td>2014 Award</td><td>Employee Share Purchase Plan</td><td rowspan="3">Covered persons in business and control functions who exceed total compensation thresholds as per CBB Remuneration Regulations and Bank's Variable Remuneration policy</td><td rowspan="2">Shares are released rateably over the 3 year deferral period. The issue price is determined based on a defined adjustment to market price on the date of the award. No future performance conditions or service conditions. Shares are entitled for dividends, if any, but released over the deferral period.</td></tr>
<tr><td>2015 & 2016 Awards</td><td rowspan="2">Employee Share Purchase Plan & Deferred Annual Bonus</td></tr>
<tr><td>2017 Award</td><td>Allocation not approved until the date of the financial statements</td></tr>
</table>

for the year ended 31 December 2017 US$ 000's

23 STAFF COST (continued)

Share incentive scheme	**2017**		2016	
	No. of Shares	**USD 000's**	No. of Shares	USD 000's
Opening balance	29,430,640	3,712	54,559,290	4,489
Awarded during the period	12,504,545	6,878	-	-
Dividends	2,714,064	-	-	-
Forfeiture and other adjustments	-	-	-	880
Transfer to employees / settlement	(8,776,842)	(1,022)	(25,128,650)	(1,657)
Closing balance	**35,872,407**	**9,568**	29,430,640	3,712

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

23 OTHER OPERATING EXPENSES

	2017	2016
Rent	5,255	5,415
Professional and consultancy fee	4,072	4,529
Legal expenses	259	15,388
Depreciation (note 10)	6,279	3,784
Other operating expenses	33,522	19,956
	49,387	49,072

24 IMPAIRMENT ALLOWANCES

	2017	2016
Financing assets (note 5)	2,085	38,300
Investment securities		
- Equity securities (note 6(b))	3,577	61,041
- Debt type securities	1,050	867
Investment property (note 7)	2,095	11,600
Equity accounted investees (note 9)	-	36,464
Financing to projects (note 11)	-	51,500
Other receivables (note 11)	114	20,714
Lease rentals receivable (note 11)	460	626
	9,381	221,112

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25 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 results of transactions included in these consolidated financial statements are as follows:

2017	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Financing assets	-	2,565	15,146	17,865	35,576
Equity-accounted investees	81,440	-	-	-	81,440
Investment securities	-	-	6,058	84,194	90,252
Other assets	914	-	-	62,812	63,726
Liabilities					
Investors' funds	146	-	-	15,339	15,485
Customer current account	146	-	873	3,605	4,624
Financing liabilities	-	-	30,238	-	30,238
Other liabilities	-	-	-	27,148	27,148
Equity of investment account holders	1,570	639	6,581	2,321	11,111
Income					
Investment banking income	-	-	26,867	39,516	66,383
Fee and commission income	-	-	-	1,840	1,840
Share of profit of equity-accounted investees	7,022	-	-	-	7,022
Income from investment securities, net	1,588	-	-	1,481	3,069
Other income	-	-	18,000	-	18,000
Expenses					
Return to investment account holders	80	19	219	66	384
Finance expense	-	-	3,130	-	3,130
Staff cost *	-	6,809	-	-	6,809
Other operating expenses	-	5,475	-	-	5,475

***** The amount presented excluded bonus to key management personnel for 2017 as allocation has not been finalized at the date of approval of these consolidated financial statements.

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25 RELATED PARTY TRANSACTIONS (continued)

2016	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Financing assets	-	-	-	13,523	13,523
Equity-accounted investees	79,010	-	-	-	79,010
Investment securities	-	-	6,058	205,623	211,681
Other assets	6,889	6,568	588	25,082	39,127
Liabilities					
Investors' funds	162	-	-	10,689	10,851
Customer current account	26	-	233	5,047	5,306
Financing liabilities	-	-	35,271	-	35,271
Other liabilities	-	4,255	20,000	12,695	36,950
Equity of investment account holders	1,183	397	-	2,432	4,012
Income					
Investment banking income	-	-	-	3,321	3,321
Management fees	-	-	6,000	1,807	7,807
Share of profit of equity-accounted investees	846	-	-	-	846
Income from investment securities, net	(2,050)	-	186	338	(1,526)
Expenses					
Return to investment account holders	31	5	411	21	468
Staff cost	-	12,320	-	-	12,320
Other operating expenses	-	3,548	11	233	3,792
Impairment allowances	36,464	-	-	60,604	97,068

Key management personnel

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

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

The key management personnel compensation is as follows:

	2017	2016
Board members' remuneration, fees and allowance	5,475	3,548
Salaries, other short-term benefits and expenses	6,712	12,154
Post-employment benefits	117	166

26 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US$ 1,623 million (31 December 2016: US$ 2,781 million). During the year, the Group had charged management fees amounting to US$ 1,840 thousand (2016: US$ 1,807 thousand) to its assets under management.

27 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.

	2017	2016
In thousands of shares		
Weighted average number of shares for basic & diluted earnings	**2,888,874**	2,467,700

Diluted earnings per share

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

In case of the legacy share options granted to employees prior to 2014, as the average market value of shares during the current year was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2017. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above. The Bank does not have any other dilutive instruments.

28 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. The zakah payable by shareholders for 31 December 2017 is US$ 0.00169/share and the current year calculations for zakah are yet to be approved by the Group's Shari'a Supervisory Board and will be provided for in the Bank's website

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

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29 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 amount to US$ 45 thousand (2016: US$ 95 thousand).

30 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.

31 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation / settlement profile for assets and liabilities respectively. For undiscounted contractual maturity of financial liabilities, refer note 36.

31 December 2017	**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	190,863	8,520	12,788	4,210	-	64	216,445
Placements with financial institutions	92,789	-	2,780	-	-	-	95,569
Financing assets	190,800	84,438	144,589	338,208	234,467	-	992,502
Investment securities	170,979	5,288	-	305,021	40,120	-	521,408
Asset acquired for leasing	5,035	4,536	8,788	53,286	186,161	-	257,806
Investment property	-	135,500	-	427,280	53,483	-	616,263
Development properties	-	-	-	204,551	688,486	-	893,037
Equity-accounted-investees	-	-	-	53,277	28,163	-	81,440
Property, plant and equipment	-	-	-	-	117,135	-	117,135
Other assets	143,277	14,969	32,439	118,722	9,445	-	318,852
Total assets	**793,743**	**253,251**	**201,384**	**1,504,555**	**1,357,460**	**64**	**4,110,457**
Liabilities							
Investors' funds	608	5,596	17,896	15,313	-	-	39,413
Placements from financial institutions, other entities and individuals	277,506	74,468	212,150	290,958	3,414	-	858,496
Customer current account	115,771	28,027	17,024	9,973	18,812	-	189,607
Financing liabilities	6,225	101,390	38,072	196,039	23,336	-	365,062
Other liabilities	20,547	13,206	56,587	165,393	-	-	255,733
Total liabilities	**420,657**	**222,687**	**341,729**	**677,676**	**45,562**	**-**	**1,708,311**
Equity of investment account holders	416,408	86,658	126,928	40,297	236,062	-	906,353
Off-balance sheet items							
Commitments	10,247	53,941	70,915	94,583	3	-	229,689
Restricted investment accounts	-	11,995	-	16,757	-	-	28,752

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31 MATURITY PROFILE (continued)

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

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32 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

(a) Industry sector

31 December 2017	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	215,644	595	206	216,445
Placements with financial institutions	95,569	-	-	95,569
Financing assets	29,207	214,947	748,348	992,502
Investment securities	66,250	143,295	311,863	521,408
Assets acquired for leasing	-	257,626	180	257,806
Investment properties	-	616,263	-	616,263
Development properties	-	893,037	-	893,037
Equity-accounted investees	22,461	17,930	41,049	81,440
Property, plant and equipment	-	18,194	98,941	117,135
Other assets	9,003	140,386	169,463	318,852
Total assets	**438,134**	**2,302,273**	**1,370,050**	**4,110,457**
Liabilities				
Investors' funds	3,425	30,268	5,720	39,413
Placements from financial institutions, other entities and individuals	338,621	-	519,875	858,496
Customer current accounts		28,607	161,000	189,607
Financing liabilities	202,192	124,295	38,575	365,062
Other liabilities	-	175,161	80,572	255,733
Total liabilities	**544,238**	**358,331**	**805,742**	**1,708,311**
Equity of Investment account holders	**30,314**	**43,905**	**832,134**	**906,353**
Off-Balance sheet items				
Commitments	18,999	99,622	111,068	**229,689**
Restricted investment accounts	-	26,118	2,634	**28,752**

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

31 December 2016	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	151,965	1,138	3,345	156,448
Placements with financial institutions	208,790	12	5,096	213,898
Financing assets	11,460	248,483	701,547	961,490
Investment securities	96,464	419,378	11,361	527,203
Assets acquired for leasing	40,178	196,347	9,732	246,257
Investment properties	-	488,436	-	488,436
Development properties	-	280,972	-	280,972
Equity-accounted investees	30,611	4,903	43,496	79,010
Property, plant and equipment	-	17,878	151,275	169,153
Intangible assets	-	-	54,891	54,891
Other assets	3,210	74,403	48,030	125,643
Total assets	542,678	1,731,950	1,028,773	3,303,401
Liabilities				
Investors' funds	3,606	11,171	29,788	44,565
Placements from financial institutions, other entities and individuals	156,728	-	413,787	570,515
Customer current accounts	552	31,430	160,801	192,783
Financing liabilities	81,722	38,425	48,845	168,992
Other liabilities	577	69,491	112,581	182,649
Total liabilities	243,185	150,517	765,802	1,159,504
Equity of Investment account holders	54,105	56,886	911,199	1,022,190
Off-Balance sheet items				
Commitments	12,613	118,133	159,606	290,352
Restricted investment accounts	-	29,729	-	29,729

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

(b) Geographic region

31 December 2017	GCC countries	MENA	Asia	Others	Total
Assets					
Cash and bank balances	166,645	601	27	49,172	216,445
Placements with financial institutions	95,569	-	-	-	95,569
Financing assets	910,568	-	95	81,839	992,502
Investment securities	437,814	103	65,191	18,300	521,408
Assets acquired for leasing	257,806	-	-	-	257,806
Investment properties	403,763	77,000	-	135,500	616,263
Development properties	102,474	395,565	394,998	-	893,037
Equity-accounted investees	81,440	-	-	-	81,440
Property, plant and equipment	114,853	2,282	-	-	117,135
Other assets	166,157	817	8,462	143,416	318,852
Total assets	**2,737,089**	**476,368**	**468,773**	**428,227**	**4,110,457**
Liabilities					
Investors' funds	23,580	520	-	15,313	39,413
Placements from financial institutions, other entities and individuals	771,894	86,602	-	-	858,496
Customer current accounts	169,710	-	1,539	18,358	189,607
Financing liabilities	256,375	14,787	-	93,900	365,062
Other liabilities	165,454	22,086	60,500	7,693	255,733
Total liabilities	**1,387,013**	**123,995**	**62,039**	**135,264**	**1,708,311**
Equity of investment account holders	**891,690**	**-**	**6,591**	**8,072**	**906,353**
Off-Balance sheet items					
Commitments	215,460	10,930	-	3,299	**229,689**
Restricted investment accounts	26,118	-	-	2,634	**28,752**

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

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

(b) Geography sector (continued)

31 December 2016	GCC countries	MENA	Asia	Others	Total
Assets					
Cash and bank balances	132,117	55	19	24,257	156,448
Placements with financial institutions	213,886	12	-	-	213,898
Financing assets	893,198	-	-	68,292	961,490
Investment securities	393,820	30,130	101,403	1,850	527,203
Assets acquired for leasing	178,916	-	57,612	9,729	246,257
Investment properties	411,436	77,000	-	-	488,436
Development properties	100,297	180,675	-	-	280,972
Equity-accounted investees	79,010	-	-	-	79,010
Property, plant and equipment	167,216	1,937	-	-	169,153
Intangible asset	54,891	-	-	-	54,891
Other assets	106,635	-	4,277	14,731	125,643
Total assets	2,731,422	289,809	163,311	118,859	3,303,401
Liabilities					
Investors' funds	34,076	476	-	10,013	44,565
Placements from financial institutions, other entities and individuals	484,314	86,201	-	-	570,515
Customer current accounts	188,037	-	-	4,746	192,783
Financing liabilities	147,163	21,829	-	-	168,992
Other liabilities	159,140	16,602	-	6,907	182,649
Total liabilities	1,012,730	125,108	-	21,666	1,159,504
Equity of investment account holders	1,013,883	-	6,997	1,310	1,022,190
Off-Balance sheet items					
Commitments	290,215	-	-	137	290,352
Restricted investment accounts	29,729	-	-	-	29,729

33 OPERATING SEGMENTS

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

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

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

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

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

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

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

The Group has primary operations in Bahrain and the Group does not have any significant independent overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 32 (b) to the consolidated financial statements.

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33 OPERATING SEGMENTS (continued)

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

	Real estate development	Investment banking	Commercial banking	Unallocated / Elimination	Total
31 December 2017					
Segment revenue	14,893	135,490	56,085	5,180	211,648
Segment expenses (including impairment allowances)	9,931	35,435	44,815	18,279	108,460
Segment result *	4,962	100,055	11,270	(13,099)	103,188
Segment assets	1,556,265	468,122	2,071,510	14,560	4,110,457
Segment liabilities	680,103	217,881	776,471	33,856	1,708,311
Other segment information					
Finance expense	24,320	7,321	13,951	(1,900)	43,692
Impairment allowance	-	(1,333)	10,714	-	9,381
Equity accounted investees	-	69,211	12,229	-	81,440
Equity of investment account holders	-	-	905,190	1,163	906,353
Commitments	51,607	-	178,082	-	229,689

* Includes segment result of discontinued operations, net.

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33 OPERATING SEGMENTS (continued)

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

*Includes segment result of discontinued operations, net.

34 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 2017 and 31 December 2016, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models. Other investments are carried at cost in the absence of a reliable measure of fair value.

Other than certain investments carried at cost of US$ 185,775 thousand (31 December 2016: US$ 287,180 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 2017.

Investments amounting to US$ 185,775 thousand (31 December 2016: US$ 287,180 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 2017, the fair value of financing liabilities was estimated at US$ 365,062 thousand (carrying value US$ 365,062 thousand) (31 December 2016: fair value US$ 159,545 thousand (carrying value US$ 168,992 thousand)). These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of financing liabilities as these are largely floating rate instruments.

b) FAIR VALUE HIERARCHY

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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34 FINANCIAL INSTRUMENTS (continued)

b) FAIR VALUE HIERARCHY (continued)

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities carried at fair value through:				
- income statement	-	-	34,875	34,875
- equity	103	-	-	103
	103	**-**	**34,875**	**34,978**

31 December 2016	Level 1	Level 2	Level 3	Total
Investment securities carried at fair value through:				
- income statement	377	-	40,180	40,557
- equity	103	-	1,973	2,076
	480	-	42,153	42,633

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

	2017	2016
At 1 January	42,153	62,320
De-recognized on loss of control	(1,973)	-
Total gains or losses in income statement	(5,305)	(2,050)
Disposals during the year	-	(18,117)
At 31 December	**34,875**	42,153

35 COMMITMENTS AND CONTINGENCIES

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

	31 December 2017	31 December 2016
Undrawn commitments to extend finance	129,302	174,527
Financial guarantees	73,960	85,129
Capital commitments for infrastructure development	20,000	20,000
Commitment to invest	6,427	10,696

35 COMMITMENTS AND CONTINGENCIES (continued)

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 2017 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. Appropriate provision have been made in the books of accounts. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

36 FINANCIAL RISK MANAGEMENT

Overview

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

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

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

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

36 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.

36 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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36 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Exposure to credit risk

31 December 2017	**Bank balances**	**Placements with financial institutions**	**Financing assets**	**Investment securities – debt type instruments**	**Assets acquired for leasing (including lease rent receivables)**	**Other financial assets**
Neither past due nor impaired - Carrying amount	216,445	95,569	797,269	300,265	217,393	246,751
Impaired						
Gross amount	-	-	208,658	4,149	15,719	441,869
Allowance for impairment	-	-	(80,502)	(3,759)	(210)	(428,980)
Impaired- Carrying amount	**-**	**-**	**128,156**	**390**	**15,509**	**12,889**
Past due but not impaired – carrying amount	**-**	**-**	**76,008**	**-**	**50,479**	**23,699**
Less : Collective impairment	**-**	**-**	**(8,931)**	**-**	**(2,790)**	**-**
Total – carrying amount	**216,445**	**95,569**	**992,502**	**300,655**	**280,591**	**283,339**

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

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36 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 financing assets and investment securities is given in notes 5 and 6 respectively. The movement in impairment allowance for other financial assets are as given below:

2017	**Financing receivables**	**Financing to projects**	**Receivable from investment banking services**	**Other receivables**	**Total**
At 1 January 2017	70,150	141,588	8,964	71,374	292,076
Impairment charge	-	-	-	-	-
At 31 December 2017	**70,150**	**141,588**	**8,964**	**71,374**	**292,076**

2016	Financing receivables	Financing to projects	Receivable from investment banking services	Other receivables	Total
At 1 January 2016	70,150	90,088	153,630	75,311	389,179
Impairment charge	-	51,500	-	20,714	72,214
Write-off during the year	-	-	(144,666)	(24,651)	(169,317)
At 31 December 2016	70,150	141,588	8,964	71,374	292,076

Receivables with renegotiated terms

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

Financing to projects of US$ 3.44 million (31 December 2016: US$ 6.44 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.

36 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 32 (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.

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36 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

	As at 31 December 2017			As at 31 December 2016		
	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	75,717	15,501	**91,218**	38,687	7,387	46,074
Equities	5,769	-	**5,769**	8,546	-	8,546
Other	-	-	**-**			
Against past due but not impaired						
Property	54,610	56,838	**111,448**	73,263	47,506	120,769
Equities	13,745	-	**13,745**	5,597	-	5,597
Other						
Against neither past due nor impaired						
Property	257,223	208,422	**465,645**	250,194	205,316	455,510
Equities	-	-	**-**	1,056	-	1,056
Other	67,814	53	**67,867**	85,525	-	85,525
Total	**474,878**	**280,814**	**755,692**	462,868	260,209	723,077

The average collateral coverage ratio on secured facilities is 126.86% as at 31 December 2017 (31 December 2016: 114.47%).

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36 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 2017**			As at 31 December 2016		
	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	29,207	-	**29,207**	32,780	-	32,780
Real estate	157,666	280,411	**438,077**	171,158	250,631	421,789
Construction	95,271	-	**95,271**	77,260	-	77,260
Trading	240,560	-	**240,560**	272,239	-	272,239
Manufacturing	119,602	-	**119,602**	104,480	-	104,480
Others	350,196	180	**350,376**	303,573	2,451	306,024
Total carrying amount	**992,502**	**280,591**	**1,273,093**	961,490	253,082	1,214,572

b) Liquidity risk

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

Management of liquidity risk

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

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

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

The table below shows the undiscounted cash flows on the Group’s financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group’s expected cash flows on these instruments vary significantly from this analysis. Refer note 31 for the expected maturity profile of assets and liabilities.

for the year ended 31 December 2017 US$ 000's

36 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

	Gross undiscounted cash flows						
31 December 2017	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Financial liabilities							
Investors' funds	4,018	5,596	14,486	15,313	-	**39,413**	39,413
Placements from financial institutions, other entities and individuals	297,652	176,701	187,041	227,080	3,484	**891,958**	858,496
Customer current accounts	115,771	28,027	17,024	9,973	18,812	**189,607**	189,607
Financing liabilities	7,401	8,622	152,783	193,773	27,975	**390,554**	365,062
Other liabilities	20,547	13,206	56,587	165,393	-	**255,733**	255,733
Total liabilities	**445,389**	**232,152**	**427,921**	**611,532**	**50,271**	**1,767,265**	1,708,311
Equity of investment account holders	416,408	86,658	126,928	40,297	236,062	**906,353**	906,353
Commitment and contingencies	10,247	53,941	70,915	94,583	3	**229,689**	229,689

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 2016	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	Carrying amount
Financial liabilities							
Investors' funds	4,928	-	10,012	29,625	-	44,565	44,565
Placements from financial institutions, other entities and individuals	250,473	64,802	183,638	82,696	4,661	586,270	570,515
Customer current accounts	117,932	28,833	17,103	10,019	18,897	192,784	192,783
Financing liabilities	3,788	7,903	33,396	99,612	33,909	178,608	168,992
Other liabilities	30,491	2,288	4,045	137,049	6,463	180,336	180,336
Total liabilities	407,612	103,826	248,194	359,001	63,930	1,182,563	1,157,191
Equity of investment account holders	397,932	114,564	144,291	78,259	307,365	1,042,411	1,022,190
Commitment and contingencies	84,138	45,793	68,530	87,527	4,364	290,352	290,352

Measures of liquidity

Liquidity is managed at an entity level and is not a Group wide measure. The Bank follows certain internal measures of liquidity. These metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for the Group. These are liquidity coverage ratio, net stable funding ratio and stock of liquid assets.

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36 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

For this purpose, the liquidity coverage ratio is based on an internally defined management criteria which identifies the amount of liquid assets (including inter- bank placements) the Bank holds that can be used to offset the net cash outflows for 30, 60 and 90 days time horizon. The net stable funding ratio measures the amount of long-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Liquidity coverage ratio	**2017**	2016
30 days	3.56	4.54
60 days	2.32	2.94
90 days	1.67	2.81

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

	2017	2016
Net stable funding ratio	0.95	0.89

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	
	2017	2016
At 31 December	7.59%	17.19%
Average for the year	9.56%	12.32%
Maximum for the year	10.76%	17.19%
Minimum for the year	7.59%	9.44%

c) Market risks

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

Management of market risks

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

Exposure to profit rate risk

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

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36 FINANCIAL RISK MANAGEMENT (continued)
c) Market risks (continued)

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

31 December 2017	**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	92,789	-	2,780	-	-	95,569
Financing assets	135,862	33,560	142,900	199,650	480,530	992,502
Investment securities (Sukuk)	-	-	753	390	299,512	300,655
Assets acquired for leasing (including lease rental receivable)	-	18	-	20,629	259,944	280,591
Total assets	**228,651**	**33,578**	**146,433**	**220,669**	**1,039,986**	**1,669,317**
Liabilities						
Investors' funds	4,018	5,596	14,486	15,313	-	39,413
Placements from financial institutions, other entities and individuals	280,721	70,675	204,100	303,000	-	858,496
Financing liabilities	6,225	101,390	38,072	196,039	23,336	365,062
Total liabilities	**290,964**	**177,661**	**256,658**	**514,352**	**23,336**	**1,262,971**
Equity of investment account holders	506,975	176,549	186,280	36,546	3	**906,353**
Profit rate sensitivity gap	**(569,288)**	**(320,632)**	**(296,505)**	**(330,229)**	**1,016,647**	**(500,007)**

31 December 2016	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	206,064	5,096	2,738	-	-	213,898
Financing assets	72,167	46,077	108,180	216,188	518,878	961,490
Investment securities (Sukuk)	-	-	3,976	3,897	189,517	197,390
Assets acquired for leasing (including lease rental receivable)	393	19	34	3,591	242,220	246,257
Total assets	278,624	51,192	114,928	223,676	950,615	1,619,035
Liabilities						
Investors' funds	4,928	-	10,012	29,625	-	44,565
Placements from financial institutions, other entities and individuals	160,511	40,963	183,699	182,941	2,401	570,515
Financing liabilities	1,200	-	44,011	123,781	-	168,992
Total liabilities	166,639	40,963	237,722	336,347	2,401	784,072
Equity of investment account holders	522,113	233,623	224,493	41,961	-	1,022,190
Profit rate sensitivity gap	(410,128)	(223,394)	(347,287)	(154,632)	948,214	(187,227)

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36 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)	**2017**	2016
At 31 December	±5,250	±1,888
Average for the year	±3,511	±2,160
Maximum for the year	±5,250	±2,773
Minimum for the year	±73	±953

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:

	2017	2016
Placements with financial institutions	1.87%	1.68%
Financing assets	6.12%	5.89%
Debt type investments	5.20%	5.41%
Placements from financial institutions, other entities and individuals	2.60%	1.78%
Financing liabilities	4.58%	3.59%
Equity of investment account holders	2.07%	1.77%

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:

	2017 US$ '000 Equivalent	2016 US$ '000 Equivalent
Sterling Pounds	9,874	20,680
Euro	(712)	9,710
Australian dollars	12,220	12,223
Kuwaiti dinar	22,690	19,822
Jordanian Dinar	6	3
Indian rupee	24	19
Other GCC Currencies (*)	(77,926)	27,918

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

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36 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:

	2017 US$ '000 Equivalent	2016 US$'000 Equivalent
Sterling Pounds	±494	±1,034
Euros	±36	±485
Australian dollar	±611	±611
Kuwaiti dinar	±1,134	±991
Jordanian Dinar	±0.32	±0.15
Indian rupee	±1.19	±0.95

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. The Group's equity type instruments carried at cost are exposed to risk of changes in equity values. The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 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.

37 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.

37 CAPITAL MANAGEMENT (continued)

The CBB sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. Capital adequacy regulations of CBB is based on the principles of Basel III and the IFSB guidelines.

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

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

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

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

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

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

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37 CAPITAL MANAGEMENT (continued)

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

	2017	2016
Total risk weighted exposures	**7,911,983**	4,454,973
CET 1	1,340,550	1,036,135
AT1	7,304	4,979
Tier 1 capital	**1,347,854**	1,041,114
Tier 2 capital	27,096	17,909
Total regulatory capital	**1,374,950**	1,059,023
Total regulatory capital expressed as a percentage of total risk weighted assets	**17.36%**	23.77%

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.

38 APPROPRIATIONS

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

- Dividend of 8.71% of the paid-up share capital amounting to US$ 85 million in the form of cash ;
- Appropriation of US$ 787 thousand towards zakah for the year.

39 COMPARATIVES

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