IMPORTANT NOTICE

THE ATTACHED OFFERING CIRCULAR (THE "OFFERING CIRCULAR") MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE OUTSIDE THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the Offering Circular and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access. You acknowledge that this electronic transmission and the delivery of the Offering Circular is confidential and intended only for you and **you agree you will not forward, reproduce or publish this electronic transmission or the Offering Circular to any other person**.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THE OFFERING CIRCULAR HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

THE OFFERING CIRCULAR IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM. RATHER, THE COMMUNICATION OF THE OFFERING CIRCULAR IS BEING ADDRESSED TO, OR DIRECTED AT, ONLY THE FOLLOWING PERSONS: (I) PERSONS WHO ARE INVESTMENT PROFESSIONALS AS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE "**FINANCIAL PROMOTION ORDER**"); (II) PERSONS FALLING WITHIN ANY OF THE CATEGORIES OF PERSONS DESCRIBED IN ARTICLE 49(2) OF THE FINANCIAL PROMOTION ORDER; AND (III) ANY OTHER PERSON TO WHOM IT MAY OTHERWISE LAWFULLY BE MADE IN ACCORDANCE WITH THE FINANCIAL PROMOTION ORDER. PERSONS OF ANY OTHER DESCRIPTION IN THE UNITED KINGDOM MAY NOT RECEIVE AND SHOULD NOT ACT OR RELY ON THE OFFERING CIRCULAR.

Confirmation of your representation: By accessing the Offering Circular you confirm to GFH Financial Group B.S.C. (the "**Obligor**"), GFH Sukuk Company Limited (the "**Trustee**"), each of the global coordinators named in the Offering Circular (the "**Global Coordinators**") and each of the joint lead managers named in the Offering Circular (the "**Joint Lead Managers**") that (i) you understand and agree to the terms set out herein; (ii) you are located outside the United States; (iii) you consent to delivery of the Offering Circular and any supplements thereto by electronic transmission; (iv) you will not transmit the Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person; and (v) you acknowledge that you will make your own assessment regarding any credit, investment, legal, taxation, *Shari'a* or other economic considerations with respect to your decision to subscribe or purchase any securities.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Offering Circular to any other person. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

You are reminded that the information contained in the Offering Circular is not complete and may be changed. Neither the Joint Lead Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of the Offering Circular or for any statement made or purported to be made by any of them, or any on their behalf, in connection with the Trustee, the Obligor, or the offer. The Joint Lead Managers and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of the Offering Circular or any such statement. No representation or warranty, express or implied, is made by any of the Joint Lead Managers or their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in the Offering Circular.

The Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that an offering of securities described herein be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Obligor or holders of the applicable securities in such jurisdiction.

Under no circumstances shall the Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the Offering Circular who intend to subscribe for or purchase the securities described herein are reminded that any subscription or purchase may only be made on the basis of the information contained in the Offering Circular.

The distribution of the Offering Circular in certain jurisdictions may be restricted by law. Persons into whose possession the Offering Circular comes are required by the Obligor, the Trustee and the Joint Lead Managers to inform themselves about, and to observe, any such restrictions.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Obligor, the Trustee or the Joint Lead Managers nor any person who controls them nor any director, officer, employee nor agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Obligor, the Trustee and the Joint Lead Managers. Please ensure that your copy is complete. If you received the Offering Circular by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "reply" function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk, and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The Joint Lead Managers are acting exclusively for the Obligor, and the Trustee and no one else in connection with any offer of the securities described in the Offering Circular. They will not regard any other person (whether or not a recipient of the Offering Circular) as their client in relation to any offer of the securities described in the Offering Circular and will not be responsible to anyone other than the Obligor and the Trustee for providing the protections afforded to their clients nor for giving advice in relation to any offer of the securities described in the Offering Circular or any transaction or arrangement referred to herein.

Notice to Bahrain Residents: This Offering Circular does not constitute an offer of securities in the Kingdom of Bahrain in terms of Article (81) of the Central Bank of Bahrain and Financial Institutions

Law 2006 (decree Law No. 64 of 2006). This Offering Circular and related offering documents have not been and will not be registered as a prospectus with the Central Bank of Bahrain (the "**CBB**"). Accordingly, no Certificates may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Offering Circular or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than as marketing to accredited investors (as such term is defined by the CBB) for an offer outside Bahrain.

A copy of this Offering Circular has been submitted and filed with the CBB. The CBB has not reviewed, approved or registered this Offering Circular or related offering documents and it has not in any way considered the merits of the Certificates to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Offering Circular and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Offering Circular. No offer of Certificates will be made to the public in the Kingdom of Bahrain and this Offering Circular must be read by the addressee only and must not be issued, passed to, or made available to the public generally. The Obligor, together with any local agent or adviser, accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Obligor (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The offering complies with Legislative Decree No. (4) of 2001 with respect to the Prevention and Prohibition of the Laundering of Money and the Ministerial Orders issued thereunder, including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institution's Obligations Concerning the Prohibition and Combating of Money Laundering and Anti-Money Laundering and Combating of Financial Crime Module contained in the CBB Rulebook, Volume 6.

Filing of this Offering Circular with the CBB does not imply that any Bahraini legal or regulatory requirements have been complied with.

MiFID II professionals / ECPs-only – Manufacturer target market (MiFID II product governance) is eligible counterparties and professional clients only (all distribution channels).

GFH Sukuk Company Limited

(*incorporated as an exempted company in the Cayman Islands with limited liability*)

U.S.$300,000,000 Certificates due 2025

On 27 January 2020, each of GFH Sukuk Company Limited (the "**Trustee**") and GFH Financial Group B.S.C. ("**GFH**") published the offering circular (the "**Offering Circular**") attached hereto in connection with the issuance by the Trustee of its U.S.$300,000,000 Certificates due 2025 (the "**Certificates**").

Application has been made to the London Stock Exchange plc (the "**London Stock Exchange**") for the Certificates to be admitted to the London Stock Exchange's International Securities Market (the "**ISM**"). The Offering Circular comprises an admission particulars for the purposes of the admission to trading of the Certificates on the ISM. The ISM is not a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU (as amended).

The ISM is a market designated for professional investors. Certificates admitted to trading on the ISM are not admitted to the Official List of the United Kingdom Listing Authority. The London Stock Exchange has not approved or verified the contents of the Offering Circular.

Application has been made to the Dubai Financial Services Authority (the "**DFSA**") for the Certificates to be admitted to the official list of securities maintained by the DFSA and to Nasdaq Dubai for such Certificates to be admitted to trading on Nasdaq Dubai. The Offering Circular has been approved by the DFSA under the DFSA's Market Rule 2.7.1 and constitutes an "Approved Prospectus" for the purposes of Article 14 of the DFSA's Markets Law 2012. The Offering Circular complies with the requirements in Part 2 of the DFSA's Markets Law 2012 and Chapter 2 of the DFSA's Markets Rules. The Trustee and GFH estimate the total expenses related to the admission to trading to be approximately U.S.$17,000.00.

The DFSA does not accept responsibility for the content of the information included in the Offering Circular, including the accuracy or completeness of such information. The liability for the content of the Offering Circular lies with the Trustee and GFH and other persons, such as experts, whose opinions are included in the Offering Circular with their consent. The DFSA has also not assessed the suitability of the Certificates to which the Offering Circular relates to any particular investor or type of investor and has not determined whether they are Shari'a compliant. If you do not understand the contents of the Offering Circular or are unsure whether the Certificates to which the Offering Circular relates are suitable for your individual investment objectives and circumstances, you should consult an authorised financial advisor.

Any information in the Offering Circular that has been obtained from third parties has been identified as such and appropriately sourced. Each of the Trustee and GFH confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant sources referred to, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The date of this document is 20 February 2020

GFH Sukuk Company Limited

(*incorporated as an exempted company in the Cayman Islands with limited liability*)

U.S.$300,000,000 Certificates due 2025

The U.S.$300,000,000 certificates due 2025 (the "**Certificates**") of GFH Sukuk Company Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the "**Trustee**") will be constituted by a trust deed (the "**Trust Deed**") dated 28 January 2020 (the "**Issue Date**") entered into between (among others) the Trustee, GFH Financial Group B.S.C. ("**GFH**" or the "**Obligor**") and Citibank N.A., London Branch as the delegate of the Trustee (the "**Delegate**"). The Certificates confer on the holders of the Certificates from time to time (the "**Certificateholders**") the right to receive certain payments (as more particularly described herein) arising from an undivided ownership interest in the assets of a trust declared by the Trustee pursuant to the Trust Deed (the "**Trust**") over the Trust Assets (as defined herein) and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Trust Deed and the terms and conditions of the Certificates (the "**Conditions**").

Periodic Distribution Amounts (as defined herein) shall be payable subject to and in accordance with the Conditions on the outstanding face amount of the Certificates from (and including) the Issue Date to (but excluding) 28 January 2025 (the "**Scheduled Dissolution Date**") at a rate of 7.5 per cent. per annum. Payments on the Certificates will be made free and clear of, and without deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Jurisdiction (as defined in the Conditions) as described in Condition 10.

The Certificates shall be redeemed on the Scheduled Dissolution Date but the Certificates may be redeemed before the Scheduled Dissolution Date: (i) at the option of the Obligor in whole but not in part at their Dissolution Distribution Amount (as defined in the Conditions) in the event of certain changes affecting taxes of any Relevant Jurisdiction; (ii) unless the Lease Assets are replaced by the Obligor in accordance with the Servicing Agency Agreement, following a Total Loss Event (each as defined in the Conditions); or (iii) following a Dissolution Event (as defined in the Conditions).

Each payment of a Periodic Distribution Amount will be made by the Trustee provided that the Obligor (as Servicing Agent and as Lessee and Purchaser of the commodities (each such term as defined herein)) shall have paid amounts equal to such Periodic Distribution Amount to the Trustee pursuant to the terms of the Transaction Documents (as defined in the Conditions).

The Certificates will be limited recourse obligations of the Trustee. An investment in the Certificates involves certain risks. For a discussion of these risks, see "Risk Factors".

Application has been made to the London Stock Exchange plc (the "**London Stock Exchange**") for the Certificates to be admitted to the London Stock Exchange's International Securities Market (the "**ISM**"). This Offering Circular comprises an admission particulars for the purposes of the admission to trading of the Certificates on the ISM. The ISM is not a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU (as amended, "**MiFID II**").

The ISM is a market designated for professional investors. Certificates admitted to trading on the ISM are not admitted to the Official List of the United Kingdom Listing Authority. The London Stock Exchange has not approved or verified the contents of this Offering Circular.

The Certificates are expected to be assigned a rating of "B" by Fitch Ratings Ltd ("**Fitch**") and "B" by S&P Global Ratings Europe Limited ("**S&P**"). Each of Fitch and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such, each of Fitch and S&P is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation. **A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency organisations.**

The Certificates will be represented by interests in a global certificate in registered form (the "**Global Certificate**") deposited on or before the Issue Date with, and registered in the name of a nominee for a common depositary (the "**Common Depositary**") for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein. The Certificates may only be offered, sold or transferred in registered form in minimum face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

The transaction structure relating to the Certificates (as described in this Offering Circular) has been approved by (i) the Shari'a Supervisory Board of GFH; (ii) the Shari'a Supervisory Board of Société Générale, Dubai International Financial Centre Branch; and (iii) the Shari'a Supervisory Committee of Standard Chartered Bank. A copy of the approval of the Shari'a Supervisory Board of GFH in respect of the transaction structure relating to the Certificates is set out in the Annex to this Offering Circular. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

Joint Global Coordinators and Joint Lead Managers

Société Générale Corporate & Investment Banking | **Standard Chartered Bank**

Joint Lead Managers

Emirates NBD Capital | **Kamco Investment Company K.S.C.P.**

Mashreqbank psc | **SHUAA Capital psc** | **Warba Bank K.S.C.P.**

The date of this Offering Circular is 27 January 2020

Each of the Trustee and the Obligor accepts responsibility for the information contained in this Offering Circular. Each of the Trustee and the Obligor declares, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

This Offering Circular should be read and construed together with any amendments or supplements hereto.

None of Société Générale and Standard Chartered Bank (together, the "**Global Coordinators**"), Emirates NBD Bank PJSC, Kamco Investment Company K.S.C.P., Mashreqbank psc, SHUAA Capital psc, Société Générale, Standard Chartered Bank, and Warba Bank K.S.C.P. (the "**Joint Lead Managers**"), the Agents (as defined herein) or the Delegate have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers, the Agents or the Delegate (a) as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Trustee or the Obligor in connection with the Certificates or (b) for any acts or omissions of the Issuer, the Obligor, or any other person in connection with this Offering Circular or the issue and offering of the Certificates. None of the Joint Lead Managers, the Agents or the Delegate accepts any liability in relation to the information contained in this Offering Circular or any other information provided by the Trustee and the Obligor in connection with the Certificates.

No person is or has been authorised by the Trustee or the Obligor to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Obligor, the Trustee, the Delegate, the Agents or any of the Joint Lead Managers.

Neither this Offering Circular nor any other information supplied in connection with the Certificates (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Obligor, the Trustee, the Delegate, the Agents or any of the Joint Lead Managers that any recipient of this Offering Circular or any other information supplied in connection with the Certificates should purchase any Certificates. Each investor contemplating purchasing the Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Trustee and the Obligor. Neither this Offering Circular nor any other information supplied in connection with the Certificates constitutes an offer or invitation by or on behalf of the Obligor, the Trustee, the Delegate, the Agents or any of the Joint Lead Managers to any person to subscribe for or to purchase any Certificates.

No comment is made or advice given by the Obligor, the Trustee, the Delegate, the Agents or the Joint Lead Managers in respect of taxation matters relating to the Certificates or the legality of the purchase of Certificates by an investor under applicable or similar laws.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, *SHARI'A* ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, *SHARI'A*, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF CERTIFICATES.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of the Certificates shall in any circumstances imply that the information contained in it concerning the Trustee or the Obligor is correct at any time subsequent to its date or that any other information supplied in connection with the Certificates is correct as of any time subsequent to the date indicated in the document containing the same. The Delegate, the Agents and the Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Trustee or the Obligor or to advise any investor in the Certificates of any information coming to their attention.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States except in accordance with Regulation S under the Securities Act ("**Regulation S**") or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. See

"*Subscription and Sale*".

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Certificates may be restricted by law in certain jurisdictions. the Obligor, the Trustee, the Delegate, the Agents and the Joint Lead Managers do not represent that this Offering Circular may be lawfully distributed, or that the Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Obligor, the Trustee, the Delegate, the Agents or the Joint Lead Managers which is intended to permit a public offering of any Certificates or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Certificates. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Certificates in the United States, the United Kingdom, the Kingdom of Bahrain, the Cayman Islands, the Dubai International Financial Centre, Hong Kong, Malaysia, the State of Qatar (including the Qatar Financial Centre), the Kingdom of Saudi Arabia, Singapore and the United Arab Emirates (excluding the Dubai International Financial Centre), see "*Subscription and Sale*".

The Certificates may not be a suitable investment for all investors. Each potential investor in Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(a) has sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Offering Circular;

(b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;

(c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;

(d) understands thoroughly the terms of the Certificates and is familiar with the behaviour of any relevant indices and financial markets; and

(e) is able to evaluate possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Certificates are legal investments for it, (2) the Certificates can be used as collateral for various types of financing and (3) other restrictions apply to its purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Some statements in this Offering Circular may be deemed to be "forward-looking statements" – that is, statements related to future, not past, events. Forward-looking statements include statements concerning the Obligor's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. When used in this Offering Circular, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in the sections entitled "*Risk Factors*" and "*Business Description*" and other sections of this Offering Circular. The Obligor has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Although the Obligor believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable as of the date of this Offering Circular, if one or more of the risks or uncertainties materialise, including those which the Obligor has identified in this Offering Circular, or if any of the Obligor's underlying assumptions prove to be incomplete or inaccurate, the Obligor's actual results of operation may be materially different from those expected, estimated or predicted. Investors are therefore strongly advised to read the sections entitled "*Risk Factors*" and "*Business Description*", which include a more detailed description of the factors that might have an impact on the Obligor's business development and on the industry sector in which the Obligor operates.

Any forward-looking statements contained in this Offering Circular speak only as at the date of this Offering Circular. Without prejudice to any requirements under applicable laws and regulations, each of the Trustee and the Obligor expressly disclaims any obligation or undertaking to disseminate after the date of this Offering Circular any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward-looking statement is based.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Historical financial statements

The financial statements relating to the Group and included in this Offering Circular are:

- the unaudited reviewed condensed consolidated interim financial information as at, and for the nine-month period ended, 30 September 2019, including comparative financial information as at, and for the nine-month period ended, 30 September 2018 (the "**Interim Financial Statements**");
- the audited consolidated financial statements as at, and for the year ended, 31 December 2018, including comparative financial information as at, and for the year ended, 31 December 2017 (the "**2018 Financial Statements**"); and
- the audited consolidated financial statements as at, and for the year ended, 31 December 2017, including comparative financial information as at, and for the year ended, 31 December 2016 (the "**2017 Financial Statements**" and, together with the 2018 Financial Statements, the "**Annual Financial Statements**").

The Interim Financial Statements and the Annual Financial Statements are together referred to as the "**Financial Statements**".

The Financial Statements have been prepared in accordance with Financial Accounting Standards ("**FAS**") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("**AAOIFI**") and in conformity with Bahrain's Commercial Companies Law. In line with the requirements of AAOIFI and the Rulebook (the "**CBB Rulebook**") issued by the Central Bank of Bahrain (the "**CBB**"), for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standard ("**IFRS**").

Save as described under "*—Comparability of information*" below and as set out in the Financial Statements, financial information as at, and for the nine-month period ended, 30 September 2018 in this Offering Circular has been extracted from the Interim Financial Statements, financial information as at, and for the year ended, 31 December 2017 in this Offering Circular has been extracted from the 2018 Financial Statements and financial information as at, and for the year ended, 31 December 2016 in this Offering Circular has been extracted from the 2017 Financial Statements.

The Group's financial year ends on 31 December and references in this Offering Circular to "**2016**", "**2017**" and "**2018**" are to the 12 month period ending on 31 December in each such year.

Auditors and unaudited information

The Annual Financial Statements have been audited by KPMG Fakhro, independent auditors (the "**Auditors**"), in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI, who have issued unqualified reports on the Annual Financial Statements. The Interim Financial Statements have been reviewed by the Auditors in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*", who have issued an unqualified report on the Interim Financial Statements.

All information in this Offering Circular as at, or for the nine-month periods ended, 30 September 2019 and 30 September 2018 is unaudited. In addition, certain other financial information in this Offering Circular contained in "*Selected financial information—Selected consolidated ratios and APMs*" and in "*Re-presented financial information*" is also unaudited financial information which has been extracted without material adjustment from the accounting records of the Group which form the underlying basis of the Financial Statements.

Certain non-IFRS financial information

This Offering Circular includes certain financial information which has not been prepared in accordance with IFRS. None of this financial information is subject to any audit or review by independent auditors. The Group believes that the non-IFRS financial information included in this Offering Circular provides investors with certain information that they routinely use to analyse prospective investments and, in the case of its capital and leverage ratios, is important to understanding its capital and leverage position, particularly in light of regulatory requirements to maintain these ratios above prescribed minimum levels. The Group's interpretation of certain ratios and the basis of its calculation of those ratios may be different from those of other financial institutions. Certain of the non-IFRS financial information included in this Offering Circular also constitutes Alternative Performance Measures ("**APM**s"), as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures. See "*Selected financial information—Selected consolidated ratios and APMs*".

Impact of the implementation of FAS 30 from 1 January 2018

AAOIFI issued FAS 30 "*Impairment, credit losses and onerous commitments*" in 2017 with an effective date of 1 January 2020, with early adoption permitted. The Group early adopted the standard as at 1 January 2018 as mandated by the CBB. The objective of FAS 30 is to establish the principles of assessing impairment and credit losses on Islamic financing, investment and certain other assets of Islamic financial institutions and provisions against onerous commitments enabling the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets. FAS 30 replaces FAS 11 "*Provisions and reserves*" and the parts of FAS 25 "*Investment in Sukuk, shares and similar instruments*" that deal with impairment.

FAS 30 classifies assets and exposures into three categories (listed below) and prescribes three approaches for assessing losses for each of these categories of assets, namely (i) the credit losses approach, (ii) the net realisable value ("**NRV**") approach and (iii) the impairment approach. For the purpose of FAS 30, the assets and exposures are categorised as follows:

- assets and exposures subject to credit risk (for which the credit losses approach is used):
  - receivables; and
  - off-balance sheet exposures.
- inventories (for which the NRV approach is used); and
- other financing and investment assets subject to risks other than credit risk (for which the

impairment approach is used).

The credit losses approach for receivables and off-balance sheet exposures has a dual measurement methodology, under which the loss allowance is measured as either a 12-month expected credit loss ("**ECL**") or a lifetime ECL.

Expected credit losses

FAS 30 introduces the credit losses approach with a forward-looking ECL model. The new impairment model applies to exposures which are subject to credit risk. A number of significant judgments are also required when applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk;
- choosing the appropriate models and assumptions for the measurement of ECL;
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- establishing segments of similar exposures for the purposes of measuring ECL.

Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

The adoption of FAS 30 has resulted in changes in accounting policies for exposures that are subject to credit risk and adjustments to the amounts previously recognised in the 2017 Financial Statements. As permitted by the transitional provisions of FAS 30, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of exposures that are subject to credit risk as at the date of transition were recognised in the opening balance of retained earnings.

The key changes to the Group's accounting policies resulting from the adoption of FAS 30 are summarised in "*Financial review—Implementation of FAS 30*" and further information in relation to the application of FAS 30 in 2018 is set out in "*Risk management—Credit risk*". Since the financial information for prior periods has not been restated, the accounting policies in respect of the financial instruments for 2017 and 2016 are based on standards disclosed in note 2(f) to the 2017 Financial Statements.

Impact of adopting FAS 30

The adoption of FAS 30 as at 1 January 2018 resulted in a decrease in the Group's retained earnings of U.S.$16.6 million principally as a result of the impact on the Group's financing assets and assets acquired for leasing and lease rental receivables, as illustrated in the table below.

	Retained earnings	**Non-controlling interest**
	(*U.S.$ thousand*)	
Balance as at 1 January 2018 (as previously reported)..	122,825	345,770
Impact on recognition of expected credit losses		
Bank balances and placements with financial institutio	(5)	(2)
Investment in sukuk..	(4)	(4)
Financing assets..	(12,983)	(10,447)
Assets acquired for leasing and lease rental receivables	(2,523)	(2,031)
Other receivables..	(316)	—
Commitments and financial guarantees........................	(755)	(608)
	(16,586)	**(13,092)**
Balance as of 1 January 2018 (restated)	**106,239**	**332,678**

The table below reconciles the carrying amounts of exposures subject to credit risk under FAS 11 to the carrying amounts under FAS 30 on 1 January 2018.

	31 December 2017	Effect of remeasurement[1]	1 January 2018
		(U.S.$ thousand)	
Bank balances and placements with financial institutions	290,501	(7)	290,494
Financing assets	992,502	(23,430)	969,072
Investment in sukuk	300,655	(8)	300,647
Assets acquired for leasing and lease rental receivables	280,591	(4,554)	276,037
Other receivables	238,584	(316)	238,268
Commitments and financial guarantees	229,689	(1,363)	228,326
	2,332,522	**(29,678)**	**2,302,844**

Note:
(1) Including those attributable to non-controlling interests.

Comparability of information

Effective January 2019, the Group changed the description and presentation of its statement of financial position and income statement to better align them with the various revenue generating activities of the Group and to enhance disclosures to enable users to have a better understanding of the activities and financial performance of the Group.

To further assist potential investors, the Group has:

- included in this Offering Circular, under "*Re-presented financial information*":
    - its segmental reporting as at 30 September 2018 re-presented to be consistent with the presentation adopted in 2019 (the "**Interim Financial Statements Re-presented Financial Information**"); and
    - its statements of financial position, its income statements and its segmental reporting as at, and for the years ended, 31 December in each of 2018, 2017 and 2016 re-presented to be consistent with the presentation adopted in 2019 (the "**Annual Financial Statements Re-presented Financial Information**" and together with the Interim Financial Statements Re-presented Financial Information, the "**Re-presented Financial Information**"); and
- used financial information extracted from the Re-presented Financial Information in "*Financial review*" except where any financial information as at, and for the years ended, 31 December in each of 2018, 2017 and 2016 in that section has been specifically identified as "original" (in which case it has been extracted from the Annual Financial Statements).

All financial information as at, and for the nine-month period ended, 30 September 2018 included elsewhere in this Offering Circular has been extracted from the Interim Financial Statements and all financial information as at, and for the years ended, 31 December in each of 2018, 2017 and 2016 included elsewhere in this Offering Circular has been extracted from the Annual Financial Statements except, in each case, where that information has been specifically identified as "re-presented" (in which case it has been extracted from the Re-presented Financial Information).

Currencies

Unless otherwise indicated in this Offering Circular, all references to:

- **"dinar**" and "**BD**" are to the lawful currency of the Kingdom of Bahrain; and
- "**U.S. dollars**" and "**U.S.$**" are to the lawful currency of the United States.

Unless otherwise indicated, the financial information contained in this Offering Circular has been expressed in U.S. dollars. The Group's functional currency is the U.S. dollar and the Group prepares its financial statements in U.S. dollars.

Third party information

Any information in this Offering Circular that has been obtained from third parties has been identified as such and appropriately sourced. Where information has not been independently sourced, it is the Group's own information.

No incorporation of website information

GFH's website is www.gfh.com. The information on this website or any other website mentioned in this Offering Circular or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Offering Circular, and investors should not rely on it.

Definitions

In this Offering Circular:

- **"Bahrain"** means the Kingdom of Bahrain;
- "**GCC**" means the Gulf Cooperation Council (comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates);
- "**Government**" means the government of Bahrain;
- "**MENA region**" means the region comprising the Middle East and North Africa; and
- "**UAE**" means the United Arab Emirates.

Rounding

In this Offering Circular, financial information relating to the Group which has been extracted from the Financial Statements has been rounded to the nearest thousand U.S. dollars, with U.S.$500 and above being rounded up and U.S.$499 and below being rounded down or, in some cases, to the nearest million U.S. dollars, with U.S.$500,000 and above being rounded up and U.S.$499,999 and below being rounded down. Where used in tables, the figure "0" means that the data for the relevant item has been rounded to zero and the symbol "—" means that there is no data in respect of the relevant item.

As a result of such rounding, the totals of data presented in tables in this Offering Circular may vary slightly from the arithmetic totals of such data. Percentage changes and other percentage data relating to the Group's financial information have been calculated on the basis of financial statement data contained in the Financial Statements.

VOLCKER RULE

The Volcker Rule, which became effective on 1 April 2014, but was subject to a conformance period for certain entities that concluded on 21 July 2015, generally prohibits "banking entities" (which is broadly defined to include U.S. banks and bank holding companies and many non-U.S. banking entities, together with their respective subsidiaries and other affiliates) from (i) engaging in proprietary trading, (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund", and (iii) entering into certain relationships with "covered funds". The general effects of the Volcker Rule remain uncertain; any prospective investor in the Certificates and any entity that is a "banking entity" as defined under the Volcker Rule which is considering an investment in the Certificates should consult its own legal advisers and consider the potential impact of the Volcker Rule in respect of such investment. If investment by "banking entities" in the Certificates is prohibited or restricted by the Volcker Rule, this could impair the marketability and liquidity of such Certificates. No assurance can be made as to the effect of the Volcker Rule on the ability of certain investors subject thereto to acquire or retain an interest in the Certificates, and, accordingly, none of the Trustee, the Obligor, the Joint Lead Managers, the Delegate or the Agents, or any of their respective affiliates, makes any representation regarding (a) the status of the Trustee under the Volcker Rule (including whether it is a "covered fund" for their purposes) or (b) the ability of any purchaser to acquire or hold the Certificates, now or at any time in the future.

NOTICE TO UK RESIDENTS

The Certificates constitute "alternative finance investment bonds" within the meaning of Article 77A of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 as amended by the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2010. This Offering Circular is not being distributed to, and must not be passed on to, the general public in the United Kingdom.

The distribution in the United Kingdom of this Offering Circular and any other marketing materials relating to the Certificates is only being addressed to, or directed at, the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"); (ii) persons falling within any of the categories of persons described in Article 49 of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Offering Circular or any other marketing materials in relation to the Certificates.

Any individual intending to invest in the Certificates should consult their professional adviser and ensure that they fully understand all the risks associated with making such an investment and that they have sufficient financial resources to sustain any loss that may arise from such investment.

CAYMAN ISLANDS NOTICE

No invitation may be made, whether directly or indirectly, to any member of the public of the Cayman Islands to subscribe for the Certificates and this Offering Circular shall not be construed as an invitation to any member of the public of the Cayman Islands to subscribe for any Certificates.

NOTICE TO BAHRAIN RESIDENTS

This Offering Circular does not constitute an offer of securities in the Kingdom of Bahrain in terms of Article (81) of the Central Bank of Bahrain and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Offering Circular and related offering documents have not been and will not be registered as a prospectus with the Central Bank of Bahrain (the "**CBB**"). Accordingly, no Certificates may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Offering Circular or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than as marketing to accredited investors (as such term is defined by the CBB) for an offer outside Bahrain.

A copy of this Offering Circular has been submitted and filed with the CBB. The CBB has not reviewed, approved or registered this Offering Circular or related offering documents and it has not in any way considered the merits of the Certificates to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Offering Circular and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Offering Circular. No offer of Certificates will be made to the public in the Kingdom of Bahrain and this Offering Circular must be read by the addressee only and must not be issued, passed to, or made available to the public generally. The Obligor, together with any local agent or adviser, accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Obligor (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The offering complies with Legislative Decree No. (4) of 2001 with respect to the Prevention and Prohibition of the Laundering of Money and the Ministerial Orders issued thereunder, including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institution's Obligations Concerning the Prohibition and Combating of Money Laundering and Anti-Money Laundering and Combating of Financial Crime Module contained in the CBB Rulebook, Volume 6.

KINGDOM OF SAUDI ARABIA NOTICE

This Offering Circular may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Capital Market Authority**").

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Offering Circular, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular. Prospective purchasers of Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Offering Circular, he or she should consult an authorised financial adviser.

NOTICE TO RESIDENTS OF MALAYSIA

The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made, directly or indirectly, and this Offering Circular or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories set out in Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia.

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Trustee or the Obligor and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Offering Circular.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

The Certificates have not and will not be offered or sold at any time, directly or indirectly, in the State of Qatar (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Offering Circular has not been and will not be reviewed or approved by, or registered with, the Qatar Financial Markets Authority, the Qatar Central Bank, the Qatar Stock Exchange or the Qatar Financial Centre Regulatory Authority in accordance with their regulations or any other regulations in the State of Qatar. The Certificates are not and will not be traded on the Qatar Stock Exchange.

SINGAPORE SFA PRODUCT CLASSIFICATION

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time including by any subsidiary legislation as may be applicable at the relevant time (together, the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Certificates are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Certificates has led to the conclusion that: (i) the target market for the Certificates is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Certificates to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Certificates (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

STABILISATION

In connection with the issue of the Certificates, Société Générale (the "**Stabilisation Manager**") (or persons acting on behalf of the Stabilisation Manager) may effect transactions with a view to supporting the market price of the Certificates at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the Issue Date and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date. Any stabilisation action must be conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

DATA PROTECTION

Under the Cayman Islands Data Protection Law, 2017 and, in respect of European Union (EU) data subjects, the EU General Data Protection Regulation (together, the "**Data Protection Legislation**"), individual data subjects have rights and the Trustee as data controller has obligations with respect to the processing of personal data by the Trustee and its affiliates and delegates. Breach of the Data Protection Legislation by the Trustee could lead to enforcement action. Prospective investors should note that personal data may in certain circumstances be required to be supplied to the Trustee in order for an investment in the Certificates to continue or to enable the Certificates to be redeemed. If the required personal data is not provided, a prospective investor may not be able to continue to invest in the Certificates or redeem the Certificates. The Trustee has published a privacy notice (the "**Data Privacy Notice**"), which provides prospective investors with information on the Trustee's use of their personal data in accordance with the Data Protection Legislation. The Data Privacy Notice can be accessed at https://www.walkersglobal.com/external/SPVDPNotice.pdf

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RISK FACTORS

The purchase of the Certificates involves inherent risks and potential investors should carefully consider the risks set out in this section before making their investment decision. Investment in the Certificates is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of that investment. Before making an investment decision, prospective purchasers of the Certificates should consider carefully, in light of their own financial circumstances and investment objectives, all of the information in this Offering Circular. In particular, prospective investors should evaluate the risks and uncertainties referred to or described below. Should one or more of these risks materialise or be perceived by the market as being likely to materialise, at the same time or separately, the impact or anticipated impact on the Group's business, results of operations and financial condition could cause the market price of the Certificates to decline and, as a result, an investor might lose part or all of its investment.

Each of GFH and the Trustee believes that the following factors may affect its ability to fulfil its obligations under the Certificates. All of these factors are contingencies which may or may not occur and neither GFH nor the Trustee is in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Certificates are also described below.

Each of GFH and the Trustee believes that the factors described below represent the principal risks inherent in investing in the Certificates. This section is not intended to be exhaustive and the inability of GFH to pay amounts due under the Transaction Documents and of the Trustee to pay profit, principal or other amounts on or in connection with any Certificates may occur for other reasons and neither GFH nor the Trustee makes any representation that the statements below regarding the risks of holding any Certificates are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Words and expressions defined in "Terms and Conditions of the Certificates" shall have the same meanings in this section.

FACTORS THAT MAY AFFECT THE TRUSTEE'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER OR IN CONNECTION WITH THE CERTIFICATES

The Trustee has no operating history and no material assets

The Trustee is a special purpose company with limited liability incorporated under the laws of the Cayman Islands on 4 December 2019 and has no operating history. The Trustee has not as at the date of this Offering Circular, and will not, engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Certificates represent limited recourse obligations of the Trustee and the recourse of the Certificateholders against the Trustee in relation to the Certificates is limited to the Trust Assets and the proceeds from the Trust Assets.

The Trustee's only material assets, which will be held on trust for Certificateholders, are the Trust Assets, including the obligation of the Obligor to make payments under the Transaction Documents to which it is a party. Therefore, the Trustee is subject to all the risks to which GFH is subject to the extent that such risks could limit GFH's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents.

The ability of the Trustee to pay amounts due on the Certificates will be dependent upon receipt by the Trustee from GFH of amounts to be paid under the Transaction Documents (which in aggregate may not be sufficient to meet all claims under the Certificates and the Transaction Documents).

FACTORS THAT MAY AFFECT GFH'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER OR IN CONNECTION WITH THE TRANSACTION DOCUMENTS

Strategic and business risks

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

The Group's principal businesses are investment banking; commercial banking; real estate development; and treasury and proprietary investments. Certain risks that are specific to each of these businesses are discussed separately below.

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

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

Many of the Group's clients and a significant part of its businesses are based in the GCC and the wider MENA region. For example, as at 31 December 2018 and on an original basis:

- 94.1 per cent. of the Group's combined financing assets and assets acquired for leasing, which are principally assets of its commercial banking businesses, were concentrated on the GCC;
- 69.9 per cent. of its development properties, which are all assets of its real estate development business, were located in the GCC and wider MENA region; and
- 90.2 per cent. of its combined placements with financial institutions, investment securities and investment properties, which are principally assets of its investment banking and treasury businesses, were geographically concentrated on the GCC.

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

In addition, since June 2017, Saudi Arabia, the UAE and Bahrain, as well as Egypt and Yemen, have severed diplomatic ties with, cut trade and transport links with, and imposed sanctions on, Qatar. There can be no assurance as to when diplomatic relations will be restored or air, land and sea connections reopened with Qatar.

Most recently, tensions in the Gulf region have increased following the seizure by Iran of a British tanker in July 2019 and, more broadly, due to several incidents with oil tankers in the Strait of Hormuz. On 14 September 2019, the Abqaiq processing facility and the Kurais oil field in Saudi Arabia were damaged to a significant extent in apparent drone attacks, which caused an immediate significant reduction in the output of Saudi Aramco, Saudi Arabia's national oil company. It is unknown what, if any, response will be made by Saudi Arabia and its allies to this incident, what form any response will take and what the impact of such response will be. There can be no assurance that a similar incident could not occur elsewhere in the Gulf region. Furthermore, there can be no assurance what impact this incident will have on global oil prices.

These recent and ongoing developments may contribute to instability in the region and may have a material adverse effect on Bahrain and other countries in the MENA region, their security, their attractiveness for foreign investment and capital, their attractiveness to tourists, their ability to attract the skilled and less skilled expatriates on which many of them rely, their ability to engage in international trade and, consequently, their economies and financial condition and, given its exposure to the GCC, these factors would also be likely to negatively impact investors' perceptions of the Group.

Investors should note that the Group's business could be affected by political, economic or related developments both within and outside the Middle East because of inter-relationships within the global financial markets. In addition to operations in the GCC and wider-MENA region, the Group also has operations in India, Europe and the United States. The economies of these countries are at varying stages of socioeconomic and macroeconomic development which could give rise to a number of risks, uncertainties and challenges that could include the following: changes in political, social, or economic conditions, trade protection measures and operating licensing requirements, potentially negative consequences from unexpected changes in regulatory requirements, state-imposed restrictions on repatriation of funds and/or the outbreak of armed conflict. In particular, political uncertainty could decrease the attractiveness of some of the Group's real estate developments making it more difficult for the Group to exit them and could decrease clients' funds available for investment in the Group's investment banking business or decrease client demand for the Group's investment products.

Risks applicable to the Group's investment banking business

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

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

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

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

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

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

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

- ***Limited capital resources***. Prospective private equity investment portfolio companies may have limited financial resources, which may negatively affect their ability to meet their obligations under their financing arrangements;
- ***Limited operating history***. Some prospective private equity investment portfolio companies may have limited operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;
- ***Limited information***. Generally, little public information exists about prospective private equity portfolio companies, and the Group is required to rely on the ability of its investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. The companies that the Group targets in its private equity investment business are generally not publicly listed. If the Group is unable to identify all material information about any of these companies, it may not make a fully informed investment decision and therefore may lose money on its investment;
- ***Dependency on key managers and personnel***. Some prospective private equity investment portfolio companies may depend on the management talents and efforts of a small group of persons, and the death, disability, resignation or termination of service of one or more of these persons could have a material adverse impact on the relevant portfolio company and, in turn, on the Group's results of operations from its investment banking business;
- ***Due diligence risk***: The due diligence process undertaken by the Group in connection with any proposed private equity investment may not reveal all relevant factors that are material to the Group's investment decision and any failure to identify a material factor could affect the operations of the investee, the Group's expected profit from the investment, the timing of its exit and the expected sale price; and
- ***Other risks***. Prospective private equity investment portfolio companies may from time to time be party to litigation, may be susceptible to economic slowdowns or recessions, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. The Group's private equity investment portfolio may also be exposed to a relatively high concentration in particular industries or particular companies, for example the Group is currently targeting investment in the education, healthcare and technology sectors. The Group may also make private equity investments in companies it does not control and in these case it must rely on board representation, shareholder agreements and other mechanisms to protect its interests, which may not always be effective.

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

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

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

- ***Performance risk***: The performance of any particular real estate investment is dependent upon the managers of the asset concerned. To the extent that any of the Group's real estate investments are managed by third parties, the Group is exposed to the risk that the third party managers may take decisions with which the Group does not agree or may take decisions in good faith that could lead to material losses, for example if there is a material change in circumstances after the decision has been taken;

- ***Exit strategy risk***: There is a risk that the period for which a real estate investment is held will be longer than expected at the time of its acquisition. If the Group is unable to sell any real estate investment within the anticipated investment term, or at the expected sales price, this may delay the exit from the investment and may affect the profitability of the investment;

- ***Illiquidity***: The Group's real estate investments are illiquid and involve a high degree of risk. Although these investments may generate current income, the return of capital and the realisation of gains, if any, from a real estate investment may not occur until the partial or complete sale of the investment. See also "*—Risks applicable to the Group's real estate development business—Real estate valuation is inherently subjective and uncertain, and real estate investments are illiquid*" below;

- ***Due diligence risk***: The due diligence process undertaken by the Group in connection with any proposed real estate investment may not reveal all relevant factors that are material to the Group's investment decision and any failure to identify a material factor could affect the Group's expected profit from the investment, the timing of its exit and the expected sale price; and

- ***Other risks***: Real estate investments have historically experienced significant fluctuations in value, and specific factors, such as (i) changes in general or local economic conditions which can result in increased vacancy rates and/or tenant bankruptcies; (ii) changes in the supply of, or the demand for, competing properties in a geographic area; (iii) changes in interest rates; (iv) the promulgation and enforcement of governmental regulations relating to land-use and zoning restrictions, environmental protection and occupational safety; (v) unavailability of mortgage funds that may render the sale of a property difficult; (vi) the financial condition of tenants and prospective purchasers of the investment concerned; (vii) increases in real estate tax rates and other operating expenses; (viii) increases in energy costs and energy supply shortages; (ix) the existence of uninsured or uninsurable risks; and (x) acts of God and natural disasters, may result in potentially significant reductions in the fair value of any real estate investment and/or reduce the Group's returns from the investment and/or make it more difficult to dispose of the investment at a profit.

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

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

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

Risks applicable to the Group's commercial banking business

The growth of the Group's commercial banking business and its results of operations may be materially affected by economic conditions in Bahrain

The Group's commercial banking business is undertaken by its subsidiary, Khaleeji Commercial Bank BSC ("**KHCB**"), and KHCB's growth and its results of operations may be materially affected by economic conditions in Bahrain. At times of deteriorating economic conditions, KHCB may experience reductions in business activity, increased funding costs and funding pressures, decreased asset values, increased credit losses and impairment charges, and lower profitability and cash flows. KHCB's business and financial performance may also be adversely affected by future recovery rates on assets (including real estate and equity securities which it has accepted as security), particularly as the historical assumptions underlying asset recovery rates may prove to be inaccurate at times of economic stress.

The Group's commercial banking business could be adversely affected if KHCB is unable to effectively monitor and control the level of or, where required, successfully restructure its impaired financing to customers who are in financial distress, or if its impairment allowances are insufficient to cover its financing losses

Risks arising from adverse changes in the credit quality and recoverability of financing, securities and amounts due from counterparties are inherent in the Group's commercial banking business, principally in its financing and investment activities. Credit risks could arise from a deterioration in the credit quality of specific borrowers, issuers and counterparties of KHCB, or from a general deterioration in local or global economic conditions, or from systemic risks within the financial systems, which could affect the recoverability and value of KHCB's assets and require an increase in its impairment allowances for financings, securities and other credit exposures.

As at 31 December 2018, KHCB's non-performing financing assets (being its impaired financing assets and its unimpaired financing assets more than 30 days overdue, before any deduction for impairment provisions) amounted to BD 90 million (approximately U.S.$239 million), equal to 19 per cent. of its total financing assets before any deduction for impairment provisions. As at the same date, KHCB had BD 24 million (approximately U.S.$64 million) of impairment provisions in respect of its financing assets. Impairment provisions for KHCB in the fourth quarter of 2019 are currently expected to be BD 9.8 million (approximately U.S.$26 million), subject to CBB approvals. Further impairment provisions of BD 3.77 million (approximately U.S.$10 million) are expected to be made by KHCB over the next 2 years, also subject to CBB approvals.

KHCB continues to increase its impairment allowances against its non-performing financings and its coverage ratio (calculated as total impairment allowances divided by the total amount of the non-performing financing assets) was 17 per cent. as at 31 December 2018. All of these non-performing financing assets are required to be risk-weighted at 150 per cent. for capital adequacy purposes, which places pressure on KHCB's capital adequacy ratios and may impact its ability to expand its business or require it to increase its capital in the future.

There is no guarantee that the impairment allowances recognised by KHCB will be sufficient to cover its actual financing losses. Although KHCB continues to restructure its non-performing financing assets where possible, there is no certainty that it will be able to reduce the amount of its non-performing financings materially in the coming years, particularly if Bahrain's currently weak economic conditions continue for a prolonged period or deteriorate further. If KHCB fails to, where required, appropriately restructure or monitor and control the levels of, and adequately provide for, its non-performing financing assets, it may need to make further significant impairment charges which could result in reduced profitability and negatively affect its capital ratios. These factors could materially reduce the contribution of the commercial banking business to the Group's results in future periods and may require it to make significant capital contributions to KHCB.

The Group's commercial banking business has significant credit-related contingent liabilities and commitments that may lead to potential losses

As part of its normal banking business, KHCB issues financial guarantees which are accounted for off its balance sheet until such time as they are actually funded or cancelled. In addition, KHCB makes revocable commitments to advance financing to its customers. Although these commitments are contingent, they nonetheless subject KHCB to both credit and liquidity risks. As at 31 December 2018, KHCB had BD 46 million (equal to approximately U.S.$122 million) in such contingent liabilities and commitments outstanding, equal to 12.3 per cent. of its combined financing assets and contingent liabilities (including commitments).

Although KHCB anticipates that only a portion of its obligations in respect of these commitments will be triggered and funds itself accordingly, KHCB may need to make payments in respect of a greater portion of such commitments, particularly in cases where there has been a general deterioration in market conditions. This would result in KHCB needing to obtain additional funding, potentially at relatively short notice, which may not be readily available or may be significantly more expensive, which would reduce KHCB's net financing margin and adversely impact its operating income and profitability.

KHCB has significant asset and liability concentrations

As is common with banks in the GCC and elsewhere in the Middle East, KHCB's assets are concentrated in terms of both geography and sector. In geographic terms, almost all of its financing assets and approximately 95 per cent. of its total assets were concentrated in the GCC as at 31 December 2018. In sector terms, real estate and construction financing assets represented 38 per cent. of its financing portfolio and 27 per cent. of its total assets as at the same date. In addition, more than 90 per cent. by value of KHCB's collateral against its financing exposures is concentrated in real estate. These concentrations increase the risks to KHCB of an economic deterioration in the GCC countries or a material downturn in the real estate markets in the GCC, Any such developments could result in a material increase in KHCB's non-performing financings in future periods which could result in it making significant impairment charges that would be likely to result in reduced profitability and could also negatively affect its capital ratios. These factors could materially reduce the contribution of the commercial banking business to the Group's results in future periods and may require it to make significant capital contributions to KHCB.

Significant competition may have a material adverse effect on KHCB's business, financial condition and results of operations

KHCB faces significant competition both from other Islamic banks and from conventional banks (in particular, those opening Islamic windows). KHCB is changing its strategy to be more focused on targeting key customers which it believes will help differentiate its operations and services from other commercial banks in the Bahrain market. However, if the new strategy does not achieve the required outcome, this may adversely affect KHCB's overall performance and profitability. In addition to domestic banks, international banks are also increasing their presence in the GCC and MENA region, either directly or through strategic investments, and compete with KHCB for its clients.

Competition in its key areas of operation may, among other things, limit KHCB's ability to implement its growth strategy, increase its client base and expand its operations. If KHCB experiences increasing margin pressure and rising operating expenses as the banking market in Bahrain develops and/or KHCB is not able to compete effectively against its competitors and/or KHCB incurs significant additional costs as it seeks to compete effectively, these factors could have a material adverse effect on KHCB's business, financial condition, results of operations or prospects.

KHCB's market position depends on the effectiveness of its marketing initiatives and its ability to anticipate and respond to various factors affecting the industry, including new products and services, pricing strategies by competitors, shifts in consumer preferences and changes in economic, political and social conditions in Bahrain. There can be no assurance that KHCB will be able to compete effectively with its current or future competitors, nor that the competitive pressures faced by KHCB will not have a material adverse effect on its future performance.

Risks applicable to the Group's real estate development business

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

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

- uncertainties as to market demand or a decline in market demand after construction has begun;
- the inability or unwillingness of customers to make contracted progress payments on units or land sale contracts;
- delays or refusals in obtaining all necessary zoning, land use, building, occupancy and other required governmental and regulatory permits, approvals and authorisations;
- material disagreements with joint venture partners where the development involves a joint venture;
- delays in completing necessary infrastructure works;
- requirements to make significant current capital expenditures for certain properties without receiving revenue from these properties until future periods;
- possible shortage of available cash to fund construction and capital improvements and the related possibility that financing for these capital improvements may not be available to the Group on suitable terms or at all;
- an inability to complete development projects on schedule or within budgeted amounts;
- an inability to arrange funding to complete the project or to repay or refinance existing financing that is maturing; and
- an inability to pass through risks contractually to contractors as a result of which the Group becomes exposed to various market or contractor risks.

There can be no assurance that any or all of the Group's current projects will be completed in the anticipated time frame or at all, whether as a result of the factors specified above or for any other reason, and the Group's inability to so complete a project could have a material adverse effect on its business, results of operations, cash flows and financial condition.

Although the Group does not act as a contractor itself, its projects are also exposed to a number of construction risks, including the following:

- default or failure by the Group's contractors to finish projects on time, according to specifications or within budget;
- financial difficulties encountered by the Group's contractors or joint venture partners;
- an inability to find a suitable contractor either at the commencement of a project or following a default by an appointed contractor;
- disruption in service and access to third parties, such as architects, engineers, interior designers or other service providers;
- design faults and/or defective materials or building methods;

- disputes between contractors and their employees;
- shortages of materials, equipment and labour, adverse weather conditions, natural disasters, labour disputes, disputes with sub-contractors, major accidents, changes in governmental priorities and other unforeseen circumstances; and
- escalating costs of construction materials, resources, personnel and global commodity prices.

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

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

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

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

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

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

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

Real estate assets are inherently difficult to value. As a result, valuations are subject to substantial uncertainty and subjective judgements and are made on the basis of assumptions which may not be correct. There can be no assurance that the sale of any of the Group's development properties will be at a price which reflects the most recent valuation of the relevant project, particularly if the Group was forced to sell properties prior to the completion of their development or in adverse economic conditions. In addition, the real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond the Group's control and may materially adversely impact projects after their most recent valuation date. Because real estate investments in general are relatively illiquid, the Group's ability to promptly sell one or more of its real estate assets in response to changing conditions is limited. Accordingly, should the Group need to sell one or more real estate assets in adverse market conditions, its business, results of operations, cash flows and financial condition could be materially adversely affected if it is unable to sell the assets at the desired price or in a timely fashion.

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

The Group is currently undertaking a number of real estate development projects in Bahrain as well as in other countries and also owns a significant land bank which it may use for future development. The real estate market has historically been cyclical and the Group believes that it will continue to be so. A prolonged period of difficult economic conditions could result in slow downs and/or defaults in the performance of services by any of the Group's contractors who are faced with financial difficulties as well as in defaults in payments for completed properties and development land sold by the Group. These effects could be aggravated by the fact that the Group may still need to complete the development of the amenities of any affected projects in order to properly service the projects and by the fact that the

Group may be relying on income from certain projects in order to repay financing incurred by it in connection with a particular project or any other projects. Real estate prices are also impacted by economic conditions and at times of deteriorating economic conditions the Group may experience less demand for its properties which may reduce the prices it is able to obtain and/or cause delays to affected projects and may also constrain its ability to realise value from its land bank.

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

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

Treasury acts as the custodian of cash in the business and is responsible for managing the liquidity. Liquidity risk is the risk that the Group will be unable to meet its obligations, including funding commitments, as they become due. This risk is inherent in the Group's operations, particularly in its treasury, commercial banking and investment banking businesses, and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters.

As at 31 December 2018, 18.9 per cent. of the Group's non-equity funding (which comprises investors' funds; placements from financial institutions, other entities and individuals: customer current accounts; and financing liabilities) had remaining contractual maturities of up to three months and 76.0 per cent. had remaining maturities of one year or less. In addition, as at 31 December 2018, 94.7 per cent. of the Group's non-equity funding was geographically concentrated on the GCC and 42.7 per cent. of its non-equity funding was sourced from other banks and financial institutions. The Group's ability to continue to fund itself effectively is therefore exposed to events that impact its ability to obtain funding in the GCC, such as a severe regional recession, or from banks and financial institutions, such as a significant reduction in market liquidity.

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

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

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

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

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

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

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

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

The Group's treasury department faces a number of risks specific to the Group's business when seeking to manage the Group's liquidity

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

The Group also trades in sukuk, principally issued by sovereign issuers or by issuers in the real estate sector and financial institution issuers. Reflecting the liquidity requirements set by its regulator, the CBB, as at 30 September 2019, 55 per cent. of the Group's investment in sukuk issuances is from sovereign issuers in the GCC and Bahrain in particular, resulting in a relatively high dependency on oil prices and other macro-economic factors to maintain the price of the sukuk it has invested in.

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

The Group's treasury department is also responsible for ensuring that the Group complies with relevant regulatory ratios, such as the liquidity coverage ratio ("**LCR**") and the net stable funding ratio ("**NSFR**"). These ratios are highly dependent on the Group's ability to manage its assets and liability and any failure to maintain these ratios could expose the Group to regulatory penalties and interventions by the CBB.

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

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

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

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

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

In addition, any credit rating assigned to GFH may not reflect the potential impact of all risks related to an investment in the Certificates, the market, additional factors discussed in this Offering Circular and other factors that may affect the value of the Certificates. A security rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organisation and each rating should be evaluated independently of any other rating.

Other financial and operational risks

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

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

To the extent that the Group's financing receivables increase significantly in the future and its credit exposure consequently increases, management will need to continually monitor the credit quality of the financing receivables. This will be particularly important should economic conditions in Bahrain deteriorate in the future. See "*Risk management—Credit risk*", note 38(a) to the 2018 Financial Statements and "*—The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks*" below.

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

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

The Group has significant exposure to the real estate sector

As at 31 December 2018 and on an original basis, 54.1 per cent. of the Group's total assets were concentrated on the real estate sector, principally in the form of the development properties (which constituted 26.4 per cent. of the Group's total assets as at 31 December 2018), its investment properties (which constituted 10.5 per cent. of the Group's total assets as at 31 December 2018) and its financing assets and assets acquired for leasing (which constituted 8.7 per cent. of the Group's total assets as at 31 December 2018). In addition, 50.5 per cent. of the Group's commercial banking business' assets exposed to credit risk as at 31 December 2018 were concentrated on the real estate and construction sectors and 93.9 per cent. by estimated fair value of the collateral accepted by the Group against financing assets and assets acquired for leasing including lease rentals receivable was in the form of real estate as at 31 December 2018.

These levels of concentration mean that the Group is particularly exposed to a significant economic deterioration and/or decline in real estate values in the markets in which it operates, which would be likely to weaken the credit quality of the Group's construction and real estate customers and could also reduce the value of the real estate collateral which the Group holds, potential requiring it to significantly increase its impairment allowances which could materially adversely affect its profitability.

The claims of Certificateholders against GFH will be structurally subordinated to the claims of the creditors of GFH's investees

GFH's investees (including in particular its subsidiaries and equity accounted investees) have incurred, and will continue to incur in the future, debt in order to finance their operations. In the event of the insolvency of any entity in which GFH has invested, claims of secured and unsecured creditors of that entity, including trade creditors, banks and other lenders, will have priority with respect to the assets of that entity over any claims that GFH or its creditors, as applicable, may have with respect to those assets. Accordingly, if GFH became insolvent at the same time as one or more of its investees, claims of the Certificateholders against GFH in respect of any Certificates would be structurally subordinated to the claims of the creditors of the relevant investees.

The Certificates are unsecured obligations and the claims of the Trustee or the Delegate (on behalf of the Certificateholders) will rank behind the claims of GFH's secured creditors.

As at 30 September 2019, GFH had U.S.$268 million of secured financing, which the Group regards as term financing.

Investors should be aware that if GFH becomes insolvent, any of GFH's assets which are the subject of a valid security arrangement will not be available to satisfy the claims of any of GFH's unsecured creditors, including the Trustee or the Delegate (on behalf of holders of the Certificates, or such Certificateholders following a failure by the Delegate to proceed as provided in the Conditions), and the claims of GFH's secured creditors will rank ahead of the claims of such parties accordingly.

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

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

The Group's employees could engage in misrepresentation, misconduct or improper practice that could expose the Group to direct and indirect financial loss and damage to its reputation. Such practices may include embezzling clients' funds, engaging in corrupt or illegal practices to originate further business, intentionally or inadvertently releasing confidential information about clients or failing to follow internal procedures. It is not always possible to detect or deter these types of misconduct, and the precautions which the Group takes to detect and prevent such misconduct may not be effective in all cases. There can be no assurance that measures undertaken to combat these types of misconduct will be successful. Any such actions by employees could expose the Group to financial losses resulting from the need to reimburse clients, co-investors or other business partners who suffered loss or as a result of fines or other regulatory sanctions, and could damage the Group's reputation.

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

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

Particularly in its commercial banking business, the Group depends on its IT systems to process a large number of transactions on an accurate and timely basis, and the Group's IT systems store and process substantially all of the Group's business and operating data. The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, are critical to the Group's business and ability to compete effectively. The Group's business activities would be materially disrupted if there is a partial or complete failure of any of these IT systems or communications networks. In addition to cyber-attacks, such failures can be caused by a variety of factors, many of which are wholly or partially outside the Group's control, including natural disasters and extended power outages. The proper functioning of the Group's IT systems also depends on accurate and reliable data and other system input, which are subject to human errors. Failure to adequately manage cyber-security risk and continually review and update current processes in response to new threats as well as any failure in the Group's systems as a result of other causes could disrupt the Group's business, result in the disclosure of confidential information, create significant financial and/or legal exposure and damage the Group's reputation, any or all of which could have a material adverse effect on the Group's business, results of operations and financial condition.

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

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

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

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

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

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

The Group depends on the efforts, skill, reputation and experience of its senior management, as well as synergies among their diverse fields of expertise and knowledge. In particular, the Group relies on professionals to attract and retain investment banking clients and to manage client funds successfully. As a result, its ability to attract and retain qualified professionals is central to its ability to maintain and grow its investment banking business. Further, because individual investment banking professionals often maintain strong personal relationships with clients that are based on clients' trust in that particular professional, the departure of key staff may cause significant damage to the Group's investment banking client relationships.

The loss of key personnel could delay or prevent the Group from implementing its strategies. The Group also does not carry key man insurance.

Regulatory, legal, Shari'a and reputational risks

Non-compliance with regulatory requirements may result in enforcement measures or subject the Group to significant penalties and could adversely affect its reputation

Both GFH and KHCB are regulated by the CBB. As a result of KHCB being regulated by the CBB, GFH's direct control over KHCB is restricted in cases where strategic and/or material decisions require the CBB's approval prior to being executed. In addition, CBB regulations limit Bahraini banks' exposures to the entities which control them. As a result, GFH is not permitted to obtain financing from KHCB.

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

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

The Group currently benefits from a CBB exemption that permits it to exclude the assets acquired through litigation settlements and by way of a share swap from the CBB's large exposure and connected counterparty limits. This exemption is re-assessed by the CBB on an annual basis. If the CBB decides to no longer grant the exemption, this will negatively impact the Group's capital adequacy ratio which may lead to non-compliance with regulatory requirements and result in the Group becoming subject to potential enforcement measures and/or significant penalties. The Group also has an exemption from the CBB related to its exposures to certain large real estate projects which are higher than 15 per cent. of its regulatory capital. This exemption is also re-assessed by the CBB on an annual basis. If the CBB decides to no longer grant the exemption, this could require the Group to reduce its exposure which could result in significant losses.

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

Financial institution regulators typically have a wide range of enforcement powers in the event they discover any regulatory violations. Should a regulated entity violate any applicable regulation, the regulatory authority may be able to prohibit the disposal of assets or the making of payments, order the cessation of business with clients and/or prohibit the acceptance of payments. Public trust and confidence are critical to the Group's business and any material loss of investor and/or client confidence as a result of non-compliance or alleged non-compliance with regulatory requirements could have an adverse effect on one or more of its businesses, which in turn could materially adversely affect the Group's results of operations and financial condition.

The Group is also required to comply with applicable know-your-customer, anti-money laundering, anti-corruption and counter-terrorism financing laws and regulations in Bahrain and other jurisdictions where it operates, including those related to countries subject to sanctions by the United States Office of Foreign Assets Control ("**OFAC**") and similar regulations of other jurisdictions and international bodies. To the extent that the Group fails or is perceived to fail to comply with these and other applicable laws and regulations, its reputation could be materially damaged and it could be subject to fines or other monetary penalties, which could materially adversely impact its cash flow and profitability.

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

The Group is involved in a number of current disputes described under "*Description of the Group—Litigation*" and may continue to become involved in disputes, legal claims, judicial proceedings and regulatory enforcement actions in the ordinary course of its business. Some of these may involve material amounts claimed from the Group or may have a materially negative impact on its reputation. There can be no assurance that the Group will be successful in all of the disputes to which it is or may become a party. If the Group is unable to successfully defend any claim, it may face substantial damages and settlement costs. Even if it is successful in defending a claim, it may still incur significant defence costs. Where the Group is the plaintiff, it may not recover all of the amounts claimed by it and, if it is not successful in the claim it may incur defence costs as well as its own costs. In all cases, engaging in litigation or prolonged disputes is likely to prove to be a significant management distraction.

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

The Group conducts its business in accordance with *Shari'a* principles as determined by its Shari'a

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

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

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

All financial institutions depend on the trust and confidence of their customers to succeed in their business. The Group is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, cross selling and inadequate branding will harm its reputation. The Group's reputation may also be adversely affected by the conduct of third parties over whom it has no control, including entities to which it has advanced financing or in which it has invested. For example, if one of the Group's clients becomes associated with financial scandals or widely publicised improper behaviour, the Group's own reputation may be affected. In common with other banks, the Group is also exposed to adverse publicity relating to the financial services industry as a whole. Financial scandals unrelated to the Group or questionable ethical conduct by a competitor may taint the reputation of the industry and affect the perception of investors, public opinion and the attitude of regulators. Any damage to the Group's reputation could cause existing customers to withdraw their business and lead potential customers to be reluctant to do business with the Group.

RISKS RELATING TO BAHRAIN

Bahrain is subject to a number of on-going domestic political risks

Although Bahrain has not experienced any significant political or security disruptions in recent years, the ongoing political stasis and tensions with opposing political and social groups continue to impact investor perceptions of Bahrain's political stability and foreign investment flows.

Following widespread protests that occurred in February and March 2011, the Government has been unable to reach a political accommodation with certain political groups. His Majesty the King and His Royal Highness the Crown Prince initiated several rounds of national dialogue in 2011, 2013 and 2014 despite repeated withdrawals by opposition groups. In September 2014, a national dialogue framework document was produced, which laid out key steps for political reform. His Majesty the King signed into law a set of reforms to the distribution of electoral districts, and all political groups were encouraged to participate in the November 2014 parliamentary elections.

However, certain opposition groups decided to boycott the November 2014 parliamentary elections. Nevertheless, 52.6 per cent. of eligible voters cast their vote and independent candidates won 37 of 40 seats. On 11 June 2016, His Majesty King Hamad bin Isa Al Khalifa issued an amendment to the country's political society law, banning the use of religion in political societies. On 17 July 2016, Bahrain's High Civil Court dissolved Al Wefaq National Islamic Society citing attempts to undermine the constitution, support for terrorism, slander of the judiciary and incitement of lawless action. Bahrain's Second High Civil Court of Appeals and Court of Cassation rejected appeals from Al Wefaq National Islamic Society against its dissolution in September 2016 and February 2017, respectively. However, the Government reiterated its intention to continue its cooperation with political societies within the bounds of the law, including the ban on the use of religion in political societies. In May 2017, Bahrain's High Civil Court ordered the dissolution of the National Democratic Action Society for violations of the law on political associations.

In May 2017, the police in Bahrain arrested 286 people in Diraz as part of an operation to arrest militants and dangerous persons. During the course of the operation, five people were killed, and there were a few acts of violence. In July 2017, 60 persons were charged by the relevant judicial authority with forming a terrorist organisation (including 24 in absentia), and using weapons and explosives, as well as being trained with the aim of carrying out terrorist attacks that target police officers and civilians. In January 2018, the Criminal High Court, sanctioned by parliament as the legislative authority, sentenced two persons charged to death and 56 others were sentenced to prison terms ranging from five years to life, with the remaining two people acquitted. In addition, 47 of the persons charged were stripped of their Bahraini citizenship.

Although Bahrain's security situation has stabilised over the past few years, since January 2017, there have been a number of small scale protests in various villages, and there can be no assurance that further protests or unrest will not occur in the future. In the event that political unrest should take place, such a development could have an adverse material impact on foreign direct investment in Bahrain or on the country's reputation in the region, including its standing as a regional leader in the financial services sector. An unsettled political environment may also have negative implications on Bahrain's fiscal accounts and future growth trajectory. While the Government has already begun to implement a broader strategy to diversify its revenue base and cut expenditures further, progress has been hampered by political and religious factionalism. The lack of a broad political consensus that encompasses Bahrain's various political and religious groups may undermine the Government's ability to implement the full extent of its fiscal readjustment programme, and may hinder its efforts to reverse the rise in public debt in the near term.

Bahrain's economy remains significantly dependent on oil revenues and is vulnerable to external shocks

Although the Government has sought to promote the growth of the non-oil sector, Government revenues remain significantly dependent on oil revenues. Any prolonged low oil price environment would be likely to have a significant negative effect on Bahrain's public finances and current account. As a result, Bahrain remains susceptible to global oil prices. Moreover, Bahrain also has smaller oil reserves than a number of other GCC countries, and Bahrain shares a substantial portion of its reserves with Saudi Arabia.

Bahrain's main source of oil is from the Abu Saa'fa oilfield, which is on the maritime border with Saudi Arabia. Under a treaty with Saudi Arabia first signed in 1958, Bahrain is entitled to receive 50 per cent. of the output from the Abu Saa'fa field, although historically Bahrain has received significantly more than its 50 per cent. entitlement. However, no assurance can be given that Bahrain will continue to receive more than its 50 per cent. share of entitlement from the Abu Saa'fa oilfield, which further increases Bahrain's vulnerability to reductions in oil and gas revenues.

If Bahrain does not decrease public expenditure (or increase non-oil revenues), an environment of prolonged oil prices below its break even levels may lead to a further widening in the fiscal deficit and adversely impact Bahrain's sovereign credit rating as well as its borrowing costs, which could in turn adversely affect the Group given its exposure to Bahrain.

RISK FACTORS RELATING TO THE CERTIFICATES

Absence of secondary market/limited liquidity

There is no assurance that a market for the Certificates will develop or, if it does develop, that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a severe adverse effect on the market value of the Certificates. In addition, questions as to the *Shari'a* permissibility of the structure or the issue and the trading of the Certificates may limit the liquidity and adversely affect the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in the Certificates must be prepared to hold the relevant Certificates for an indefinite period of time or until their maturity.

The Certificates are limited recourse obligations

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent undivided ownership interests solely in the Trust Assets. Recourse to the Trustee in respect of the Certificates is limited to the Trust Assets and the proceeds of the Trust Assets are the sole source of payments on the Certificates. Upon the occurrence of a Dissolution Event or any dissolution pursuant to Condition 8, the sole rights of each of the Trustee, the Delegate and the Certificateholders will be against the Trustee and the Obligor to perform their respective obligations under the Transaction Documents to which they are a party. Certificateholders will otherwise have no recourse to any assets of the Trustee, the Delegate, the Obligor, the Joint Lead Managers, the Agents or any affiliate of any of the foregoing entities in respect of any shortfall in the expected amounts due under the Trust Assets. Certificateholders will also not be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding-up or receivership of the Obligor (in respect of its obligations under the Transaction Documents to which it is a party to the extent that it fulfils all such obligations) , or the Trustee or any of their affiliates as a consequence of such shortfall or otherwise. The Obligor is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Trustee, and the Trustee and the Delegate will have direct recourse against the Obligor to recover such payments due to the Trustee from the Obligor pursuant to the Transaction Documents to which it is a party. There can be no assurance that the net proceeds of any enforcement action with respect to the Trust Assets will be sufficient to make all payments due in respect of the Certificates. After enforcing the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with Condition 5(b), the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee to recover any further sums in respect of such Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall any Certificateholder, the Trustee or the Delegate have any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Transaction Documents and the sole right of the Trustee, the Delegate and the Certificateholders against the Obligor shall be to enforce the obligations of the Obligor to perform its obligations under the Transaction Documents to which it is a party.

The Certificates may be subject to early redemption

If the amount payable on the Certificates is required to be increased to include additional amounts in certain circumstances and/or the Obligor is required to pay additional amounts pursuant to certain Transaction Documents, in each case as a result of certain changes affecting taxation in any Relevant Jurisdiction, the Obligor may be entitled to require the Trustee to redeem all but not some only of the Certificates upon giving notice in accordance with the Conditions (as defined herein).

RISK FACTORS RELATING TO TAXATION

Taxation risks on payments

Payments made by the Obligor to the Trustee under the Transaction Documents to it is a party or by the Trustee in respect of the Certificates could become subject to taxation. The Transaction Documents require the Obligor to pay additional amounts, as applicable, if any withholding or deduction is required by the laws of any Relevant Jurisdiction to be made in respect of payments made by it to the Trustee which are intended to fund Periodic Distribution Amounts and the Dissolution Distribution Amount. Furthermore, Condition 10 provides that the Trustee is required to pay additional amounts in respect of any such withholdings or deductions imposed by or on behalf of any Relevant Jurisdiction in certain circumstances. If the Trustee fails to gross-up for any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, the Obligor has, pursuant to the Trust Deed, unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Trustee (for the benefit of the Certificateholders) an amount equal to the liabilities of the Trustee in respect of any and all additional amounts required to be paid in respect of the Certificates pursuant to Condition 10 in respect of any withholding or deduction in respect of any tax as set out in that Condition.

RISKS RELATING TO THE TRUST ASSETS

Ownership of the Wakala Assets

The *Shari'a* analysis is as follows: an ownership interest in the Real Estate Assets (or the Additional

Real Estate Assets (each as defined in the Purchase Agreement (as defined herein)), as the case may be) will pass to the Trustee under the Purchase Agreement (or the relevant Supplemental Purchase Agreement (as defined in the Purchase Agreement)) and the Trustee will lease the Lease Assets (as defined in the Conditions) to the Obligor pursuant the Lease Agreement. If applicable, ownership interests in Securities or Securities Interests (each as defined in the servicing agency agreement to be entered into between the Obligor as servicing agent and the Trustee (the "**Servicing Agency Agreement**") will pass to the Trustee under a Sale Agreement (as defined in the Sale and Substitution Undertaking). The Lease Assets, together with the Securities and Securities Interests are together referred to as the "**Wakala Assets**". The Trustee will declare a trust in respect of the Wakala Assets and the other Trust Assets in favour of the Certificateholders of the Certificates pursuant to the Trust Deed. Accordingly, from a *Shari'a* perspective Certificateholders will, through the ownership interest obtained by the Trustee pursuant to the terms of the Purchase Agreement and, if applicable, a Sale Agreement, have an ownership interest in the Wakala Assets.

However, no investigation or enquiry will be made and no due diligence will be conducted in respect of any of the Wakala Assets. The Wakala Assets will be selected by the Obligor, and none of the Certificateholders, the Trustee, the Agents or the Delegate will have the ability to influence such selection. Only limited representations will be obtained from the Obligor in respect of the Wakala Assets. No steps are intended to be taken to perfect the legal transfer of the ownership interest (including registration if required as a matter of law) in the Wakala Assets with any relevant regulatory authority in Bahrain and, therefore, in the absence of registration, in relation to any Wakala Assets which require perfection in order to legally transfer any ownership interest, Certificateholders would not have any interest in any such Wakala Assets.

Transfer of the Wakala Assets

No investigation has been or will be made as to whether any Wakala Assets may be transferred as a matter of the law governing the relevant Transaction Documents pursuant to which any such transfer is made, the law of the jurisdiction where the relevant securities or assets are located or any other relevant law. No investigation will be made to determine if the Purchase Agreement, relevant Supplemental Purchase Agreement or any Sale Agreement, as the case may be, will have the effect of transferring any Wakala Assets.

Nevertheless, as indicated above, although the *Shari'a* analysis is such that an ownership interest in the Wakala Assets will pass to the Trustee pursuant to the Purchase Agreement or the relevant Supplemental Purchase Agreement, as the case may be, the Certificateholders will not have any rights of enforcement as against the Wakala Assets and their rights are limited to enforcement against the Obligor of its obligation to purchase such assets pursuant to the terms of the Purchase Undertaking in accordance with the terms of the Transaction Documents.

The Obligor will covenant in the Purchase Undertaking that it will fully accept all or any ownership interest the Trustee may have in the Wakala Assets and the Obligor has undertaken in the Purchase Undertaking and the Trust Deed that if the Exercise Price is not paid in accordance with the provisions of the Purchase Undertaking, whether as a result of a dispute or challenge in relation to the rights, benefits, entitlements, title and interests that the Trustee may have in, to and under the Wakala Assets, or any of them, or for any other reason, the Obligor shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose of redemption in full of the outstanding Certificates and, accordingly, the amount payable under any such indemnity claim will equal the Exercise Price. The Obligor will irrevocably undertake in the Purchase Undertaking that it will, following payment in full of such indemnity in accordance with the Purchase Undertaking, enter into a Sale Agreement, for the sale and purchase of the relevant Wakala Assets.

If the Obligor fails to comply with its obligations under the Purchase Undertaking and does not pay the relevant Exercise Price for any reason, the Delegate will seek to enforce the above provisions of the Purchase Undertaking. To the extent that it obtains an English judgment or an arbitration award in its favour, it may seek to enforce that judgment or award in a Bahraini court. It is likely that, in any action heard by them, the courts of Bahrain (if they do not simply enforce the judgment or arbitral award – see "*Risks associated with enforcing arbitral awards in Bahrain*" and "*The Obligor is a Bahraini company* *and it may be difficult for Certificateholders to enforce court judgments against it*") would view the transaction as a whole and seek to uphold the intention of the parties to treat the arrangements as a financing transaction on the terms agreed and thereby require payment by the Obligor of an amount equal to the Exercise Price in accordance with the terms of the Purchase Undertaking and/or the Trust Deed, although this matter has not been tested by the Bahraini Courts.

Total Loss Event

From a *Shari'a* perspective, as owner of the Lease Assets, the Trustee is required, among other things, to insure the Lease Assets. The Trustee has appointed the Obligor as its servicing agent, which has undertaken in the Servicing Agency Agreement, *inter alia*, to insure the Lease Assets in the name of the Trustee against the occurrence of a Total Loss Event for their full reinstatement value (and to ensure that such amount is not at any time less than, *inter alia*, the aggregate face amount of Certificates then outstanding plus accrued but unpaid Periodic Distribution Amounts relating to such Certificates less, the aggregate amounts of the Deferred Sale Price then outstanding, if any, payable by the Buyer to the Seller pursuant to the Murabaha Agreement). A "**Total Loss Event**" is defined as the total loss or destruction of, or damage to the whole of, the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any insurances payable or other indemnity granted in each case by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical.

Nevertheless, should such an event occur the Lease will terminate and, save where the relevant Lease Assets are replaced by the Obligor in accordance with the Servicing Agency Agreement, the payment obligations arising on the Certificates will be met using the proceeds of the insurance received by the Trustee and, if any, the aggregate amounts of the Deferred Sale Price then outstanding. In this scenario, potential investors should be aware that: (i) rental payments under the Lease will cease upon the occurrence of a Total Loss Event as the Lease will have terminated and, accordingly, the Periodic Distribution Amount payable to the Certificateholders will not accrue after the date of such Total Loss Event and (ii) there may be a delay in the Trustee receiving the proceeds of insurance and therefore in the relevant Certificateholders receiving a Dissolution Distribution Amount in respect of their Certificates and no additional Periodic Distribution Amount will be paid in respect of this delay. In this regard, the Servicing Agency Agreement provides that if the insurance proceeds for an amount equal to the full reinstatement value are not paid directly into the Transaction Account by no later than the 29th day after the occurrence of the Total Loss Event, the Obligor, as Servicing Agent, shall have failed in its responsibility to properly insure the relevant Lease Assets and, accordingly (unless it proves beyond any doubt that any shortfall in the insurance proceeds is not attributable to its negligence and not attributable to its failure to fully comply with the terms of the Servicing Agency Agreement relating to insurance), the Obligor shall be responsible for paying any such shortfall. The Delegate will be entitled to enforce this undertaking against the Obligor on behalf of the Certificateholders. The full reinstatement value also comprises an amount equal to the Periodic Distribution Amounts relating to the relevant Certificates, which would have accrued (had a Total Loss Event not occurred) during the period beginning on the date on which the Total Loss Event occurs and ending on but excluding the earlier of (a) the date on which the Certificates are redeemed in full in accordance with Condition 8(c), and (b) the 31st day following the date on which the Total Loss Event occurred.

RISKS RELATING TO THE MURABAHA CONTRACTS

Taxation risk

Pursuant to the Murabaha Agreement, upon the receipt of and pursuant to a purchase order from the Buyer, the Seller will purchase certain commodities from certain suppliers at the spot price and, pursuant to a letter of offer and acceptance, the Buyer will irrevocably undertake to purchase such commodities from the Seller in consideration for a deferred sale price.

Upon purchasing and prior to on-selling any commodities, the Buyer will for a limited period assume the legal and beneficial title to such commodities. It is possible that the acquisition of the commodities, or the disposal thereof, may be, or may by virtue of a change in law become, subject to increased taxation. To the extent that taxation costs arise in respect of the Buyer's acquisition, ownership or disposition of the commodities, there may be a material adverse effect on the Buyer's ability to perform its obligations (including payment obligations) under the Murabaha Agreement and, in turn, in respect of the Certificates.

Price fluctuation risk

The price at which a commodity changes hands is determined as a function of its market as a whole, and both under-supply and over-supply of a commodity can have significant implications for the price at which it is traded. If, after the Buyer has purchased any commodities, the market for the commodities becomes over-supplied or flooded, the price at which the commodities can be on-sold or traded subsequently may be adversely affected. Similarly, if after the Buyer has purchased the commodities, additional governmental or import or export licences become applicable to the market for the commodities, the price at which the commodities can be sold or traded subsequently may also be adversely affected. The effect of such price fluctuations may have a material adverse impact on the Buyer's ability to secure satisfactory on-sale prices for the commodities and, in turn, have a material adverse effect on the Buyer's ability to perform its obligations (including payment obligations) under the Murabaha Agreement and, in turn in respect of the Certificates.

Commodity risk

Upon purchasing commodities from the Seller and prior to selling the commodities to an independent third party purchaser, the Buyer will for a limited period assume the operational risks associated with taking ownership of the commodities. These risks include, without limitation, that:

(i) the commodities may suffer damage of a nature that reduces their value whilst in storage or during transit;

(ii) the Buyer's storage and/or transfer of the commodities may cause environmental damage, such as pollution, leakage or contamination, which may breach environmental laws or regulations making the Buyer susceptible to legal or financial recourse;

(iii) the commodities may be liable to theft and or vandalism; and

(iv) the commodities may be damaged by terrorist attacks, natural disasters, fire or other catastrophic events that are beyond the control of the Buyer.

To the extent that these risks are not mitigated, or fully covered, by any insurance taken out in respect of the commodities, the occurrence of any of these events may have a material adverse effect on the value of the commodities and/or the Buyer's ability to on-sell the commodities which may, in turn, affect the Buyer's ability to perform its obligations (including payment obligations) under the Murabaha Agreement and, in turn in respect of the Certificates.

RISK FACTORS RELATING TO ENFORCEMENT

The insolvency regime in Bahrain is relatively untested with limited guidance as to how the legislative framework will be applied in practice by the courts in Bahrain

Prospective investors should note that the insolvency regime in Bahrain is relatively untested as there have been a limited number of large scale insolvencies. As a result, there is limited guidance as to how the legislative framework will be applied in practice and, in particular, the definitive approach that would be adopted by a court in Bahrain or the relevant insolvency official in relation to assessing the claims of senior and subordinated creditors of the Obligor. Given that the Obligor is an Islamic bank licensed by the CBB, its insolvency will be subject to the provisions of the Central Bank of Bahrain and Financial Institutions Law No. 64 of 2006 (as amended) and other regulations issued by the CBB from time to time.

Change of law

The structure of the issue of the Certificates is based on English law and the laws of the Kingdom of Bahrain, and administrative practices in these jurisdictions in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible change to English law, Bahraini law or any such administrative practices after the date of this Offering Circular, nor can any assurance be given as to whether any such change could adversely affect the ability of the Trustee to make payments under any Certificates or of the Trustee and the Obligor to comply with their respective obligations under the Transaction Documents to which they are a party.

Risks associated with enforcing arbitral awards in Bahrain

Ultimately the payments under the Certificates are dependent upon the Obligor making payments in the manner contemplated under the Transaction Documents to which it is a party. If the Obligor fails to do so, it may be necessary for an investor to bring an action against the Obligor (which will usually be through the Delegate) to enforce its obligations and/or to claim damages, as appropriate, which could be both time consuming and costly.

The Obligor has irrevocably agreed that certain of the Transaction Documents to which it is a party, the Certificates and any non-contractual obligations arising out of or in connection with them shall be governed by, and shall be construed in accordance with, English law. Any dispute in relation to the Transaction Documents, the Certificates and any non-contractual obligations arising out of or in connection with them, may be referred to arbitration in London, England under the rules of arbitration of the London Court of International Arbitration (the "**LCIA**").

Bahrain has ratified the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Any arbitration award rendered in London should therefore be enforceable in Bahrain in accordance with the terms of the New York Convention and Law No. 9 of 2015 promulgating the Arbitration Law. Under the New York Convention and Law No. 9 of 2015 promulgating the Arbitration Law, Bahrain has an obligation to recognise and enforce foreign arbitration awards, and the party seeking to enforce the arbitration award in Bahrain must supply:

(a) the duly authenticated original or a duly certified copy of the award; and

(b) the original or a duly certified copy of the arbitration agreement.

However, the enforcement of the arbitration award may be refused at the request of the party against whom it is invoked, if that party furnishes to the competent authority where the recognition and enforcement is sought proof that:

(a) the party to the agreement was, under the law applicable to it, under some incapacity, or the said agreement is not valid under the law to which the parties have subjected to or failing any indication thereon under the laws of the country where the award was made;

(b) the party against whom the award is invoked was not given proper notice of the appointment of the arbitrator or of the arbitration proceedings or was otherwise unable to present his case;

(c) the award deals with a dispute not contemplated by or not falling within the terms of the submission to arbitration or it contains decisions on matters beyond the scope of the submission to arbitration, provided that if the decision on matters submitted to arbitration can be separated from those not so submitted, only that part of the award which contains decisions on matters not submitted to arbitration may be set aside;

(d) the composition of the arbitral authority or the arbitral procedure was not in accordance with the agreement of the parties, or failing such agreement, was not in accordance with the laws of the country where the arbitration took place; or

(e) the award has not yet become binding on the parties, or has been set aside or suspended by a competent authority of the country in which, or under the laws of which, that award was made.

Recognition and enforcement of an arbitral award may also be refused if the competent authority in Bahrain finds that:

(a) the subject matter of the dispute is not capable of settlement by arbitration under the laws of Bahrain; or

(b) the recognition or enforcement of the award would be contrary to the public policy of Bahrain.

Each of the Trustee and the Delegate (on behalf of the relevant Certificateholders), as the case may be, may, in the alternative and at its sole discretion, opt to resolve a dispute with the courts, in which case the courts of England and Wales have exclusive jurisdiction to settle disputes, except that the Delegate may take proceedings relating to a dispute arising out of or in connection with the Certificates in any other courts with jurisdiction. Due to the presence of the option to litigate clause in the Transaction Documents, notwithstanding the arbitration clause, there is a risk that the Bahraini Court may exercise mandatory jurisdiction pursuant to the Civil and Commercial Procedures Act No. 12 of 1971, as amended.

The Obligor is a Bahraini company and it may be difficult for Certificateholders to enforce court judgments against it

Under the terms of the Transaction Documents and the Certificates, any such dispute may also be referred to the courts of England (who shall have exclusive jurisdiction to settle any dispute arising from such documents) if the relevant party with the option to litigate so requires. In these circumstances, each party irrevocably agrees to submit to the exclusive jurisdiction of the courts of England.

Notwithstanding that a judgment may be obtained in an English court, there is no assurance that the Obligor has or would at the relevant time have assets in the United Kingdom against which such a judgment could be enforced.

As there has been no reciprocity between England and Bahrain, the Bahraini Courts are unlikely to enforce an English judgment without requesting that a fresh case is filed in the Bahraini Courts which may lead to the possibility that the Bahraini Courts may re-examine the merits of the claim although the Bahraini Courts may also accept the English court judgment as evidence of a debt. The choice by the parties of English law as the governing law of the transaction will be recognised by the Bahraini Courts provided that the provisions thereof are (i) proved, as a matter of evidence, to the satisfaction of the court by the party relying on it; and (ii) not contrary to Bahraini public order and morality. Judicial precedents in Bahrain generally do not have binding effect on subsequent decisions except as a directive for decisions of the Constitutional Court (the "**Constitutional Court**"). Although decisions rendered by the Court of Cassation (the "**Court of Cassation**") do not have binding effect on lower courts, the present practice is for the lower courts to adhere to the precedents and principles laid down by the Court of Cassation. There is no formal system of reporting court decisions in Bahrain except for those decisions of the Court of Cassation and the Constitutional Court.

No document will be admitted in evidence in the courts of Bahrain unless they are submitted in Arabic or accompanied by a duly authenticated Arabic translation approved by the Official Translator of the Bahraini Courts, which will be the official text.

In addition, there is limited reciprocity between Bahrain and other countries in relation to the recognition and enforcement of judgments. Bahrain's courts may enforce a foreign court judgment without re-examining the merits of the claim, provided that:

(a) such court enforces judgments and orders rendered in Bahrain;

(b) the courts of Bahrain did not have jurisdiction in the matter in respect of which the order or judgment has been made and it was made by a foreign court of competent jurisdiction under the jurisdiction rules or laws applied by such court;

(c) the parties had been served with due notice to attend and had been properly represented;

(d) the judgment was final in accordance with the law of the court making it; and

(e) the judgment did not conflict with any previous decision of the Bahrain courts and did not involve any conflict with public order or morality in Bahrain.

Generally, where provisions relating to interest payments are provided for in an agreement, the Bahraini Courts may give effect to such a provision so long as the agreement between the parties which provides for payment of interest is a commercial agreement relating to commercial activities.

If the Obligor fails to perform its obligations under any Transaction Document to which it is a party, the potential remedies available to the Trustee and the Delegate include obtaining an order for specific enforcement of the relevant obligations or a claim for damages. There is no assurance that a court will provide an order for specific enforcement which is a discretionary matter.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors including an obligation on the Trustee and the Delegate to mitigate any loss arising as a result of the breach. No assurance is provided on the level of damages which a court may award in the event of a failure by the Obligor to perform its obligations as set out in the Transaction Documents to which it is a party.

ADDITIONAL RISKS

Investors who hold less than the minimum Specified Denomination may be unable to sell their Certificates and may be adversely affected if definitive Certificates are subsequently required to be issued

The Certificates have denominations consisting of a minimum specified denomination of U.S.$200,000 plus one or more higher integral multiples of U.S.$1,000. It is possible that the Certificates may be traded in amounts in excess of U.S.$200,000 that are not integral multiples of U.S.$200,000. In such a case a holder who, as a result of trading such amounts, holds a face amount of less than U.S.$200,000 would need to purchase an additional amount of Certificates such that it holds an amount equal to at least U.S.$200,000 to be able to trade such Certificates.

A holder who holds an amount which is less than U.S.$200,000 in his or her account with the relevant clearing system at the relevant time may not receive a definitive Certificate in respect of such holding (should definitive Certificates be printed or issued) and would need to purchase a face amount of Certificates at or in excess of U.S.$200,000 in order to be eligible to receive a definitive Certificate.

If definitive Certificates are issued, holders should be aware that definitive Certificates which have a denomination that is not an integral multiple of U.S.$200,000 and integral multiples of U.S.$1,000 may be illiquid and difficult to trade.

Emerging Markets

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Consents to variation of Transaction Documents and other matters

The Conditions contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The Trust Deed contains provisions permitting the Delegate from time to time and at any time without any consent or sanction of the Certificateholders to agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any Transaction Document or determine, without any such consent or sanction as aforesaid, that any Dissolution Event or Potential Dissolution Event shall not be treated as such if, in the opinion of the Delegate (a) such modification is of a formal, minor or technical nature, or (b) such modification is made to correct a manifest error, or (c) such modification, waiver, authorisation or determination is not materially prejudicial to the interests of Certificateholders, provided that in the case of (c) above no such modification, waiver, authorisation or determination may be made in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least 25 per cent. of the outstanding aggregate face amount of Certificates. Unless the Delegate otherwise decides, any such modification, waiver, authorisation or determination shall as soon as practicable thereafter be notified by the Trustee to the Certificateholders in accordance with Condition 17 and shall in any event be binding upon the Certificateholders.

Credit ratings may not reflect all risks

The Certificates are expected to be assigned a rating of "B" by Fitch and "B" by S&P. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. The ratings of the Certificates may not reflect the potential impact of all the risks related to the structure, market, additional factors discussed herein and other factors that may affect the value of the Certificates. In addition, real or anticipated changes in the ratings of the Certificates could negatively affect the market value of the Certificates.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). If the status of the rating agency rating the Certificates changes, European regulated investors may no longer be able to use the rating for regulatory purposes and the Certificates may have a different regulatory treatment. This may result in European regulated investors selling the Certificates which may impact the value of the Certificates and any secondary market. The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the front page of this Offering Circular.

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Certificates will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in each Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Certificates. While the Certificates are represented by a Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates are represented by a Global Certificate, the Trustee will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Certificates so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

If an investor holds Certificates which are not denominated in the investor's home currency, he or she will be exposed to movements in exchange rates adversely affecting the value of his or her holding. In addition, the imposition of exchange controls in relation to any Certificates could result in an investor not receiving payments on those Certificates

The Trustee will make all payments on the Certificates in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's

Currency relative to U.S. dollars would decrease (1) the Investor's Currency-equivalent yield on the Certificates (2) the Investor's Currency-equivalent value of the principal payable on the Certificates and (3) the Investor's Currency-equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Trustee to make payments in respect of the Certificates. As a result, investors may receive less profit or principal than expected, or no profit or principal.

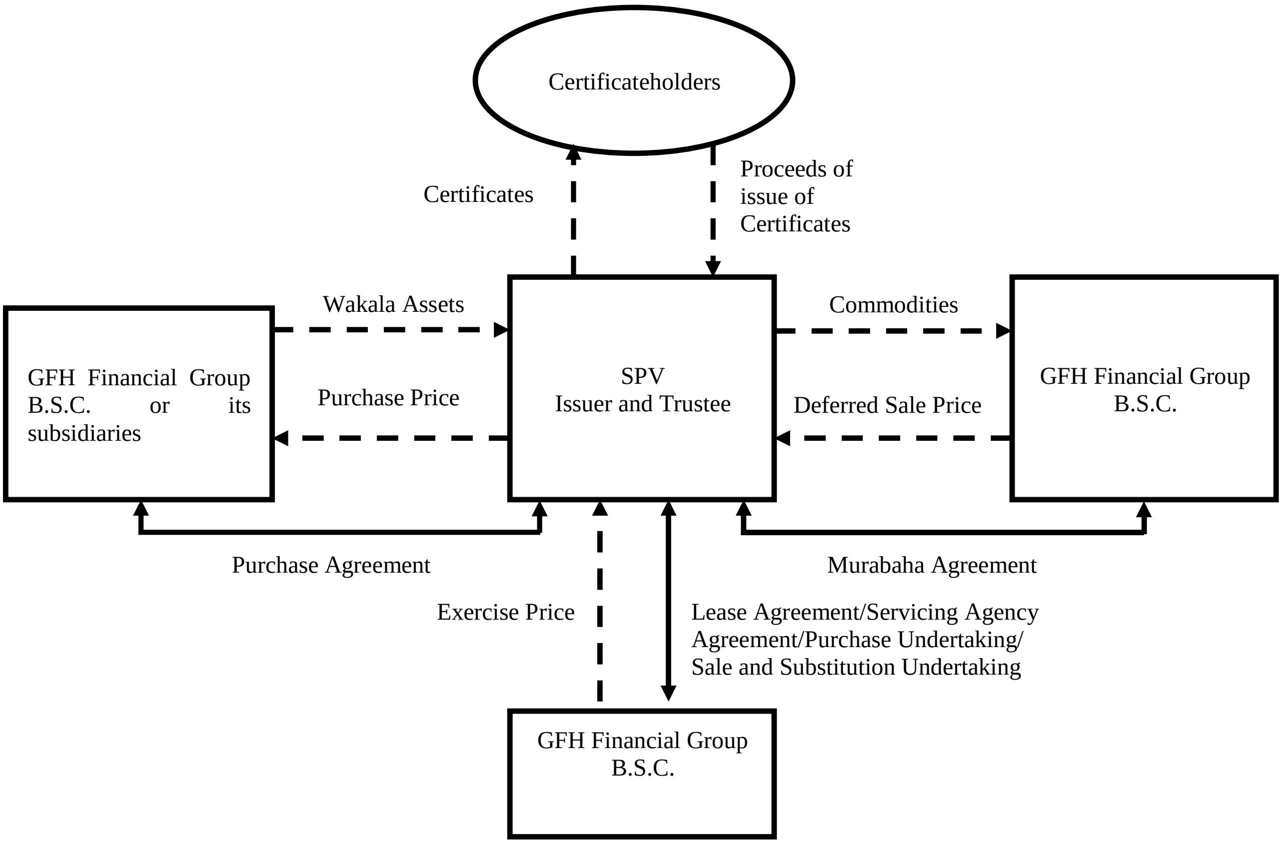
***Shari'a* rules**

Each of (i) the Shari'a Supervisory Board of GFH; (ii) the Shari'a Supervisory Board of Société Générale, Dubai International Financial Centre Branch; and (iii) the Shari'a Supervisory Committee of Standard Chartered Bank has confirmed that the Transaction Documents are, in their view, *Shari'a* compliant. However, there can be no assurance that the Transaction Documents or the Certificates will be deemed to be *Shari'a* compliant by any other *Shari'a* board or *Shari'a* scholars. None of the Trustee, the Obligor, the Agents, the Delegate or the Joint Lead Managers makes any representation as to the *Shari'a* compliance of the Transaction Documents or the Certificates and/or any trading thereof and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible. Potential investors should obtain their own independent *Shari'a* advice as to the compliance of the Transaction Documents and the issue of the Certificates with their individual standards of compliance with *Shari'a* principles and should also make their own determination as to the future tradability of the Certificates on any secondary markets. Questions as to the *Shari'a* permissibility of the structure or the issue and the trading of the Certificates may limit the liquidity and adversely affect the market value of the Certificates. See "*Summary of the Principal Transaction Documents – Shari'a Compliance*" for further details.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties under the Transaction Documents (other than the Purchase Agreement, the Lease Agreement and the relevant Sale Agreement) and/or the Certificates would be, if in dispute, the subject of arbitration under the rules of arbitration of the LCIA. The Obligor has also agreed under the Transaction Documents to which it is a party (other than the Purchase Agreement, any Supplemental Purchase Agreement, the Lease Agreement and any Sale Agreement) to submit to the exclusive jurisdiction of the courts of England. In such circumstances, the arbitrator or judge (as applicable) will apply the governing law of the relevant Transaction Document or of the Certificates (as the case may be) in determining the obligations of the parties.

STRUCTURE DIAGRAM AND CASHFLOWS

Set out below is a simplified structure diagram and a description of the principal cash flows underlying the Certificates. Potential investors are referred to the terms and conditions of the Certificates and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this document for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.



Cashflows

Payments by the Certificateholders and the Trustee

On the issue date in respect of each Tranche (a "**Tranche**" being a New Tranche (as defined below) or the aggregate of the Certificates issued on the "**Issue Date**"), the Certificateholders will pay the issue price (the "**Issue Proceeds**") in respect thereof to the Trustee and the Trustee will apply:

(a) as the purchase price (the "**Purchase Price**") payable pursuant to a purchase agreement (the "**Purchase Agreement**") for the purchase of certain real estate assets (the "**Real Estate Assets**") or (in the case of a subsequent issue of any additional Certificates which are to be created and issued so as to form a single series with the Certificates (a "**New Tranche**") as the purchase price (the "**Additional Wakala Asset Purchase Price**") payable either under a supplemental purchase agreement (each a "**Supplemental Purchase Agreement**") entered into pursuant to the Purchase Agreement for certain additional real estate assets and/or for the transfer or assignment of certain of the Securities Interests relating to the Securities ("**Additional Wakala Assets**"), in each case from GFH or subsidiaries of GFH in their capacities as sellers (the "**Sellers**"), provided that the aggregate value of such Real Estate Assets or Additional Wakala Assets, as the case may be, will be not less than 51 per cent. of the aggregate face amount of such Tranche of Certificates; and

(b) the remaining Issue Proceeds, being no more than 49 per cent. of the aggregate face amount of such Tranche of Certificates, in the purchase of commodities to be sold to GFH on a deferred payment basis for an amount specified in a letter of offer and acceptance (the "**Deferred Sale**

Price") pursuant to a murabaha agreement (the "**Murabaha Agreement**") entered into between the Trustee and GFH (the "**Commodity Murabaha Investment**").

The Lease Assets, the Securities Interests relating to any Securities (each as defined below) and, if applicable, the Commodity Murabaha Investment and all other rights arising under or with respect thereto (including the right to receive payment of rental, Deferred Sale Price and any other amounts or distributions due in connection with the relevant Lease Assets, Securities and Commodity Murabaha Investment) shall comprise the "**Wakala Portfolio**", and the Lease Assets and the Securities Interests relating to any Securities comprised in such Wakala Portfolio, the "**Wakala Assets**".

Periodic Payments by the Trustee

On each Periodic Distribution Date, the Servicing Agent (on behalf of the Trustee) will apply amounts standing to the credit of a collection account (comprising all revenues in respect of the Wakala Portfolio, including rental payments (pursuant to the Lease Agreement) and payment of any Profit Amount (as defined in the Murabaha Agreement) (together the "**Wakala Portfolio Revenues**") as paid by GFH (acting in its relevant capacities under the Lease Agreement, the Servicing Agency Agreement and the Murabaha Agreement, as applicable, into the Collection Account)) in payment into the Transaction Account of an amount which is intended to be sufficient to fund the Periodic Distribution Amount payable by the Trustee under the Certificates (the "**Required Amount**") and shall be applied by the Trustee for that purpose.

If the Wakala Portfolio Revenues are greater than the Required Amount, such excess returns shall be credited to a separate account by the Servicing Agent (such account, the "**Reserve Account**"). If the amount standing to the credit of the Transaction Account is insufficient to fund the Required Amount, the Servicing Agent shall apply amounts standing to the credit of the Reserve Account towards such shortfall, by paying an amount equal to the same into the Transaction Account.

If, having applied such amounts from the Reserve Account, there remains a shortfall between the amount standing to the credit of the Transaction Account and the Required Amount, the Servicing Agent may in its sole discretion provide *Shari'a*-compliant funding to the Trustee in an amount equal to the shortfall remaining (if any) on terms that such funding is repayable (i) from Wakala Portfolio Revenues received in respect of a subsequent period; or (ii) on the relevant Dissolution Date (such funding, a "**Liquidity Facility**").

The Servicing Agent can use the amount standing to the credit of the Reserve Account provided such amounts are returned as and when required in order to meet any shortfall in the amount standing to the credit of the Transaction Account. Upon redemption of the Certificates, the Reserve Amount may be retained by the Obligor as an incentive fee.

Dissolution Payments

On the Scheduled Dissolution Date:

(a) the aggregate amounts of the Deferred Sale Price then outstanding, if any, shall become immediately due and payable by GFH; and

(b) the Trustee will have the right under the Purchase Undertaking to require GFH (in its capacity as Obligor) to purchase all of its rights, benefits, entitlements, title and interests in, to and under the Wakala Assets.

The exercise price payable by GFH (acting in its capacity as Obligor) to the Trustee in respect of the Wakala Assets, together with the aggregate amounts of the Deferred Sale Price then outstanding, if any, are intended to fund the Dissolution Distribution Amount payable by the Trustee under the Certificates.

The Trust may be dissolved prior to the Scheduled Dissolution Date for a number of reasons including: (i) the imposition of Taxes; (ii) unless the Wakala Assets are replaced by GFH in accordance with the Servicing Agency Agreement, upon the occurrence of a Total Loss Event (as defined herein); or (iii) upon the occurrence of a Dissolution Event, as the case may be. In any such case the relevant Dissolution Distribution Amount will be funded by requiring GFH to purchase the Wakala Assets at the relevant exercise price and pay the aggregate amounts of the Deferred Sale Price then outstanding, if any (or a proportion thereof, as the case may be), to the Trustee (pursuant to the terms of the Purchase Undertaking or the Sale and Substitution Undertaking, as the case may be, and the Murabaha Agreement).

OVERVIEW OF THE OFFERING

This overview does not contain all of the information that an investor should consider before investing in Certificates and is qualified in its entirety by the remainder of this Offering Circular. Each investor should read the entire Offering Circular carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".

Words and expressions defined in "*Form of the Certificates*" and "*Terms and Conditions of the Certificates*" shall have the same meanings in this general description.

Description of the Certificates:	U.S.$300,000,000 certificates due 2025.
Trustee:	GFH Sukuk Company Limited, an exempted company with limited liability incorporated under the Companies Law (as amended) of the Cayman Islands.
Obligor:	GFH Financial Group B.S.C.
Sellers:	Harbour North 2b Real Estate S.P.C. Owned by GFH Asset Company, Harbour East 3 Real Estate S.P.C. Owned by GFH Asset Company, South East Real Estate S.P.C. and Delmon Lost Paradise Project Company 2 S.P.C.
Ownership of the Trustee:	The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 shares of U.S.$1.00 each, of which 250 shares are fully paid up and issued. The Trustee's entire issued share capital is held by Walkers Fiduciary Limited under the terms of a trust for charitable purposes (the "**Share Trust Deed**").
Administration of the Trustee:	The affairs of the Trustee are managed by Walkers Fiduciary Limited (the "**Trustee Administrator**"), who will provide, amongst other things, certain administrative services for and on behalf of the Trustee pursuant to the Corporate Services Agreement dated 12 January 2020 between the Trustee, the Trustee Administrator and the Obligor (the "**Corporate Services Agreement**").
Joint Global Coordinators:	Société Générale and Standard Chartered Bank.
Joint Lead Managers:	Emirates NBD Bank PJSC, Kamco Investment Company K.S.C.P., Mashreqbank psc, SHUAA Capital psc, Société Générale, Standard Chartered Bank, and Warba Bank K.S.C.P.
Certain Restrictions:	The Certificates will only be issued in circumstances which comply with certain laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*").
Delegate:	Citibank N.A., London Branch.
Principal Paying Agent and Transfer Branch Agent:	Citibank N.A., London Branch.
Registrar:	Citigroup Global Markets Europe AG.

Issue Size:	U.S.$300,000,000.
Scheduled Dissolution Date:	28 January 2025.
Issue Price:	100 per cent.
Form of Certificates:	The Certificates will be issued in registered form as described in "*Form of the Certificates*".
Status:	Each Certificate will evidence an undivided ownership interest of the Certificateholders in the Trust Assets, will be a limited recourse obligation of the Trustee and will rank *pari passu*, without any preference or priority, with all other Certificates.
Periodic Distribution Dates:	28 January and 28 July in each year, commencing on 28 July 2020.
Redemption of Certificates:	The Certificates shall be redeemed at the Dissolution Distribution Amount.
Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000.
Dissolution Events:	Upon the occurrence of any Dissolution Event, the Certificates may be redeemed at 100 per cent. of their face amount and the relevant Return Accumulation Period may be adjusted accordingly. See Condition 12.
Dissolution at the Option of the Obligor:	The Certificates may be redeemed prior to their Scheduled Dissolution Date on a Tax Event at their Dissolution Distribution Amount in accordance with Condition 8(b).
Total Loss Event:	The occurrence of a Total Loss Event will, save where the Lease Assets are replaced in accordance with the Servicing Agency Agreement, result in the redemption of the Certificates and the consequent dissolution of the Trust. In the event of a Total Loss Event occurring: (a) the Servicing Agent is responsible for ensuring that all insurance proceeds in respect thereof; and (b) the aggregate amounts of the Deferred Sale Price then outstanding, if any, are each paid directly into the Transaction Account by no later than the 29th day and the 31st day, respectively, after the occurrence of the Total Loss Event in accordance with Condition 8(c).
Cancellation of Certificates held by the Obligor and/or any of its subsidiaries:	The Obligor and any of the Obligor's Subsidiaries may at any time purchase Certificates at any price. Any Certificates purchased by or on behalf of or for the benefit of the Obligor or any of the Obligor's Subsidiaries may, in the Trustee's and the Obligor's sole discretion, be surrendered for cancellation in accordance with the terms of the Trust Deed, the Agency Agreement and the Sale and Substitution Undertaking. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Trustee in respect of any such Certificates shall be discharged. If all (and not some only) of the Certificates are cancelled in accordance

with Condition 8(f), the Trustee shall be bound to dissolve the Trust.

Substitution of Wakala Assets:	Pursuant to the Sale and Substitution Undertaking, the Obligor may, at any time, exercise its right to require the Trustee to substitute on any Substitution Date some or all of the Wakala Assets with New Wakala Assets (as specified in the relevant Substitution Notice) having a value which is equal to or greater than the value of the Wakala Assets being substituted.
Purchase of Additional Wakala Assets and entry into a Murabaha Agreement upon issuance of additional Certificates pursuant to Condition 18:	In connection with the exercise by the Trustee of its rights under Condition 18 to issue additional Certificates, the Obligor may require the Trustee to:

(a) purchase all of the rights, benefits, entitlements, title and interests in, to and under certain Additional Wakala Assets in accordance with either the relevant Supplemental Purchase Agreement(s) in consideration for the payment by the Trustee (as purchaser) to the seller named in the relevant Supplemental Purchase Agreement(s) of the Purchase Price specified in the relevant Supplemental Purchase Agreement(s); and

(b) to the extent that the value of the relevant Additional Wakala Assets is less than the aggregate face amount of the additional Certificates, enter into a Murabaha Contract with the Obligor in accordance with the Murabaha Agreement pursuant to which the Obligor will purchase commodities from the Trustee at a deferred sale price equal to the aggregate of: (i) the aggregate issue proceeds of the additional Certificates less the purchase price of the relevant Additional Wakala Assets, and (ii) the relevant Profit Amount (as defined in the Murabaha Agreement).

The value of the relevant Additional Wakala Assets and (if applicable) the deferred sale price shall be at least equal to the aggregate face amount of the additional Certificates.

On the date upon which additional Certificates are created and issued pursuant to the provisions described in the preceding paragraph (being the relevant issue date for that New Tranche of Certificates), the Trustee will execute a Declaration of Commingling of Assets for and on behalf of the holders of the existing Certificates and the holders of such additional Certificates so created and issued, declaring that the relevant Additional Wakala Assets and the Wakala Assets in existence immediately prior to the creation and issue of the additional Certificates and the investments made pursuant to the Murabaha Contract(s) (if any) (and all rights arising under or with respect to such investments, including the right to receive payment of the relevant Deferred Sale Price) are commingled and shall collectively comprise part of the Trust Assets for the benefit of the holders of the existing Certificates and the holders of such additional Certificates as

	beneficiaries *pro rata* according to the face amount of Certificates held by each Certificateholder, in accordance with the Trust Deed. In addition, the Trustee and the Obligor will execute a replacement Lease Agreement in the manner described in the Lease Agreement.
Withholding Tax:	All payments in respect of the Certificates by the Trustee shall be made without withholding or deduction for, or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Jurisdiction, unless such withholding or deduction is required by law. If any such withholding or deduction is made, the Trustee will, save in the limited circumstances provided in Condition 10, be required to pay additional amounts so that the holders of the Certificates will receive the full amounts that they would have received in the absence of such withholding or deduction. If the Trustee is required to pay any additional amounts as aforesaid, the Obligor has undertaken in the Trust Deed to pay such additional amounts as may be necessary so that the full amount due and payable by the Trustee in respect of the Certificates is received by the Trustee for the purposes of payment to the Certificateholders in accordance with and subject to the provisions of Condition 10. In addition, all payments by the Obligor under the Transaction Documents to which it is a party are to be made without any withholding or deduction for, or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Jurisdiction unless required by law and without set-off or counterclaim of any kind. If any deduction or withholding is required by law, the Obligor has undertaken to pay such additional amounts as shall result in receipt by the Trustee of such amounts as would have been received by it under the relevant Transaction Document had no such deduction or withholding been made.
Negative Pledge and Other Covenants:	The Obligor is required to comply with the negative pledge and the other covenants set out in Condition 6(b). See "*Summary of the Principal Transaction Documents*" and Condition 6(b).
Cross Default:	The Conditions contains a cross default provision in relation to the Obligor. See the definition of "**Obligor Event**".
Trustee Covenants:	The Trustee has agreed to certain restrictive covenants as set out in Condition 6(a).
Ratings:	Upon issue, the Certificates are expected to be assigned a rating of "B" by Fitch and "B" by S&P. A securities rating is not a recommendation to buy, sell or hold the Certificates and may be subject to suspension, reduction or withdrawal at any time by the assigning rating

	organisation.
Listing and admission to trading:	Application has been made to the London Stock Exchange for the Certificates to be admitted to the ISM. The ISM is not a regulated market for the purposes of MiFID II.
Governing Law and Dispute Resolution:	The Certificates will be governed by, and construed in accordance with, English law. The Trust Deed, the Subscription Agreement, the Agency Agreement, the Servicing Agency Agreement, the Purchase Undertaking, the Sale and Substitution Undertaking, any Supplemental Trust Deed and the Murabaha Agreement will be governed by English law. In respect of any dispute under any such Transaction Document to which it is a party, the Obligor has consented to arbitration in London under the rules of arbitration of the LCIA. Any dispute may also be referred to the courts in England (which shall have exclusive jurisdiction to settle any dispute arising from such documents). The Purchase Agreement, any Supplemental Purchase Agreement, the Lease Agreement and any Sale Agreement entered into in respect of the Wakala Assets will be governed by the laws of the Kingdom of Bahrain. The Obligor has consented to the courts of the Kingdom of Bahrain having exclusive jurisdiction to settle any dispute arising from such documents. The Share Trust Deed and the Corporate Services Agreement are governed by the laws of the Cayman Islands and are subject to the non-exclusive jurisdiction of the courts of the Cayman Islands.
Use of Proceeds:	The proceeds of the Certificates will be applied by the Trustee in the following proportion: (a) not less than 51 per cent. of the aggregate face amount of the Certificates as the aggregate of the purchase price for the Real Estate Assets pursuant to the Purchase Agreement; and (b) not more than 49 per cent. of the aggregate face amount of the Certificates for the purchase of commodities to be sold to the Obligor pursuant to the Murabaha Agreement. All such amounts shall be receivable by the Obligor and will be applied by the Obligor for general corporate purposes.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Certificates in the United States, the United Kingdom, the Kingdom of Bahrain, the Cayman Islands, the DIFC, Hong Kong, Malaysia, the State of Qatar (including the Qatar Financial Centre), Saudi Arabia, Singapore and the United Arab Emirates (excluding the DIFC), see "*Subscription and Sale*".
United States Selling Restrictions:	Regulation S, Category 1.
ISIN:	XS2100582142.

Common Code:	210058214.
FISN:	GFH SUKUK COMPA/VARASST BKD 2200123.
CFI:	DAVNFR.

TERMS AND CONDITIONS OF THE CERTIFICATES

GFH Sukuk Company Limited (in its capacities as issuer and as trustee, as applicable, the "**Trustee**") has issued certificates (the "**Certificates**") in an aggregate face amount of U.S.$300,000,000.

The Certificates are constituted by a trust deed dated 28 January 2020 (the "**Issue Date**") between the Trustee, GFH Financial Group B.S.C. (the "**Obligor**") and Citibank N.A., London Branch as the Trustee's delegate (the "**Delegate**", which expression shall include all persons for the time being the delegate or delegates under the Trust Deed) (the "**Trust Deed**").

An Agency Agreement (the "**Agency Agreement**") dated the Issue Date has been entered into in relation to the Certificates between the Trustee, the Obligor, the Delegate, Citibank N.A., London Branch as initial principal paying agent and the other agents named in it. The principal paying agent, the other paying agents, the registrar and the transfer agents are referred to below respectively as the "**Principal Paying Agen**t", the "**Paying Agents**" (which expression shall include the Principal Paying Agent), the "**Registrar**" and the "**Transfer Agents**" (which expression shall include the Registrar), and together the "**Agents**".

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of Certificates referred to below, the Agency Agreement and the remaining Transaction Documents (as defined below). The Certificateholders are bound by, and are deemed to have notice of, all the provisions applicable to them in the Transaction Documents. Copies of the Transaction Documents are available for inspection and collection during usual business hours at the principal office of the Delegate and at the specified office of the Principal Paying Agent.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee, on behalf of the Certificateholders: (a) to apply the proceeds of the issue of the Certificates (the "**Proceeds**") towards (i) an amount equal to not less than 51 per cent. of the aggregate face amount of the Certificates to acquire Real Estate Assets from Harbour North 2b Real Estate S.P.C. Owned by GFH Asset Company, Harbour East 3 Real Estate S.P.C. Owned by GFH Asset Company, South East Real Estate S.P.C. and Delmon Lost Paradise Project Company 2 S.P.C. pursuant to the Purchase Agreement and (ii) an amount equal to no more than 49 per cent. of the aggregate face amount of the Certificates for the purchase of commodities to be sold to the Obligor pursuant to the Murabaha Agreement (each defined term as set out below) and (b) to enter into each Transaction Document to which it is a party, subject to the provisions of the Trust Deed and these Conditions.

1 Interpretation

Unless defined herein or the context otherwise requires, capitalised words and expressions used but not defined herein shall have the meaning given to them in the Trust Deed and the Agency Agreement. In addition, for the purposes of these Conditions, the following expressions have the following meanings:

"**Affiliate**" means, with respect to any specified Person: (a) any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person; or any other Person that owns, directly or indirectly through one or more Subsidiaries, 20 per cent., or more of any class of such specified Person's Capital Stock, and, for the purposes of this definition, **control**, when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms **controlling** and **controlled** have meanings correlative to the foregoing;

"**Affiliate Transaction**" has the meaning given to it in Condition 6(b)(v);

"**Applicable Accounting Standards**" means either the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions or International Financial Reporting Standards;

"**Asset Sale**" means any sale, sale and lease back, transfer or other disposition by any member of the Group of all or any of the legal or beneficial interest in any Capital Stock or any property or assets of any member of the Group (either in one transaction or in a series of related transactions at the same time or over a period of time) to any Person who is not a member of the Group, provided that none of the following transactions shall be deemed to be an Asset Sale:

(a) any single transaction or series of related transactions that involves assets or Capital Stock having a Fair Market Value of less than U.S.$25,000,000;

(b) the sale, lease or transfer of investment assets (including any corporate investments or real estate investments) of the Obligor or any of its Subsidiaries in the ordinary course of their investment business;

(c) a transfer of assets between or among the Obligor and its Subsidiaries;

(d) an issuance of Capital Stock by a Subsidiary of the Obligor to the Obligor or to a Subsidiary of the Obligor or an issuance of Capital Stock by the Obligor to any Person;

(e) the sale, lease or other transfer of services or accounts receivable in the ordinary course of business;

(f) any sale or other disposition of damaged, worn-out or obsolete assets in the ordinary course of business (including the abandonment or other disposition of intellectual property that is, in the reasonable judgment of the Obligor, no longer economically practicable to maintain or useful in the conduct of the business of the Obligor and its Subsidiaries taken as a whole);

(g) the granting of any Permitted Security Interest;

(h) any surrender or waiver of contract rights or settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business; or

(i) any transfer or disposition of assets by the Obligor or any Subsidiary in accordance with the terms of the Certificates and the Transaction Documents.

"**Authorised Signatory**" has the meaning given to it in the Trust Deed;

"**Business Day**" means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in London and New York;

"**Calculation Amount**" means U.S.$1,000;

"**Capital Regulations**" means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the Kingdom of Bahrain, including those of the Financial Regulator;

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of such Person's equity, including any preferred stock of such person, whether outstanding on the Issue Date or issued after the date thereof, including without limitation, all series and classes of such Capital Stock;

"**Certificateholder**" or "**holder**" has the meaning given to it in Condition 2;

"**Consolidated Net Worth**" means the Consolidated Total Assets of the Group less the Consolidated Total Liabilities of the Group;

"**Consolidated Profit**" means the consolidated profit for the period of the Group determined by reference to the most recently available audited or auditor reviewed consolidated financial statements of the Group prepared in accordance with the Applicable Accounting Standards;

"**Consolidated Total Assets**" means, at any time, the total assets of the Group as determined by reference to the most recently available audited or auditor reviewed consolidated financial statements of the Group prepared in accordance with the Applicable Accounting Standards;

"**Consolidated Total Income**" means, at any time, the consolidated total income of the Group as determined by reference to the most recently available audited or auditor reviewed consolidated financial statements of the Group prepared in accordance with the Applicable Accounting Standards;

"**Consolidated Total Liabilities**" means, at any time, the total liabilities of the Group as determined by reference to the most recently available audited or auditor reviewed consolidated financial statements of the Group prepared in accordance with the Applicable Accounting Standards;

"**Corporate Services Agreement**" means the corporate services agreement entered into between the Trustee, the Trustee Administrator and the Obligor on or before the Issue Date;

"**Customer Deposits**" means any amounts collected from potential or actual purchasers or lessees of real estate (or from a person acting on behalf of such purchasers or lessees) by a member of the Group in the ordinary course of its day to day real estate and development activities;

"**Day Count Fraction**" has the meaning given to it in Condition 7(b);

"**Deferred Sale Price**" has the meaning given to it in the Murabaha Agreement;

"**Delegation**" has the meaning given to it in Condition 15(a);

"**Dispute**" has the meaning given to it in Condition 20(b);

"**Dissolution Date**" means, as the case may be,

(a) the Scheduled Dissolution Date;

(b) any Early Tax Dissolution Date;

(c) any Total Loss Event Dissolution Date; or

(d) any Dissolution Event Redemption Date;

"**Dissolution Distribution Amount**" means, in relation to each Certificate to be redeemed on the relevant Dissolution Date, the sum of:

(a) the outstanding face amount of such Certificate; and

(b) any due and unpaid Periodic Distribution Amounts for such Certificate;

"**Dissolution Event**" means an Obligor Event or a Trustee Event;

"**Dissolution Event Redemption Date**" has the meaning given to it in Condition 12(a);

"**Dissolution Notice**" has the meaning given to it in Condition 12(a);

"**Early Tax Dissolution Date**" has the meaning given to it in Condition 8(b);

"**Excluded Representations**" means any representations given by the Obligor to the Trustee and/or the Delegate pursuant to the Transaction Documents;

"**Exercise Notice**" means an exercise notice given pursuant to the terms of the Purchase Undertaking or the Sale and Substitution Undertaking (as the case may be);

"**Exercise Price**" has the meaning given to it in the Purchase Undertaking or the Sale and Substitution Undertaking (as the case may be);

"**Extraordinary Resolution**" has the meaning given to it in the Trust Deed;

"**Fair Market Value**" means, with respect to any Capital Stock, asset or property, the sale or investment value that would be paid in an arm's-length transaction between an independent, informed and willing seller or counterparty under no compulsion to sell or transact and an independent, informed and willing buyer or investor under no compulsion to buy or invest;

"**Financial Indebtedness**" means any indebtedness for or in respect of:

(a) moneys borrowed and debit balances at banks or other financial institutions;

(b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with such person's accounting principles used in preparation of its most recent financial statements, be treated as a finance or capital lease;

(e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

(f) any amount raised under any other transaction (including any forward sale or purchase agreement, sale and saleback arrangement or securitisation) having the commercial effect of a borrowing;

(g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);

(h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution in respect of any person's indebtedness for any of the items referred to in paragraphs (a) to (g) above (inclusive) and (i) to (k) (inclusive) of this definition;

(i) any amount of any liability under an advance or deferred purchase agreement if one of the primary reasons behind the entry into the agreement is to raise finance or to finance the acquisition or construction of an asset or service;

(j) any obligations incurred in respect of any Islamic financing arrangements; and

(k) (without double counting) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (j) (inclusive) above,

but shall not include any indebtedness in respect of Customer Deposits;

"**Financial Regulator**" means the Central Bank of Bahrain or any successor entity having primary bank supervisory authority over the Obligor or AHCB in the Kingdom of Bahrain;

"**Fitch**" means Fitch Ratings Ltd;

"**Full Reinstatement Value**" has the meaning given to it in the Servicing Agency Agreement;

"**Group**" means the Obligor and its Subsidiaries;

"**Independent Qualified Party**" means an investment banking firm, accounting firm, firm of surveyors or appraisal firm of international standing; provided, however, that such firm is not an Affiliate of the Obligor;

"**Investment Grade Status**" has the meaning given to it in Condition 6(b)(xi);

"**Investment Grade Status Period**" has the meaning given to it in Condition 6(b)(xi);

"**Issue Date**" means 28 January 2020;

"**ISM**" means the London Stock Exchange plc's International Securities Market;

"**KHCB**" means Khaleeji Commercial Bank BSC;

"**Lease Agreement**" means the lease agreement dated the Issue Date and entered into between the Obligor and the Trustee, relating to certain assets;

"**Lease Assets**" has the meaning given to it in the Lease Agreement;

"**Leverage Ratio**" means the ratio of Consolidated Total Liabilities to Consolidated Net Worth;

"**Liability**" means any actual loss, damage, cost, charge, claim, demand, expense, fee, judgment, action, proceeding or other liability whatsoever (including, without limitation, in respect of Taxes and other charges) and including any value added tax or similar Tax charged or chargeable in respect thereof and legal or other fees and expenses on a full indemnity basis, but excluding any interest, cost of funds and opportunity costs, and references to "**Liabilities**" shall mean all of these;

"**Material Subsidiary**" means any Subsidiary of the Obligor:

(a) whose total income (consolidated in the case of a Subsidiary of the Obligor which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary of the Obligor which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary of the Obligor acquired after the end of the financial period to which the then latest audited consolidated accounts of the Group relate, are equal to) not less than 10 per cent. of Consolidated Total Income or, as the case may be, Consolidated Total Assets, all as calculated respectively by reference to the then latest audited accounts of such Subsidiary and the then latest audited consolidated accounts of the Group, provided that in the case of a Subsidiary of the Obligor acquired after the end of the financial period to which the then latest audited consolidated accounts of the Group relate, the reference to the then latest audited consolidated accounts of the Group for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Obligor;

(b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Obligor which immediately prior to such transfer is a Material Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this paragraph (b) on the date on which the consolidated accounts of the Group for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of paragraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

(c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Group relate, generate total income equal to) not less than 10 per cent. of Consolidated Total Income, or represent (or, in the case aforesaid, are equal to) not less than 10 per cent. of Consolidated Total Assets, all as calculated as referred to in paragraph (a) above, provided that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate total income equal to) not less than 10 per cent. of Consolidated Total Income, or its assets represent (or, in the case aforesaid, are equal to) not less than 5 per cent. of Consolidated Total Assets, all as calculated as referred to in paragraph (a) above, and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this paragraph (c) on the date on which the consolidated accounts of the Group for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of paragraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

A report signed by an Authorised Signatory of the Obligor (whether or not addressed to the Delegate) that in its opinion a Subsidiary of the Obligor is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary may be relied upon by the Delegate without further enquiry or evidence (without any liability to any person for so relying) and, if relied upon by the Delegate, shall, in the absence of manifest error, be conclusive and binding on all parties;

"**Moody's**" means Moody's Investors Service Limited;

"**Murabaha Agreement**" means the murabaha agreement dated the Issue Date and entered into between the Obligor and the Trustee;

"**Obligor Event**" means any of the following events (but in the case of the happening of any of the events described in paragraph (c), (k) and (m) below, only if the Delegate shall have certified in writing to the Trustee and the Obligor that such event is, in its opinion, materially prejudicial to the interests of the Certificateholders):

(a) the Obligor (acting in any capacity) fails to pay an amount payable by it pursuant to any Transaction Document to which it is a party which corresponds to all or part of a Periodic Distribution Amount payable by the Trustee on a Periodic Distribution Date and the failure continues for a period of 10 Business Days, or the Obligor (acting in any capacity) fails to pay an amount payable by it pursuant to any Transaction Document to which it is a party which corresponds to all or part of a Dissolution Distribution Amount payable by the Trustee on a Dissolution Date and the failure continues for a period of five Business Days;

(b) the Obligor does not perform or comply with any one or more of its covenants or other obligations under Condition 6(b);

(c) the Obligor (acting in any capacity) does not perform or comply with any one or more of its other covenants or obligations in the Transaction Documents to which it is a party, which failure: (x) is, in the opinion of the Delegate, incapable of remedy; or (y) (if, in the opinion of the Delegate, such failure is capable of remedy) is not, in the opinion of the Delegate, remedied within the period of 30 Business Days after written notice of such failure shall have been given to the Obligor by the Trustee (or the Delegate) requiring the same to be remedied, except that a failure by the Obligor (acting in its capacity as Servicing Agent) to comply with its obligations set out in clause 7.1 of the Servicing Agency Agreement will not constitute an Obligor Event under this paragraph (c);

(d) any Financial Indebtedness of the Obligor or any Material Subsidiary of the Obligor (or any guarantee or indemnity given by any of them in respect of any Financial Indebtedness) is not paid when due or, as the case may be, within any originally applicable grace period or any such Financial Indebtedness is declared to be or otherwise becomes due and payable prior to its specified maturity (or, in the case of a guarantee, is called) as a result of an event of default (however described) provided, however, that it shall not constitute an Obligor Event unless the aggregate amount (or its equivalent in U.S. dollars) of all such Financial Indebtedness or guarantees either alone or when aggregated with all other Financial Indebtedness or guarantees which shall remain unpaid or unsatisfied or is so declared or becomes due and payable or is called, as the case may be, shall be more than U.S.$30,000,000 (or its equivalent in any other currency or currencies);

(e) any order is made by any competent court or resolution passed for the winding-up or dissolution of the Obligor or any Material Subsidiary of the Obligor, save in connection with a Permitted Reorganisation;

(f) the Obligor or any Material Subsidiary of the Obligor ceases or threatens to cease to carry on all or substantially all of its business, save (i) in connection with a Permitted Reorganisation or (ii) in the case of a Material Subsidiary only, as a result of any Asset Sale permitted under Condition 6(b)(iv);

(g) one or more judgments or orders for the payment of any sum in excess of U.S.$30,000,000 (or its equivalent in any currency or currencies), whether individually or in aggregate, is (or are) rendered against the Obligor and/or any Material Subsidiary of the Obligor by the courts of Bahrain or the courts of England and continue(s) unsatisfied and unstayed, or, if appealed, and the appeal is unsuccessful, continues unsatisfied and unstayed, in each case, for a period of 60 days after the later of (i) the date of the judgment or order, or (ii) the date on which payment of such sum is required to be paid (either pursuant to the judgment or order, or as otherwise agreed with the recipients of such sum and/or the issuer of such judgment or order);

(h) the Obligor or any Material Subsidiary of the Obligor takes any corporate action or any steps are taken or any court or other proceedings are initiated against the Obligor or any Material Subsidiary of the Obligor under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of a liquidator, an administrative or other receiver, manager, administrator or other similar official (and such proceedings are not being actively contested in good faith by the Obligor or the relevant Material Subsidiary, as the case may be), or a liquidator, an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Obligor or any Material Subsidiary of the Obligor or, as the case may be, in relation to all or substantially all of the undertaking, assets or revenues of any of them save in all cases, in connection with a Permitted Reorganisation; or (ii) an encumbrancer takes possession of all or substantially all of the undertaking or assets of the Obligor or any Material Subsidiary of the Obligor, or a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or substantially all of the property, assets or revenues of the Obligor or any Material Subsidiary of the Obligor; and in each case (other than the appointment of an administrator) is not discharged within 30 days;

(i) the Obligor or any Material Subsidiary of the Obligor stops or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent by a court of competent jurisdiction; or (ii) the Obligor or any Material Subsidiary of the Obligor initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for the general readjustment or rescheduling of its debts or an arrangement or composition or conciliation with its creditors generally (or any class of its creditors) save, in all cases, in connection with a Permitted Reorganisation;

(j) any one or more Security Interests, present or future, is created or assumed by the Obligor and/or any Material Subsidiary of the Obligor and securing an amount which equals or exceeds U.S.$30,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, and any step is taken to enforce such Security Interest(s) (including the taking of possession or the appointment of a receiver, manager or other similar person) unless the full amount of the debt(s) which is (or are) secured by the relevant Security Interest(s) is (or are) discharged within 30 days of the later of the first date on which: (i) a step is taken to enforce the relevant Security Interest(s); or (ii) the Obligor and/or the relevant Material Subsidiary of the Obligor, as the case may be, is notified that a step has been taken to enforce the relevant Security Interest(s);

(k) any event occurs which under the laws of the Kingdom of Bahrain thereof or any other relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (e), (h), (i) and (j) above;

(l) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order: (i) to enable the Obligor lawfully to enter into, exercise its rights and perform and comply with its obligations under the Transaction Documents to which it is party; and (ii) to ensure that those obligations are legally binding and enforceable; is not taken, fulfilled or done, provided that the non-registration of legal title to, and/or the non-perfection of the legal transfer of, any of the Wakala Assets in the name of the Trustee will not constitute an Obligor Event for these purposes;

(m) the Obligor repudiates or challenges in writing, or does or causes to be done any act or thing evidencing an intention to repudiate or challenge, these Conditions or any (or any part of any) Transaction Document to which it is a party; or

(n) at any time it is or becomes unlawful for the Obligor to perform or comply with any one or more of its obligations under or in respect of any of the Transaction Documents to which it is a party or any of the obligations of the Obligor thereunder are not or cease to be legal, valid, binding or enforceable; or

(o) all or substantially all of the undertaking, assets and/or revenues of the Obligor or any Material Subsidiary of the Obligor is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government.

References in paragraph (i) above to debts shall be deemed to include any debt or other financing arrangement issued (or intended to be issued) in compliance with the principles of *Shari'a*, whether entered into directly or indirectly by the Obligor or a Material Subsidiary of the Obligor, as the case may be;

"**outstanding**" shall have the meaning given to it in the Trust Deed;

"**Periodic Distribution Amount**" has the meaning given to it in Condition 7(a);

"**Periodic Distribution Date**" means 28 January and 28 July in each year, commencing on 28 July 2020, and subject to Condition 7(c);

"**Permitted Financial Indebtedness**" means

(a) any Financial Indebtedness of the Obligor or any Subsidiary outstanding on the Issue Date;

(b) any Financial Indebtedness incurred pursuant to the Certificates and/or the Transaction Documents;

(c) any Financial Indebtedness of any Subsidiary of the Obligor to any other Subsidiary of the Obligor;

(d) any amounts owed by the Obligor or any Subsidiary to suppliers, contractors, sub-contractors and/or project consultants in respect of goods supplied and/or services provided, in each case in the ordinary course of business;

(e) any Financial Indebtedness arising for, or in respect of, working capital facilities which are fully cash collateralised and which are incurred by the Obligor or a Subsidiary in the ordinary course of business;

(f) any Financial Indebtedness arising in the form of deferred payment obligations of the Obligor or any Subsidiary in respect of the acquisition of any business, assets or Capital Stock, in each case in the ordinary course of business;

(g) any Financial Indebtedness for or in respect of any derivative transaction entered into solely to protect the Obligor or a Subsidiary from fluctuations in interest rates or financing costs or currencies and is not for speculation);

(h) Financial Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument drawn against insufficient funds in the ordinary course of business; provided, however, that such Financial Indebtedness is extinguished within five Business Days of its Incurrence;

(i) Financial Indebtedness incurred by KHCB provided that such Financial Indebtedness is in the form of Tier 1 Capital;

(j) Financial Indebtedness incurred for the account of the Obligor or any of its Subsidiaries by third parties managing their funds in the ordinary course of such management and within prudent and customary guidelines from time to time established between the Obligor and such third parties; and

(k) any Financial Indebtedness incurred by the Obligor or its Subsidiaries in exchange for, or the net proceeds of which are used to renew, refund, extend, substitute, discharge, replace, defease or refinance any of the Financial Indebtedness incurred pursuant to paragraph (a), (b) or (f) above;

"**Permitted Reorganisation**" means:

(a) any merger or consolidation that would be permitted under Condition 6(b)(ix); or

(b) any composition or other similar arrangement on terms previously approved by an Extraordinary Resolution;

"**Permitted Security Interest**" means any Security Interest*:*

(a) existing on any property or assets prior to the acquisition thereof by the Obligor or a Subsidiary (as the case may be), provided that such Security Interest was not created in contemplation of such acquisition;

(b) granted by the Obligor or any member of the Group upon an asset or upon the contract for the acquisition of an asset securing Financial Indebtedness incurred for the acquisition of such asset, provided that the maximum amount of Financial Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such asset (including transactional expenses) and the Security Interest does not extend to any assets of any member of the Group other than the assets being acquired;

(c) which arises pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings;

(d) being liens or rights of set off arising by operation of law and in the ordinary course of business, including, without limitation, any rights of set off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property of the Obligor or any member of the Group held by financial institutions;

(e) arising in the ordinary course of business of the Group and (i) which are necessary in order to enable the Obligor and/or any of its Subsidiaries to comply with any mandatory requirement imposed on any of them by a banking or other regulatory authority in connection with the Group's business or (ii) limited to deposits made in the name of the Obligor and/or any of its Subsidiaries to secure obligations of their customers;

(f) incurred in connection with the Group's foreign exchange dealings or other proprietary trading or hedging activities (including any Repo, swap or derivative transaction) and not for the purpose of raising credit or funds for the operation of the Group generally, other than any Security Interest upon any asset in its investment short term account or investment long term account;

(g) incurred in the ordinary course of business of the Group provided that the Financial Indebtedness secured by such Security Interest (but excluding any Financial Indebtedness secured by any Security Interest pursuant to any other limb of this definition of Permitted Security Interest) does not in the aggregate at any time exceed in value 20 per cent. of Consolidated Total Assets;

(h) to secure Financial Indebtedness of the nature referred to in Condition 6(b)(ii) over investments comprised in funds managed by the relevant third party;

(i) granted in favour of the Obligor or any member of the Group to secure Financial Indebtedness owed to the Obligor or any member of the Group;

(j) arising in any netting or set-off arrangement entered into by the Obligor or any member of the Group in the ordinary course of business for the purpose of netting debit and credit balances;

(k) on property acquired (or deemed to be acquired) under a financial lease or claims arising from the use or loss of or damage to such property, provided that any such encumbrance secures only rentals and other amounts payable under such lease, but for the avoidance of doubt, this shall not exclude the amount of such financing from the definition of "Financial Indebtedness"; and

(l) comprising any extension, renewal of or substitution for any Security Interest permitted by any of the preceding sub-clauses (a) through (k); provided that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Security Interest, and the Security Interest shall have not been extended to any additional property (other than proceeds of the property in question).

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Potential Dissolution Event**" means any condition, event or act which, with the giving of notice, lapse of time, declaration, demand, determination or fulfilment of any other applicable condition (or any combination of the foregoing) could constitute a Dissolution Event;

"**Proceedings**" has the meaning given to it in Condition 20(d)(iii);

"**Profit Amount**" has the meaning given to it in the Murabaha Agreement;

"**Profit Rate**" means 7.5 per cent. per annum;

"**Purchase Agreement**" means the purchase agreement dated the Issue Date and entered into between Harbour North 2b Real Estate S.P.C. Owned by GFH Asset Company, Harbour East 3 Real Estate S.P.C. Owned by GFH Asset Company, South East Real Estate S.P.C. and Delmon Lost Paradise Project Company 2 S.P.C., as sellers, the Obligor and the Trustee relating to certain assets;

"**Purchase Undertaking**" means the purchase undertaking dated the Issue Date and granted by the Obligor for the benefit of the Trustee and the Delegate and includes the form of sale agreement to be entered into in accordance with the terms of the Purchase Undertaking;

"**Real Estate Assets**" has the meaning given to it in the Purchase Agreement;

"**Recognised Rating Agencies**" means Moody's, (ii) Standard & Poor's and (iii) Fitch, or any of their respective successors;

"**Record Date**" has the meaning given to it in Condition 9(a);

"**Register**" has the meaning given to it in Condition 2;

"**Relevant Date**" has the meaning given to it in Condition 10;

"**Relevant Jurisdiction**" means the Cayman Islands and the Kingdom of Bahrain;

"**Relevant Powers**" has the meaning given to it in Condition 15(a);

"**Rental**" has the meaning given to it in the Lease Agreement;

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement, or any agreement relating to securities which is similar in effect to any of the foregoing, and for the purposes of this definition, the term "securities" shall mean any Capital Stock, share, debenture or other debt or equity instrument, whether issued by any private or public company, any government or agency or instrumentality thereof or any supranational, international or multilateral institution or organisation;

"**Required Amount**" has the meaning given to it in the Servicing Agency Agreement;

"**Restricted Payment**" has the meanings given to it in Condition 6(b)(iii);

"**Return Accumulation Period**" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Periodic Distribution Date and each successive period beginning on (and including) a Periodic Distribution Date and ending on (but excluding) the next succeeding Periodic Distribution Date;

"**Sale and Substitution Undertaking**" means the sale and substitution undertaking dated the Issue Date and granted by the Trustee for the benefit of the Obligor and includes the form of sale agreement (each a "**Sale Agreement**") to be entered into in accordance with the terms of the Sale and Substitution Undertaking;

"**Scheduled Dissolution Date**" means the dated specified as such in the Offering Circular;

"**Scheme of Arrangement**" means a scheme of arrangement or analogous procedure;

"**Security Interest**" means a mortgage, charge, pledge, lien or other security interest securing any obligation of any Person or any other agreement or arrangement having a similar effect;

"**Servicing Agency Agreement**" means the servicing agency agreement dated the Issue Date and entered into between the Servicing Agent and the Trustee;

"**Servicing Agent**" means the Obligor in its capacity as servicing agent under the Servicing Agency Agreement;

"**Standard & Poor's**" means S&P Global Ratings Europe Limited;

"**Stated Maturity**" means, with respect to any Financial Indebtedness, the date specified in the relevant documentation as the fixed date on which the final payment of principal in respect thereof is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such Financial Indebtedness at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred);

"**Subsidiary**" means, in relation to any company, corporation or other legal entity (a "**holding company**"), a company, corporation or other legal entity:

(a) which is controlled, directly or indirectly, by the holding company;

(b) in which a majority of the voting rights are held by the holding company, either alone or pursuant to an agreement with others;

(c) more than half the issued share capital of which is beneficially owned, directly or indirectly, by the holding company; or

(d) which is a subsidiary of another Subsidiary of the holding company,

and, for this purpose, a company, corporation or other legal entity shall be treated as being "**controlled**" by another if that other company, corporation or other legal entity is able to determine the composition of the majority of its board of directors or equivalent body;

"**Successor Company**" has the meaning given to it in Condition 6(b)(ix);

"**Supplemental Purchase Agreement**" means a supplemental purchase agreement entered into pursuant to clause 3.2 of the Purchase Agreement;

"**Supplemental Trust Deed**" means a supplemental trust deed entered into pursuant to clause 4.5 of the Trust Deed;

"**Tax Event**" has the meaning given to it in Condition 8(b);

"**Taxes**" means any present or future sales, excise, stamp, turnover, issue, registration, documentary, value added, transfer or other tax, levy, impost, duty, fee, assessment or other charge, withholding or deduction of whatever nature, and all additional amounts, penalties or similar liabilities with respect thereto;

"**Tier 1 Capital**" means capital qualifying as, and approved by the Financial Regulator as, tier 1 capital in accordance with the Capital Regulations;

"**Total Loss Event**" means the total loss or destruction of, or damage to the whole of the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any insurances payable or other indemnity in each case granted by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical;

"**Total Loss Event Dissolution Date**" has the meaning given to it in Condition 8(c);

"**Total Loss Shortfall Amount**" has the meaning given to it in the Servicing Agency Agreement;

"**Transaction Account**" means the non-interest bearing account maintained in London in the Trustee's name and held with the Principal Paying Agent, into which the Obligor will deposit all amounts due to the Trustee under the Transaction Documents;

"**Transaction Documents**" means:

(a) the Agency Agreement;

(b) the Lease Agreement;

(c) the Murabaha Agreement;

(d) the Purchase Agreement;

(e) the Purchase Undertaking;

(f) the Sale and Substitution Undertaking;

(g) the Servicing Agency Agreement;

(h) the Trust Deed;

(i) any Supplemental Purchase Agreement;

(j) any Supplemental Trust Deed; and

(k) any Sale Agreement.

each as may be amended, restated and/or supplemented from time to time;

"**Trust**" means the trust constituted by the Trust Deed;

"**Trust Assets**" has the meaning given to it in Condition 5(a);

"**Trustee Administrator**" means Walkers Fiduciary Limited as corporate administrator of the Trustee;

"**Trustee Event**" means any of the following events:

(a) **Non-Payment**: default is made in the payment of any Dissolution Distribution Amount on the date fixed for payment thereof and the default continues for a period of seven days or default is made in the payment of any Periodic Distribution Amount on the due date for payment thereof and the default continues for a period of 14 days; or

(b) **Breach of Other Obligations**: the Trustee does not perform or comply with any one or more of its other duties, obligations or undertakings in the Certificates or the Transaction Documents to which it is a party, which failure is, in the opinion of the Delegate, incapable of remedy or, if in the opinion of the Delegate is capable of remedy, is not, in the opinion of the Delegate, remedied within the period of 30 days after written notice of such default shall have been given by the Delegate to the Trustee requiring the same to be remedied; or

(c) **Enforcement Proceedings**: any distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Trustee and is not discharged or stayed within 30 days; or

(d) **Insolvency**: the Trustee is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts as they fall due, stops, suspends or threatens to stop or suspend payment of all or any part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Trustee; or

(e) **Winding-up**: an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Trustee, or the Trustee shall apply or petition for a winding-up or administration order in respect of itself or cease or through an official action of its board of directors threaten to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders; or

(f) **Authorisation and Consents**: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order: (x) to enable the Trustee lawfully to enter into, exercise its rights and perform and comply with its duties, obligations and undertakings under the Certificates and the Transaction Documents to which it is a party; (y) to ensure that those duties, obligations and undertakings are legally binding and enforceable; or (z) to make the Certificates and the Transaction Documents to which it is a party admissible in evidence in the courts of the Cayman Islands, is not taken, fulfilled or done; or

(g) **Illegality**: it is or will become unlawful for the Trustee to perform or comply with any one or more of its duties, obligations or undertakings under any of the Certificates or the Transaction Documents or any duties, obligations or undertakings of the Trustee under the Certificates or the Transaction Documents are not or cease to be legal, valid, binding and enforceable; or

(h) **Repudiation**: the Trustee repudiates any Certificate or any Transaction Document or does or causes to be done any act or thing evidencing an intention to repudiate any Certificate or any Transaction Document; or

(i) **Analogous Events**: any event occurs that under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraphs (d) or (e) above.

For the purpose of paragraph (a) above, all amounts payable in respect of the Certificates shall be considered due and payable (including any amounts expressed to be payable under Condition 7) notwithstanding that the Trustee has at the relevant time insufficient funds or Trust Assets to pay such amounts (whether as a result of the application of Condition 5(b) or otherwise);

"**Wakala Portfolio**" has the meaning given to it in the Servicing Agency Agreement; and

"**Wakala Portfolio Revenues**" has the meaning given to it in the Servicing Agency Agreement.

All references to the "face amount" of a Certificate shall be deemed to include the Dissolution Distribution Amount, any additional amounts (other than relating to Periodic Distribution Amounts) which may be payable under Condition 10 and any other amount in the nature of face amounts payable pursuant to these Conditions.

All references to Periodic Distribution Amounts shall be deemed to include any additional amounts in respect of profit distributions which may be payable under Condition 10 and any other amount in the nature of a profit distribution payable pursuant to these Conditions.

All references to "**U.S.$**" and "**U.S. dollars**" are to the lawful currency of the United States of America and all references to "**dinar**" and "**BD**" are to the lawful currency of the Kingdom of Bahrain.

2 Form, Denomination and Title

The Certificates are issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

Certificates are represented by registered certificates ("**Registered Certificates**") and, save as provided in Condition 3(a), each Registered Certificate shall represent the entire holding of Certificates by the same holder.

Title to the Certificates shall pass by registration in the register that the Trustee shall procure to be kept by the Registrar outside the United Kingdom in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Certificate shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Registered Certificate representing it or the theft or loss of such Registered Certificate and no person shall be liable for so treating the holder. The holder of a Certificate will be recognised by the Trustee as entitled to its Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Certificate.

In these Conditions, "**Certificateholder**" or "**holder**" means the person in whose name a Certificate is registered.

Upon issue, the Certificates will be represented by interests in a global certificate in registered form (the "**Global Certificate**") which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. The Conditions are modified by certain provisions contained in the Global Certificate.

Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive Registered Certificates representing their holdings of Certificates. See "*Summary of Provisions Relating to the Certificates while in Global Form*".

3 Transfers

(a) **Transfer of Registered Certificates:** A holding of Certificates may, subject to Condition 3(c), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Registered Certificate representing such Certificates to be transferred, together with the form of transfer endorsed on such Registered Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Trustee), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Certificates represented by one Registered Certificate, a new Registered Certificate shall be issued to the transferee in respect of the part transferred and a further new Registered Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Certificates to a person who is already a holder of Certificates, a new Registered Certificate representing the enlarged holding shall only be issued against surrender of the Registered Certificate representing the existing holding. All transfers of Certificates and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Certificates scheduled to the Agency Agreement. The regulations may be changed by the Trustee, with the prior written approval of the Registrar and the Delegate, provided that any such change is not materially prejudicial to the interests of the Certificateholders or is required to be made to comply with applicable law or regulation. A copy of the current regulations will be made available by the Registrar to any Certificateholder upon request.

(b) **Delivery of New Certificates:** Each new Registered Certificate to be issued pursuant to Condition 3(a) shall be available for delivery within five business days of receipt of a duly completed form of transfer and surrender of the existing Registered Certificate. Delivery of the new Registered Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, and/or Registered Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Registered Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 3(b), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(c) **Transfers Free of Charge:** Transfers of Registered Certificates on transfer in respect of some but not all of a holding of Certificates shall be effected without charge by or on behalf of the Trustee, the Registrar or the Transfer Agents, but upon payment by the transferee of any Tax or other governmental charges that may be imposed in relation to such transfer (or the giving of such indemnity and/or security as the Trustee, the Registrar or the relevant Transfer Agent may require).

(d) **Closed Periods:** No Certificateholder may require the transfer of a Certificate to be registered (i) during the period of 15 days ending on (and including) the due date for payment of any Dissolution Distribution Amount or Periodic Distribution Amount or any other date on which any payment of the face amount or payment of any profit in respect of that Certificate falls due, (ii) after any such Certificate has been called for redemption pursuant to Condition 8 or (iii) during the period of seven days ending on (and including) any Record Date.

4 Status and Limited Recourse

(a) **Status of Certificates:** The Certificates represent an undivided ownership interest in the Trust Assets and are limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu* and without any preference or priority with all other Certificates.

(b) **Status of Obligor's obligations:** The payment obligations of the Obligor (in any capacity) under the Transaction Documents are and will be direct, unconditional, unsubordinated and (subject to the negative pledge provisions described in Condition 6(b)(vii)) unsecured obligations of the Obligor and shall, save for such exceptions as may be provided by applicable legislation and subject to the negative pledge provisions described in Condition 6(b)(vii), at all times rank at least equally with all other unsecured and unsubordinated obligations of the Obligor, present and future.

(c) **Limited Recourse and Agreement of Certificateholders:** Save as provided in this Condition 4(c), the Certificates do not represent an interest in or obligation of any of the Trustee, the Delegate, the Obligor, any of the Agents or any of their respective affiliates.

The proceeds of the Trust Assets are the sole source of payments on the Certificates. The net proceeds of the realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. Certificateholders, by subscribing for or acquiring the Certificates, acknowledge and agree that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

(i) no payment of any amount whatsoever shall be made by the Trustee (in any capacity) or the Delegate or any of their respective directors, officers, employees or agents on their behalf except to the extent funds are available therefor from the Trust Assets and no recourse shall be had for the payment of any amount due and owing hereunder or under any Transaction Document, whether for the payment of any fee, indemnity or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee (in any capacity) or the Delegate to the extent that the Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished;

(ii) the Trustee may not sell, transfer, assign or otherwise dispose of the Wakala Assets to a third party and may only realise its rights, title, interest, benefits and entitlements, present and future in, to and under the Wakala Assets in the manner expressly provided in the Transaction Documents;

(iii) if the proceeds of the Trust Assets are insufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (and/or its directors, officers, shareholders or corporate services providers in each of their respective capacities as such) (other than the Trust Assets in the manner and to the extent contemplated by the Transaction Documents) or of the Delegate or the Agents or any of their respective directors, officers, employees, agents, shareholders or affiliates, in each case in respect of any shortfall or otherwise;

(iv) no Certificateholders will be able to petition for, institute against, or join with any other person in instituting proceedings for, the reorganisation, arrangement, liquidation, bankruptcy, winding-up or receivership or other proceedings under any bankruptcy or similar law in any jurisdiction against the Trustee (in any capacity), the Delegate, the Agents or any of their respective directors, officers, employees, agents, shareholders or affiliates as a consequence of such shortfall or otherwise;

(v) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee or the Delegate arising under or in connection with the Certificates or the Transaction Documents by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, employee, agent, director or corporate services provider of the Trustee and/or the Delegate (in each of their respective capacities as such). The obligations of the Trustee (in any capacity) under the Certificates and the Transaction Documents are corporate or limited liability obligations of the Trustee and no personal liability shall attach to or be incurred by the shareholders, members, officers, employees, agents, directors or corporate services providers of the Trustee (in each of their respective capacities as such), save in the case of their wilful default or actual fraud. Reference in these Conditions to wilful default or actual fraud means a finding to such effect by a court of competent jurisdiction in relation to the conduct of the relevant party; and

(vi) it shall not be entitled to claim or exercise any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Certificate or any part of these Conditions. No collateral is or will be given for the payment obligations under the Transaction Documents or the Certificates (without prejudice to the negative pledge provisions described in Condition 6(b)(vii)).

Pursuant to the terms of the Transaction Documents, the Obligor is obliged to make certain payments directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and the Delegate (in the name of and on behalf of the Trustee) will thereby have direct recourse against the Obligor to recover payments due to the Trustee from the Obligor pursuant to such Transaction Documents notwithstanding any other provision of this Condition 4(c). Such right of the Trustee and the Delegate shall (subject to the negative pledge provisions described in Condition 6(b)(vii)) constitute an unsecured claim against the Obligor. None of the Certificateholders, the Trustee nor the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Obligor in connection with the enforcement of any such claim.

5 The Trust

(a) **Trust Assets**: Pursuant to the Trust Deed, the Trustee holds the Trust Assets upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each holder. The term "**Trust Assets**" means:

(i) the cash proceeds of the issue of Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(ii) any and all of the rights, title, interest, benefits and entitlements, present and future, of the Trustee in, to and under the Wakala Portfolio;

(iii) any and all of the interest, rights, benefits and entitlements, present and future, of the Trustee in, to and under the Transaction Documents (excluding the Excluded Representations and the covenant given to the Trustee pursuant to clause 17.1 of the Trust Deed); and

(iv) any and all moneys standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing.

See "Summary of Principal Transaction Documents" appearing elsewhere in this Offering Circular for more information on the Trust Assets and the Transaction Documents.

(b) **Application of Proceeds from Trust Assets:** On each Periodic Distribution Date and on any Dissolution Date, the Principal Paying Agent shall apply the moneys standing to the credit of the Transaction Account in the following order of priority (in each case only if and to the extent that payments of a higher priority have been made in full):

(i) first, (to the extent not previously paid) to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate (including any amounts owing to the Delegate in respect of its Appointees (as defined in the Trust Deed)) and to any receiver, manager or administrative receiver or any other analogous officer or agent appointed in respect of the Trust by the Delegate in accordance with the Trust Deed;

(ii) second, (to the extent not previously paid) to the Agents (on a *pasi passu* basis and *pro rata* to the amounts owing to them) in respect of all amounts owing to them under the Transaction Documents;

(iii) third, only if such payment is due on or before a Periodic Distribution Date (to the extent not previously paid) to pay *pro rata* and pari passu (i) the Trustee in respect of all amounts owing to it under the Transaction Documents in its capacity as Trustee; and (ii) the Trustee Administrator in respect of all amounts owing to it under the Transaction Documents and the Corporate Services Agreement in its capacity as trustee administrator and registered office provider for the Trustee;

(iv) fourth, only if such payment is due on a Periodic Distribution Date, for application in or towards payment pari passu and rateably of all Periodic Distribution Amounts due but unpaid;

(v) fifth, only if such payment is due on a Dissolution Date, for application in or towards payment pari passu and rateably of all Dissolution Distribution Amounts; and

(vi) sixth, only on a Dissolution Date on which all Certificates are redeemed in full and provided that all amounts required to be paid in respect of the Certificates hereunder have been discharged in full, in payment of any residual amount to the Obligor in its capacity as Servicing Agent as an incentive fee payment for its performance under the Servicing Agency Agreement.

6 Covenants

(a) **Trustee Covenants**: The Trustee covenants that for so long as any Certificate is outstanding it shall not (without the prior written consent of the Delegate):

(i) incur any indebtedness in respect of financed, borrowed or raised money whatsoever whether structured (or intended to be structured) in accordance with the principles of *Shari'a* or otherwise, or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as provided in the Transaction Documents;

(ii) secure any of its present or future indebtedness by any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law (if any) and other than under or pursuant to any of the Transaction Documents);

(iii) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interest in any of the Trust Assets except pursuant to any of the Transaction Documents;

(iv) except as provided in Condition 14, amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof);

(v) except as provided in the Trust Deed, act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;

(vi) have any subsidiaries or employees;

(vii) redeem any of its shares or pay any dividend or make any other distribution to its shareholders;

(viii) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;

(ix) put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding-up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; or

(x) enter into any contract, transaction, amendment, obligation or liability other than the Certificates and the Transaction Documents to which it is a party or as expressly contemplated, permitted or required thereunder or engage in any business or activity other than:

(A) as contemplated, provided for or permitted in the Transaction Documents;

(B) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and

(C) such other matters which are incidental thereto;

(b) **Obligor Covenants:** The Obligor covenants that for so long as any Certificate is outstanding it shall:

(i) **Financial Maintenance:** ensure that its Consolidated Net Worth shall not at any time be less than US$600,000,000.

(ii) **Limitation on Financial Indebtedness:** not, and shall not permit any of its Subsidiaries to, create, incur, assume, guarantee or in any manner become directly or indirectly liable with respect to or otherwise become responsible for, contingently or otherwise, the payment of (individually and collectively, to "**Incur**" or, as appropriate, an "**Incurrence**") any Financial Indebtedness (other than Permitted Financial Indebtedness); provided that the Obligor and its Subsidiaries will be permitted to Incur such Financial Indebtedness if the Leverage Ratio is not more than 5.0:1.0.

(iii) **Limitation on Restricted Payments**: not, and shall ensure that none of its Subsidiaries will, directly or indirectly:

a. declare or pay any dividend, in cash or otherwise, or make any other payment or distribution (whether by way of redemption, acquisition or otherwise) in respect of its Capital Stock (other than: (x) dividends, payments or distributions payable to the Obligor or any of its Subsidiaries; and (y) dividends or distributions payable solely in the form of shares of the Obligor); or

b. voluntarily purchase, redeem or otherwise acquire or retire for value: (i) more than 5% of the Capital Stock of the Obligor; or (ii), other than in the ordinary course of its investment business, the Capital Stock of any of its Affiliates; or

c. make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Financial Indebtedness of the Obligor that is contractually subordinated to the obligations of the Obligor under the Transaction Documents (excluding any intercompany Financial Indebtedness between or among the Obligor and any of its Subsidiaries), except a payment of interest or principal (or equivalent amounts) at the Stated Maturity thereof;

(all such payments and other actions set out in (a) to (c) (inclusive) above being together referred to herein as "**Restricted Payments**"), unless at the time of and after giving effect to such Restricted Payment:

i. the Obligor (acting in any capacity) has neither failed to pay an amount in the nature of: (x) profit payable by it pursuant to any Transaction Document to which it is a party and the failure has continued for a period of 10 Business Days; or (y) principal payable by it pursuant to any Transaction Document to which it is a party and the failure has continued for a period of 5 Business Days; and

ii. no Potential Dissolution Event or Dissolution Event has occurred, is continuing or would occur as a consequence of such Restricted Payment; and

iii. immediately after giving pro forma effect to such Restricted Payment, the Obligor would be able to incur an additional U.S.$ 1.00 of Financial Indebtedness pursuant to Condition 6(b)(ii); and

iv. such Restricted Payment when aggregated with all other Restricted Payments declared or made in the same financial year is equal to, or is less than, 65 per cent. of the Consolidated Profit of the Obligor for the preceding financial year.

(iv) **Asset Sale**: not, and shall ensure that none of its Subsidiaries will, directly or indirectly, enter into an Asset Sale unless:

a. such Asset Sale has been approved by the board of directors of the Obligor in the case of the Obligor, or the board of directors of the relevant Subsidiary in the case of a Subsidiary;

b. the consideration received by the Obligor or its Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and

c. to the extent that the Asset Sale is in respect of an asset which has a book value (as determined by reference to the most recently available financial statements of the Obligor or of its relevant Subsidiary, as the case may be) that exceeds 1.5 per cent. of the Consolidated Total Assets at the time of such proposed Asset Sale, the requirement specified in Condition 6(b)(iv)(b) for the consideration received by the Obligor or its Subsidiary to be at least equal to the Fair Market Value must be determined by an Independent Qualified Party.

(v) **Limitation on Affiliate Transactions**: not, and shall not permit any Subsidiary to, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Obligor or any of its Subsidiaries (an "**Affiliate Transaction**") unless:

a. if such Affiliate Transaction involves an amount in excess of U.S.$2,500,000, the terms of the Affiliate Transaction are no less favourable to the Obligor or such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm's-length dealings with a person who is not an Affiliate of the Obligor or any of its Subsidiaries;

b. if such Affiliate Transaction involves an amount in excess of U.S.$7,500,000, the terms of the Affiliate Transaction are set forth in writing and a majority of the directors of the Obligor disinterested with respect to such Affiliate Transaction have determined in good faith that the criteria set forth in clause (a) above are satisfied and have approved the relevant Affiliate Transaction as evidenced by a resolution of the board of directors of the Obligor, in the case of the Obligor, or the board of directors of the Subsidiary, in the case of a Subsidiary; and

c. if such Affiliate Transaction involves an amount in excess of U.S.$50,000,000, the board of directors shall also have received a written opinion from an Independent Qualified Party to the effect that such Affiliate Transaction is fair, from a financial standpoint, to the Obligor and its Subsidiaries or is not less favourable to the Obligor and its Subsidiaries than could reasonably be expected to be obtained at the time in an arm's-length transaction with a Person who was not an Affiliate.

This condition 6(b)(v) does not apply to any Affiliate Transaction between the Obligor and its Subsidiaries or between its Subsidiaries.

(vi) **Restriction on Distributions from Subsidiaries**: shall procure that, for so long as a Material Subsidiary is lawfully able to pay at least U.S.$1.00 (or its equivalent in another currency) in dividends, such Material Subsidiary will not create or otherwise become subject to or permit to exist, any restriction on its ability to pay such dividends.

(vii) **Negative Pledge**: not, and shall procure that none of its Subsidaries will, create or permit to subsist any Security Interest (other than a Permitted Security Interest) over any of its or their assets to secure any Financial Indebtedness unless, at the same time or prior thereto, the Obligor's obligations under the Transaction Documents are secured equally and rateably therewith or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution of Certificateholders, or as Delegate in its discretion shall deem to be not materially less beneficial to the interests of Certificateholders.

(viii) **Provision of Financial Information**:

a. in respect of each financial year, (A) deliver to the Delegate; and (B) publish in accordance with the rules of the ISM and/or on the website of the Obligor; as the case may be, the audited annual consolidated financial statements of the Group, in each case, prepared in accordance with the Applicable Accounting Standards and delivered by no later than 120 days after the end of the financial year; and

b. in respect of any period for which interim reviewed consolidated financial statements are published by the Group, (A) deliver to the Delegate; and (B) publish in accordance with the rules of the ISM and/or on the website of the Obligor, as the case may be, such interim reviewed consolidated financial statements of the Group, in each case, prepared in accordance with the Applicable Accounting Standards and to be delivered by no later than 60 days after the end of the relevant interim period.

(ix) **Merger and Consolidation:** not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, directly or indirectly, all or substantially all its assets to, any Person, unless:

a. the Obligor is the surviving corporation or the Person formed by or surviving any such consolidation or merger (if other than the Obligor) or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made (the "**Successor Company**") is a corporation organised or existing under the laws of the Kingdom of Bahrain, the United States or any political subdivision thereof, the Cayman Islands, any member state of the European Union, any member country of the Gulf Cooperation Council or any other member country of the Organisation for Economic Co-operation and Development (each an "**OECD Country**") (other than any other OECD Country the long-term foreign currency rating of which at such time is less than "A" (or the equivalent) from any two Recognised Rating Agencies);

b. the Successor Company assumes all the obligations of the Obligor under the Transaction Documents whether by operation of law or pursuant to amendment agreements in a form reasonably satisfactory to the Delegate;

c. immediately after giving pro forma effect to such transaction (and treating any Financial Indebtedness which becomes an obligation of the Successor Company or any Subsidiary as a result of such transaction as having been incurred by such Successor Company or such Subsidiary at the time of such transaction), no Obligor Event shall have occurred and be continuing; and

d. immediately after giving pro forma effect to such transaction, (i) the Successor Company would be able to incur an additional U.S.$ 1.00 of Financial Indebtedness pursuant to Condition 6(b)(ii) or (ii) the Consolidated Net Worth of the Successor Company would be no less than the Consolidated Net Worth of the Obligor immediately prior to such transaction,

provided, however, that the restriction set out in Condition 6(b)(ix)(d) will not be applicable to (A) a Subsidiary consolidating with, merging into or transferring all or part of its properties and assets to the Obligor (so long as no Capital Stock of the Obligor is distributed to any Person) or (B) the Obligor merging with an Affiliate of the Obligor solely for the purpose and with the sole effect of reincorporating the Obligor in another jurisdiction.

(x) **Pari Passu Ranking:** ensure that the obligations of the Obligor under the Transaction Documents at all times rank at least *pari passu* in right of payment with all of its other unsecured and unsubordinated obligations, save for those preferred by provisions of law which are both mandatory and of general application.

(xi) **Suspension of Covenants:**

a. If on any date the following conditions are satisfied (the fulfilment of these conditions being referred to as "**Investment Grade Status**"):

i. the Certificates are assigned any two of the following ratings: Baa3 or better by Moody's, BBB- or better by S&P, BBB- or better by Fitch, or an equivalent credit rating from any other Recognised Rating Agency; and

ii. there exists no Dissolution Event or Potential Dissolution Event,

then, beginning on such date and for such time as the foregoing conditions remain satisfied (such period, the "**Investment Grade Status Period**"), the following covenants will be suspended (a) Condition 6(b)(i), (b) Condition 6(b)(ii), (c) Condition 6(b)(iii) and (d) Condition 6(b)(iv).

b. The covenants and other provisions of these Conditions that are suspended during an Investment Grade Status Period will be immediately reinstated and will continue to exist upon the commencement of any period in which the Certificates do not have Investment Grade Status. No action taken (or not taken) during an Investment Grade Status Period or prior to an Investment Grade Status Period in compliance with the covenants then applicable may constitute an Obligor Event or an event which, with the passage of time or the giving of notice, or both, would constitute an Obligor Event under the Certificates in the event that suspended covenants and provisions are subsequently reinstated or suspended, as the case may be.

7 Periodic Distribution Amounts

(a) **Periodic Distribution Amounts**: A profit distribution (the amount of which shall be calculated as provided in Condition 7(b)) shall accrue at the Profit Rate and shall be payable in arrear in respect of the Certificates on each Periodic Distribution Date in respect of the Return Accumulation Period ending on such date and (each such distribution being referred to in these Conditions as a "**Periodic Distribution Amount**"). Periodic Distribution Amounts shall be distributed to Certificateholders by the Principal Paying Agent on behalf of the Trustee, *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account and subject to Condition 5(b) and Condition 9.

(b) **Calculations:** The amount of profit payable per Calculation Amount in respect of any Certificate for any period shall be equal to the product of (i) the Profit Rate, (ii) the Calculation Amount, and (iii) the Day Count Fraction for such period, with the result being rounded to the nearest U.S.$0.01, U.S.$0.005 being rounded upwards. For these purposes, "**Day Count Fraction**" means, in respect of the calculation of an amount of profit on any Certificate for any period (whether or not constituting a Return Accumulation Period, the "**Calculation Period**"), the number of days in the Calculation Period divided by 360 (the number of days in such period to be calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the number of days elapsed).

(c) **Entitlement to Profit:** No further Periodic Distribution Amounts will be payable in respect of any Certificate from and including: (i) any Dissolution Date (other than the Total Loss Event Dissolution Date) unless payment is improperly withheld or refused and no sale agreement has been executed pursuant to the Purchase Undertaking or the Sale and Substitution Undertaking as the case may be, in which event Periodic Distribution Amounts shall continue to accumulate (both before and after judgment) in the manner provided in this Condition 7 to the earlier of (x) the Relevant Date; and (y) the date on which a Sale Agreement has been executed in accordance with the terms of the Purchase Undertaking or the Sale and Substitution Undertaking, as the case may be; or (ii) the Total Loss Event Dissolution Date.

8 Redemption and Dissolution of the Trust

(a) **Dissolution on the Scheduled Dissolution Date**: Unless previously redeemed, or purchased and cancelled, in full, as provided below, each Certificate shall be finally redeemed on the Scheduled Dissolution Date at its Dissolution Distribution Amount, and the Trust shall be dissolved by the Trustee following the payment of all such amounts in full. Upon such dissolution as aforesaid, the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

(b) **Early Dissolution at the Option of the Obligor:** If:

(i) (A) the Trustee has or will become obliged to pay additional amounts as described under Condition 10 as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 27 January 2020, and (B) such obligation cannot be avoided by the Trustee taking reasonable measures available to it; or

(ii) (A) the Obligor has or will become obliged to pay additional amounts to the Trustee pursuant to the terms of any Transaction Document as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 27 January 2020 and (B) such obligation cannot be avoided by the Obligor taking reasonable measures available to it,

(the occurrence of an event described in Condition 8(b)(i) or (ii) being a "**Tax Event**"), the Obligor may, in its sole discretion, deliver to the Trustee a duly completed Exercise Notice in accordance with the provisions of the Sale and Substitution Undertaking. On receipt of such notice, the Trustee shall, on giving not less than 30 nor more than 60 days' notice to the Delegate and the Certificateholders (which notice shall be irrevocable) redeem the Certificates in whole but not in part at any time (such date being an "**Early Tax Dissolution Date**") at their Dissolution Distribution Amount, provided that in either case, (x) no such notice of dissolution shall be given to Certificateholders unless an Exercise Notice has been received by the Trustee from the Obligor pursuant to the Sale and Substitution Undertaking; and (y) no such notice of dissolution or Exercise Notice may be given earlier than 90 days prior to the earliest date on which the Trustee or the Obligor, as the case may be, would be obliged to pay such additional amounts were a payment in respect of the Certificates (in the case of the Trustee) or pursuant to any Transaction Document (in the case of the Obligor) then due.

Prior to the publication of any notice of dissolution pursuant to this Condition 8(b), the Trustee shall deliver to the Delegate:

(A) a certificate signed by two directors and/or Authorised Signatories of the Trustee (in the case of Condition 8(b)(i)) or the Obligor (in the case of Condition 8(b)(ii)), as the case may be, in each case stating that the obligation referred to in Condition 8(b)(i) or 8(b)(ii), as the case may be, has arisen and cannot be avoided by the Trustee or the Obligor, as the case may be, taking reasonable measures available to it; and

(B) an opinion of independent legal or tax advisers of recognised standing to the effect that the Trustee or the Obligor, as the case may be, has or will become obliged to pay additional amounts as a result of such change or amendment, and the Delegate shall be entitled to accept and rely on such certificate and legal opinion as sufficient evidence of the satisfaction of the conditions precedent set out in Condition 8(b)(i) or, as the case may be, Condition 8(b)(ii) above (without Liability to any person), in which event it shall be conclusive and binding on Certificateholders.

Upon expiry of any such notice given in accordance with this Condition 8(b) and payment in full of the Dissolution Distribution Amount to Certificateholders, the Trustee shall be bound to dissolve the Trust. Upon such dissolution as aforesaid, the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

(c) **Dissolution following a Total Loss Event:** The Obligor has agreed in the Trust Deed to notify the Trustee and the Delegate forthwith upon the occurrence of a Total Loss Event and to provide a description of the Total Loss Event. The Trustee, upon receipt of such notice from the Obligor or otherwise upon becoming aware of the occurrence of a Total Loss Event, unless the Lease Assets are replaced by the Obligor in accordance with the Servicing Agency Agreement, shall redeem all of the Certificates by no later than the close of business in London on the 31st day after the occurrence of the Total Loss Event (a "**Total Loss Event Dissolution Date**"). Any such redemption of Certificates shall be at their Dissolution Distribution Amount using either (i) the proceeds of insurance payable in respect of the Total Loss Event which are required to be paid into the Transaction Account by no later than the 29th day after the occurrence of the Total Loss Event, or (ii) if the insurance proceeds (if any) standing to the credit of the Transaction Account on the 29th day following the occurrence of a Total Loss Event are less than the Full Reinstatement Value, the amount standing to the credit of the Transaction Account on the 30th day following the occurrence of a Total Loss Event, representing the aggregate of the insurance proceeds paid in respect of any Total Loss Event (if any) and the Total Loss Shortfall Amount funded by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement and, in each case, together with the aggregate amounts of the Deferred Sale Price then outstanding under the Murabaha Agreement. Upon payment in full of the Dissolution Distribution Amount to all Certificateholders, the Trustee shall be bound to dissolve the Trust. Upon such dissolution as aforesaid, the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

(d) **Dissolution following a Dissolution Event:** Upon the occurrence of a Dissolution Event, the Certificates may be redeemed at the Dissolution Distribution Amount and the Trustee shall dissolve the Trust, in each case subject to, and as more particularly specified in, Condition 12.

(e) **Purchases:** The Obligor and the Obligor's Subsidiaries may at any time purchase Certificates at any price. Any Certificates held by or on behalf of or for the benefit of the Obligor or any of the Obligor's Subsidiaries shall not entitle the holder to exercise any voting rights and shall not be deemed to be outstanding for the purposes of calculating quorums, meetings or for passing Extraordinary Resolutions for the purposes of Condition 14(a).

(f) **Cancellation:** Any Registered Certificates representing Certificates purchased by or on behalf of the Obligor or any of the Obligor's Subsidiaries may, in the Trustee's and the Obligor's sole discretion, be surrendered for cancellation in accordance with the terms of the Trust Deed, the Agency Agreement and the Sale and Substitution Undertaking. Any Registered Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Trustee in respect of any such Certificates shall be discharged. If all (and not some only) of the Certificates are cancelled in accordance with this Condition 8(f), the Trustee shall be bound to dissolve the Trust.

(g) **No other Dissolution:** The Trustee shall not be entitled to redeem the Certificates or dissolve the Trust other than as provided in this Condition 8 and Condition 12.

9 Payments

(a) **Method of Payment:**

(i) Payments of the Dissolution Distribution Amount shall be made (subject to surrender of the relevant Registered Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Certificates represented by such Registered Certificates) in the manner provided in paragraph (ii) below.

(ii) Periodic Distribution Amounts in respect of each Certificate shall be paid to the person shown on the Register (or, in the case of a Certificate held by two or more persons, to the person whose name appears first on the Register) at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of Periodic Distribution Amounts and the Dissolution Distribution Amount in respect of each Certificate shall be made in U.S. dollars by transfer to an account in U.S. dollars maintained by the payee with a bank that processes payments in U.S. dollars notified by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date.

(iii) If the Dissolution Distribution Amount being paid upon surrender of the relevant Registered Certificate is less than the outstanding principal amount of such Registered Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Trustee or a Certificateholder) issue a new Registered Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the Periodic Distribution Amount being paid is less than the amount then due, the Registrar will annotate the Register with the amount so paid.

(b) **Payments subject to Laws:** Payments are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Certificateholders in respect of such payments.

(c) **Appointment of Agents:** The Principal Paying Agent, the Paying Agent(s), the Registrar and the Transfer Agent(s) initially appointed by the Trustee and their respective specified offices are listed below. The Principal Paying Agent, the Paying Agent(s), the Registrar and the Transfer Agent(s) act solely as agents of the Trustee and do not assume any obligation or relationship of agency or trust for or with any Certificateholder. The Trustee reserves the right at any time with the approval of the Delegate to vary or terminate the appointment of the Principal Paying Agent, any other Paying Agent, the Registrar or any Transfer Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that the Trustee shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) a Paying Agent (which may be the Principal Paying Agent) having a specified office in at least one major European city and (v) such other agents as may be required by any stock exchange on which the Certificates may be listed, in each case as approved by the Delegate.

Notice of any such change or any change of any specified office shall promptly be given to the Certificateholders.

(d) **Non-Business Days:** If any date for payment in respect of any Certificate is not a business day, the holder shall not be entitled to payment until the next following business day nor to any profit or other sum in respect of such postponed payment. In this Condition 9(d), "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located and, where payment is to be made by transfer to an account maintained with a bank in U.S. dollars, on which foreign exchange transactions may be carried on in U.S. dollars in New York.

10 Taxation

All payments in respect of the Certificates shall be made in U.S. dollars without set-off or counterclaim of any kind and free and clear of, and without withholding or deduction for, or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of a Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, the Trustee shall pay such additional amounts as shall result in receipt by the Certificateholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Certificate:

(a) **Other connection:** held by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Certificate by reason of his having some connection with a Relevant Jurisdiction, other than the mere holding of the relevant Certificate; or

(b) **Surrender more than 30 days after the Relevant Date:** in respect of which the Registered Certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the Registered Certificate representing such Certificate for payment on the last day of such period of 30 days irrespective of whether that day is a business day (as defined in Condition 9(d)).

As used in these Conditions, "**Relevant Date**" in respect of any Certificate means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Certificateholders that, upon surrender of the Registered Certificate representing such Certificate being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender. References in these Conditions to "**Periodic Distribution Amounts**" and the "**Dissolution Distribution Amount**" shall be deemed to include any additional amounts that may be payable under this Condition 10 or any undertaking given in addition to or in substitution for it under the Trust Deed.

Notwithstanding any other provision in these Conditions, in no event will the Trustee, the Obligor or the Agents be required to pay any additional amounts in respect of the Certificates for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, or any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

The Transaction Documents provide that payments thereunder by the Obligor shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, unless such withholding or deduction is required by law, and, in such case, provide for the payment by the Obligor of such additional amounts as will result in receipt by the Trustee or the Delegate, as *the case may be, of such amounts as would have been received by it had no such withholding or deduction been made.*

Further, the Obligor has undertaken in the Trust Deed to pay such additional amounts as may be necessary pursuant to this Condition 10 so that the full amount due and payable by the Trustee in respect of the Certificates to the Certificateholders is received by the Trustee for the purposes of payment to the Certificateholders in accordance with and subject to the provisions of this Condition 10.

11 Prescription

Claims against the Trustee for payment in respect of the Certificates shall be prescribed and become void unless made within 10 years (in the case of the Dissolution Distribution Amount) or five years (in the case of Periodic Distribution Amounts) from the appropriate Relevant Date in respect of them.

12 Dissolution Events

(a) **Dissolution Event**: Upon the occurrence of a Dissolution Event:

(i) the Delegate, upon receiving express notice in writing thereof under the Trust Deed of a Dissolution Event, shall (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) promptly give notice of the occurrence of the Dissolution Event to the Certificateholders in accordance with Condition 17 with a request to the Certificateholders to indicate to the Trustee and the Delegate if they wish the Certificates to be redeemed and the Trust to be dissolved; and

(ii) the Delegate in its sole discretion may, and if so requested in writing by the holders of at least 25 per cent. of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction) shall, give notice (a "**Dissolution Notice**") to the Trustee, the Obligor and the Certificateholders in accordance with Condition 17 that the Certificates are immediately due and payable at the Dissolution Distribution Amount, whereupon they shall become so due and payable. A Dissolution Notice may be given pursuant to this Condition 12(a)(ii) whether or not notice has been given to Certificateholders as provided in Condition 12(a)(i) above.

Upon receipt of such Dissolution Notice, (x) the Trustee (or the Delegate on behalf of the Trustee) shall deliver an Exercise Notice to the Obligor under the Purchase Undertaking, and the Exercise Price shall become immediately due and payable thereunder, and (y) all aggregate amounts of the Deferred Sale Price shall immediately become due and payable under the Murabaha Agreement. The Trustee (or the Delegate in the name of the Trustee) shall use the Exercise Price payable under the Purchase Undertaking together with the amounts then due and payable under the Murabaha Agreement to redeem the Certificates at the Dissolution Distribution Amount on the date of the relevant Exercise Notice (the relevant "**Dissolution Event Redemption Date**") and the Trust shall be dissolved on the day after the last outstanding Certificate has been so redeemed in full.

Upon payment in full of such amounts and dissolution of the Trust as aforesaid, the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

(b) **Enforcement and Exercise of Rights:** If, following the occurrence of a Dissolution Event, any amount payable in respect of the Certificates has not been paid in full (notwithstanding the provisions of Condition 12(a)), the Trustee or the Delegate (in the name of and on behalf of the Trustee), subject to it being indemnified and/or secured and/or pre-funded to its satisfaction, shall, subject to Condition 13 (acting for the benefit of the Certificateholders) take one or more of the following steps:

(i) enforce the provisions of the Transaction Documents against the Obligor; and/or

(ii) take such other actions or steps or institute such proceedings as the Trustee or the Delegate may, in its opinion, consider necessary to recover amounts due to the Trustee and/or the Certificateholders.

13 Realisation of Trust Assets

(a) Neither the Delegate nor the Trustee shall be bound in any circumstances to take any action, step or proceeding to enforce or to realise the Trust Assets or take any action, step or proceeding against the Trustee, the Obligor under any Transaction Document to which any of the Trustee, the Obligor is a party unless directed or requested to do so: (i) by an Extraordinary Resolution; or (ii) in writing by the holders of at least 25 per cent. of the then outstanding aggregate face amount of the Certificates; or (iii) (in the case of the Trustee only) by the Delegate, and in any such case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.

(b) No Certificateholder shall be entitled to proceed directly against the Trustee or the Obligor unless the Delegate or the Trustee, as the case may be, having become bound so to proceed, (i) fails to do so within a reasonable period or (ii) is unable by reason of an order of a court having competent jurisdiction to do so and in each case such failure or inability is continuing. Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Obligor shall be to enforce their respective obligations under the Transaction Documents to which they are a party.

(c) The foregoing provisions of this Condition 13 are subject to this Condition 13(c). After enforcing or realising the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with Condition 5(b), the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps, actions or proceedings against the Trustee (or any steps, actions or proceedings against the Delegate) to recover any further sums in respect of the Certificates and the right to receive any such unpaid sums shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps, actions or proceedings for the winding-up of the Trustee.

14 Meetings of Certificateholders, Modification and Waiver

(a) **Meetings of Certificateholders:** The Trust Deed contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Certificateholders holding not less than 10 per cent. in face amount of the Certificates for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing not less than a clear majority in face amount of the Certificates for the time being outstanding, or at any adjourned meeting two or more persons being or representing Certificateholders whatever the face amount of the Certificates held or represented, unless the business of such meeting includes consideration of proposals (i) to amend any Dissolution Date in respect of the Certificates or any date for payment of Periodic Distribution Amounts in respect of the Certificates, (ii) to reduce or cancel or vary the method for calculating the amount of any payment due in respect of the Certificates, (iii) to amend any of the Trustee's or the Obligor's covenants set out in the Transaction Documents to which it is a party, (iv) to vary the currency of payment or denomination of the Certificates, (v) to modify the provisions concerning the quorum required at any meeting of Certificateholders or the majority required to pass the Extraordinary Resolution, or (vi) to amend the above list, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in face amount of the Certificates for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Certificateholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent., in aggregate face amount of the Certificates then outstanding (a "**Written Resolution**") shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. Such a Written Resolution may be contained in one document or several documents in like form, each signed by or on behalf of one or more Certificateholders. Such a Written Resolution will be binding on all Certificateholders whether or not they participated in such Written Resolution.

(b) **Modifications, Waivers, Authorisations and Determinations:** The Delegate may, without the consent or sanction of the Certificateholders: (i) agree to any modification of any of the provisions of the Trust Deed (including these Conditions) or of any other Transaction Document that is, in the opinion of the Delegate, of a formal, minor or technical nature or is made to correct a manifest error; or (ii) (A) agree to any other modification (except as mentioned in the Trust Deed), or to any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed or the Transaction Documents; or (B) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such provided that such modification, waiver, authorisation or determination is:

(x) in the opinion of the Delegate not materially prejudicial to the interests of the Certificateholders;

(y) not in contravention of any express direction given by Extraordinary Resolution or request in writing by the holders of at least 25 per cent. of the outstanding aggregate face amount of the Certificates; or

(z) other than in respect of a matter which requires a special quorum resolution (as defined in the proviso to paragraph 2 of Schedule 3 to the Trust Deed). Any such modification, authorisation, determination or waiver shall be binding on the Certificateholders and shall be notified to the Certificateholders in accordance with Condition 17 as soon as practicable.

(c) **Entitlement of the Delegate:** In connection with the exercise of its functions (including, but not limited to, those referred to in this Condition) the Delegate shall have regard to the interests of the Certificateholders as a class and shall not have regard to the consequences of such exercise for individual Certificateholders and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim, from the Trustee, the Obligor or the Delegate any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders (except, in the case of the Trustee and the Obligor, to the extent already provided for in Condition 10).

15 Delegate

(a) **Delegation of Powers**: The Trustee will in the Trust Deed irrevocably and unconditionally appoint the Delegate to be its attorney and, in its name, on its behalf and as its act and deeds, to execute, deliver and perfect all documents, and to exercise all of the present and future powers (including the power to sub-delegate), rights, trusts, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Trust Deed, that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or Potential Dissolution Event, and subject to its being indemnified and/or secured and/or prefunded to its satisfaction, exercise all of the rights of the Trustee under the Transaction Documents and make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Trust Deed (together, the "**Delegation**" of the "**Relevant Powers**"), provided that (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Trust Deed or any other Transaction Document shall be imposed on the Delegate by virtue of this Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust the Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any power, trust, right, authority or discretion to dissolve any of the trusts constituted by the Trust Deed following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate (save as provided in the Trust Deed). The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.

In addition to the Delegation of the Relevant Powers under the Trust Deed, the Delegate also has certain powers which are vested solely in it from the date of the Trust Deed.

The appointment of a delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

(b) **Indemnification:** The Trust Deed contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or prefunded to its satisfaction. In particular, but without limitation, in connection with the exercise of any of its rights in respect of the Trust Assets or any other right it may have pursuant to the Trust Deed or the other Transaction Documents, the Delegate shall in no circumstances be bound to take any action, step or proceeding unless directed to do so in accordance with Conditions 12 or 13, and then only if it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(c) **No Liability:** The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Obligor under the Transaction Documents to which it is a party and shall not under any circumstances have any Liability or be obliged to account to Certificateholders in respect of any payments which should have been paid by the Obligor but are not so paid and shall not in any circumstances have any Liability arising from the Trust Assets, other than as expressly provided in these Conditions or in the Trust Deed.

(d) **Reliance on Certificates, Reports, Advice, etc.:** The Delegate may act on any certificate, opinion, advice, confirmation or report of any auditors, insolvency officials, financial advisers or other experts (as applicable) of the Trustee, the Obligor or any other person called for by or provided to the Delegate (whether or not addressed to the Delegate) in accordance with or for the purposes of the Trust Deed or the other Transaction Documents and such certificate, opinion, advice, confirmation or report may be relied upon by the Delegate (without Liability to any person) as sufficient evidence of the facts stated therein notwithstanding that such certificate, opinion, advice, confirmation or report and/or any engagement letter or other document entered into by the Delegate or any other person in connection therewith contains a monetary or other limit on the liability of the auditors or insolvency officials of the Trustee, the Obligor or such other person in respect thereof and notwithstanding that the scope and/or basis of such certificate, opinion, advice, confirmation or report may be limited by an engagement or similar letter or by the terms of the certificate or report itself and the Delegate shall not be bound in any such case to call for further evidence or be responsible for any Liability or inconvenience that may be occasioned by its failure to do so.

(e) **Proper Performance of Duties:** Nothing shall, in any case in which the Trustee or the Delegate has failed to show the degree of care and diligence required of it as trustee, in the case of the Trustee (having regard to the provisions of the Trust Deed conferring on it any trusts, powers, rights, authorities or discretions) or as donee and delegate, in the case of the Delegate (having regard to the powers, rights, authorities and discretions conferred on it by the Trust Deed and to the Relevant Powers delegated to it), respectively exempt the Trustee or the Delegate from or indemnify either of them against any Liability for gross negligence, wilful default or actual fraud of which either of them may be guilty in relation to their duties under the Trust Deed.

(f) **Notice of Events:** The Delegate shall not be responsible for monitoring or ascertaining whether or not a Dissolution Event, Potential Dissolution Event, Tax Event, or Total Loss Event has occurred or exists and, unless and until it shall have received express written notice to the contrary, it will be entitled to assume that no such event or circumstance exists or has occurred (without any Liability to any person for so doing).

16 Replacement of Registered Certificates

If any Registered Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant regulatory authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Trustee for the purpose and notice of whose designation is given to Certificateholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Registered Certificate is subsequently presented and/or surrendered for payment, there shall be paid to the Trustee on demand the amount payable by the Trustee in respect of such Registered Certificate) and otherwise as the Trustee may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Registered Certificates must be surrendered before replacements will be issued.

17 Notices

Notices to the holders of Certificates shall be mailed to them by first class mail (airmail if overseas) at their respective addresses in the Register.

In addition, the Trustee shall ensure that notices to the holders of Certificates are duly given and/or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) on which the Certificates are for the time being admitted to listing, trading and/or quotation.

Any such notices shall be deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing (or on the date of publication, or if published more than once or on different dates, on the date of the first publication).

So long as the Certificates are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, or any other clearing system, notices to Certificateholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for mailing as required by Condition 17. Any such notice shall be deemed to have been given to the holders of the Certificates on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system.

18 Further Issues

The Trustee shall be at liberty from time to time without the consent of the Certificateholders to create and issue additional Certificates having the same terms and conditions as the outstanding Certificates on terms and conditions which are the same in all respects save for the date and amount of the first payment of the Periodic Distribution Amount and the date from which Periodic Distribution Amounts start to accrue and so that the same shall be consolidated and form a single series with the outstanding Certificates. Any additional Certificates which are to form a single series with the outstanding Certificates previously constituted by the Trust Deed shall be constituted by a deed supplemental to the Trust Deed. References in these Conditions to the Certificates include (unless the context requires otherwise) any other certificates issued pursuant to this Condition and forming a single series with the Certificates.

19 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Certificates under the Contracts (Rights of Third Parties) Act 1999.

20 Governing Law and Dispute Resolution

(a) **Governing Law:** The Trust Deed (including these Conditions), the Agency Agreement and the Certificates and any non-contractual obligations arising out of or in connection with the same are governed by, and shall be construed in accordance with, English law.

(b) **Arbitration:** The Delegate, the Trustee and the Obligor have in the Trust Deed agreed that, subject to Condition 20(c), any dispute, claim, difference or controversy arising out of or in connection with the Trust Deed (including these Conditions) and/or the Certificates (including any dispute, claim, difference or controversy as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity or any dispute relating to any non-contractual obligations arising out of or in connection with them) (a "**Dispute**") shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the LCIA (the "**Rules**"), which Rules (as amended from time to time) are incorporated by reference into this Condition 20. For these purposes:

(i) the seat of arbitration shall be London, England;

(ii) there shall be three arbitrators, each of whom shall be an attorney experienced in international securities transactions. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly the second arbitrator, and a third arbitrator (who shall act as presiding arbitrator) shall be nominated by the arbitrators nominated by or on behalf of the claimant(s) and respondent(s) or, in the absence of agreement on the third arbitrator within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, the third arbitrator shall be chosen by the LCIA Court (as defined in the Rules); and

(iii) the language of the arbitration shall be English.

(c) **Option to Litigate:** Notwithstanding the agreement described in Condition 20(b), the Delegate may, in the alternative and at its sole discretion, by notice in writing to the Trustee and the Obligor in accordance with the Trust Deed:

(i) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(ii) if no arbitration has commenced,

require that the Dispute be heard by a court of law (a "**Notice to Litigate**"). If the Delegate gives a Notice to Litigate, the Dispute to which such notice refers shall be determined in the manner described in Condition 20(d) and any arbitration commenced under Condition 20(b) in respect of that Dispute will be terminated. With the exception of the Delegate (whose costs will be borne by the Obligor), each of the parties to the terminated arbitration will bear its own costs in relation thereto.

(d) **Effect of Exercise of Option to Litigate:** If a Notice to Litigate is given pursuant to Condition 20(c), the following provisions shall apply:

(i) subject to paragraph (iii) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Trustee and the Obligor have in the Trust Deed irrevocably submitted to the exclusive jurisdiction of such courts;

(ii) each of the Trustee and the Obligor have agreed that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(iii) this Condition 20(d) is for the benefit of the Delegate for and on behalf of the Certificateholders only. As a result, and notwithstanding paragraphs (i) and (ii) above, the Delegate may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and, to the extent allowed by law, may take concurrent Proceedings in any number of jurisdictions.

(e) **Appointment of Process Agent:** Each of the Trustee and the Obligor has in the Trust Deed irrevocably appointed Walkers of 6 Gracechurch Street, London, England, EC3V 0AT to receive, for it and on its behalf, service of process in respect of any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Trustee and/or the Obligor). If for any reason such process agent ceases to be able to act as such or no longer has an address in England, each of the Trustee and the Obligor has irrevocably agreed in the Trust Deed to appoint a substitute process agent, and shall immediately notify the Delegate of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(f) **Waiver of Interest:**

(i) Each of the Trustee, the Delegate and the Obligor has irrevocably agreed in the Trust Deed that no interest will be payable or receivable under or in connection therewith and each party has agreed that it will not claim any interest in respect of any Proceedings brought by or on behalf of a party to the Trust Deed.

(ii) If it is determined that any interest is payable or receivable in connection therewith by a party, whether as a result of any judicial or arbitral award or by operation of any applicable law or otherwise, such party has agreed to waive any rights it may have to claim or receive such interest and has agreed that if any such interest is actually received by it, it shall promptly donate the same to a registered or otherwise officially recognised charitable organisation.

(iii) For the avoidance of doubt, nothing in this Condition 20(f) shall be construed as a waiver of rights in respect of any Wakala Portfolio Revenues, Full Reinstatement Value, Profit Amounts, Periodic Distribution Amounts, Rentals, Dissolution Distribution Amounts, Exercise Price, Deferred Sale Price, Required Amounts, Total Loss Shortfall Amounts or profit or principal or other amounts of any kind howsoever described payable by the Obligor (in any capacity), or by the Trustee (in any capacity) pursuant to the Transaction Documents and/or the Conditions, howsoever such amounts may be described or re-characterised by any court or arbitral tribunal.

SUMMARY OF PROVISIONS RELATING TO THE CERTIFICATES WHILE IN GLOBAL FORM

Initial Issue of Registered Certificates

The Global Certificate will be registered in the name of a nominee (the "**Registered Holder**") for a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") and may be delivered on or prior to the original issue date of the Certificates.

Upon the registration of the Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Certificates equal to the nominal amount thereof for which it has subscribed and paid.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") as the holder of a Certificate represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Trustee to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Trustee in respect of payments due on the Certificates for so long as the Certificates are represented by the Global Certificate and such obligations of the Trustee will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

Exchange

The following will apply in respect of transfers of Certificates held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Certificates within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Certificates may be withdrawn from the relevant clearing system.

Transfers of the holding of Certificates represented by the Global Certificate pursuant to Condition 2 may only be made in part:

(a) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(b) upon the occurrence of a Dissolution Event; or

(c) with the consent of the Trustee,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph (i) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

Amendment to Conditions

The Global Certificate contains provisions that apply to the Certificates that it represents, some of which modify the effect of the terms and conditions of the Certificates set out in this Offering Circular. The following is a summary of certain of those provisions:

(a) Payments

All payments in respect of Certificates represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

(b) *Meetings*

For the purposes of any meeting of Certificateholders, the holder of the Certificates represented by the Global Certificate shall (unless the Global Certificate represents only one Certificate) be treated as two persons for the purposes of any quorum requirements of a meeting of Certificateholders and as being entitled to one vote for every U.S.$1,000 of Certificates.

(c) *Delegate's Powers*

In considering the interests of Certificateholders while the Global Certificate is held on behalf of, or registered in the name of any nominee for, a clearing system, the Delegate may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Certificates represented by the Global Certificate.

Electronic Consent and Written Resolution

While any Global Certificate is registered in the name of any nominee for a clearing system, then, in respect of any resolution proposed by the Obligor, the Trustee or the Delegate:

(a) where the terms of the resolution proposed by the Obligor, the Trustee or the Delegate (as the case may be) have been notified to the Certificateholders through the relevant clearing system(s) as provided in paragraphs i. and/or ii. below, each of the Trustee, the Obligor and the Delegate shall be entitled to rely upon approval of such resolution given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing System(s) to the Principal Paying Agent or another specified agent and/or the Delegate in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Certificates outstanding (the "**Required Proportion**") (an "**Electronic Consent**" as defined in the Trust Deed) by close of business on the Relevant Date. Any resolution passed in such manner shall be binding on all Certificateholders even if the relevant consent or instruction proves to be defective. None of the Obligor, the Trustee or the Delegate shall be liable or responsible to anyone for such reliance. An Electronic Consent shall take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held, and shall be binding on all Certificateholders whether or not they participated in such Electronic Consent;

    (i) when a proposal for a resolution to be passed as an Electronic Consent has been made, at least 10 days' notice (exclusive of the day on which the notice is given and of the day on which affirmative consents will be counted) shall be given to the Certificateholders through the relevant clearing system(s). The notice shall specify, in sufficient detail to enable Certificateholders to give their consents in relation to the proposed resolution, the method by which their consents may be given (including, where applicable, blocking of their accounts in the relevant clearing system(s)) and the time and date (the "**Relevant Date**") by which they must be received in order for such consents to be validly given, in each case subject to and in accordance with the operating rules and procedures of the relevant clearing system(s); and

    (ii) if, on the Relevant Date on which the consents in respect of an Electronic Consent are first counted, such consents do not represent the Required Proportion, the resolution shall, if the party proposing such resolution (the "**Proposer**") so determines, be deemed to be defeated. Such determination shall be notified in writing to the other party or parties to the Trust Deed. Alternatively, the Proposer may give a further notice to Certificateholders that the resolution will be proposed again on such date and for such period as shall be agreed with the Delegate (unless the Delegate is the Proposer). Such notice must inform Certificateholders that insufficient consents were received in relation to the original resolution and the information specified in paragraph (i) above. For the purpose of such further notice, references to "**Relevant Date**" shall be construed accordingly, and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Obligor, the Trustee and the Delegate shall be entitled to rely on consent or instructions given in writing directly to the Obligor, the Trustee and/or the Delegate, as the case may be, (i) by accountholders in the clearing system with entitlements to such Global Certificate and/or, (ii) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Obligor, the Trustee and the Delegate shall be entitled to rely on any certificate or document issued by, in the case of (i) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the "**Relevant Clearing System**") and, in the case of (ii) above, the Relevant Clearing System and the accountholder identified by the Relevant Clearing System for the purposes of (ii) above. Any resolution passed in such manner shall be binding on all Certificateholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print-out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Certificates is clearly identified together with the amount of such holding. None of the Obligor, the Trustee or the Delegate shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The proceeds of the Certificates will be applied by the Trustee in the following proportion: (a) not less than 51 per cent. of the aggregate face amount of the Certificates as the aggregate of the purchase price for the Real Estate Assets pursuant to the Purchase Agreement; and (b) not more than 49 per cent. of the aggregate face amount of the Certificates for the purchase of commodities to be sold to the Obligor pursuant to the Murabaha Agreement. All such amounts shall be receivable by the Obligor and will be applied by the Obligor for general corporate purposes.

DESCRIPTION OF THE TRUSTEE

General

GFH Sukuk Company Limited, an exempted company with limited liability, was incorporated on 4 December 2019 under the Companies Law (as amended) of the Cayman Islands with company registration number 357986. The Trustee has been established for the sole purpose of issuing the Certificates and entering into the transactions contemplated by the Transaction Documents. The registered office of the Trustee is at c/o Walkers Fiduciary Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008 Cayman Islands, and its telephone number is +1 345 814 7600.

The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 ordinary shares of U.S.$ 1.00 each, of which 250 shares have been issued as at the date of this Offering Circular. All of the issued shares (the "**Shares**") are fully-paid and are held by Walkers Fiduciary Limited as share trustee (the "**Share Trustee**") under the terms of the Share Trust Deed under which the Share Trustee holds the Shares on trust until the Termination Date (as defined in the Share Trust Deed). Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power to benefit one or more Charities (as defined in the Share Trust Deed). It is not anticipated that any distribution will be made whilst any Certificate is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to the Charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from its holding of the Shares.

Business of the Trustee

The Trustee is a newly incorporated entity and, as at the date of this Offering Circular, has not commenced business and does not have any substantial assets or liabilities. The Trustee will not have any substantial liabilities other than in connection with the Certificates and any further certificates issued pursuant to the terms and conditions of the Certificates. The Certificates are the obligations of the Trustee alone and not the Share Trustee.

The objects for which the Trustee is established are unrestricted and the Trustee has full power and authority to carry out any object not prohibited by all relevant Cayman Islands laws (all as set out in clause 3 of its Memorandum of Association as registered on 4 December 2019).

Financial Statements

Since the date of incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

Directors of the Trustee

The Directors of the Trustee are as follows:

Name	Principal Occupation
Gennie Bigord	Vice President, Walkers Fiduciary Limited
Michael Byrne	Assistant Vice President, Walkers Fiduciary Limited

The business address of Gennie Bigord is c/o Walkers Fiduciary Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands.

The business address of Michael Byrne is c/o Walkers (Dubai) LLP, Level 14, Burj Daman, Dubai International Financial Centre, PO Box 506513, Dubai, United Arab Emirates.

Other than in their capacities as employees and officers of the Trustee Administrator, there are no potential conflicts of interest between the private interests or other duties of the Directors listed above and their duties to the Trustee. None of the Directors listed above has been convicted of any criminal offence or been the subject of any public incrimination sanctions, bankruptcy, receivership or liquidation proceedings.

The Trustee Administrator

Walkers Fiduciary Limited also acts as the corporate administrator of the Trustee (in such capacity, the "**Trustee Administrator**"). The office of the Trustee Administrator serves as the registered office of the Trustee. Through the office, and pursuant to the terms of the Corporate Services Agreement, the Trustee Administrator has agreed to perform in the Cayman Islands or such other jurisdiction as may be agreed by the parties from time to time various corporate functions on behalf of the Trustee and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Trustee Administrator will receive various fees payable by the Trustee or the Obligor on behalf of the Trustee at rates agreed upon from time to time, plus expenses.

The terms of the Corporate Services Agreement provide that either the Trustee or the Trustee Administrator may terminate such agreements upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement provide that either party shall be entitled to terminate such agreements by giving at least three months' notice in writing to the other party.

The Trustee Administrator will be subject to the overview of the Trustee's Board of Directors. The Trustee Administrator's principal office is c/o Walkers Fiduciary Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands.

The Directors of the Trustee are all employees or officers of the Trustee Administrator or an affiliate thereof. The Trustee has no employees and is not expected to have any employees in the future.

SELECTED FINANCIAL INFORMATION

All financial information relating to 2018, 2017 and 2016 in this section, except for the financial information contained in the section below titled "Re-presented financial information", is original and has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Annual Financial Statements and should also be read in conjunction with "Financial review".

See also "Presentation of financial and other information" for a discussion of the sources of the numbers contained in this section as well as an explanation of the changes in presentation of the Group's statement of financial position and income statement in 2019.

All information in this section as at, and relating to the nine month periods ended, 30 September 2019 and 30 September 2018 is unaudited, has been extracted from the Interim Financial Statements (except for the financial information contained in the section below titled "Re-presented financial information") and should be read in conjunction with "Financial review". Interim results are not necessarily indicative of the results that may be expected for a full year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The table below shows the Group's consolidated statement of financial position as at 30 September 2019.

	As at 30 September 2019
	(*U.S.$ thousand*)
Assets	
Cash and bank balances	401,873
Treasury portfolio	1,655,850
Financing assets	1,316,727
Real estate investments	1,815,757
Proprietary investments	276,527
Co-investments	74,352
Assets held for sale	101,213
Receivables and prepayments	471,368
Property and equipment	24,584
Total assets	**6,138,251**
Liabilities	
Clients' funds	74,469
Placements from financial, non-financial institutions and individuals	2,675,375
Customer current accounts	169,432
Term financing	268,016
Liabilities directly associated with assets held for sale	39,936
Payables and accruals	526,902
Total liabilities	**3,754,130**
Equity of investment account holders	**971,485**

Owners' equity	
Share capital	975,638
Treasury shares	(47,158)
Statutory reserve	117,301
Investment fair value reserve	(4,909)
Foreign currency translation reserve	(36,655)
Retained earnings	67,039
Share grant reserve	1,198
Total equity attributable to shareholders of the Bank	**1,072,454**
Non-controlling interests	314,786
Non-controlling interests held for sale	25,396
Total owners' equity	**1,412,636**
Total liabilities, equity of investment account holders and owners' equity	**6,138,251**

The table below shows the Group's consolidated statement of financial position as at 31 December in each of 2018, 2017 and 2016.

	As at 31 December		
	2018(1)	**2017**	**2016**
		(*U.S.$ thousand*)	
Assets			
Cash and bank balances	341,567	216,445	156,448
Placements with financial institutions	289,558	95,569	213,898
Financing assets	920,676	992,502	961,490
Investment securities	773,134	521,408	527,203
Assets acquired for leasing	288,271	257,806	246,257
Investment property	523,692	616,263	488,436
Development properties	1,316,318	893,037	280,972
Equity accounted investees	66,964	81,440	79,010
Assets held for sale	147,141	—	—
Intangible assets	—	—	54,891
Property and equipment	92,902	117,135	169,153
Other assets	229,142	318,852	125,643
Total assets	**4,989,365**	**4,110,457**	**3,303,401**
Liabilities			
Investors' funds	46,639	39,413	44,565
Placements from financial institutions, other entities and individuals	1,628,389	858,496	570,515
Customer current accounts	177,906	189,607	192,783
Financing liabilities	256,137	365,062	168,992
Liabilities directly associated with assets held for sale	42,749	—	—
Other liabilities	517,857	255,733	182,649
Total liabilities	**2,669,677**	**1,708,311**	**1,159,504**
Equity of investment account holders	**896,910**	**906,353**	**1,022,190**
Owners' equity			
Share capital	975,638	975,638	597,995
Share premium	—	3,058	—

Treasury shares	(85,424)	(58,417)	(340)
Capital adjustment account	—	—	24,320
Statutory reserve	92,483	105,893	93,768
Fair value reserve	(4,725)	—	—
Foreign currency translation reserve	(43,380)	—	—
Retained earnings	123,136	122,825	191,379
Share grant reserve	1,086	1,026	902
Total equity attributable to shareholders of the Bank	**1,058,814**	**1,150,023**	**908,024**
Non-controlling interests	323,408	345,770	213,683
Non-controlling interests held for sale	40,556	—	—
Total owners' equity	**1,422,778**	**1,495,793**	**1,121,707**
Total liabilities, equity of investment account holders and owners' equity	**4,989,365**	**4,110,457**	**3,303,401**

Note:
(1) Reflects the adoption of FAS 30. Prior periods have not been restated.

CONSOLIDATED INCOME STATEMENT

The table below shows the Group's consolidated income statement for each of the nine month periods ended 30 September in 2019 and 2018.

	Nine months ended 30 September	
	2019	**2018**
	(*U.S.$ thousand*)	
Continuing operations		
Investment banking income		
Asset management	2,007	1,766
Deal-related income	77,012	31,600
	79,019	**33,366**
Commercial banking income		
Income from financing	61,416	50,857
Treasury and investment income	21,240	16,549
Fee and other income	13,526	5,393
Less: return to investment account holders	(29,615)	(16,782)
Less: finance expense	(14,143)	(16,566)
	52,424	**39,451**
Income from proprietary and co-investments		
Direct investment income, net	10,371	17,906
Restructuring-related income	29,406	35,300
Dividend from co-investments	1,607	721
	41,384	**53,927**
Real estate income		
Development and sale	18,012	4,912
Rental and operating income	1,901	2,087
	19,913	**6,999**
Treasury and other income		
Finance income	18,094	663
Dividend and gain/(loss) on treasury investments	30,881	1,270
Other income, net	12,308	69,622
	61,283	**71,555**
Total income	**254,023**	**205,298**
Operating expenses	70,209	70,966
Finance expense	84,669	24,836
Impairment allowances	28,433	9,455
Total expenses	**183,311**	**105,257**
Profit from continuing operations	70,712	100,041
(Loss)/profit from assets held for sale and discontinued operations, net	(467)	4,619
Profit for the period	**70,245**	**104,660**
Profit for the period attributable to:		
Shareholders of the bank	73,562	103,438
Non-controlling interests	(3,317)	1,222

The table below shows the Group's consolidated income statement for each of 2018, 2017 and 2016.

	2018	2017	2016
		(*U.S.$ thousand*)	
Continuing operations			
Income from investment banking activities	40,100	121,294	3,322
Fees and commission income	7,989	6,631	15,399
Income from placements with financial institutions	3,980	3,177	1,818
Income from financing assets and assets acquired for leasing	72,799	73,377	70,148
Share of profits of equity accounted investees, net	3,161	(248)	846
Income from investment securities, net	33,725	11,313	3,888
Foreign exchange gain, net	1,252	4,050	(2,424)
Income from settlement of liabilities	113,147	—	—
Gain on sale of investment property	—	—	46,082
Other income, net	55,472	48,211	8,820
Income before return to investment account holders and finance expense	**331,625**	**267,805**	**147,899**
Return to investment account holders before Group's share as mudarib	(37,731)	(39,480)	(43,200)
Bank's share as mudarib	14,904	19,726	24,219
Return to investment account holders	**(22,827)**	**(19,754)**	**(18,981)**
Less: finance expense	(62,585)	(43,692)	(23,437)
Operating income	**246,213**	**204,359**	**105,481**
Income from settlement of litigation	—	—	464,567
Total income	**246,213**	**204,359**	**570,048**
Staff cost	(53,135)	(40,914)	(53,964)
Investment advisory expenses	(14,477)	(8,778)	(16,504)
Other operating expenses	(49,477)	(49,387)	(49,072)
Total expenses	**(117,089)**	**(99,079)**	**(119,540)**
Profit before impairment allowances	**129,124**	**105,280**	**450,508**
Less: impairment allowances, net	(17,614)	(9,381)	(221,112)
Profit for the year from continuing operations	**111,510**	**95,899**	**229,396**
Discontinued operations			
Profit from operations of non-banking subsidiaries, net	3,539	7,289	3,652
Profit for the year	**115,049**	**103,188**	**233,048**
Profit for the year attributable to:			
Shareholders of the bank	114,076	104,182	217,125
Non-controlling interests	973	(994)	15,923

CONSOLIDATED STATEMENT OF CASH FLOWS

The table below summarises the Group's consolidated statement of cash flows for each of nine-month periods ended 30 September 2019 and 2018.

	Nine months ended 30 September	
	2019	**2018**
	(*U.S.$ thousand*)	
Net cash generated from operating activities	804,438	255,148
Net cash used in investing activities	(391,472)	(10,877)
Net cash used in financing activities	(108,156)	(197,787)
Net increase/(decrease) in cash and cash equivalents	304,810	46,484
Cash and cash equivalents at 1 January	397,620	256,887
Cash and cash equivalents at 30 September	702,430	303,371

The table below summarises the Group's consolidated statement of cash flows for each of 2018, 2017 and 2016.

	2018	**2017**	**2016**
		(*U.S.$ thousand*)	
Net cash generated from operating activities	466,375	93,139	163,733
Net cash (used in)/from investing activities	(129,133)	(98,668)	13,642
Net cash used in financing activities	(196,509)	(50,156)	(59,263)
Net increase/(decrease) in cash and cash equivalents	140,733	(55,685)	118,112
Cash and cash equivalents at 1 January	256,887	312,572	194,460
Cash and cash equivalents at 31 December	397,620	256,887	312,572

SELECTED CONSOLIDATED RATIOS AND APMs

The table below shows selected consolidated ratios for the Group as at, and for the nine months ended, 30 September in each of 2019 and 2018 and as at, and for the years ended, 31 December in each of 2018, 2017 and 2016.

The table below also contains information relating to APMs. APMs are presented in this Offering Circular because the Group considers them an important supplemental measure of the Group's operating performance and financial position and the Group believes they provide investors with certain information that they routinely use to analyse prospective investments and, in the case of its capital and leverage ratios, that is important to understanding its capital and leverage position, particularly in light of regulatory requirements to maintain these ratios above prescribed minimum levels. With the exception of the Group's total capital ratio, none of the information in the table below has been audited or reviewed by the Auditors. See further "*Presentation of financial and other information—Presentation of financial information—Certain non-IFRS financial information*".

The table below shows selected consolidated ratios for the Group as at, and for the years ended, 31 December in each of 2018, 2017 and 2016. Save where expressly disclosed in the notes, the ratios for 2018, 2017 and 2016 are calculated using original financial information.

	As at/nine months ended, 30 September		**As at/years ended 31 December**		
	2019	**2018**	**2018**	**2017**	**2016**
			(*per cent.*)		
Performance measures					
Return on average assets[1]	1.32	2.42	2.51	2.81	7.29
Return on average equity[2]	6.90	9.24	10.33	10.12	27.26
Cost to income ratio[3]	60.97	46.67	47.56	48.48	20.97
Financial ratios					
Net profit margin[4]	27.65	50.98	46.73	50.49	40.88
Asset quality					
Impaired financing assets ratio[5]	N.A	N.A	20.89	17.95	15.15
Financing assets coverage ratio[6] ...	N.A	N.A	27.37	41.20	73.92
Liquid assets to total assets ratio[7] .	32.41	17.04	22.10	13.77	15.57
Financing to deposits ratio[8]	1.15	1.09	1.12	1.14	0.99
Other ratios					
CET 1 capital adequacy ratio[9]	13.90	17.18	14.55	16.01	24.96
Tier 1 capital adequacy ratio[9]	14.02	17.32	14.67	16.10	24.96
Total capital adequacy ratio[9]	14.48	17.85	15.16	17.38	25.23
Leverage ratio[10]	18.23	25.70	22.44	31.06	29.85

Notes:

(1) Profit for the period or year attributable to shareholders of the Bank divided by average assets for the period or year, with average assets calculated as the sum of assets for the period or year end and period beginning divided by two.

(2) Profit for the period or year attributable to shareholders of the Bank divided by average equity attributable to shareholders of the Bank for the period or year, with average shareholders' equity calculated as the sum of shareholders' equity for the period or year end and period beginning divided by two.

(3) Total expenses excluding impairments allowances divided by total income.

(4) Profit for the period or year attributable to shareholders of the Bank divided by total income for the period or year.

(5) Impaired financing assets (identified in note 38(a) to the 2018 Financial Statements as the aggregate of grade 8-10 impaired financing facilities and grade 8-10 impaired assets acquired for leasing (including lease rentals receivable) in the first table in that note and identified in note 36(a) to the 2017 Financial Statements as the aggregate of the gross amount of financing assets and the gross amount of assets acquired for leasing (including lease rent receivables) in the first two tables) as a percentage of total gross financing assets (identified in note 38(a) to the 2018 Financial Statements as the aggregate of the gross carrying amounts of financing facilities and assets acquired for leasing

(including lease rentals receivable) in the first table in that note and identified in note 36(a) to the 2017 Financial Statements as the aggregate of the total- carrying amount of financing assets plus (i) the allowance for impairment and (ii) the collective impairment and the total – carrying amount of assets acquired for leasing (including lease rent receivables) plus (i) the allowance for impairment and (ii) the collective impairment in the first two tables).

(6) Impairment allowances for financing assets (identified in note 38(a) to the 2018 Financial Statements as the aggregate of the expected credit losses for financing facilities and assets acquired for leasing (including lease rentals receivable) in the first table in that note and identified in note 36(a) to the 2017 Financial Statements as the aggregate of the allowance for impairment and the collective impairment for both financing assets and assets acquired for leasing (including lease rent receivables) in the first two tables as a percentage of impaired financing assets (calculated as described in note 5 above).

(7) Sum of cash and cash balances and treasury portfolio reduced by the restricted bank balances and placements with financial institutions divided by total assets. The ratios for 2018, 2017 and 2016 are all calculated using Re-presented financial information.

(8) Financing assets (identified in note 9) divided by sum of customer current accounts and balance of Equity investment account holders.

(9) Calculated in accordance with CBB requirements, based on the principles of Basel III and the Islamic Finance Services Board guidelines.

(10) Calculated as Total CET1 capital divided by sum of on balance sheet and off balance sheet exposures.

RE-PRESENTED FINANCIAL INFORMATION

The following information, which relates only to the nine-month period ended 30 September 2018 and the years ended 31 December in each of 2018, 2017 and 2016, is re-presented and should be read in conjunction with "Financial review".

See also "Presentation of financial and other information" for a discussion of the sources of the numbers contained in this section as well as an explanation of the changes in presentation of the Group's statement of financial position and income statement in 2019.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The table below shows the Group's consolidated statement of financial position as at 31 December in each of 2018, 2017 and 2016 on a re-presented basis.

	As at 31 December		
	2018	**2017**	**2016**
		(*U.S.$ thousand*)	
Assets			
Cash and bank balances	341,567	216,446	156,448
Treasury portfolio	818,000	396,225	410,593
Financing assets	1,208,947	1,250,306	1,207,747
Real estate investments	1,840,010	1,509,300	769,408
Proprietary investments	234,012	263,197	258,714
Co-investments	77,644	38,996	150,805
Assets held for sale	147,141	-	-
Receivables and prepayments	229,142	318,852	125,643
Intangible assets	-	-	54,891
Property and equipment	92,902	117,135	169,153
Total assets	**4,989,365**	**4,110,457**	**3,303,401**
Liabilities			
Clients' funds	46,639	39,413	44,565
Placements from financial, non-financial institutions and individuals	1,628,389	858,494	570,515
Customer current accounts	177,906	189,607	192,783
Term financing	256,137	365,063	168,992
Liabilities directly associated with assets held for sale	42,749	-	-
Payables and accruals	517,857	255,737	182,649
Total liabilities	**2,669,677**	**1,708,314**	**1,159,504**
Equity of investment account holders	**896,910**	**906,354**	**1,022,190**
Owners' equity			
Share capital	975,638	975,638	597,995
Share premium	-	3,058	-
Treasury shares	(85,424)	(58,417)	(340)
Capital adjustment account	—	—	24,320
Statutory reserve	117,301	105,893	93,768
Investment fair value reserve	(4,725)	—	—
Foreign currency translation reserve	(43,380)	—	—
Retained earnings	98,318	122,825	191,379

Share grant reserve	1,086	1,026	902
Total equity attributable to shareholders of the Bank	**1,058,814**	**1,150,023**	**908,024**
Non-controlling interests	323,408	345,776	213,683
Non-controlling interests held for sale	40,556	—	—
Total owners' equity	**1,422,778**	**1,495,789**	**1,121,707**
Total liabilities, equity of investment account holders and owners' equity	**4,989,365**	**4,110,457**	**3,303,401**

CONSOLIDATED INCOME STATEMENT

The table below shows the Group's consolidated income statement for each of 2018, 2017 and 2016 on a re-presented basis.

	2018	2017	2016
		(*U.S.$ thousand*)	
Continuing operations			
Investment banking income			
Asset management	2,571	1,840	7,807
Deal-related income	40,100	121,294	3,322
	42,671	**123,134**	**11,129**
Commercial banking income			
Income from financing	70,465	72,459	69,490
Treasury and investment income	23,126	10,202	11,452
Fee and other income	7,633	7,132	4,061
Less: return to investment account holders	(22,817)	(19,754)	(18,981)
Less: finance expense	(23,051)	(11,829)	(7,461)
	55,357	**58,209**	**58,561**
Income from proprietary and co-investments			
Direct investment income, net	34,482	1,320	(6,563)
Restructuring-related income	113,147	—	—
Dividend from co-investments	1,094	1,561	385
	148,723	**2,881**	**(6,178)**
Real estate income			
Development and sale	5,851	18,000	46,082
Rental and operating income	2,523	2,516	1,142
	8,374	**20,516**	**47,224**
Treasury and other income			
Finance income	3,779	2,078	770
Dividend and gain/(loss) on treasury investments	2,122	—	1,166
Other income, net	24,732	29,404	473,352
	30,633	**31,482**	**475,288**
Total income	**285,758**	**236,222**	**586,024**
Operating expenses	117,090	99,079	119,540
Finance expense	39,545	31,863	15,976
Impairment allowances	17,613	9,381	221,112
Total expenses	**174,247**	**140,323**	**356,628**
Profit from continuing operations	**111,511**	**95,899**	**229,396**
(Loss)/profit from assets held for sale and discontinued operations, net	3,539	7,289	3,652
Profit for the year	**115,050**	**103,188**	**233,048**
Profit for the year attributable to:			
Shareholders of the bank	114,076	104,182	217,125
Non-controlling interests	973	(994)	15,923

CONSOLIDATED SEGMENTAL FINANCIAL INFORMATION

The table below provides summary income statement financial information in relation to each reportable segment for the nine month period ended 30 September 2018.

	Real estate development	Investment banking	Commercial banking	Corporate and treasury	Total
			(*U.S.$ thousand*)		
Nine months ended 30 September 2018............					
Segment revenue[(1)]	6,999	61,003	39,450	102,456	209,917
Segment expenses..........	(14,141)	(27,539)	(33,573)	(30,004)	(105,257)
Segment result[(2)]	(7,142)	33,464	5,877	72,461	104,660

Notes:

(1) Segment revenue comprises the total income of the Group.

(2) Includes segment result of discontinued operations.

The table below provides summary financial information in relation to each reportable segment for each of 2018, 2017 and 2016.

	Real estate development	Investment banking	Commercial banking	Corporate and treasury	Total
			(*U.S.$ thousand*)		
2018					
Segment revenue[(1)]	8,374	46,210	51,234	182,947	288,765
Segment expenses..........	(28,354)	(28,354)	(49,641)	(67,366)	(173,715)
Segment result[(2)]	(19,980)	17,856	1,593	115,581	115,050
Segment assets..............	1,775,469	447,162	2,246,159	520,576	4,989,366
Segment liabilities	456,067	266,553	817,529	1,129,528	2,669,677
2017					
Segment revenue[(1)]	20,516	123,134	56,085	43,775	243,510
Segment expenses..........	(21,215)	(21,215)	(44,815)	(53,078)	(140,322)
Segment result[(2)]	(699)	101,919	11,270	(9,303)	103,188
Segment assets..............	1,439,894	431,689	2,071,510	167,364	4,110,457
Segment liabilities	255,493	265,045	776,471	411,305	1,708,314
2016					
Segment revenue[(1)]	46,839	11,129	63,376	473,554	594,898
Segment expenses..........	(18,758)	(18,758)	(68,522)	(255,812)	(361,850)
Segment result[(2)]	28,081	(7,629)	(5,146)	217,742	233,048
Segment assets..............	707,732	513,238	2,012,401	70,030	3,303,401
Segment liabilities	168,992	199,532	644,145	146,835	1,159,504

Notes:

(1) Segment revenue comprises the total income of the Group.

(2) Includes segment result of discontinued operations.

FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with the information set out in "Presentation of financial and other information", "Selected financial information" (in the case of information as at, and for the nine months ended, 30 September in each of 2019 and 2018 and in the case of cash flow financial information and any other information identified as "original" in this section), "Re-presented financial information" (in the case of all other financial information) and the Financial Statements.

The discussion of the Group's financial condition and results of operations is based upon the Financial Statements which have been prepared in accordance with FAS issued by AAOIFI. This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Offering Circular, particularly under the headings "Cautionary statement regarding forward-looking statements" and "Risk factors".

See "Presentation of financial and other information" for a discussion of the source of the numbers presented in this section and certain other relevant information.

All information in this section as at, and relating to the nine month periods ended, 30 September 2019 and 30 September 2018 is unaudited. Interim results are not necessarily indicative of the results that may be expected for a full year.

OVERVIEW

The Group is a financial group headquartered in Bahrain and operating in the GCC region with a diversified offering and a track record of identifying, successfully bringing to market and capitalising on a range of Islamic investment opportunities. Since the Group's inception in 1999, GFH has raised over U.S.$10 billion of assets and funds under management from its wide client base.

The Group currently operates across four business lines:

- investment banking, which principally invests its own and client's funds in yielding real estate assets in the US and the UK and makes private equity investments focused on defensive sectors such as education, healthcare and technology;
- commercial banking, which represents the activities of KHCB, a 55.41 per cent. owned and fully consolidated Group company;
- real estate development, where the Group is focused on achieving profitable exits from a number of large ongoing projects; and
- treasury operations and proprietary investments, which manages the Group's treasury portfolio of placements with financial institutions, structured notes and sukuk investments on a revenue generating basis as well as its proprietary investments.

In the last decade, the Group's strategy has seen it transform into a financial group with a sound financial base and a well-diversified model that has established strong revenue generating business lines. The Group's diversification has focused on ensuring that it is able to effectively exploit opportunities across diverse assets classes as well as sectors and regions with high potential, including its home market of the GCC as well as the wider MENA region, India, Europe and the US.

PRINCIPAL SOURCES OF REVENUE

The Group's principal sources of revenue in each period under review are discussed below.

Investment banking income

The Group's investment banking income comprises both deal related income and asset management income. The Group's deal related income comprises both fee income related to private equity and real estate investment banking transactions for its clients and gains recorded by it in relation to its retained share of investments syndicated to its clients. The Group's asset management income is derived from management fees charged by it.

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

The Group's investment banking income has varied significantly in the periods under review.

Commercial banking income

The Group's commercial banking income comprises the aggregate of (i) income from financing (being the profit income earned by KHCB on financing transactions), (ii) treasury and investment income (being the income generated by KHCB on its portfolio of treasury placements with financial institutions and dividend income from the KHCB's equity investments, realised gains or losses on sales by KHCB of its investments, changes in the fair value of sukuk carried by KHCB at FVTIS and income from sukuk held by KHCB) and (iii) fee and other income (being the fees and other income earned by KHCB) less (iv) return to investment account holders (being the return that KHCB pays to its investment account holders) and (v) finance expense (which principally comprises KHCB's cost of deposits and medium-term financing raised).

The Group's financing assets comprise *Shari'a*-compliant financing contracts with fixed or determinable payments. These include financing provided through murabaha, musharaka, istisna and wakala contracts. Income from the Group's murabaha and wakala contracts is recognised on a time-apportioned basis over the period of the contract using the effective profit method. Profit or losses in respect of the Group's share in musharaka financing transactions that commence and end during a single financial period is recognised in the income statement at the time of 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 the profit sharing ratio as stipulated in the musharaka agreement.

The Group's assets acquired for leasing (ijarah muntahia bittamleek) comprise finance lease assets. 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. Income from these assets is recognised proportionately over the lease term.

Income from proprietary and co-investments

The Group's income from proprietary and co-investments comprises (i) direct investment income, net (which represents the net gains or losses and other income its records from its proprietary investments in listed equities or other projects typically offered to it by third parties and which it does not syndicate to its clients), (ii) restructuring related income (which represents non-recurring income and is described under "*Principal factors affecting results of operations—Non-recurring transactions*" below) and (iii) dividend from co-investments (which represents dividend income received from its equity accounted investees).

Real estate income

The Group's real estate income comprises (i) development and sale income (which represents the income recorded by the Group on a percentage of completion basis in relation to sales made of units in its ongoing real estate development projects) and (ii) rental and operating income (which is derived from its investment property portfolio). The Group currently has two real estate development projects on which it is recognising revenue, being Harbour Row and Villamar. These and certain other significant real estate projects being undertaken by the Group are described under "*Description of the Group—Business—Real estate development*".

Treasury and other income

The Group's treasury and other income comprises (i) finance income (being income earned by the Group (other than KHCB) on its finance income generating assets such as its cash and bank balances), (ii) dividend and gain/loss on treasury investments (reflecting dividend income from the Group's equity investments, realised gains or losses on sales of investments, changes in the fair value of sukuk carried at FVTIS and income from sukuk (in all cases other than that relating to investment securities held by KHCB) and (iii) its net other income derived from miscellaneous sources.

PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

The following is a discussion of the principal factors that have affected, or are expected to affect, the Group's results of operations.

Non-recurring transactions

The Group experienced a number of significant non-recurring transactions in the periods under review that have affected the amount of income recorded by it in those years.

Nine months ended 30 September 2019

During the nine months ended 30 September 2019, the Group agreed to settle a liability of U.S.$56 million which it owed to a service provider in cash and by transferring a 40 per cent. shareholding in a subsidiary engaged in hospitality management. The carrying value of the settlement consideration transferred by the Group was less than the carrying value of the liability it owed and, as a result, the difference was recognised as restructuring-related income in the Interim Financial Statements. As the former subsidiary is now jointly managed between the service provider and the Group based on contractual arrangement between them, this resulted in the Group ceasing to solely control the investee and the carrying value of its retained 60 per cent. investment is now recognised as an equity-accounted investee and included under proprietary investments in the Group's balance sheet as at 30 September 2019.

2018

In 2018, the Group recorded U.S.$113 million in income from:

- the settlement of a U.S.$203 million sukuk liability with a financial institution at a lower amount, resulting in a gain of U.S.$77.8 million (net of associated costs). This settlement was in the form of both cash and the transfer of a non cash asset, in roughly equal proportions; and
- in 2016, as part of total recoveries made by the Group under the litigation settlements described below, the Group acquired the holding company of a master developer for a project in Bahrain under administration and insolvency proceedings which had net liabilities at the time of the settlement. Subsequently, the Group restructured the liabilities of the company and negotiated settlements with its creditors through a court administered process. This process was completed in 2018 resulting in the company being taken out of administration and returned to the Group. The court judgment confirmed the final amounts due to each creditor and a U.S.$35.3 million difference between the previously recognised liability/provisions and the court approved amounts were reversed to the income statement as they were no longer required.

In 2018, the Group also acquired additional shares in two other companies, Falcon Cement Company BSC and Sheffield Dubai Investment Company, resulting in both companies becoming consolidated as subsidiaries in 2018. The Group acquired both entities with the intention of selling them within 12 months. As a result, the assets, liabilities and non-controlling interests relating to both entities were classified as "held-for-sale" as at 31 December 2018. Sheffield Dubai Investment Company was sold in June 2019 and Falcon Cement Company BSC remained as an asset held for sale at 30 September 2019.

2017

In 2017, the Group sold its entire investment in a Bahrain-based educational institution held through two subsidiaries which it had acquired in 2016 as part of the settlement referred to below. The sale of the subsidiaries resulted in a gain of U.S.$81 million which was recorded as income from investment banking activities in the 2017 Financial Statements and re-presented as income from proprietary investments in the Re-presented Financial Information.

2016

In 2016, the Group agreed a full and final out of court settlement in relation to a number of court cases in connection with previous investment transactions and dealings in which it was involved as plaintiff or defendant. This resulted in the Group receiving development properties, investment properties, unquoted equity securities, equity accounted investees and subsidiaries, as disclosed in note 18(ii) to the 2017 Financial Statements. The fair values of the assets acquired, which were determined by independent external professional firms using a combination of market and income approaches, as appropriate for each asset, amounted to U.S.$465 million, which was recorded as "Income from the settlement of litigation" in the Group's income statement for 2016 and re-presented as income from proprietary investments in the Re-presented Financial Information.

Significant impairment allowances in 2016

In 2016, the Group recorded impairment allowances of U.S.$221 million compared to impairment allowances of U.S.$9 million in 2017, U.S.$18 million in 2018 and U.S.$28 million in the nine months ended 30 September 2019. The substantial impairment allowances in 2016 principally addressed historical asset quality concerns with GFH and reflected management's resolve to write down remaining legacy and, to a lesser extent, new problem assets. All impaired exposures under U.S.$2.5 million were written off in their entirety.

IMPLEMENTATION OF FAS 30

Methodology prior to 1 January 2018

Prior to 1 January 2018, the Group assessed at each reporting date whether there was objective evidence that an exposure subject to credit risk was impaired. Such evidence could include default or delinquency by a borrower, restructuring of a financing facility or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer would enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment.

For financial assets carried at amortised cost, such as financing assets, sukuk and other receivables, impairment was measured as the difference between the carrying amount of the financial assets and the present value of its estimated cash flows discounted at the asset's original effective profit rate. Losses were recognised in income statement and reflected in an allowance account. When a subsequent event caused the amount of impairment loss to decrease, the impairment loss was reversed through the income statement. Recovery of written off financial assets was credited to the impairment charge for the year. The Group considered evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level.

All individually significant financial assets were assessed for specific impairment. All individually significant financial assets found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified. Financial assets that were not individually significant were collectively assessed for impairment by grouping together assets with similar risk characteristics.

For investments in equity securities classified as fair value through equity ("**FVTE**") and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost was an objective evidence of impairment. The Group considered a decline of 30 per cent. to be significant and a period of nine months to be prolonged for this purpose. If any such evidence existed, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement) was removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of a reliable measure of fair value, the Group assessed whether there was objective evidence of impairment for each investment by assessing financial and other operating and economic indicators. Impairment was recognised if the estimated recoverable amount was below the carrying value of the investment.

Methodology since 1 January 2018

Since 1 January 2018, and following its adoption of FAS 30, the Group recognises loss allowances for ECLs on:

- bank balances;
- placements with financial institutions;
- financing assets;
- assets acquired for leasing and lease rental receivables;
- investments in sukuk;
- other receivables; and
- undrawn financing commitments and financial guarantee contracts issued.

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

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

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

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

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

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB or higher based on Standard & Poor's rating methodology.

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

Stage 1: 12-months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Lifetime ECL - credit impaired

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

Measurement of ECLs

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

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

ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

Credit-impaired exposures

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

Evidence that an exposure is credit-impaired includes the following observable data:

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

Presentation of allowance for ECL in the statement of financial position

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

SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with FAS issued by AAOIFI. For a discussion of the significant accounting policies applied by the Group generally, see note 4 to the 2018 Financial Statements.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

In preparing the Group's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements. For a discussion of the most significant accounting estimates, judgments and assumptions made in the preparation of the Group's financial statements, see note 5 to the 2018 Financial Statements, which identifies a number of factors.

RESULTS OF OPERATIONS

Nine month periods ended 30 September 2019 and 30 September 2018 compared

Total income from continuing operations

The Group’s total income from continuing operations principally comprises:

- investment banking income;
- commercial banking income;
- income from proprietary and co-investment securities;
- real estate income; and
- treasury and other income,

each as discussed under “*Principal sources of revenue*” above.

The table below summarises the breakdown of the Group’s total income from continuing operations in each of the nine month periods ended 30 September 2019 and 30 September 2018.

	Nine months ended 30 September	
	2019	**2018**
	(*U.S.$ thousand*)	
Investment banking income		
Asset management	2,007	1,766
Deal-related income	77,012	31,600
	79,019	33,366
Commercial banking income		
Income from financing	61,416	50,857
Treasury and investment income	21,240	16,549
Fee and other income	13,526	5,393
Less: Return to investment account holders	(29,615)	(16,782)
Less: Finance expense	(14,143)	(16,566)
	52,424	39,451

Income from proprietary and co-investments.........................		
Direct investment income, net...	10,371	17,906
Restructuring-related income	29,406	35,300
Dividend from co-investments	1,607	721
	41,384	53,927
Real estate income		
Development and sale...	18,012	4,912
Rental and operating income	1,901	2,087
	19,913	6,999
Treasury and other income		
Finance income...	18,094	663
Dividend and net gain on treasury investments...........................	30,881	1,270
Other income, net	12,308	69,622
	61,283	71,555
Total income..	**254,023**	205,298

The Group's total income from continuing operations in the nine months ended 30 September 2019 amounted to U.S.$254 million compared to U.S.$205 million in the corresponding period of 2018.

The increase of U.S.$49 million, or 23.9 per cent., principally reflected increased investment banking income, commercial banking income and real estate income which was partly offset by lower income from proprietary and co-investments and lower treasury and other income, each as further discussed below.

During the nine months ended 30 September 2019, investment banking contributed 31.1 per cent. of the total income of the Group, treasury activities contributed 24.1 per cent., commercial banking contributed 20.6 per cent., proprietary and co-investments contributed 16.3 per cent. and real estate contributed 7.9 per cent.

Investment banking income

The Group's investment banking income in the nine months ended 30 September 2019 amounted to U.S.$79 million compared to U.S.$33 million in the corresponding period of 2018, an increase of U.S.$46 million, or 136.8 per cent. This increase was driven by deal-related income which increased by U.S.$45 million, reflecting a higher number of transactions closed in the 2019 period.

Commercial banking income

The Group's commercial banking income in the nine months ended 30 September 2019 amounted to U.S.$52 million compared to U.S.$39 million in the corresponding period of 2018, an increase of U.S.$13 million, or 32.9 per cent. This increase reflected increases in all commercial banking income streams, principally driven by an increase in KHCB's financing portfolio and its proprietary investments in sukuk issued by regional issuers, as well as a small decrease in finance expenses and was partly offset by higher returns paid to investment account holders.

Income from proprietary and co-investments

The Group's income from proprietary and co-investments in the nine months ended 30 September 2019 amounted to U.S.$41 million compared to U.S.$54 million in the corresponding period of 2018, a decline of U.S.$13 million, or 24.1 per cent. This decline reflected U.S.$8 million lower net direct investment income, driven by income from the sale of assets in the 2018 period compared to no similar sale in the 2019 period, and U.S.$6 million lower restructuring income. See "*—Principal factors affecting results of operations—Non-recurring transactions*" above for a discussion of the Group's restructuring income in each period.

Real estate income

The Group's real estate income in the nine months ended 30 September 2019 amounted to U.S.$20 million compared to U.S.$7 million in the corresponding period of 2018, an increase of U.S.$13 million, or 185.7 per cent. This increase was driven by development and sale income which increased by U.S.$13 million, reflecting higher unit sales and greater percentage of completion on the Group's Harbour Row project in the 2019 period.

Treasury and other income

The Group's treasury and other income in the nine months ended 30 September 2019 amounted to U.S.$61 million compared to U.S.$72 million in the corresponding period of 2018, a decline of U.S.$11 million, or 14.4 per cent. This decline was driven by U.S.$57 million lower net other income principally as a result of U.S.$67 million income from the first two non-recurring transactions in the 2018 period discussed under "*—Principal factors affecting results of operations—Non-recurring transactions*" above which more than offset increases of U.S.$17 million in finance income (which reflected higher income from inter-bank placements) and U.S.$30 million in dividends and gain/loss on treasury investments (which reflected more liquid assets in the treasury portfolio).

Total expenses from continuing operations

The Group's total expenses from continuing operations comprise operating expenses, finance expenses and impairment allowances. The Group's total expenses amounted to U.S.$183 million in the nine months ended 30 September 2019 compared to U.S.$105 million in the corresponding period of 2018, an increase of U.S.$78 million, or 74.3 per cent.

This increase principally reflected a U.S.$60 million increase in finance costs which correlates to the higher money market funds raised by the Group and used to increase its treasury portfolio (as to which, see "*—Liquidity and funding—Funding—Placements from financial, non financial institutions and individuals*" below) and a U.S.$19 million increase in impairment provisions in the commercial banking business at KHCB continued to build provisions against financing assets advanced in the period before the Group re-acquired control of KHCB.

Profit from continuing operations

Reflecting the above factors, the Group's profit from continuing operations amounted to U.S.$71 million in the nine months ended 30 September 2019 compared to U.S.$100 million in the corresponding period of 2018, a decline of U.S.$29 million, or 29.0 per cent.

Loss/profit from assets held for sale and discontinued operations, net

In the nine months ended 30 September 2019, the Group's net loss from discontinued operations amounted to U.S.$0.5 million compared to a net profit of U.S.$4.6 million in the corresponding period of 2018.

Profit for the period

Reflecting the above factors, the Group's profit for the nine month period ended 30 September 2019 amounted to U.S.$70 million compared to U.S.$105 million in the corresponding period of 2018, a decline of U.S.$35 million, or 33.3 per cent.

2018, 2017 and 2016 compared

All financial information in this sub-section is re-presented information derived from the Re-presented Financial Information. See "Presentation of financial and other information".

Total income from continuing operations

The table below summarises the breakdown of the Group's total income from continuing operations in each of 2018, 2017 and 2016.

	2018	2017	2016
		(*U.S.$ thousand*)	
Continuing operations			
Investment banking income			
Asset management	2,571	1,840	7,807
Deal-related income	40,100	121,294	3,322
	42,671	**123,134**	**11,129**
Commercial banking income			
Income from financing	70,465	72,459	69,490
Treasury and investment income	23,126	10,202	11,452
Fee and other income	7,633	7,132	4,061
Less: return to investment account holders	(22,817)	(19,754)	(18,981)
Less: finance expense	(23,051)	(11,829)	(7,461)
	55,357	**58,209**	**58,561**
Income from proprietary and co-investments			
Direct investment income, net	34,482	1,320	(6,563)
Restructuring-related income	113,147	-	-
Dividend from co-investments	1,094	1,561	385
	148,723	**2,881**	**(6,178)**
Real estate income			
Development and sale	5,851	18,000	46,082
Rental and operating income	2,523	2,516	1,142
	8,374	**20,516**	**47,224**
Treasury and other income			
Finance income	3,779	2,078	770
Dividend and gain/(loss) on treasury investments	2,122	-	1,166
Other income, net	24,732	29,404	473,352
	30,633	**31,482**	**475,288**
Total income	**285,758**	**236,222**	**586,024**

The Group's total income from continuing operations in 2018 amounted to U.S.$286 million compared to U.S.$236 million in 2017 and U.S.$586 million in in 2016.

The increase of U.S.$50 million, or 21.2 per cent., in 2018 principally reflected increased income from proprietary and co-investments, which was partly offset by lower investment banking income, real estate income and commercial banking income, each as further discussed below.

The decline of U.S.$350 million, or 59.7 per cent., in 2017 principally reflected lower treasury and other income coupled with lower real estate and commercial banking which was partly offset by higher investment banking income and income from proprietary and co-investments, each as further discussed below.

During 2018, income from proprietary and co-investments contributed 52.0 per cent. of the total income of the Group, commercial banking income contributed 19.4 per cent., treasury and other income contributed 10.7 per cent., investment banking income contributed 14.9 per cent. and real estate income contributed 2.9 per cent.

During 2017, investment banking income contributed 52.1 per cent. of the total income of the Group, commercial banking income contributed 24.6 per cent., income from proprietary and co-investments contributed 1.2 per cent., real estate income contributed 8.7 per cent. and treasury and other income contributed 13.3 per cent.

During 2016, treasury and other income contributed 81.1 per cent. of the total income of the Group, commercial banking income contributed 10.0 per cent., real estate income contributed 8.1 per cent., investment banking income contributed 1.9 per cent. and income from proprietary and co-investments contributed negative 1.1 per cent.

Investment banking income

The Group's investment banking income in 2018 amounted to U.S.$43 million compared to U.S.$123 million in 2017 and U.S.$11 million in 2016, a decline of U.S.$80 million, or 65.0 per cent., in 2018 and an increase of U.S.$112 million in 2017. In both years the change was driven by deal-related income which was U.S.$40 million in 2018, U.S.$121 million in 2017 and U.S.$3 million in 2016. The significantly higher deal-related income in 2017 reflected non-recurring sales of private equity subsidiaries which resulted in a gain of U.S.$81 million as described under "*—Principal factors affecting results of operations—Non-recurring transactions*" above, with the balance being derived from other investment products. Excluding the non-recurring transaction in 2017, the Group's income from investment banking would have been U.S.$41 million compared to U.S.$40 million in 2018.

Commercial banking income

The Group's commercial banking income in 2018 amounted to U.S.$55 million compared to U.S.$58 million in 2017 and U.S.$59 million in 2016, a decline of U.S.$3 million, or 5.2 per cent., in 2018 and a decline of U.S.$1 million, or 1.7 per cent., in 2017. The major changes in 2018 were a U.S.$13 million increase in treasury and investment income as a result of higher investment in sukuk in 2018 which was offset by a U.S.$11 million increase in finance expense as a result of higher deposits accepted by KHCB. In addition, income from financing fell by U.S.$2 million, or 2.8 per cent., and return to investment account holders (which is a deduction from income) increased by U.S.$3 million, or 15.5 per cent. The decline in 2017 principally reflected a U.S.$4 million increase in finance expenses as a result of higher deposits accepted by KHCB which was offset by higher earnings in financing by U.S.$3 million.

Income from proprietary and co-investments

The Group's income from proprietary and co-investments in 2018 amounted to U.S.$149 million compared to U.S.$3 million in 2017 and negative U.S.$6 million in 2016, an increase of U.S.$146 million, or 4866.7 per cent., in 2018 and an increase of U.S.$9 million, or 150.0 per cent., in 2017. The increase in 2018 reflected U.S.$113 million of restructuring income in 2018 compared to no equivalent income in 2017. The Group's restructuring income in 2018 is described under "*—Principal factors affecting results of operations—Non-recurring transactions*" above. The increase in 2017 reflected an increase of U.S.$17 million in net direct investment income which was driven by operating income from the direct investments acquired in 2016 as part of the litigation settlement described in "*—Principal factors affecting results of operations—Non-recurring transactions*" above.

Real estate income

The Group's real estate income in 2018 amounted to U.S.$8 million compared to U.S.$21 million in 2017 and U.S.$47 million in 2016, a decline of U.S.$13 million, or 61.9 per cent., in 2018 and a decline of U.S.$26 million, or 55.3 per cent., in 2017. The decline in 2018 was driven by development and sale income which fell by U.S.$12 million, reflecting the fact that in 2017 the Group had recorded a U.S.$18 million gain from a real estate sale transaction with a related party with no comparable transaction being entered into in 2018. The decline in 2017 was also driven by development and sale income which fell by U.S.$28 million, reflecting higher gains in 2016 which principally related to the sale of a large land plot in Bahrain. This fall was partly offset by a U.S.$1 million increase in rental and operating income in 2017.

Treasury and other income

The Group's treasury and other income in 2018 amounted to U.S.$31 million compared to U.S.$31 million in 2017 and U.S.$475 million in 2016, a decline of U.S.$444 million, or 93.5 per cent. in 2017. The decline in 2017 almost entirely reflected the fact that in 2016 the Group recorded income from the settlement of litigation amounting to U.S.$465 million, see "*—Principal factors affecting results of operations—Non-recurring transactions*" above.

Total expenses from continuing operations

The Group's total expenses from continuing operations amounted to U.S.$174 million in 2018 compared to U.S.$140 million in 2017 and U.S.$357 million in 2016, an increase of U.S.$34 million, or 24.3 per cent., in 2018 and a decline of U.S.$217 million, or 60.8 per cent., in 2017.

The increase in 2018 principally reflected a U.S.$18 million increase in operating expenses coupled with increases of U.S.$8 million in impairment allowances and U.S.$8 million in finance expense. The decline in 2017 principally reflected a U.S.$212 million fall in impairment allowances coupled with a U.S.$20 million fall in operating expenses, which were partly offset by a U.S.$16 million increase in finance expense.

Operating expenses

The Group's operating expenses amounted to U.S.$117 million in 2018 compared to U.S.$99 million in 2017 and U.S.$120 million in 2016, an increase of U.S.$18 million, or 18.2 per cent., in 2018 and a decline of U.S.$21 million, or 17.5 per cent., in 2017.

The increase in 2018 principally reflected:

- a U.S.$12 million, or 29.3 per cent., increase in staff costs from U.S.$41 million in 2017 to U.S.$53 million in 2018 which principally reflected an increase in the staffing across the Group along with compensation for senior management redundancies and retirements; and
- a U.S.$6 million, or 64.9 per cent., increase in investment advisory expenses from U.S.$9 million in 2017 to U.S.$14 million in 2018 which principally reflected higher due diligence costs reflecting the higher number of transactions undertaken in 2018 compared to 2017.

The decline in 2017 principally reflected:

- a U.S.$13 million, or 31.7 per cent., fall in staff costs from U.S.$54 million in 2016 to U.S.$41 million in 2017 which principally reflected a decline in the staff incentives which were higher in 2016 due to a bonus paid in recognition of the efforts of senior management in connection with the litigation recoveries; and
- a U.S.$8 million, or 13.8 per cent., fall in other operating expense from U.S.$66 million in 2016 to U.S.$58 million in 2017 which principally reflected additional legal and due diligence costs incurred in 2016 in connection with the litigation that was settled in that year as discussed under "*—Principal factors affecting results of operations—Non-recurring transactions*" above .

Finance expense

The Group's finance expense amounted to U.S.$40 million in 2018 compared to U.S.$32 million in 2017 and U.S.$16 million in 2016, an increase of U.S.$8 million, or 25.0 per cent., in 2018 and an increase of U.S.$16 million, or 100.0 per cent., in 2017. The increases in each year principally reflected increased money market funding (principally in the form of placements from financial institutions) raised by the treasury business line and is correlated to an increase in related liabilities.

Impairment allowances

The Group's impairment allowances, net amounted to U.S.$18 million in 2018 compared to U.S.$9 million in 2017 and U.S.$221 million in 2016, an increase of U.S.$9 million, or 50.0 per cent., in 2018 and a decline of U.S.$212 million, or 95.9 per cent., in 2017.

The table below shows the breakdown of the Group's impairment allowances in each of 2018, 2017 and 2016.

	2018	**2017**	**2016**
		(U.S.$ thousand)	
Bank balances	132	—	—
Placements with financial institutions	948	—	—
Financing assets	9,398	2,085	38,300

Investment securities			
Equity securities	5,849	3,577	61,041
Debt type securities	(265)	1,050	867
Investment property	—	2,095	11,600
Equity accounted investees	—	—	36,464
Financing to projects	—	—	51,500
Lease rental receivables	1,923	460	626
Other receivables	(80)	114	20,714
Commitments and financial guarantees	(291)	—	—
Total impairment allowances	**17,614**	**9,381**	**221,112**

The increase in the Group's net charge for impairment allowances in 2018 was driven by a U.S.$7 million, or 350.7 per cent., increase in the impairment allowance for financing assets. This reflected a charge of U.S.$14 million for Stage 3 exposures under FAS 30 and write backs of U.S.$1 million and U.S.$3 million, respectively, for Stage 1 and Stage 2 exposures as exposures migrated to higher stages. In 2017, the Group's net charge for specific impairment allowances for financing assets amounted to U.S.$2 million.

In 2016, the Group's net charge for impairment allowances principally comprised:

- U.S.$61 million in respect of unquoted equity securities classified at fair value through equity. These principally comprise investments in companies carrying out real estate and infrastructure development projects in different countries, which the Group plans to exit when circumstances permit. The impairment allowance in 2016 (and a further U.S.$4 million impairment allowance recognised in 2017) was based on management's assessment of the current market conditions, the marketability of the investments and the assessment of recoverable amounts;
- U.S.$52 million in respect of financing provided by the Group's to its infrastructure projects;
- U.S.$38 million in respect of financing assets, which was driven by a U.S.$36 million specific impairment allowance in respect of financing advanced by the commercial banking business;
- U.S.$36 million in respect of equity accounted investees, which related to the Group's investments in a Libyan and Syrian investee, which are both fully impaired reflecting the political situation in those countries;
- U.S.$21 million in respect of other receivables, which related to certain past due receivables of the Group from historic investment banking transactions; and
- U.S.$12 million in relation to investment property, which related to fair value changes affecting the Group's land plots in the GCC.

The significant litigation recovery in 2016 provided an opportunity for the group to address historic asset quality concerns and enabled management to write down all remaining legacy and, to a lesser extent, new problem assets. All impaired exposures under U.S.$2.5 million were written off in their entirety.

Profit from continuing operations

Reflecting the above factors, the Group's profit from continuing operations amounted to U.S.$112 million in 2018 compared to U.S.$96 million in 2017 and U.S.$229 million in 2016, an increase of U.S.$16 million, or 16.7 per cent., in 2018 and a decline of U.S.$133 million, or 58.1 per cent., in 2017.

Profit from assets held for sale and discontinued operations, net

The Group's net profit from discontinued operations amounted to U.S.$3.5 million in 2018 compared to U.S.$7.3 million in 2017 and U.S.$3.7 million in 2016.

Profit for the period

Reflecting the above factors, the Group's profit for 2018 amounted to U.S.$115 million compared to U.S.$103 million in 2017 and U.S.$233 million in 2016, an increase of U.S.$12 million, or 11.7 per cent., in 2018 and a decline of U.S.$130 million, or 55.8 per cent., in 2017.

OPERATING SEGMENTS

For financial reporting purposes, in the nine month period ended 30 September 2019, the Group had four reportable segments which corresponded to its four strategic business units in that period and for each of 2018, 2017 and 2016 the Group had three reportable segments which corresponded to its three strategic business units in those years. Each strategic business unit offers different products and services. The Group manages its strategic business units separately because they have different strategies for management and resource allocation.

The Group's reportable segments in each period under review were:

- **Investment Banking**, which has been a reportable segment in all periods under review and focuses on private equity and asset management. The private equity activities include the acquisition of interests in unlisted or listed businesses with a view to their subsequent sale at a profit. The asset management unit is responsible for identifying and managing investments in yielding real estate in the target markets of the GCC. Other investment banking activities include providing structuring capabilities in Islamic asset-backed and equity capital markets, Islamic financial advisory and in relation to mid-sized merger and acquisition transactions.

- **Commercial Banking**, which has been a reportable segment in all periods under review and includes commercial and corporate banking, retail banking, wealth management, structured investment products and project financing facilities provided by the Group's commercial banking subsidiary.

- **Real Estate Development**, which has been a reportable segment in all periods under review and is involved in the origination and management of large-scale infrastructure projects. The business unit also manages the Group's investment in real estate and related assets.

- **Corporate and Treasury**, which became a reportable segment in the nine months ended 30 September 2019 and which represents GFH's liquidity management operations, including its fund raising and investment activities to earn a commercial profit margin.

As GFH grew its money market activities during 2018 and 2019, management changed its description and presentation of the statement of financial position and the income statement to better align them with the various revenue generating activities of the Group and to enhance disclosures to enable users have a better understanding of the activities and financial performance of the Group. In addition, management established a new reporting segment, Corporate and Treasury, to reflect the enhanced money market activities.

The performance of each strategic business unit is measured based on segment results and reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results are used to measure performance as management believes that this information is most relevant in evaluating the results of certain segments relative to other entities that operate within the same 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 each strategic business unit as segment revenue and segment expenses, respectively. Indirect costs are allocated based on cost drivers/factors that can be identified with the segment and/ or related activities. Internal management reports are designed to reflect revenue and cost for each segment which are measured against budgeted figures. Unallocated revenue, expenses, assets and liabilities relate to entity-wide corporate activities and treasury activities at the Group level.

Nine month periods ended 30 September 2019 and 30 September 2018

The information under this heading for the nine month period ended 30 September 2019 is original information derived from the Interim Financial Statements. The information under this heading for the nine month period ended 30 September 2018 is re-presented information derived from the Re-presented Financial Information.

The table below provides summary income statement financial information in relation to each reportable segment for each of the nine month periods ended 30 September 2019 and 30 September 2018.

	Investment banking	**Commercial banking**	**Real estate development**	**Corporate and treasury**	**Total**
			(*U.S.$ thousand*)		
Nine months ended 30 September 2019					
Segment revenue[(1)]	133,207	52,425	19,699	48,692	254,023
Segment expenses..........	(50,979)	(52,453)	(20,633)	(59,713)	(183,778)
Segment result[(2)]	82,228	(28)	(934)	(11,021)	70,245
Nine months ended 30 September 2018...........					
Segment revenue[(1)]	61,003	39,450	6,999	102,456	209,917
Segment expenses..........	(27,539)	(33,573)	(14,141)	(30,004)	(105,257)
Segment result[(2)]	33,464	5,877	(7,142)	72,461	104,660

Notes:

(1) Segment revenue comprises the total income of the Group.

(2) Includes segment result of discontinued operations.

Investment banking reporting segment

The investment banking reporting segment recorded segment revenue of U.S.$133 million in the nine months ended 30 September 2019 compared to U.S.$61 million in corresponding period of 2018, an increase of U.S.$72 million, or 118.0 per cent. This increase reflected an increase in the number of structuring transactions closed during the 2019 period.

The investment banking reporting segment recorded segment profit of U.S.$82 million in the nine months ended 30 September 2019 compared to U.S.$33 million in the corresponding period of 2018, an increase of U.S.$49 million, or 148.5 per cent. This increase principally reflected higher segment revenue which was partly offset by the higher segment expenses associated with the increased number of transactions in the 2019 period.

Commercial banking reporting segment

The commercial banking reporting segment recorded segment revenue of U.S.$52 million in the nine months ended 30 September 2019 compared to U.S.$39 million in the corresponding period of 2018, an increase of U.S.$13 million, or 33.3 per cent. This increase reflected an overall increase in the performance of KHCB's financing portfolio along with better returns from investments.

The commercial banking reporting segment recorded a segment loss of U.S.$28 thousand in the nine months ended 30 September 2019 compared to a segment profit of U.S.$6 million in the corresponding period of 2018. The small segment loss in the 2019 period reflected the fact that the increase in revenue was more than offset by an increase in expenses, with the increase in expenses being driven by an increase in customer deposits at higher rates.

Real estate development reporting segment

The real estate development reporting segment recorded segment revenue of U.S.$20 million in nine months ended 30 September 2019 compared to U.S.$7 million in the corresponding period of 2018, an increase of U.S.$13 million, or 185.7 per cent. This increase was driven by development and sale income which increased by U.S.$13 million, reflecting higher unit sales and greater percentage completion in the Harbour Row project.

The real estate development reporting segment recorded a segment loss of U.S.$1 million in the nine months ended 30 September 2019 compared to a segment loss of U.S.$7 million in the corresponding period of 2018. The smaller segment loss in the 2019 period reflected the fact that the segment's revenue increased by more than its expenses.

Corporate and treasury reporting segment

The corporate and treasury reporting segment recorded segment revenue of U.S.$49 million in nine months ended 30 September 2019 compared to U.S.$102 million in the corresponding period of 2018, a decline of U.S.$53 million, or 52.5 per cent. This decline was driven by a non-recurring transaction amounting to U.S.$67 million in the 2018 period, see "*—Principal factors affecting results of operations—Non-recurring transactions*" above.

The corporate and treasury reporting segment recorded a segment loss of U.S.$11 million in the nine months ended 30 September 2019 compared to a segment profit of U.S.$72 million in the corresponding period of 2018. The segment loss in the 2019 period reflected increases in both revenue and expenses, with the increase in expenses being driven by finance costs associated with the treasury portfolio.

2018, 2017 and 2016

The information under this heading is re-presented information derived from the Re-presented Financial Information.

The table below provides summary income statement financial information in relation to each reportable segment for each of 2018, 2017 and 2016.

	Investment banking	Commercial banking	Real estate development	Corporate and treasury	Total
			(U.S.$ thousand)		
2018					
Segment revenue[(1)]	46,210	51,234	8,374	182,947	288,765
Segment expenses.............	(28,354)	(49,641)	(28,354)	(67,366)	(173,715)
Segment result[(2)]	17,856	1,593	(19,980)	115,581	115,050
2017.................................					
Segment revenue[(1)]	123,134	56,085	20,516	43,775	243,510
Segment expenses.............	(21,215)	(44,815)	(21,215)	(53,078)	(140,322)
Segment result[(2)]	101,919	11,270	(699)	(9,303)	103,188
2016					
Segment revenue[(1)]	11,129	63,376	46,839	473,554	594,898
Segment expenses.............	(18,758)	(68,522)	(18,758)	(255,812)	(361,850)
Segment result[(2)]	(7,629)	(5,146)	28,081	217,742	233,048

Notes:

(1) Segment revenue comprises the total income of the Group.

(2) Includes segment result of discontinued operations.

Investment banking reporting segment

The investment banking reporting segment recorded segment revenue of U.S.$46 million in 2018 compared to U.S.$123 million in 2017 and U.S.$11 million in 2016, a decline of U.S.$77 million, or 62.6 per cent., in 2018 and an increase of U.S.$112 million.

The decline in segment revenue in 2018 and the increase in segment revenue in 2017 both principally reflected a non-recurring gain of U.S.$81 million on sales of private equity subsidiaries, see "—*Principal factors affecting results of operations—Non-recurring transactions*" above.

The investment banking reporting segment recorded segment profit of U.S.$18 million in 2018 compared to U.S.$102 million in 2017 and a segment loss of U.S.$8 million in 2016, a decline of U.S.$84 million, or 82.4 per cent., in 2018.

The decline in segment profit in 2018 principally reflected lower segment revenue coupled with increased segment expenses compared to 2017. The segment loss recorded in 2016 principally reflected the segment expenses exceeded the relatively small amount of segment revenue recorded in 2016

Commercial banking reporting segment

The commercial banking reporting segment recorded segment revenue of U.S.$51 million in 2018 compared to U.S.$56 million in 2017 and U.S.$63 million in 2016, a decline of U.S.$5 million, or 8.6 per cent., in 2018 and a decline of U.S.$7 million, or 11.1 per cent., in 2017.

The decline in segment revenue in each of 2018 and 2017 principally reflected softening market conditions for the commercial banking sector in Bahrain.

The commercial banking reporting segment recorded segment profit of U.S.$2 million in 2018 compared to U.S.$11 million in 2017 and a segment loss of U.S.$5 million in 2016, a decline of U.S.$9 million, or 81.8 per cent., in 2018.

The decline in segment profit in 2018 principally reflected lower segment revenue and higher segment expenses, with the increased expenses driven by increased impairment allowances compared to 2017. The segment loss recorded in 2016 principally reflected its high segment impairment allowances which principally related to the legacy financing book and certain non-performing investments.

Real estate development reporting segment

The real estate development reporting segment recorded segment revenue of U.S.$8 million in 2018 compared to U.S.$21 million in 2017 and U.S.$47 million in 2016, a decline of U.S.$13 million, or 61.9 per cent., in 2018 and a decline of U.S.$26 million, or 55.3 per cent., in 2017.

The decline in segment revenue in 2018 reflected the partial sale of a real estate development to a related party for U.S.$18 million in 2017. The decline in segment revenue in 2017 reflected U.S.$46 million income from the sale of land plots in Bahrain in 2016.

The real estate development reporting segment recorded a segment loss of U.S.$20 million in 2018 compared to U.S.$1 million in 2017 and a segment profit of U.S.$28 million in 2016. The segment loss in 2018 principally reflected the fact that there were no material sale transactions in that year to offset the recurring segment expenses.

Corporate and Treasury reporting segment

The corporate and treasury reporting segment recorded segment revenue of U.S.$183 million in 2018 compared to U.S.$44 million in 2017 and U.S.$474 million in 2016, an increase of U.S.$139 million, or 315.9 per cent., in 2018 and a decline of U.S.$430 million, or 90.7 per cent., in 2017.

The corporate and treasury reporting segment revenue in 2018 and 2016 includes significant income from settlement of liabilities and the settlement of litigation, respectively. The segment results reflect the segment revenues, with segment expenses in 2016 being increased as the Group took the opportunity to increase impairment allowances to write off remaining legacy and, to a lesser extent, new problem assets. Reflecting the fact that the revenue from the litigation settlement was all attributed to the corporate and treasury segment, all of the increased impairment allowances were also attributed to that segment.

LIQUIDITY AND FUNDING

Overview

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. Projected cash outflows include underwriting of investments, funding real estate development, operating expenses and repaying financing facilities. 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 through longer term funding to address any structural liquidity requirements.

Cash flow

The information under this heading is original information derived from the Financial Statements.

The table below summarises the Group's cash flow from operating activities, investing activities and financing activities for the nine month periods ended 30 September in each of 2019 and 2018.

	Nine months ended 30 September	
	2019	**2018**
	(U.S.$ thousand)	
Net cash generated from operating activities	804,438	255,148
Net cash used in investing activities	(391,472)	(10,877)
Net cash used in financing activities	(108,156)	(197,787)
Net increase in cash and cash equivalents	304,810	46,484
Cash and cash equivalents at 1 January	397,620	256,887
Cash and cash equivalents at 30 September	702,430	303,371

The table below summarises the Group's cash flow from operating activities, investing activities and financing activities for each of 2018, 2017 and 2016.

	2018	**2017**	**2016**
		(U.S.$ thousand)	
Net cash generated from operating activities	466,375	93,139	163,733
Net cash (used in)/generated from investing activities	(129,133)	(98,668)	13,642
Net cash used in financing activities	(196,509)	(50,156)	(59,263)
Net (decrease)/increase in cash and cash equivalents	140,733	(55,685)	118,112
Cash and cash equivalents at 1 January	256,887	312,572	194,460
Cash and cash equivalents at 31 December	397,620	256,887	312,572

Operating cash flow

The Group's net cash inflow from operating activities before changes in operating assets and liabilities amounted to U.S.$21 million in the nine months ended 30 September 2019 compared to U.S.$42 million in the corresponding period of 2018. These amounts principally reflect the Group's profit for the period adjusted to (i) deduct non-cash income such as certain income from investment banking activities and investment securities and restructuring-related income) and (ii) add back non-cash expenses (such as finance expense and impairment allowances).

The Group's net cash generated from operating activities was U.S.$804 million in the nine months ended 30 September 2019 compared to U.S.$255 million in the corresponding period of 2018.

The Group's net cash inflow from operating activities before changes in operating assets and liabilities amounted to U.S.$31 million in 2018 compared to U.S.$42 million in 2017 and a net cash outflow of U.S.$49 million in 2016. These amounts principally reflect the Group's profit for the year adjusted to (i) deduct non-cash income such as certain income from investment banking activities and investment securities and income from the settlement of liabilities and litigation) and (ii) add back non-cash expenses (such as finance expense and impairment allowances).

The Group's net cash generated from operating activities was U.S.$466 million in 2018 compared to U.S.$93 million in 2017 and U.S.$164 million in 2016.

Investing cash flow

The Group's net cash used in investing activities was U.S.$391 million for the nine months ended 30 September 2019 compared to U.S.$11 million for the corresponding period of 2018. In the 2019 period, the Group's cash outflow related to the net purchase of treasury portfolio securities amounted to U.S.$419 million and was partly offset by a cash inflow of U.S.$38 million from the sale of investments in real estate. In the 2018 period, the Group's cash outflows from the net purchase of treasury portfolio securities and the net purchase of proprietary investments together amounted to U.S.$118 million and were substantially offset by cash inflows of U.S.$105 million from the sale of a subsidiary and U.S.$21 million in dividends received.

The Group's net cash used in investing activities was U.S.$129 million in 2018 compared to U.S.$99 million in 2017 and net cash generated from investing activities of U.S.$14 million in 2016.

The Group's investing cash flow principally reflects cash used in or received from the purchase, redemption and sale of investment securities (which resulted in net cash outflows of U.S.$217 million in 2018, U.S.$168 million in 2017 and U.S.$2 million in 2016) and, in 2018 and 2017, cash inflows of U.S.$105 million and U.S.$54 million, respectively, from the sale of private equity subsidiaries.

Financing cash flow

The Group's net cash used in financing activities was U.S.$108 million in the nine months ended 30 September 2019 compared to U.S.$198 million in the corresponding period of 2018. In the 2019 period, the Group's principal financing cash outflows were U.S.$67 million in financing expense paid, U.S.$30 million in dividends paid and U.S.$12 million in the purchase of treasury shares, which were partly offset by a U.S.$11 million cash inflow from net financing liabilities. In the 2018 period, the Group's principal financing cash outflows were U.S.$76 million in dividends paid, U.S.$57 million in net financing liabilities, U.S.$34 million in financing expense paid and U.S.$31 million in the purchase of treasury shares.

The Group's net cash used in financing activities was U.S.$197 million in 2018 compared to U.S.$50 million in 2017 and U.S.$59 million in 2016.

In 2018, the Group's principal financing cash outflows were U.S.$76 million in dividends paid, U.S.$56 million in financing expense and U.S.$55 million in the purchase of treasury shares. In 2017, the Group's principal financing cash outflows were U.S.$65 million in the purchase of treasury shares, U.S.$60 million in dividends paid, U.S.$36 million in financing expense and U.S.$15 million on the acquisition of an additional shareholding in a subsidiary, which were partially offset by a net cash inflow of U.S.$126 million from financing raised. In 2016, the Group's principal financing cash outflows were a net U.S.$42 million in financing repaid and U.S.$21 million in financing expense. The Group did not pay any dividends in 2016.

Funding

The Group's sources of funding in each period under review comprised its placements from financial, non-financial institutions and individuals, its term financing, its customer current accounts and its clients' funds.

The Group also has a portfolio of investment securities, including equity securities and quoted investments in sukuk, that it can access to meet liquidity needs, in addition to its cash and bank balances.

The table below shows the Group's funding as at 30 September 2019 and as at 31 December in each of 2018, 2017 and 2016.

	As at 30 September	As at 31 December		
	2019	2018	2017	2016
	(*U.S.$ thousand*)			
Placements from financial, non-financial institutions, and individuals	2,675,375	1,628,389	858,496	570,515
Term financing	268,016	256,137	365,062	168,992
Customer current accounts	169,432	177,906	189,607	192,783
Clients' funds	74,469	46,639	39,413	44,565
Total funding	**3,187,292**	**2,109,071**	**1,452,578**	**976,855**

Placements from financial, non financial institutions and individuals

The Group's placements from financial, non-financial institutions and individuals 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. These included U.S.$84 million of funds placed by a non-financial entity in Iran which are subject to blocked by international sanctions regulations.

The Group's placements from financial, non-financial institutions and individuals comprised 83.9 per cent. of its funding as at 30 September 2019, 77.2 per cent. as at 31 December 2018, 59.1 per cent. as at 31 December 2017 and 58.4 per cent. as at 31 December 2016. The significant increase in proportion in 2018 principally reflected the receipt of money market funds as part of the enhanced treasury business of the Group.

The Group's placements from financial, non-financial institutions and individuals are generally short-term in nature. The table below shows the maturity profile of the Group's placements from financial institutions, other entities and individuals as at 31 December in each of 2018, 2017 and 2016 based on contractual maturity. This financial information is original. No equivalent information as at 30 September 2019 is disclosed in the Interim Financial Statements.

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
	(*U.S.$ thousand*)					
As at 31 December 2018	283,914	422,702	688,949	221,562	11,262	1,628,389
As at 31 December 2017	277,506	74,468	212,150	290,958	3,414	858,496
As at 31 December 2016	168,087	37,125	209,354	151,394	4,555	570,515

As at 31 December 2018, 17.4 per cent. of the Group's placements from financial institutions, other entities and individuals had a contractual maturity of less than three months and 85.7 per cent. had a contractual maturity of less than one year.

As at 31 December 2018, 55.3 per cent. of the Group's placements from financial institutions, other entities and individuals were from banks and financial institutions and 94.1 per cent. were geographically concentrated on the GCC countries.

Term financing

The Group's term financing comprised 8.4 per cent. of its funding as at 30 September 2019, 12.1 per cent. as at 31 December 2018, 25.1 per cent. as at 31 December 2017 and 17.3 per cent. as at 31 December 2016.

The table below shows the Group's term financing as at 30 September 2019 and as at 31 December in each of 2018, 2017 and 2016. The split between current and non-current portion is not disclosed in the Interim Financial Statements.

	As at 30 September	As at 31 December		
	2019	2018	2017	2016
		(*U.S.$ thousand*)		
Murabaha financing	196,158	40,852	153,899	—
Wakala financing	—	24,797	54,167	66,959
Sukuk liability	—	—	25,364	50,059
Ijarah financing	25,182	26,628	15,607	16,571
Other borrowings	46,676	163,860	116,025	35,403
	268,016	**256,137**	**365,062**	**168,992**
Current portion		197,054	145,687	45,210
Non-current portion		59,083	219,375	123,782

As at 30 September 2019, the Group's murabaha financing comprised:

- a U.S.$10.3 million facility for a period of three years. This murabaha financing is secured by a pledge over the Group's investment in shares of KHCB and matures in 2020;
- a U.S.$14 million facility obtained for general corporate purposes for a period of five years. The facility is secured by a pledge on Group's investment in shares of KHCB and matures in 2022;
- a U.S.$1.8 million facility obtained for general corporate purposes for a period of three years. The facility is secured against Group's investment in KHCB shares matures in 2020;
- a U.S.$13.4 million facility obtained for general corporate purposes for a period of six months. The facility is secured against shares;
- other murabaha financings aggregating U.S.$5.3 million; and
- short-term and medium-term facilities of U.S.$676 million, of which U.S.$198 million were drawn and secured by a pledge over sukuk and Islamic notes. As at 30 September 2019, the Group had U.S.$478 million of committed but unused drawings available under these facilities.

The Group's ijarah facility was obtained from a financial institution in 2016 to part finance the acquisition of an investment property for U.S.$25.2 million. It is repayable over a period of eight years.

Customer current accounts

The Group's customer current accounts represent balances in current (non-investment) accounts maintained with KHCB.

The Group's customer current accounts comprised 5.3 per cent. of its funding as at 30 September 2019, 8.4 per cent. as at 31 December 2018, 13.1 per cent. as at 31 December 2017 and 19.7 per cent. as at 31 December 2016.

Clients' funds

The Group's clients' funds represent funds relating to projects established and promoted by the Group and placed with the Group pending their disbursement to the projects concerned. Clients' funds are carried at amortised cost.

The Group's clients' funds comprised 2.3 per cent. of its funding as at 30 September 2019, 2.2 per cent. as at 31 December 2018, 2.7 per cent. as at 31 December 2017 and 4.6 per cent. as at 31 December 2016.

ANALYSIS OF CERTAIN OTHER STATEMENT OF FINANCIAL POSITION ITEMS

Assets

The principal assets on the Group's balance sheet are:

- its real estate investments, which comprised 29.6 per cent. of its total assets as at 30 September 2019;
- its treasury portfolio which comprised 27.0 per cent. of its total assets as at 30 September 2019; and
- its financing assets which comprised 21.4 per cent. of its total assets as at 30 September 2019.

Real estate investments

The Group's real estate investments comprise investment property amounting to U.S.$507 million as at 30 September 2019 and development property amounting to U.S.$1,309 million as at 30 September 2019.

Investment property

The Group's investment property includes land plots and buildings in Bahrain, the UAE and Morocco. 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:

- the end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- commencement of an operating ijarah to another party, for a transfer from development property to investment property.

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

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

The fair value of the Group's investment property as at 30 September 2019 was U.S.$674 million based on management estimates derived from the most recent independent third party valuations compared to U.S.$674 million as at 31 December 2018 based on an a valuation carried out by independent third party valuers with recent experience in the location and category of the property being valued. The fair value of the Group's investment property as at 31 December 2017 was U.S.$625 million and as at 31 December 2016 was U.S.$521 million, in each case valued on the same basis.

As at 30 September 2019, investment property with a carrying amount of U.S.$41 million was pledged against an ijarah facility compared to investment property with a carrying amount of U.S.$192 million that was pledged against an ijarah facility and wakala facilities as at 31 December in each of 2018, 2017 and 2016.

The table below shows the movements in the Group's investment property in each of 2018, 2017 and 2016. This financial information is original. No equivalent information as at 30 September 2019 is disclosed in the Interim Financial Statements.

	As at 31 December		
	2018	2017	2016
		(*U.S.$ thousand*)	
At 1 January	616,263	488,436	257,932
Acquisitions arising from settlement[(1)]	—	—	207,707
Additions during the year[(2)]	49,740	137,310	53,827
Disposals	(6,154)	(2,715)	(38,133)
Transfer to development property	(657)	—	19,395
Depreciation charge for the year	—	(194)	(692)
De-recognition on deconsolidation of a subsidiary[(3)]	(135,500)	(4,479)	—
Impartment allowances	—	(2,095)	(11,600)
At 31 December	**523,692**	**616,263**	**488,436**

Notes:

(1) See "*Principal factors affecting results of operations—Non-recurring transactions—2016*" above.

(2) Additions during 2017 principally reflects the Group's acquisition of a US-based yielding real asset which was consolidated in the 2017 Financial Statements.

(3) During 2018, the Group sold its interest in the US-based yielding asset acquired in 2017 which resulted in the deconsolidation in that year.

Development property

The Group's development property comprises real estate under development and for sale in Bahrain, the UAE, North Africa and India.

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.

The table below shows the movements in the Group's development properties in each of 2018, 2017 and 2016. This financial information is original. No equivalent information as at 30 September 2019 is disclosed in the Interim Financial Statements.

	As at 31 December		
	2018	2017	2016
		(*U.S.$ thousand*)	
At 1 January	893,037	280,972	179,577
Acquisitions arising on consolidation of a subsidiary[(1)]	377,332	571,970	—
Acquisitions arising from settlement[(2)]	—	—	125,512
Additions during the year[(3)]	93,712	40,095	—
Transfer from investment property	657	—	(19,395)
Disposals	(17,602)	—	(4,722)
Foreign currency translation impact	(30,818)	—	—
At 31 December	**1,316,318**	**893,037**	**280,972**

Notes:

(1) In 2018, the Group acquired an additional 31.39 per cent. shareholding in Gulf Holding Company KSC ("GHC"), a company incorporated in Kuwait, taking the Group's total shareholding to 51.18 per cent. and obtaining control over GHC. Accordingly, GHC's assets, liabilities and results were consolidated from the date the Group obtained control. A significant part of GHC's assets comprised development properties. In 2017 and following approval by the shareholders in an Extraordinary General Meeting held on 1 March 2017, GFH offered its shares in exchange for the holdings of investors in certain infrastructure projects and investment funds. As a result, the Group obtained control over two projects under development as at 31 December 2017, resulting in a significant increase in its development property portfolio.

(2) See "Principal factors affecting results of operations—Non-recurring transactions—2016" above.

(3) Additions during the year principally reflects the consolidation of Gulf Holding Company, a real estate company with development projects in Bahrain.

Financing assets

Financing assets portfolio

The Group's financing assets portfolio (net of provisions for impairment) was U.S.$1,317 million as at 30 September 2019, equal to 21.4 per cent. of its total assets. The table below shows the breakdown of the Group's financing assets portfolio (net of provisions) by type as at 30 September 2019 and its combined portfolio of financing assets and assets acquired for leasing as at 31 December in each of 2018, 2017 and 2016 on an original basis.

	As at 30 September	As at 31 December		
	2019	**2018**	**2017**	**2016**
	(*U.S.$ thousand*)			
		Original	**Original**	**Original**
Murabaha[(1)]	982,207	952,372	948,528	924,587
Musharaka	6,237	9,393	18,350	23,249
Wakala	13,280	13,281	56,981	77,947
Mudharaba	2,776	2,782	3,016	3,064
Istisnaa	3,000	5,448	—	19
Assets held for leasing	394,855	288,271	257,806	246,257
	1,402,355	**1,271,547**	**1,284,681**	**1,275,123**
Less: impairment allowances	(85,628)	(62,600)	(34,373)	(67,376)
Total financing assets	**1,316,727**	**1,208,947**	**1,250,308**	**1,207,747**

Note:

(1) Murabaha financing receivables are presented net of deferred profits, which amounted to U.S.$67 million as at 31 December 2018, U.S.$61 million as at 31 December 2017 and U.S.$82 million as at 31 December 2016. Deferred profits are not disclosed in the Interim Financial Statements.

The Group's financing assets portfolio is principally denominated in dinar, although loans are also made in U.S. dollars.

Distribution of financing assets portfolio by maturity

The table below shows the distribution of the Group's combined portfolio of financing assets and assets acquired for leasing by maturity as at 31 December in each of 2018, 2017 and 2016 based on contractual maturity. This financial information is original. No equivalent information as at 30 September 2019 is disclosed in the Interim Financial Statements.

	Up to 3 months	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
	(*U.S.$ thousand*)					
As at 31 December 2018	206,529	80,318	205,274	441,592	275,234	**1,208,947**
As at 31 December 2017	195,835	88,974	153,377	391,494	420,628	**1,250,308**
As at 31 December 2016	72,560	46,096	108,214	219,780	761,097	**1,207,747**

As at 31 December 2018, U.S.$492 million, or 40.7 per cent, of the Group's financing assets had a contractual maturity of one year or less.

Sectoral and geographical breakdowns of financing assets portfolio

The table below shows the distribution of the Group's combined portfolio of financing assets and assets acquired for leasing by sector as at 31 December in each of 2018, 2017 and 2016 based on contractual maturity. This financial information is original. No equivalent information as at 30 September 2019 is disclosed in the Interim Financial Statements.

	Banks and financial institutions	**Real estate**	**Others**	**Total**
	(*U.S.$ thousand*)			
As at 31 December 2018	29,474	436,097	743,376	**1,208,947**
As at 31 December 2017	29,207	472,573	748,528	**1,250,308**
As at 31 December 2016	51,638	444,830	711,279	**1,207,747**

As at 31 December 2018, 36.07 per cent. of the Group's financing assets were concentrated on the real estate sector compared to 37.8 per cent. as at 31 December 2017 and 36.8 per cent. as at 31 December 2016. The principal reason for the decrease is that there has been a realignment of the portfolio along with increased impairment allowances on the real estate exposures. The Group's principal financing customers are retail purchasers of real estate.

The Group believes that its financing assets within the "Others" sector are well diversified and no single category within that sector accounted for more than 3 per cent. of its total financing assets as at 31 December 2018.

The table below shows the geographic concentration of the Group's combined portfolio of financing assets and assets acquired for leasing as at 31 December in each of 2018, 2017 and 2016. This financial information is original. No equivalent information as at 30 September 2019 is disclosed in the Interim Financial Statements.

	GCC	**Asia**	**North America**	**Others**	**Total**
			(*U.S.$ thousand*)		
As at 31 December 2018	1,137,191	210	29,415	42,131	1,208,947
As at 31 December 2017	1,168,374	95	29,237	52,602	1,250,308
As at 31 December 2016	1,072,114	57,612	—	78,021	1,207,747

The Group's financing assets are geographically concentrated on the GCC, which comprised 94.1 per cent. of the Group's financing assets as at 31 December 2018, 93.4 per cent. as at 31 December 2017 and 88.8 per cent. as at 31 December 2016. Since 2017, all the new financing undertaken by KHCB has been limited to customers in the GCC.

See generally "*Risk factors—Factors that may affect GFH's ability to fulfil its obligations under or in connection with the Transaction Documents—Risks applicable to the Group's commercial banking business*".

Treasury portfolio

The Group's treasury portfolio comprises (i) placements with financial institutions (which are held at amortised cost) and (ii) its investment securities, which comprise structured notes (which are held at fair value through the income statement ("**FVTIS**")) and quoted and unquoted sukuk (which are held at FVTIS or at amortised cost). The securities are issued by both domestic and international issuers. The Group's treasury portfolio is designed both to generate returns and to provide an additional source of liquidity when needed.

Structure of the treasury portfolio

The table below summarises the Group's treasury portfolio as at 30 September 2019 and as at 31 December in each of 2018, 2017 and 2016. The information in the table below as at 31 December in each of 2018, 2017 and 2016 is original information and represents a combination of the Group's placements with financial institutions and its investment securities.

	As at 30 September	As at 31 December		
	2019	2018	2017	2016
			(*U.S.$ thousand*)	
Placements with financial institutions	668,839	289,558	95,569	213,898
Equity type investments				
At FVTIS				
Structured notes	216,060	—	—	—
Debt type investments				
At FVIS				
Quoted sukuk	265,610	100,527	—	—
At amortised cost				
Quoted sukuk[1]	505,341	427,915	300,265	194,809
Unquoted sukuk[2]	—	—	390	1,886
	1,655,850	**818,000**	**396,225**	**410,593**

Note:

(1) Includes sukuk of U.S.$130 million pledged against medium-term borrowing of U.S.$110 million as at 31 December 2018.

(2) Unquoted sukuk are net of expected credit loss of U.S.$3,501 thousand as at 31 December 2018.

For information on the manner in which the Group measures the fair value of its securities, see note 36 to the 2018 Financial Statements and note 21 to the Interim Financial Statements.

The growth in the Group's treasury portfolio in 2018 and in the first nine months of 2019 was driven by increased placements with financial institutions, investment in structured notes and increased investment in quoted sukuk, which reflects the Group's strategy of developing its treasury function.

Sectoral and geographical breakdowns of investment securities portfolio

The table below shows the distribution of the Group's investment securities portfolio by sector as at 31 December in each of 2018, 2017 and 2016 based on contractual maturity.

	Banks and financial institutions	Real estate	Others	Total
	(*U.S.$ thousand*)			
As at 31 December 2018	66,212	162,199	544,723	773,134
As at 31 December 2017	66,250	143,295	311,863	521,408
As at 31 December 2016	99,464	419,378	11,361	527,203

As at 31 December 2018, 21.0 per cent. of the Group's investment securities were concentrated on the real estate sector compared to 27.5 per cent. as at 31 December 2017 and 79.5 per cent. as at 31 December 2016. In 2017, as part of an equity exchange for its own shares, the Group acquired additional shareholdings in real estate development projects in Tunisia, Morocco and India. These additional shareholdings resulted in the Group gaining control over the respective projects which were then consolidated in the Financial Statements. Prior to that, the Group's non-controlling shareholdings had been classified as investment securities.

As at 31 December 2018, 8.6 per cent. of the Group's investment securities were concentrated on the banks and financial institutions sector compared to 12.7 per cent. as at 31 December 2017 and 18.9 per cent. as at 31 December 2016.

The Group believes that its investment securities within the "Others" sector are well diversified and, apart from governments and government-related enterprises (which comprised approximately 10 per cent. total investment securities, no single category within that sector accounted for more than 5 per cent. of its total investment securities as at 31 December 2018.

The table below shows the geographic concentration of the Group's investment securities portfolio as at 31 December in each of 2018, 2017 and 2016.

	GCC	Asia	North America	Others	Total
			(*U.S.$ thousand*)		
As at 31 December 2018	694,387	58,114	5,850	14,783	773,134
As at 31 December 2017	437,814	66,191	8,475	9,928	521,408
As at 31 December 2016	393,820	101,403	—	31,980	527,203

The Group's investment securities are geographically concentrated on the GCC, which comprised 89.8 per cent. of the Group's financing assets as at 31 December 2018, 84.0 per cent. as at 31 December 2017 and 74.7 per cent. as at 31 December 2016. The increase in the GCC concentration in 2018 is principally due to the investment of liquid assets in GCC government sukuk during that year.

Liabilities

The principal liabilities on the Group's balance sheet comprise its placements from financial, non-financial institution and individuals and its term financing, both of which are discussed under "—*Liquidity and funding—Funding*" above.

CAPITAL ADEQUACY

The information under this heading is original. No equivalent financial information as at 30 September 2019 is disclosed in the Interim Financial Statements.

The CBB sets and monitors the capital requirements for the Group as a whole. In implementing the current capital requirements, the CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets (currently 12.5 per cent.). The total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. The Group's 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 its business.

The CBB sets and monitors capital requirements for the Bank as a whole. The capital adequacy regulations of the CBB are based on the principles of Basel III and the IFSB guidelines.

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

- **Tier 1 capital** (which includes CET1 and AT1).

CET1 comprises 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 GFH 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 s instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of GFH held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

- **Tier 2 capital**

Tier 2 capital includes instruments issued by GFH 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 GFH 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 CBB requirements. The regulations prescribe higher risk weights for certain exposures that exceed materiality thresholds. These regulatory adjustments are required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitisation 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 GFH does not own more than 10 per cent. of the issued common share capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

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 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.

The table below shows the Group's regulatory capital position as at 31 December in each of 2018, 2017 and 2016.

	As at 30 September	**As at 31 December**		
	2019	**2018**	**2017**	**2016**
	(U.S.$ thousand, except percentages)			
Total risk-weighted exposures	8,341,021	8,031,364	7,911,983	4,298,923
CET 1	1,159,111	1,168,792	1,340,550	1,072,884
AT1	10,715	9,269	7,304	-
Tier 1 capital	**1,169,826**	**1,178,061**	**1,347,854**	**1,072,884**
Tier 2 capital	38,225	39,252	27,096	11,590
Total regulatory capital	**1,208,051**	**1,217,313**	**1,374,950**	**1,084,474**
CET 1 ratio	13.90%	14.55%	16.01%	24.96%
Tier 1 ratio	14.02%	14.67%	16.10%	24.96%
Total capital ratio	14.48%	15.16%	17.38%	25.23%

The fall in the Group's capital ratios from 31 December 2016 was driven by:

- its capital increasing at a slower pace than its risk-weighted assets in 2017;
- its capital decreasing at a faster pace than its risk-weighted assets in 2018; and
- its capital remaining substantially flat while its risk-weighted assets increased in the nine months ended 30 September 2019.

The Group is also subject to a CBB leverage ratio requirement of 3.0 per cent. The Group's leverage ratio was 22.44 per cent. as at 31 December 2018, 31.06 per cent. as at 31 December 2017 and 29.85 per cent. as at 31 December 2016. The Group does not disclose its leverage ratio at any interim period date.

COMMITMENTS AND CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of commitments to extend finance that it has made, as well as in relation to financial guarantees and a range of other commitments given by it.

The table below shows these contingent liabilities and commitments as at 30 September 2019 and as at 31 December in each of 2018, 2017 and 2016. The information in the table below as at 31 December in each of 2018, 2017 and 2016 is original information.

	As at 30 September	**As at 31 December**		
	2019	**2018**	**2017**	**2016**
		(*U.S.$ thousand*)		
Undrawn commitments to extend finance	194,056	88,045	129,302	174,527
Financial guarantees	33,509	34,122	73,960	85,129
Capital commitments for infrastructure development projects	27,086	55,407	20,000	20,000
Purchase commitments for investment in real estate	—	58,907	—	—
Commitment to invest	—	—	6,427	10,696
Commitment to lend	16,500	18,000	—	—
Other commitments	8,100	—	—	—
	279,251	**254,481**	**229,689**	**290,352**

Performance obligations

In 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. As a result and as at 30 September 2019 management believed that no liabilities were expected to materialise on the Group due to the performance of any of these projects.

Litigation and claims

The Group has a number of claims filed against it in connection with projects promoted by GFH in the past and with certain other transactions, see "*Description of the Group—Litigation*". Appropriate provisions have been made in the Group's accounts.

RELATED PARTY TRANSACTIONS

The Group's related parties include entities over which it exercises significant influence, its major shareholders, its directors and the executive management of the Group. A significant portion of the Group's management fees are from entities over which the Group exercises influence, see "*—Assets under management*" below. 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.

Further information on the Group's related party transactions is set out in note 18 to the Interim Financial Statements and in note 27 to each of the Annual Financial Statements.

DISCLOSURES ABOUT RISK

The Group is exposed to a number of risks and takes steps to mitigate certain of these risks as described in note 38 to the 2018 Financial Statements.

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. As at 31 December 2018, the Group had assets under management of U.S.$1.7 billion compared to U.S.$1.6 billion as at 31 December 2017 and U.S.$2.8 billion as at 31 December 2016. In 2018, the Group charged management fees amounting to U.S.$2.6 million compared to U.S.$1.8 million in 2017 and U.S.$1.8 million in 2016 in respect of these assets under management. This financial information is original. No equivalent financial information as at 30 September 2019 is disclosed in the Interim Financial Statements.

DESCRIPTION OF THE GROUP

OVERVIEW

The Group is a financial group headquartered in Bahrain and operating in the GCC region with a diversified offering of investment opportunities and a track record of identifying, successfully bringing to market and capitalising on a range of Islamic investment opportunities.

Since the Group's inception in 1999, GFH has raised over U.S.$10 billion of assets and funds under management from its wide client base.

The Group currently operates across four business lines:

- investment banking, which principally invests its own and client's funds in yielding real estate assets in the US and the UK and makes private equity investments focused on defensive sectors such as education, healthcare and technology;
- commercial banking, which represents the activities of KHCB, a 55.41 per cent. owned and fully consolidated Group company;
- real estate development, where the Group's focus is on achieving profitable exits from a number of large ongoing projects; and
- treasury operations and proprietary investments, which manages the Group's treasury portfolio of placements with financial institutions, structured notes and sukuk investments on a revenue generating basis as well as its proprietary investments.

GFH is listed on three stock exchanges in the GCC: the Bahrain Bourse, Boursa Kuwait and the Dubai Financial Market ("**DFM**"). GFH is one of the most liquid and actively traded stocks on the DFM.

In the last decade, the Group's strategy has seen it transform into a financial group with a sound financial base and a well-diversified model that has established strong revenue generating business lines. The Group's diversification has focused on ensuring that it is able to effectively exploit opportunities across diverse asset classes as well as sectors and regions with high potential, including its home market of the GCC and the wider MENA region, India, Europe and the US.

As at 30 September 2019, the Group had total assets of U.S.$6.1 billion. The Group's total income from continuing operations was U.S.$254 million in the nine months ended 30 September 2019 and U.S.$246 million in 2018 and its profit for the period was U.S.$70 million for the nine months ended 30 September 2019 and U.S.$115 million in 2018.

RECOGNITION

GFH has consistently been recognised for its innovative approach, investment prudence and overall achievements in Islamic finance, wealth management and investment banking. GFH's awards include:

- in 2019, "Best Investment Management Services" and "Best Investment Banking Services" in the Banker Middle East Product Awards 2019 and "Best Investment Bank" in the CPI Financial Islamic Business & Finance Awards;
- in 2018, "Best Investment Bank - Middle East" and "Best Islamic Bank - Bahrain" in the Islamic Business & Finance Awards - EMEA;
- in 2017, "Best Investment Bank – Middle East", "Best Bank - Bahrain", "Fast Growing Bank – Middle East" and "Fastest Growing Bank - Bahrain" at the Bankers Middle East Awards ; and
- in 2016, "Best Investment Bank" in the Banker Middle East Awards.

HISTORY

GFH was established on 6 November 1999 as an exempt joint stock company (Bank Sector) under registration number 44136 in accordance with the Bahrain Commercial Companies Law No. 21/2001 as amended. GFH operates as an Islamic investment bank and has a wholesale Islamic banking licence (IBL/041) issued by the CBB.

GFH's principal subsidiary, KHCB, was established on 24 November 2004 as a wholly-owned, niche Islamic private bank, headquartered in Bahrain. It operates under an onshore commercial banking licence granted by the CBB.

During its 20-year history, the Group has conceptualised and established a large number of pioneering financial institutions in the GCC. For example, GFH was instrumental in the creation of First Energy Bank, the world's first Islamic investment bank focusing exclusively on the energy sector. The Group has also established numerous cross-border entities, including QInvest in Qatar, Arab Finance House in Lebanon, First Leasing Bank in Bahrain, Asia Finance Bank in Malaysia, Injazat Capital (now known as GFH Capital) in the Dubai International Financial Centre and Gulf Holding Company in Kuwait.

In addition, GFH has also successfully conceived, funded and developed large, complex and innovative real estate and infrastructure projects in the GCC, the wider MENA region and India. The Group's residential and commercial projects include Bahrain's and Tunisia's Financial Harbours and Energy Cities in Qatar and India. The Group has also acted as the master developer for luxury lifestyle developments such as Royal Parks Marrakech and Tangier in Morocco and the Al Areen Development in Bahrain. More recently, the Group has led the revival of the Villamar development in Bahrain and launched the Harbour Row project in Bahrain as well as California Village at Dubailand in Dubai.

As at 31 December 2008, the Group's term financing amounted to U.S.$952 million. Since then, GFH has made significant progress in reducing the Group's term financing, which amounted to U.S.$268 million as at 30 September 2019. GFH currently principally uses term financing to leverage its portfolio of marketable securities in order to enhance the yield of the portfolio. This leverage amounted to U.S.$217 million as at 30 September 2019. Part of the reduction in debt involved utilising GFH's improved liquidity to repay a U.S.$200 million sukuk issue and a U.S.$300 million loan that had both been re-structured after the global financial crisis.

In 2016, GFH was successful in recovering U.S.$464 million following litigation against its previous management, see "*Financial review—Principal factors affecting results of operations—Non-recurring transactions—2016*". The assets transferred in the settlement included operating assets in the education, hospitality and leisure sectors as well as land in Bahrain and the UAE.

GFH's current paid-in capital amounts to U.S.$975.6 million represented by 3,681.65 million ordinary shares with a par value of U.S.$0.265 each. This includes a U.S.$315 million capital increase in 2017 where the 1.2 billion new shares issued were used to acquire additional stakes in several legacy projects from investors at a 10 per cent. premium to the net asset value of the respective projects.

STRATEGY

In 2014, the Group initiated a strategy to evolve from being an investment bank into a diversified financial group with a view to generating more stable and recurring income, profitability and cash flows. In 2017, the Group built on this evolution by setting a three-year strategy to achieve significant growth across all of its business lines organically, and inorganically in business lines where it identified opportunities for future relative market out-performance.

As part of its strategy, in 2017 the Group issued new shares in exchange for the investments of those investors who wished to exit from the Group's real estate projects in India, Tunis and Morocco with a view to gaining control over those projects and also focused on achieving profitable exits for itself and its investors from real estate investments in Bahrain and the United States. The acquisition from existing investors enabled GFH to assume majority control of the investments acquired, restructure them, in the case of the India project, with joint development partners and to continue the development work on the projects. The restructurings initiated included changes in business plans, new revenue sharing business models, creating cornerstone developments, and completing key infrastructure works that enable better returns, regular cash flows and future exits from the projects. Another key synergy is to utilise the acquired projects to expand other Group products, such as the education platform, healthcare assets and hospitality assets, with a view to supporting the acquired projects in diversifying investments and maximising returns and exit opportunities.

The Group achieved exits for investors amounting to U.S.$1.5 billion in 2017. Other significant actions taken in 2017 in furtherance of the Group's strategy included continued expansion in Bahrain by KHCB, albeit in the face of a challenging economic environment for commercial banking, and expansion at GFH Properties, which had been launched in 2016 to focus on the Group's real estate development projects and management activities.

In 2018, the Group's strategic focus was on:

- continuing to deploy its knowledge, talent and track record to identify and close promising new income yielding investments through its investment banking platform. For example, it acquired the Westside Office Business Park in Hemel Hempstead, a prime office market located just north of London. Westside provides approximately 200,000 square feet of contemporary Class A office space. Significant investments were also made in the US, including the acquisition of two trophy Chicago suburban office properties in a deal valued at U.S.$150 million;
- further building and extracting value from its existing real estate assets. For example the Group's Harbour Row and Villamar projects located at Bahrain Financial Harbour both made significant progress in 2018 and the first phase of each project is currently close to being handed over to the buyers. Both projects have achieved strong sales to end users, investors and strategic buyers; and
- securing timely and profitable exits in support of its primary goal of delivering superior returns to its investors and shareholders. For example, in 2018 the Group exited its investment in Philadelphia Private School in a transaction that generated a return on investment ("**ROI**") of 33 per cent. over the 3.5-year investment period and it also exited its investment in The Lost Paradise of Dilmun in a transaction that generated an ROI of 131 per cent. over the two-year investment period.

During 2018, the Group made its first private equity investment in the technology sector, acquiring The Entertainer, a leading UAE-based incentive provider and lifestyle platform. Its commercial banking subsidiary, KHCB, continued to grow in terms of both assets and customer deposits whilst work progressed on a number of the Group's real estate developments.

During 2019, the Group's strategic focus has been to:

- implement value enhancements across its real estate development portfolio, both through asset sales and asset improvements. For example, it sold individual units in a number of projects nearing completion and completed partial sales of the hotel and serviced apartments elements on its Harbour Row project; it sold a 40 per cent. share in its Al Areen hotel; it restructured Al Areen Holding Company, the master developer of the Al Areen project, to enable it to charge fees across the project; and it negotiated with the master developer of the Reef Island project to increase the gross floor area of the project and redesign certain aspects to increase the appeal to end users;
- create additional strategic private equity platforms allowing it to better capture and leverage opportunities in identified segments. In 2019, it established a dedicated education platform, which is discussed further under "*—Business—Investment banking—Private equity*", and it plans to establish a dedicated healthcare platform in 2020; and
- build its treasury activities to generate recurring income and a positive spread over its cost of funds. The Group's treasury function was reorganised as a revenue centre in 2018, with the aim of generating recurring revenues through investments in sukuk, interbank markets and structured products while prudently assuring the Group's liquidity needs.

The Group's strategy is aimed at delivering profitable growth that leads to renewed market confidence and delivery of shareholder value. In the coming years, the Group's strategy is:

- to deliver a significant value increase from the Group's real estate portfolio through the sale of historic assets while supporting profit sustainability through the retention of revenue generating assets that can be managed profitably;

- the creation of strategic private equity and asset management platforms to establish future growth and investment in promising yielding opportunities with significant exit potential, including in the real estate, education, healthcare and technology sectors;
- expand its geographic reach through (i) establishing an office in Saudi Arabia in 2020, where it has already obtained an in principle approval to start authorised person activities that it believes will allow it to target investors in Saudi Arabia who are restricted to investing through Saudi-based entities and (ii) opening a representative office in London that it expects will be open in 2020 and will allow it to access European investors (including Gulf nationals based in London) and recruit individuals and teams who do not wish to relocate to the Gulf. In addition, it expects that the London office will also improve GFH's access to deal flow in both the US and Europe;
- to continue to build the Group's treasury activities and to establish treasury as a recurring income source based on well-diversified investments; and
- achieve stable performance from the commercial banking business, principally through changing its business focus, improving its asset quality and managing its liquidity and cost of funding as more fully discussed under "*Business—Commercial banking*" below.

STRENGTHS

The Group believes that its principal strengths are:

Large and diversified asset portfolio

As at 30 September 2019, the Group's portfolio comprised U.S.$7.3 billion in managed assets and funds. These assets are diversified across multiple geographies, industrial sectors, maturities and asset classes. The Group believes that the size and diversification of its asset portfolio increases the potential for higher risk-adjusted returns for its clients and itself from its co-investments, contributes to more stable income for the Group from the payment or receipt of fees, reduces the Group's vulnerability to market volatility and also offers opportunities to consistently enhance value for clients and shareholders.

Creation of strong returns on investments for clients

The Group has historically been able to generate strong returns for its investment banking clients. For example, its exit from its investment in British School Bahrain in 2017 generated an ROI of over 250 per cent. over the two-year investment period. Similarly, its exit from its diversified US residential portfolio investment in 2017 generated an ROI of 30 per cent. over the 3.5-year investment period and its exit from Philadelphia Private School in 2018 generated an ROI of 33 per cent. over the 3.5-year investment period. These strong returns on investment in turn provide the Group with brand equity that its uses in approaching existing and new clients.

Strong placement capability with clients in the GCC

The Group has a 20-year history in the GCC during which it has developed a number of strong and long-standing investor relationships. As a result, the Group has been able to raise large amounts of financing, with over U.S.$10 billion of assets and funds under management having been raised from its client base since the Group's inception in 1999. The Group has a diversified client base that includes institutional investors, Government entities, high net worth individuals and corporates. Its dedicated team of focused placement agents has a close and interactive relationship with clients, proactively helping them to assess both existing investments and future opportunities. This approach has allowed the Group to continually service and expand its client base while at the same time offering an increasingly broad range of investment products.

Depth and experience of Board and management team

GFH's nine-member Board comprises four executive directors, including Mr. Jassim Alseddiqi, the CEO of its largest shareholder, Abu Dhabi Financial Group LLC ("**ADFG**"), an Abu Dhabi-based global investment group, H.E. Shaikh Ahmed Al Khalifa, the Advisor for Community Affairs at the Bahrain Crown Prince Court, and Mr. Hisham Al Reyes, the Group's CEO, four independent directors and one non-executive director. Together, the Board has a wide range of skills and significant experience in a range of industries and has implemented a corporate governance framework that is in line with applicable regulations and which it believes is consistent with international best practices.

GFH's executive management and senior leadership team comprises 25 financial and managerial experts. Their combined international experience and deep-rooted regional knowledge provide a solid foundation on which the Group continues to build its diversified structure. For further information on the Board and management team, see "*Management and Employees*".

Good liquidity profile and debt service capacity

As a wholesale bank lacking a formal lender of last resort (meaning that the likelihood of official support in case of difficulties is uncertain), the Group seeks to carefully manage its liquidity and maintain an appropriate funding structure. As a result, management focuses on maintaining more than sufficient funds to repay maturing debt, under both normal and distressed conditions, without incurring unacceptable losses or risking damage to the business. This has been the cornerstone of the Group's funding policy since the global financial crisis and its consequent debt restructuring in 2012.

As at 31 December 2018, the Group's cash and cash equivalents amounted to U.S.$342 million, 57.8 per cent. higher than the level at 31 December 2017. In addition, the Group's placements with financial institutions were U.S.$290 million as at 31 December 2018, more than three times higher than the U.S.$96 million at 31 December 2017. As at 30 September 2019, the Group's cash and cash equivalents amounted to U.S.$402 million, 17.7 per cent. higher than the level at 31 December 2018. In addition, the Group's placements with financial institutions were U.S.$669 million as at 30 September 2019, more than twice the level at 31 December 2018.

The Group's business is generally cash generative, with its cash and cash equivalents showing a net increase of U.S.$ 305 million in the nine months to 30 September 2019, U.S.$141 million in 2018, a net decrease of U.S.$56 million in 2017, and increase of U.S.$118 million in 2016.

Reflecting its higher liquidity, the Group had more than sufficient funds as at 30 September 2019 to cover the current portion of its term financing, which totalled U.S.$268 million.

SHAREHOLDERS AND SHARE CAPITAL

GFH's authorised share capital is U.S.$2.5 billion. As at 30 September 2019, GFH's issued share capital amounted to U.S.$975.6 million, comprising 3,681.6 million shares of U.S.$0.0265 each.

GFH's largest shareholder is ADFG, which directly and indirectly owned 10.1 per cent. of its shares as at 30 September 2019 and as a result has the right under Bahraini law to appoint one director. According to its website, ADFG is a leading global investment group that provides, through its regulated subsidiaries and organically, a wide range of investment opportunities and financial services. The ADFG group's substantial and diversified investor base includes corporations, financial institutions, sovereign wealth funds and family offices. ADFG pursues a strategy of opportunistic investments across a variety of sectors and geographies. While the ADFG group's investment strategy is sector-agnostic, its investments are currently focused on private and public markets, debt and real estate.

Established in 2011, ADFG has evolved to become a major player in the region, delivering attractive returns to its clients. ADFG (together with its controlled entities) has assets under management in excess of U.S.$12 billion and has offices throughout the MENA region and in the UK.

BUSINESS

Overview

The Group's business focuses on four business segments:

- investment banking, which conducts both private equity investing and asset management businesses;
- commercial banking, which comprises KHCB;
- real estate development, which manages a number of large real estate development projects;

- corporate and treasury operations, which manages the Group's treasury portfolio of placements with financial institutions, structured notes and sukuk investments, as well as its liquidity and proprietary investments.

Prior to 2019, the Group had three segments: investment banking, commercial banking and real estate development. Its treasury activities were reorganised in 2019 as a revenue generating segment.

The table below shows certain information in relation to the Group's reportable segments (which correspond to its operating segments) as at, and for the nine months ended, 30 September 2019.

	Investment banking	**Commercial banking**	**Real estate development**	**Corporate and treasury**	**Total**
			(*per cent.*)		
Nine months ended 30 September 2019					
Segment revenue	52.4	20.6	7.8	19.2	100.0
Segment expenses...........	27.7	28.5	11.2	32.5	100.0
As at 30 September 2019					
Segment assets................	6.2	39.9	35.1	18.8	100.0
Segment liabilities	20.6	20.9	15.0	43.9	100.0

Each of the Group's operating segments, except commercial banking which is a separate subsidiary, has its own dedicated team of professionals and each is supported by a common placement team and support units. See "*—Placement and relationship management*" below.

Investment banking

The Group's investment banking business comprises two principal elements: asset management and private equity investing. Its investment strategy is to focus principally on residential, commercial and industrial real estate in the GCC, the US and the UK in relation to its asset management business and defensive and resilient sectors such as education, healthcare and technology in relation to its private equity business. The Group seeks to generate real returns through both capital and income yields over a medium to longer term horizon commensurate with the asset class invested in. It also seeks to actively manage the assets in which it invests to enhance their risk-adjusted returns within acceptable risk limits. The Group's country focus targets a mix of emerging and developed markets to balance growth and sustainability.

Asset management

The Group's real estate investment team is responsible for originating, executing and managing investments in yielding real estate asset classes in the target markets of the GCC, Europe and the US. In doing this, the Group typically collaborates with leading local asset managers.

The Group's real estate investment team sources, performs due diligence on and arranges financing and the acquisition of properties that are expected to offer its clients investment opportunities with the potential for both strong cash flow and attractive capital gains over an investment period of approximately five years. The Group invests in properties in all sectors including residential, hotel, commercial and industrial properties. Properties are typically aggregated in a series of multi-property portfolios to fit the Group's clients' requirements.

In addition to traditional sources, such as real estate brokers, other intermediaries and industry contacts, several of the Group's real estate investment opportunities are sourced through its strategic partnerships that complement the real estate investment team. The Group's strategic real estate investment partners have strong local presences in different parts of the US and the UK and are the source of many of its leads for potential investments.

Real estate investment assets are mostly initially acquired using the Group's own financial resources. A significant portion of the economic interests in the real estate investment portfolios are then placed with clients. The Group typically aims to retain around five to 10 per cent. for its own statement of financial position and the local asset manager that GFH has partnered with will also typically hold an economic interest in the investment, which may vary in size up to 10 per cent.

Currently, the Group typically charges an up-front structuring or underwriting fee which generates the majority of its income from the investments, which are typically structured to have a three- to five-year investment period, with several built in one-year extensions. It also typically charges a management fee and a performance fee at exit.

During the post-acquisition phase, the real estate investment team closely cooperates with the operating manager of a property to actively manage and maximise the yield from the property. The team seeks to identify capital improvements and refurbishment initiatives that will add value or allow the strategic repositioning of a property in order to minimise its vacancy rate and increase operating income.

The Group's principal real estate investments and exits in the nine months ended 30 September 2019 and in each of 2018 and 2017 were:

Investments

- in the second quarter of 2019, the Group acquired, in partnership with Madison Marquette, a senior healthcare portfolio of six yielding properties in the States of California, Washington and Michigan in a transaction valued at approximately U.S.$180 million;
- in the fourth quarter of 2018, the Group acquired an office business park just north of London in a transaction valued at approximately £80 million;
- in the first quarter of 2018, the Group acquired, as part of a joint venture with Exeter Property Group, four office properties in Philadelphia and Chicago in a transaction valued at approximately U.S.$150 million;
- in the fourth quarter of 2017, the Group acquired, as part of a joint venture with Lincoln Property Company, two suburban office properties in Chicago in a transaction valued at approximately U.S.$165 million; and
- in the third quarter of 2017, the Group acquired, in partnership with US trust two US data centre facilities in Virginia in a transaction valued at approximately U.S.$105 million.

Exits

- in the third quarter of 2017, the Group sold, in two separate sales, a diversified portfolio of multi-family residential complexes in Houston and Atlanta, realising an ROI of 130 per cent. over the 3.5-year investment period.

In addition to the acquired assets listed above, the Group's principal real estate investments managed by its real estate investment team are:

- a leasehold interest in Event Mall in Jeddah which has approximately 56,000 square metres of leasable space. This investment was acquired in May 2015 for a planned five-year investment period. GFH retains a 0.14 per cent. proprietary interest in this investment; and
- two industrial real estate portfolios in the US which together comprise 29 multi- and single-tenant units. These portfolios were acquired in 2015 and are being managed for the anticipated five-year investment period by a property manager which specialises in industrial real estate. GFH retains a 1.5 per cent. proprietary interest in this investment.

Private equity

The Group's private equity team is responsible for identifying and managing investments in companies that are growing and profitable as well as other equity based and alternative investments. The team works with investee companies and their management teams to fully realise and maximise future returns.

The Group generates returns in a number of ways from its private equity investments. Where the Group retains a shareholding in an investment it may earn dividends as well as record a gain on the sale of its retained share at the end of the investment term. In addition, the Group generates fees relating to advice, structuring, placement and management and, occasionally, performance in relation to its private equity investments.

The Group sources private equity investment deals directly or through intermediaries such as investment banks, industry contacts or other financial sponsors. Of the 200 - 300 potential opportunities presented during an average year, approximately 10 - 15 per cent. are generally selected in an initial screening process following application of the Group's selection criteria. Acquisition due diligence and risk analysis is then performed on certain opportunities after the application of further screening procedures which reduce the number of targets. The Group currently closes around five to six investments each year, typically retaining up to 10 per cent. of the investment for its own account.

All acquisitions and exits undergo analysis at investment committee meetings and senior leadership levels. The Group typically itself underwrites its private equity investment transactions in the period from initial acquisition to placing with clients, although occasionally it may use external funds to bridge a portion of the underwriting to reduce the risk on the Group's statement of financial position.

The Group's current private equity investment focus is on the late-stage technology, education and healthcare sectors. These sectors have been selected for their defensive characteristics. For example, growth in private education demand in Saudi Arabia and North Africa is expected to continue given their generally strong economic growth, growing populations, particularly in the middle income sector, rapid urbanisation and a cultural shift towards education as a means to secure premium salaries. In addition to these demand factors, there remains limited education supply from the over-burdened public sectors in these geographies. The education assets managed by the Group's private equity team are listed in the table below.

In the late-stage technology field, the Group made its first investment in July 2018, acquiring 85 per cent. of The Entertainer, a leading provider of app-based discount offers across food and drink, attractions, spas, and other merchants in the Middle East. In the education sphere, in early 2019 the Group launched Britus, an education platform which aims to acquire and operate K-12 curriculum private schools across multiple geographies in the MENA region. The platform size is approximately U.S.$225 million and the exit is currently planned for 2023. The Group also expects to launch a healthcare-focussed platform in 2020.

When screening possible investments, the Group seeks companies with strong business fundamentals in a defensive or growing sector, attractive entry valuations, significant growth potential, strong cash yields, probable synergies with other investments, strong management teams and solid exit options.

The Group plays an active role in the post-acquisition management of its private equity investments. Working with the acquired company's management, the Group's investment team monitors the progress of the portfolio company. The Group's advisory directors and independent industry executives, who provide significant operating expertise, support the investment team and serve on the portfolio companies' boards of directors. These advisory directors and industry experts also typically form part of the pre-acquisition deal team.

The Group begins planning for realisation prior to the acquisition. As part of the acquisition due diligence, the Group evaluates the possibilities for exit and formulates a strategy to prepare and position the target for a profitable divestiture. Throughout the life of an investment, the Group evaluates market conditions and exit alternatives.

The Group's principal private equity investments and exits in the nine months ended 30 September 2019 and in each of 2018 and 2017 were:

Investments

- in 2019 the Group launched its education platform and made six investments in K-12 curriculum private schools in the UAE, Saudi Arabia and Bahrain, retaining a 10 per cent. shareholding as a co-investment;
- in 2018, the Group acquired an 85 per cent. shareholding in The Entertainer, investing over a five-

year holding period up to U.S.$150 million. The Group subsequently syndicated the investment, retaining a 5.28 per cent. shareholding as a co-investment; and

- in 2017, the Group provided mezzanine funding to AMA Group (which owned both a university and a school) in Bahrain through AMA Cayman, investing U.S.$60 million and retaining a 48 per cent. shareholding as a co-investment.

Exits

- in 2019, 67 per cent. of investors in AMA Cayman exited their investment, realising an ROI for those investors of 127 per cent. over the two-year investment period. The remaining investors elected to remain invested;
- in 2019, the Group sold its interest in Sheffield Private School, realising an ROI of 127 per cent. over the 3.5-year investment period;
- in 2018, the Group sold its interest in Philadelphia Private School in the UAE, realising an ROI of 133 per cent. over the 3.5-year investment period; and
- in 2017, the Group sold its interest in the British School of Bahrain which it had acquired as part of the litigation settlement in 2016, realising an ROI of over 250 per cent. over the two-year investment period.

The Group faces competition in its private equity and asset management businesses from a broad range of international and regional investment firms to the extent that they have overlapping investment strategies, including InvestCorp, as well as smaller entities such as VC Bank and Jadwa. The competition is principally focused on a narrow range of investment products and a number of competitors have changed their license from investment bank to investment company in order to take advantage of a lower level of regulation. GFH believes that it offers a broader suite of investment solutions to its clients, including real estate development, yielding real estate, private equity and deposits, and it believes that remaining as a leading Islamic investment bank results in higher client confidence given its more regulated status. In addition, GFH is expanding its portfolio in more regulated markets, such as the US and the UK, and may also potentially expand to other European countries such as France and Germany, using a range of attractive investment tools and strategies which it believes will further strengthen the confidence of both clients and shareholders.

Commercial banking

The Group's commercial banking segment comprises its 55.41 per cent. shareholding in KHCB.

GFH established KHCB as a wholly-owned subsidiary in November 2004. KHCB operates under an Islamic retail banking licence granted by the CBB. KHCB offers a wide range of services to individuals and corporate clients. KHCB is listed on both the Bahrain Bourse (since 2009) and the DFM (since 2017).

In 2007, GFH sold a 30 per cent. shareholding in KCHB to a number of strategic investors in the GCC and, in 2009, it sold a further 23 per cent. in an initial public offering ("**IPO**") of KHCB. Following the IPO, KHCB was equity accounted as an associate until 2016, when GFH acquired a further 8.41 per cent. shareholding in KHCB bringing its shareholding up to the current 55.41 per cent. and fully consolidated KHCB as a subsidiary.

KHCB's strategy for retail envisages a transition from a mass market to a niche market focus targeting affluent individuals and professionals by redirecting its marketing approach and tailoring its products and services to ensure a more enriched customer experience. KHCB is applying a segmentation approach to its customer base and seeking to understand different customer types and their needs rather than simply creating a one size fits all product, with a view to improving its customers' experience and increasing efficiency through increased use of e-channels.

KHCB believes that corporate and international banking is likely to be to major driver of its future growth and it is developing its plans to further exploit this sector. KHCB's treasury strategy is to continue growing its portfolio of sovereign and other high quality investment sukuk while also managing its liquidity and cost of funding. KHCB also expects to introduce a sukuk trading book and to introduce leveraged commodity murabaha.

KHCB's investment department is continuing its focus on the orderly exit of its existing investment portfolio, whilst supporting KHCB's core banking activities by taking over management of remedial assets and sourcing exit solutions for them. KHCB may in the future look to issue additional tier 1 capital in order to improve its capital adequacy ratios and further enhance its focus on the deployment of capital into core business activities.

KHCB offers its retail customers both financing, including personal finance, housing finance and auto finance, and account services, mainly current accounts, saving accounts, mudharaba accounts, mudharaba call accounts and Al Waffer accounts (a saving account where funds are invested on a mudharaba basis and qualify depositors for prize draws). In addition, KHCB provides customers with a range of Visa cards, including Platinum, Gold, Classic and Infinite, which offer their holders various benefits that include competitive service fees as well as offers and discounts through KHCB's Khaleeji Rewards programme.

KHCB's current accounts are non-profit accounts that give its retail and corporate customers instant access to their funds at all times. KHCB's savings accounts pay profit on a monthly basis and give its customers access to their funds through ATM or branch withdrawals. KHCB's mudharaba accounts (which may be call accounts or term accounts) are based on the principle of unrestricted mudharaba in which the customer provides capital and KHCB provides expertise for the investment of the capital to earn profits which are divided between the two parties in agreed-upon ratios.

In addition to account services, KHCB offers its corporate customers a range of financial and investment services that include project financing, real estate financing, capital financing, commercial financing and letters of credit.

Khaleeji VIP is KHCB's premier banking service designed to optimise, protect and manage the financial well-being of the individuals, families and corporations who are invited to join the service. Khaleeji VIP offers dedicated relationship managers, competitive rates, preferential tariff charges, special exchange rates, customised Khaleeji VIP cheque books, higher daily withdrawal and spending limit through the customer's ATM card and foreign exchange upon request.

KHCB's distribution network comprised eight branches across Bahrain as at 30 September 2019 and, reflecting its strategy of targeting a smaller and more focused retail customer base and a greater focus on digitalisation of banking services, it is currently in the process of rationalising the branch network through the closure of some existing branches, the strategic selection of new locations and the redistribution of resources to improve efficiency and ensure higher and more strategic penetration of its target retail customer base. KHCB also offers its clients a wide range of electronic services, including e-banking, mobile banking and e-Dinar (an electronic payment gateway), through which it aims to simplify both communications with its clients and transactions. All of KHCB's electronic services are equipped with a system that follows the latest security standards in order to make its customers' experiences safer and more convenient.

KHCB is managed by a board of 10 directors which has established three board committees: an investment and credit committee; an audit and risk management committee and a nominations, remunerations and governance committee. Four members of KHCB's board are appointed by GFH.

KHCB's executive team has 14 members and has established four executive management committees: a management committee, an asset liability management committee, and executive investment and credit committee and a human resources committee.

Real estate development

The Group is implementing infrastructure and related real estate projects across the GCC and in Asia and North Africa. The Group's land bank exceeds 200 million square feet. The Group is currently engaged in multiple projects covering the luxury residential, high-end retail, hospitality, mixed use development and commercial sectors.

Between 2003 and 2008, the Group launched a number of significant real estate developments, many of which principally involved master planning and infrastructure development with a view to subsequent sale of land plots for development within the master plan. Successfully completed projects included both the Financial Centre development (which comprised two office towers, a mall and Harbour House) at the heart of the Bahrain Financial Harbour master-planned mixed use development and Energy City Qatar (an integrated energy business centre for the global oil and gas industry which currently hosts oil and gas producers and downstream operators, shipping and trading companies, service industries, technology companies and information and media businesses).

Several of the Group's existing projects were, however, launched shortly before the global financial crisis which adversely affected their subsequent development and the Group's current focus is on monetising these existing infrastructure and real estate projects.

In 2016, the Group established GFH Properties as a subsidiary incorporated in Bahrain to manage the Group's existing real estate developments where it controlled the development and leverage its broad experience in the sector. Over time and as part of the Group's future strategy to develop its land bank, GFH Properties expects to employ a capital-light model alongside key joint venture partners and contractors to develop the land bank. As a result, GFH Properties expects to launch its own direct development projects in the future as well as managing and overseeing the Group's existing projects.

GFH Properties' core current and anticipated future services include:

- **project development**: completing existing development concepts that are part of the Group's real estate portfolio as well as, in time, creating new project development concepts;
- **project management**: managing and overseeing the development of selected existing Group projects;
- **advisory and management**: GFH Properties has created an investment and advisory team alongside its core property development and management team to advise on real estate investment opportunities and provide solutions to regional investment houses with real estate investment instruments;
- **creating income generating portfolios**: GFH Properties' strategy is to maintain a strategic share in its development projects, for example income generating assets such as retail areas;
- **future offerings**: GFH Properties expects, in time, to create financial instruments, such as real estate investment trusts and licensed real estate investment funds, through securitising underlying real estate asset classes.

Principal projects

The Group's principal real estate development projects that are under construction, in operation, have been exited since 1 January 2016 or are currently being planned are discussed below.

<u>Projects under construction</u>

Harbour Row

Harbour Row is a prestigious development in the middle of Bahrain's financial district on the sea front of Bahrain Financial Harbour. It offers a mix of luxury residential and high-end retail components. Harbour Row has 322 apartment units spread over four residential buildings along with a boutique hotel and 80 branded apartments. Retail components are included in a walk-way underneath. The boutique hotel and branded residences will be operated by third party operators, H Hotel and Mama Shelter, respectively.

GFH is the owner of the project land and GFH Properties is the developer of the project. The construction on Harbour Row, which is being undertaken by a third party contractor, is nearing completion with the east wing of the development scheduled to be completed in the first quarter of 2020 and the west wing of the development scheduled to be completed in the fourth quarter of 2020.

The Group plans to exit the Harbour Row project through sales to institutional and individual buyers.

As at 30 September 2019, the Group had sold 164 of the 322 apartment units. It has also made a partial exit from the hospitality component through the sale of equity interests of 72 per cent. in the hotel and 60 per cent. in the branded apartments to the third party operators of those facilities. The Group's aim is to sell the remaining units and shares in the hotel and branded apartments, although it currently anticipates retaining the facilities management role in relation to the completed development.

Villamar

Villamar is a residential complex spread over more than 135,000 square metres at Bahrain Financial Harbour. The project is built on an island and comprises three towers, lifestyle apartments, terraced villas, and terraced podium and sky villas. The principal planned amenities include a health club and spa, swimming pools, manicured gardens and recreational facilities, along with associated food and beverage and retail elements, water features, significant on-site car parking and landscaped plazas.

The project was launched in 2007 although the global financial crisis slowed construction significantly. Construction recommenced when the project was relaunched in 2016. Gulf Holding Company KSCC ("**Gulf Holding**") was the owner of the project land through its subsidiary RSRED. In 2018 the Group acquired a majority shareholding in Gulf Holding and, in 2019, it acquired RSRED from Gulf Holding. GFH also currently holds 99.5 per cent. of a U.S.$200 million sukuk issued to fund the project, though GFH is currently in preliminary negotiations regarding the sale of these sukuk to a third party on an arm's length basis. GFH Properties is the project developer.

The project comprises two phases. Phase 1, which comprises a residential tower, is nearing completion with handover expected before the end of 2020. Phase 2 consists of the remaining two towers, one of which is expected to be a hotel with around 199 keys and 260 branded residences. The Group acquired the third tower, which had previously been sold to a developer who had subsequently experienced financial difficulties, in 2018 and is currently conducting value engineering studies for the use of final tower in order to generate the maximum value from the project.

As at 30 September 2019, the Group had sold 186 units out of a total of 219 units in the first residential tower for a total sales value in excess of U.S.$100 million. The hospitality component of the project, which forms part of phase 2, comprises a hotel and branded residences. The Group is currently negotiating an operating agreement and equity investment with a five star hotel operator in relation to the hospitality component. The Group currently anticipates retaining the remaining equity in the hotel although it plans to sell its sukuk holding at an appropriate time.

California Village

California Village is a master planned development launched in 2006. It comprises two components: California Residences offering a total of 234 villas and town houses and California Heights offering 150 units in two apartment buildings. California Village is located 10 minutes east of Dubai's Business Bay area, close to Sheikh Mohammad Bin Zayed Road. Planned amenities include a club house with a lounge area and gymnasium, two swimming pools and an open-air terrace with a decked sitting area.

GFH owns the project land. GFH Properties is the developer. Dubai Civil Engineering is the contractor as well as the Group's joint venture partner in relation to the first phase of the project.

The project comprises two phases. Phase 1 consists of 22 villas, of which 16 had been sold as at 30 September 2019, and infrastructure for the entire project. Phase 2 is the remainder of the project comprising the remaining villas (some of which have been sold to the developer), the town houses and California Heights. The Group is considering sub-dividing the land included in the second phase into development plots for sale in order to exit that phase, although no decision has been taken yet.

Tunis Bay Investment Company

In 2017, the Group offered its own shares to investors in the Tunis Bay Investment Company (and the two other projects described below) in exchange for their investments in the companies undertaking those projects. At the time of the equity exchange the Group had only retained small shares in each of those companies. However, following the equity exchange and the litigation settlement in 2016 (in which the Group received additional land proximate to this project as part of the settlement), the Group has owned 51.4 per cent. of Tunis Bay Investment Company, which is conducting the Tunis Bay development, a large mixed use real estate development in a prime area in Tunisia that was launched in 2008. The Tunis Bay development master plan envisages a four phase development of a financial hub (Tunis Financial Harbour), along with residential, leisure, health and educational components. The project covers 523 hectares in the governorate of Ariana. Tunis Financial Harbour itself is planned to include a financial district and supporting residential, commercial and leisure components within the first two phases of the development.

Following its acquisition of control over the development, the Group's strategy has been to pursue the underlying cornerstone developments. Accordingly, the project has entered into a joint venture agreement to develop a golf community with a French group and appointed a main contractor to undertake the completion of key infrastructure, including roads, electricity, utilities and landscaping. This strategy seeks to generate value enhancements and attract joint venture interest from local as well international developers.

Morocco Gateway Investment Company ("**MGIC**")

Since the equity exchange referred to above and the litigation settlement in 2016 (in which the Group received additional land proximate to this project as part of the settlement), the Group has owned 89.26 per cent. of the shares in MGIC, which is undertaking the Royal Ranches Marrakech mixed-use development. The project was launched in 2006 and covers approximately 380 hectares. The project includes tourism, hospitality, residential, food and beverage, healthcare, leisure and sports elements.

The Group, which controls and manages the project, is currently seeking a joint venture with one or more local partners in order to enhance the value of the project. Options being considered include the sale of equity or assets to the joint venture partner and/or having the joint venture partner undertake the development, sales and other related activity in a manner that would deliver future cash inflows to the Group.

Mumbai Economic Development Zone

In 2007 and 2008, the Group launched Energy City Navi Mumbai ("**ECNM**") and Mumbai IT & Telecom City ("**MITTIC**"), comprising 1,162 acres in Navi Mumbai in Maharashtra, India. Both ECNM and MITTIC are core components of the larger scale Mumbai Economic Development Zone, a mixed-use development offering business infrastructure for local and international services, IT and energy companies.

Since the equity exchange referred to above, the Group has owned 77.2 per cent. of the combined project and GFH also acts as manager of ECNM and MITTIC. The remaining interest in the combined project is held by investors who bought into the projects when they were launched. In its role as manager, GFH monitors and co-ordinates the development process through joint development agreements with Wadhwa Group and Adani Group.

The Group's exit strategy is through capital redemption. In accordance with the joint development agreements, Wadhwa Group and Adani Group are managing the construction, development and sales process of the Mumbai Economic Development Zone and they transfer a fixed percentage of their cash realisation from sales on a regular basis to ECNM and MITTIC.

Operating project

Al Areen Palace and Spa

The Group constructed the Al Areen Palace and Spa hotel in the Al Areen area of Bahrain and sold it in 2012. It was subsequently reacquired as part of the litigation settlement in 2017. Following the sale of a 40 per cent. interest in early 2019 for U.S.$29.4 million, the Group currently holds a 60 per cent. interest in the Al Areen Palace and Spa hotel.

The Al Areen Palace and Spa resort is located on 131,000 m^2 of land and includes 78 villas. The hotel offers meeting and banqueting facilities, restaurants, gym, tennis and squash courts as well as an extensive spa and hydrotherapy garden. The hotel is currently being rebranded and will be managed by Accor under the Raffles brand.

Exited project

The Lost Paradise of Dilmun

The Lost Paradise of Dilmun is Bahrain's largest waterpark, covering 77,000 m^2 and capable of accommodating 5,500 visitors a day. It is located proximate to the Group's Al Areen Palace and Spa hotel and was a Group project that was completed in 2007 and subsequently sold before being reacquired in 2016 as part of the litigation settlement. The Group then sold its entire investment in The Lost Paradise of Dilmun in October 2018 for U.S.$60 million, although it retained the right to operate and manage the waterpark for five years.

Projects under consideration

The table below summarises the Group's principal planned real estate development projects, all of which are currently wholly-owned by the Group and are in the concept stage. Reflecting the preliminary stage of each project, there is currently no certainty that any or all of them will be completed at the currently anticipated project size or with the facilities currently anticipated.

Project	Projected project size	Location, sector
Harbour North(1)	U.S.$400 million	Bahrain, commercial
Reef Island(2)	U.S.$200 million	Bahrain, mixed use
Zallaq land(2)	U.S.$60 million	Bahrain, mixed use
Dubai Maritime City(3)	U.S.$75 million	UAE, mixed use
Domina plot(4)	U.S.$60 million	Bahrain, hospitality
Al Areen healthcare(5)	U.S.$60 million	Bahrain, healthcare
Al Areen residential(6)	Not yet identified	Bahrain, residential

Notes:

(1) The project is part of the overall Bahrain Financial Harbour development and is expected to comprise a luxury residential tower development with retail and other facilities.

(2) A planned residential and retail project.

(2) GFH owns a plot of land at Dubai Maritime City, a master-planned development. The project is expected to comprise a residential tower development with associated retail facilities.

(3) The project is a planned hotel development near The Lost Paradise of Dilmun waterpark. It is currently expected to be launched in 2023.

(4) The project is a planned health centre development.

(5) The project is a planned mixed use development and is expected to comprise residential, retail and food and beverage elements.

Corporate and treasury

The Group established its corporate and treasury business segment in 2018 with the aim of generating recurring revenue from its growing treasury portfolio. The Group's treasury portfolio, which amounted to U.S.$1,656 million as at 30 September 2019, comprises the Group's generally short-term placements of excess cash with other financial institutions and its debt and equity investments which are described under "*Financial review—Analysis of certain other statement of financial position items—Assets—Treasury portfolio*". The Group funds part of its treasury portfolio using term financing with the aim of generating a positive spread over the cost of funds used.

Treasury also manages the Group's liquidity needs, its banking relationships, the raising of funds and the Group's proprietary investments. For a discussion of the Group's liquidity, see "*Financial review—Cash flow*" and "*Risk management—Liquidity risk*".

The Group's proprietary investments include its equity accounted investees, which principally comprise:

- Global Banking Corporation B.S.C., an Islamic wholesale bank in which the Group has a 28.69 per cent. interest and which is an equity accounted associate; and
- Bahrain Aluminium Extrusion Company (B.S.C.), a company engaged in the extrusion and sale of aluminium products in which the Group has a 17.32 per cent. interest and which is an equity

accounted associate by virtue of the influence the Group exercises through its presence on the company's board of directors.

In addition, the Group's proprietary investments include the following quoted and unquoted equity investments:

- ADCORP, the first Islamic financial institution based in the Abu Dhabi Global Market, in which the Group has an 18.0 per cent. interest;
- Capcorp, a licensed investment company based in Kuwait, in which the Group has an 12.45 per cent. interest; and
- Dana Gas PJSC, a private sector natural gas company listed on the Abu Dhabi Securities Exchange in which the Group has a 1.44 per cent. interest.

PLACEMENT AND RELATIONSHIP MANAGEMENT

The growth and success of the Group's business is underpinned by its alternative investments placement capability in the GCC. The majority of its products are distributed to GCC clients through a dedicated placement and relationship management team. Since inception in 1999, the Group's placement and relationship management team has raised approximately U.S.$7.3 billion from its clients.

The Group's ability to provide tailored solutions and services to its client base has resulted in a significant amount of repeat business from long-term clients. At the same time, the Group has been successful in leveraging its brand name to reach new clients in the GCC.

The Group's placement effort is built on the following key principles:

Client base: A majority of the Group's client base is high net worth individuals and institutions from the GCC. These investors have, in the past, been less accepting than US and European investors of including alternative assets in their investment portfolios. The Group, along with other market participants, has been instrumental in introducing the alternative asset class to investors in the GCC. Its relationship managers actively introduce strategic asset allocation concepts to GCC investors and explain the important role in terms of diversification and risk adjusted return that private equity and real estate investment play in an appropriately balanced portfolio.

Organisational platform: The Group's placement and relationship management team's personalised approach has allowed it to build long-term relationships with its clients and successfully leverage its strong brand in the GCC.

Client segmentation: The placement and relationship management team is divided into geographical teams which target and serve institutional clients (sovereign wealth funds, government institutions, banks, insurance companies and corporate investors) and private clients (high net worth individuals and private investment companies).

Relationships: The Group's placement capability in the GCC has developed over a 20-year period, and it has relationships with a large number of investors in the region. The Group's total assets and funds under management were U.S.$7.3 billion as at 31 December 2018. The Group's GCC client base is well diversified with a low level of client concentration. The placement and relationship management team maintains regular contact with clients and uses mapping techniques to develop strategies to reach segments, individuals and institutions that represent prospective clients.

Product customisation: The Group offers its product lines to clients in a variety of structures. It also continues to develop new product structures in order to make its products attractive to a broad range of potential clients and to allow the members of the placement and relationship management team to tailor the mix of products in a product structure that meets the specific needs and goals of each client.

INFORMATION TECHNOLOGY

The Group considers that IT is fundamental to its business. Accordingly, it has invested in state-of-the-art IT systems and infrastructure which it believes fully support its growing activities and strategic plan.

The Group is equipped with scalable IT infrastructure supporting various users across Bahrain and elsewhere. The Group devotes a considerable amount of money, time and effort to its IT infrastructure quality and security, which are refreshed frequently in order to meet required standards and ensure service availability at all times.

The Group uses both off-the-shelf and bespoke IT solutions to strengthen its core banking system, in order to meet all business activities and user requirements.

As a financial institution, cyber-security and business continuity are key priorities for the Group. To protect itself against intrusions and other cyber threats, the Group regularly conducts vulnerability assessment tests and takes appropriate remedial actions immediately. To ensure business continuity and disaster recovery, the Group maintains systems at an offsite location to ensure it is able to resume critical operations in a disaster scenario.

INSURANCE

The Group holds investment manager insurance which covers both civil and criminal risks. The civil risks include professional liability, directors and officers liability, company reimbursement liability, fund managerial liability, company securities liability and employment claims. The criminal risks include employee fraud, criminal property damage, third party fraud, extortion and computer fraud.

This cover was based on a market study conducted by GFH's insurance broker and in coordination with all relevant Group departments. The policy was also reviewed by the Risk Department to ensure that all possible risks are covered and that the policy limits are adequate comparing to the size of the Group's funds.

LITIGATION

The Group is party to a number of potentially significant legal claims, both as defendant and as claimant, as shown in the table below.

Claimant(s)	**Defendant(s)**	**Amount Claimed** (***equivalent in U.S. dollars***)	**Background and Status**
Energy City Development Company ("**ECDC**")	Olayan Financial Company ("**OFC**") and GFH	U.S.$425.8 million plus a further U.S.$27.5 million as compensation	• This claim was filed before the Qatari courts and relates to the default of contractual obligations between ECDC and OFC. GFH was not a party to such contract. • ECDC filed a claim before the Qatari courts against OFC. OFC then filed a counter-claim against ECDC and others. OFC did not include GFH in its counter-claim against ECDC. • Following such counter-claim, ECDC included GFH in its claim against OFC on the basis of a previous contractual relationship between ECDC and GFH. GFH believes that such previous and separate contractual relationship, which was between GFH and ECDC's parent company (in which GFH was a majority shareholder), is not relevant to ECDC's claim against OFC. • ECDC requested judgment that GFH should pay OFC the amount of QR1.550 million plus a further QR100 million as compensation. • On 30 June 2019, the court rejected ECDC's claim against GFH due to GFH's lack of capacity on the subject of the claim (given that

Claimant(s)	Defendant(s)	Amount Claimed (*equivalent in U.S. dollars*)	Background and Status
			GFH was not a party to the contract between ECDC and OFC). The court passed a judgment that ECDC was obliged to pay OFC QR1.223 million plus a further QR50 million as compensation. • On 29 July 2019, ECDC appealed the court's judgment and the appeal is currently pending before the Court of Appeal in the State of Qatar. • GFH believes that the appeal is likely to be rejected on the basis of GFH's lack of capacity on the subject of the claim (consistent with the first court's judgment on ECDC's claim).
Qatar Energy City Holding Company ("**QECHC**") and ECDC	GFH	U.S.$13.9 million plus a further U.S.$7 million as compensation (with an additional 10 per cent. interest to be paid on each of these amounts)	• This claim was filed before the Bahrain Chamber for Dispute Resolution ("**BCDR**") and relates to reimbursement of incurred expenses which the claimants allege that they paid on behalf of GFH. • On 10 December 2018, the BCDR passed a judgment in GFH's favour and dismissed the claim. • The claimants appealed the judgment before the Court of Cassation which, in October 2019, passed a judgment rejecting QECHC's requested stay of the enforcement of the BCDR judgment, and which, in January 2020, dismissed the appeal. • Notwithstanding the Court of Cassation's rejection of QECHC's requested stay of enforcement, the court set a date for a hearing on 20 January 2020 for judgment. • On 20 January 2020, the Court of Cassation passed a judgment rejecting the requested appeal and dismissed the claim. The Court of Cassation's decision is final and may not be further appealed.
Dubai Islamic Bank ("**DIB**")	GFH	U.S.$19 million plus a further U.S.$5 million as compensation	• This claim was filed before the BCDR and relates to DIB's subscription in one of GFH's managed India-related funds and DIB's desire to exit the fund early (whilst the project underlying the fund is still under construction). • DIB's request to exit the fund early, and have its subscribed amount refunded, is neither permitted nor envisaged in the fund share purchase agreement or the related private placement memorandum. • The case was first heard on 24 December 2019 where the BCDR appointed an expert to

Claimant(s)	Defendant(s)	Amount Claimed (*equivalent in U.S. dollars*)	Background and Status
			examine the investment performance of the fund, its financials and the claim in general. • GFH believes that the claim is likely to be rejected due to the existence of an arbitration clause in the fund share purchase agreement signed by DIB. As a result of the existence of such arbitration clause, GFH believes that the BCDR lacks jurisdiction to hear the claim.
GFH	QECHC and others	U.S.$30.7 million plus, approximately, a further U.S$19.3 milli on as compensation	• This claim was filed before the Qatari courts and relates to the loss of GFH's shares in the Energy City Qatar project. • The claimed amount represents the value of GFH's shares in the Energy City Qatar project, which were taken over by the CEO of the Energy City Qatar project and another person. • The claim was referred to an accounting expert who filed his report in April 2019 and which concluded that GFH should be entitled to an amount of U.S.$30.7 million plus compensation so that the total amount payable to GFH would be approximately U.S.$50 million. • The claim was returned to the accounting expert after the defendant objected to the conclusion of the report and the objections are currently being examined by the accounting expert. • The claim is still ongoing in the Qatari courts and no judgment has been issued to date.
GFH	Mr. David Haigh	U.S.$5.1 million	• This claim was filed before the DIFC courts and relates to fraudulent payments of certain monies which were taken from GFH. • In July 2018, GFH obtained a judgment against Mr. David Haigh in the DIFC court which passed a judgment that Mr. Haigh had fraudulently caused to be paid into his own bank accounts, and those of his close friend, monies belonging to GFH in the sums of £2 million, AED8.7 million and U.S.$50,000. • GFH is now enforcing this judgment against Mr. Haigh's assets in England and elsewhere. Specifically, GFH has brought a claim in England to enforce the DIFC judgment in England and to trace assets held by third parties on Mr. Haigh's behalf. • Mr. Haigh filed a defence and counter-claim in April 2019. GFH has applied for summary judgment and to strike out Mr. Haigh's defence and counter-claim. The hearing of GFH's

Claimant(s)	Defendant(s)	Amount Claimed (***equivalent in U.S. dollars***)	Background and Status
			summary judgment and strike out application was scheduled for 20 December 2019 but was adjourned before that date because the assigned judge considered he had a potential conflict of interest. • At a listing hearing on 6 January 2020 the summary judgment and striking out hearing was re-scheduled for 10 February 2020. However, Mr. Haigh has requested for the hearing to be listed for two days. The court will have to consider this and the matter may be re-listed for a two-day period later in 2020. • GFH has been advised by its English law counsel that the likely course of the striking out hearing is that judgment will be circulated, after which a hearing will take place to set out the next steps (expected to be in the first quarter of 2020). If Mr. Haigh's defence is dismissed entirely then this hearing will deal with directions for forfeiture of Mr. Haigh's assets, post-judgment disclosure by Mr. Haigh and payment of GFH's legal costs.

RISK MANAGEMENT

This section describes GFH's risk management policies and procedures. Certain of its subsidiaries, in particular KHCB, apply their own policies and procedures which are tailored to their particular businesses.

OVERVIEW

GFH perceives strong risk management capabilities to be the foundation in delivering results to customers, investors and shareholders. GFH intends to continue to enhance its existing risk management framework and to adopt international best practices of risk management, corporate governance and the highest level of market discipline.

The primary objectives of GFH's risk management framework are to:

- manage the risks inherent in its activities in line with its risk appetite;
- strengthen its risk management practices to reflect industry best practices; and
- align its internal capital requirements with risk materiality.

The risk strategy is articulated through the limit structures and target ratios for individual risks. These are based on GFH's business plans and guided by regulatory requirements and guidance in this regard. The risk limits and target ratios reflect the level of risk that GFH is prepared to take in order to achieve its objectives. GFH reviews and realigns its risk limits and target ratios in line with its evolving business plan and changing economic and market scenarios. GFH also assesses its tolerance for specific risk categories and its strategy to manage these risks.

GFH's risk management framework encapsulates the spirit of the following key principles for risk management as articulated in Basel guidelines and by the CBB:

- active Board and senior management oversight and control;
- independent risk management function;
- Board-driven sound risk management culture and ownership;
- appropriate policies, procedures and limits;
- risk recognition and assessment;
- control activities and segregation of duties;
- information and communication;
- monitoring risk management activities and correcting deficiencies;
- comprehensive and timely identification, measurement, mitigation, control, monitoring and reporting of risks;
- appropriate management information systems at a business and Group-wide level; and
- comprehensive internal controls.

The Group is exposed to numerous risks, including credit risk (including investment risk in unquoted equity securities and concentration risks), liquidity risk, market risk (including foreign exchange risk, profit rate risk in the banking book and equity price risk), operational risk, reputational risk and other risks, such as strategic risk and regulatory risk.

RISK MANAGEMENT FRAMEWORK

The Board has overall responsibility for establishing GFH's risk culture and ensuring that an effective risk management framework is in place. The Board approves and periodically reviews risk management policies and strategies. The Board defines the Group's risk appetite and ensure that its risk management framework is aligned with its capital strategies, financial plans and compensation practices. The Board has overall responsibility for ensuring that the risks undertaken by the Group are understood and appropriately managed.

The purpose of the Board Audit and Risk Committee ("**BARC**") is to assist the Board to fulfil its functions with respect to the Group's financial statements, financial condition and risk management by:

- overseeing the financial and audit systems for financial integrity;
- overseeing the process for monitoring compliance as it relates to financial integrity;
- evaluating and providing oversight of the monitoring of risk management;
- reviewing and assessing the adequacy of the internal controls, risk measurement methodologies, related monitoring, risk management procedures, risk limits and reporting and monitoring adherence to approved risk policies; and
- evaluating the independence and qualifications of the independent auditors.

The key element of GFH's risk management philosophy is for the Risk Management Department (the "**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 BARC.

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.

The RMD plays a pivotal role in monitoring the risks associated with various activities of the Group. The principal responsibilities of the RMD are:

- determining that the appetite for risk is in line with the limits set by the Board and reporting on this to the BARC and the Board;
- developing and reviewing risk management policies in accordance with the risk management guidelines issued by the CBB, the Islamic Financial Services Board ("**IFSB**"), other relevant bodies and international best practices;
- identifying and recommending risk analysis tools and techniques as required by Basel guidelines, the CBB and the IFSB;
- reviewing the adequacy of the risk limits and providing feedback to the relevant approving authorities;
- preparing necessary risk reports and other risk items for review by the BARC and the Board; and
- developing systems and resources to review the key risk exposures of the Group and communicating the planned and executed corrective actions.

The RMD submits a quarterly risk overview report to the Board. The risk overview report describes the potential issues for a wide range of risk factors that are deemed to be material.

CREDIT AND INVESTMENT 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. Investment risk is the risk associated with a decrease in the carrying value of any investment in the balance sheet or a permanent loss or reduced profitability than expected at exit. In this section the terms "credit" and "investment" are used interchangeably. 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).

GFH is not generally involved in the granting of credit facilities in the normal course of its business activities, although its subsidiary KHCB provides credit facilities to its customers as part of its ordinary course of business. GFH is primarily exposed to credit risk from placements with other financial institutions, investments in sukuk, receivables from its investment banking services and in respect of funding made (both in the form of financing and short-term liquidity facilities) to its projects. These exposures arise in the ordinary course of its investment banking activities and are generally transacted without any collateral or other credit risk mitigants.

GFH has established investment risk and credit risk policies, internal credit risk assessment processes, risk reporting, documentation and legal procedures, and compliance requirements. The policies are supplemented by an internal authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are as per the Board approved delegated authority limits. The RMD assesses all investment and credit proposals prior to investments or facilities being committed. The RMD notes its concerns and comments on all applications prior to circulation for sign off. Renewals of credit facilities are subject to the same review process. Approvals for commitments are aligned with the Board approved risk appetite. Investment updates are periodically reviewed by the Board. Regular audits of business units and credit processes are undertaken by the Internal Audit department.

Management of investment and credit risk

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

- ensuring that the Group has in place investment and credit risk policies, covering risk 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 matrix;
- reviewing and assessing all investment and credit exposures, prior to any investments or facilities being committed. Renewals and reviews of investments and facilities are subject to the same review process;
- ongoing review of credit exposures. The risk assessment approach is used in determining where impairment provisions may be required against specific investment and credit exposures. Risk is assessed on an individual basis for each investment and credit exposure and is reviewed at least once a year; and
- reviewing the compliance of the business units with agreed exposure limits, including those for selected industries, country risk and product types. The RMD also provides advice, guidance and specialist skills to the business units to promote best practice throughout the Group in the management of investment and credit risk.

The RMD works alongside the Investment department at all stages of the investment banking transaction cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A fair and independent evaluation of investments takes place periodically with inputs from the Investment department. Quarterly updates of investments are presented to the Board or one of its committees. Regular audits of business units and Group credit processes are undertaken by the Internal Audit department.

The Group's exposures subject to credit risk are set out in a table to note 38(a) to the 2018 Financial Statements and are summarised below;

- the gross carrying amount of the Group's placements with financial institutions was U.S.$291 million as at 31 December 2018 and the ECL in relation to the exposure was U.S.$1 million. All of this exposure was classified at ECL Stage 1;
- the gross carrying amount of the Group's financing facilities was U.S.$983 million as at 31 December 2018 and the ECL in relation to the exposure was U.S.$63 million. U.S.$647 million of this exposure was classified at ECL Stage 1 and the ECL in relation to that exposure was U.S.$13 million. U.S.$128 million of this exposure was classified at ECL Stage 2 and the ECL in relation to that exposure was U.S.$10 million and U.S.$208 million of this exposure was classified at ECL Stage 3 and the ECL in relation to that exposure was U.S.$40 million;

- the gross carrying amount of the Group's assets acquired for leasing (including lease rentals receivable) was U.S.$295 million as at 31 December 2018 and the ECL in relation to the exposure was U.S.$7 million. U.S.$223 million of this exposure was classified at ECL Stage 1 and the ECL in relation to that exposure was U.S.$0.3 million. U.S.$23 million of this exposure was classified at ECL Stage 2 and the ECL in relation to that exposure was U.S.$0.4 million and U.S.$49 million of this exposure was classified at ECL Stage 3 and the ECL in relation to that exposure was U.S.$7 million;
- the gross carrying amount of the Group's investment in sukuk was U.S.$431 million as at 31 December 2018 and the ECL in relation to the exposure was U.S.$3 million. U.S.$428 million of this exposure was classified at ECL Stage 1 and the ECL in relation to that exposure was less than U.S.$0.1 million. U.S.$3 million of this exposure was classified at ECL Stage 3 and the ECL in relation to that exposure was U.S.$3 million;
- the gross carrying amount of the Group's balances with banks was U.S.$320 million as at 31 December 2018 and the ECL in relation to the exposure was U.S.$0.1 million. All of this exposure was classified at ECL Stage 1;
- the gross carrying amount of the Group's other assets exposed to credit risk was U.S.$154 million as at 31 December 2018 and the ECL in relation to the exposure was U.S.$0.2 million. All of this exposure was classified at ECL Stage 1; and
- the gross carrying amount of the Group's commitments and financial guarantees was U.S.$254 million as at 31 December 2018 and the ECL in relation to the exposure was U.S.$1 million. U.S.$243 million of this exposure was classified at ECL Stage 1 and the ECL in relation to that exposure was U.S.$1 million. U.S.$7 million of this exposure was classified at ECL Stage 2 and the ECL in relation to that exposure was U.S.$0.2 million and U.S.$4 million of this exposure was classified at ECL Stage 3 and the ECL in relation to that exposure was U.S.$0.3 million.

Significant increase in credit risk

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

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

- any downgrade in risk rating according to the approved ECL policy;
- any facilities restructured during the previous twelve months;
- any qualitative indicators, such as a significant deterioration in the credit profile of the exposure or any major stress in the sector or geography in which the exposure operates; and
- any facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances.

Credit risk grades

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

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

For corporate exposures

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

For retail exposures

- internally collected data on customer behaviour – for example utilisation of credit card facilities;
- affordability metrics;
- external data from credit reference agencies including industry-standard credit scores;

For all exposures

- payment record, including overdue status as well as a range of variables about payment ratios;
- utilisation of the granted limit;
- requests for and granting of forbearance; and
- existing and forecast changes in business, financial and economic conditions.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The performance and default information about credit risk exposures are analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

Statistical models are used to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (such as forbearance experience) on the risk of default. For most exposures, the key macro-economic indicators include: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Board and management level committees and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a base case view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios, see "—*Incorporation of forward-looking information*" below. The Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Qualitative indicators include different criteria used for different portfolios such as credit cards and commercial real estate.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Definition of default

The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations in full to the Group, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material obligation to the Group; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the IMF, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2018 included key indicators for the selected countries such as the unemployment rates, interest rates and the GDP growth.

Modified exposures subject to credit risk

The contractual terms of an exposure subject to credit risk may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

Financing to customers in financial difficulties may be renegotiated (referred to as "**forbearance**") to maximise collection opportunities and minimise the risk of default. Under the forbearance policy, forbearance of financing assets is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired or in default. A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired or in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that are expected to be received). ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

The key inputs into the measurement of ECL are the term structure of the following variables:

- PD;
- loss given default ("**LGD**"); and
- exposure at default ("**EAD**").

These parameters are generally derived from internally developed statistical models and other internal and external historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financing assets secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

The table below shows the carrying amounts of exposures subject to credit risk at 1 January 2018 (the date from which the Group first adopted FAS 30) by stage.

	Stage 1	Stage 2	Stage 3	Total
		(*U.S.$ thousand*)		
Bank balances	194,932	—	—	194,932
Placements with financial institutions	95,569	—	—	95,569
Financing assets	654,741	221,053	116,708	992,502
Assets acquired for leasing and lease rental receivables	210,119	43,517	29,955	280,591
Investment in sukuk	300,265	—	390	300,655
Other receivables	238,584	—	—	238,584
Commitments and financial guarantees	176,018	50,265	3,406	229,689
	1,870,228	**314,835**	**147,459**	**2,332,522**

The table below shows the breakdown of ECL by category of assets in the consolidated statement of financial position and off-balance sheet commitments as at 31 December 2018.

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
		(*U.S.$ thousand*)		
Balances with banks	134			134
Placements with financial institutions	953			953
Financing assets	12,631	9,801	40,168	62,600
Assets acquired for leasing and lease rentals receivables	281	369	5,865	6,515
Investment in sukuk	8		3,493	3,501
Other financial assets	236			236
Commitments and financial guarantees	531	223	318	1,072
Balance at 31 December 2018	**14,774**	**10,393**	**49,844**	**75,011**

The table below shows the reconciliation from the opening to the closing balance of the loss allowance in 2018: 12-month ECL, lifetime ECL and credit-impaired.

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
		(*U.S.$ thousand*)		
Balance at 1 January 2018	7,902	27,950	31,548	67,400
Transfer to 12 month ECL	8,456	(8,186)	(270)	—
Transfer to lifetime ECL not credit impaired	(838)	1,056	(218)	—
Transfer to lifetime ECL credit impaired	(607)	(6,534)	7,141	—
Net re-measurement of loss allowance	**(137)**	**(3,894)**	**15,796**	**11,765**
Write-off	—	—	(4,154)	(4,154)
Balance at 31 December 2018	**14,776**	**10,392**	**49,843**	**75,011**

Renegotiated facilities

During 2018, facilities of U.S.$45 million (2017: U.S.$67 million) were renegotiated, out of which U.S.$23 million (2017: U.S.$5 million) were classified as neither past due nor impaired as at 31 December 2018. The renegotiated terms usually require settlement of profit accrued until the date of settlement on the facility and/or the part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of U.S.$379 million as at 31 December 2018 (as at 31 December 2017: U.S.$311 million) and reflecting the fact that an entire facility is classified past due as soon as any part of it is past due, only instalments of U.S.$104 million (as at 31 December 2017: U.S.$5 million) were past due as at 31 December 2018.

Allowances for impairment

The Group makes provisions for impairment on individual assets classified under grades 8, 9 and 10 (the three lowest grades). This is done on the basis of the present value of the projected future cash flows from the assets themselves and consideration of the value of the collateral available. On a collective basis, the Group has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Non-accrual basis

The Group classifies a financing facility and a sukuk investment as non-accrual status if the facility or sukuk is past due for longer than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognised in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. During 2018, GFH did not write off any financing facilities. In 2017, it wrote off financing facilities amounting to U.S.$35 million which were fully impaired. During 2018, GFH recovered U.S.$698 thousand from a financing facility written off in previous years (2017: U.S.$268 thousand).

Collateral

The Group holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/ pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing. The valuation of any collateral is updated when the associated financing is put on a watch list and is monitored more closely. Collateral is not generally held against exposure to other banks and financial institutions or financings made in the ordinary course of its investment banking business by GFH.

The table below shows the Group's estimate of the fair value of collateral and other security enhancements held against financing assets and assets acquired for leasing including lease rentals receivable (referred to as "**secured assets**" in the table below) as at 31 December 2018.

	As at 31 December 2018
	Estimated total fair value
	(*U.S.$ thousand*)
Held against impaired secured assets	
Property collateral	151,347
Other collateral	5,817
Held against past due but not impaired secured assets	
Property collateral	107,769
Other collateral	7,769

Held against secured assets that are neither past due nor impaired	
Property collateral	451,769
Other collateral	32,934
Total	**757,405**

Note:
The collateral reported in the table includes the value of financial guarantees from banks, but not corporate and personal guarantees as their values are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

The Group's average collateral coverage ratio on secured facilities was 136.05 per cent. as at 31 December 2018.

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 the Group's concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits. The Group's geographical and industry-wise distribution of assets and liabilities as at 31 December 2018 are shown in note 34 to the 2018 Financial Statements.

LIQUIDITY RISK

Liquidity risk is defined as the risk to an entity's earnings and capital arising from its inability to meet its obligations in a timely manner when they fall due without incurring unacceptable losses.

Management of liquidity risk

GFH's approach to managing liquidity is to ensure 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. The liquidity requirements of the business units are met through treasury to cover any short-term fluctuations and through longer term funding to address any structural liquidity requirements.

The Group's daily liquidity position is monitored and regular liquidity stress testing is conducted under sufficiently severe but plausible scenarios and assumptions that are commensurate with the nature of the Group's business and its size and complexity. The scenarios adopted by the Group reflect a variety of scenarios covering both normal and more severe market and Group-related conditions. All liquidity policies and procedures are subject to review and approval by the Board. Daily reports covering GFH's liquidity position are circulated to the Asset and Liability Committee ("**ALCO**"). In additional, quarterly liquidity position reports are submitted to the BARC and the Board.

Note 38(b) to the 2018 Financial Statements contains a table that 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 as at 31 December 2018. 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. Note 33 to the 2018 Financial Statements contains a table that shows the expected maturity profile of the Group's assets and liabilities as at 31 December 2018.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will hold sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group aims to hold liquid assets comprising cash and cash equivalents, placements with banks and financial institutions, sukuk and other investments for which there is an active and liquid market in order to manage the liquidity risk arising from its financial liabilities. These assets can either be readily sold or the Group can raise funds against these assets to meet its liquidity requirements. Further, the Group is focusing on enhancing a pipeline of recurring revenue streams.

Measures of liquidity

GFH follows certain internal measures of liquidity. RMD monitors the liquidity profile on a daily basis and reports certain internal measures of liquidity to advise Treasury and ALCO on the Group's liquidity position and risk level. These metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for GFH. These internal measures include asset and liability maturity profiles, liquid asset concentrations, stability of funding sources and funding concentration in addition to liquidity ratios including a liquidity coverage ratio and a net stable funding ratio and other liquidity ratios. The Board has approved a liquidity risk appetite, limit and strategy to manage liquidity risk and ensure that risks remain within the Group's risk appetite.

MARKET RISK

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 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.

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. The majority of the Group's profit-based 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.

Note 38(c) to the 2018 Financial Statements contains a table that summarises the Group's profit rate gap position on its non-trading portfolios. This table shows a negative sensitivity gap for maturities of less than three months, maturities of between three and six months and maturities between six months and one year and an overall negative profit rate gap. This means that the Group is exposed to a reducing profit rate margin in an increasing profit rate environment.

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 parallel fall or rise in all yield curves worldwide.

The table below shows 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) during 2018.

	2018
	100 basis points parallel increase/decrease
	(*U.S.$ thousand*)
As at 31 December	+/- 9,017
Average for the year	+/- 4,340
Maximum for the year	+/- 11,495
Minimum for the year	+/- 7,975

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

The table below shows the effective average profit rates on the Group's financial assets, liabilities and unrestricted investment accounts for each of 2018, 2017 and 2016.

	2018	2017	2016
		(*per cent.*)	
Placements with financial institutions ..	3.22	1.87	1.68
Financing assets..................................	5.96	6.12	5.89
Debt type investments	5.24	5.20	5.41
Placements from financial institutions, other entities and individuals................	6.22	2.60	1.78
Financing liabilities	3.61	4.58	3.59
Equity of investment account holders...	6.15	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 Group's major exposure is in GCC currencies, most of which are pegged to the U.S. dollar.

The table below shows the Group's significant net exposures denominated in foreign currency from its financial instruments as of 31 December 2018.

	As at 31 December 2018
	(*U.S.$ thousand equivalent*)
Pounds sterling	(1,715)
Euro	(1,020)
Australian dollars	12,273
Kuwaiti dinar..	227,797
Jordanian dinar	6
Moroccan dirham	11,478
Tunisian dinar..	191,170
Indian rupee...	253,749
GCC currencies pegged to the U.S. dollar.......................	(597,608)

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 per cent. plus or minus change in exchange rates, other than for GCC pegged currencies.

The table below shows 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) in 2018.

	2018
	5 per cent. plus/minus change in exchange rates
	(*U.S.$ thousand*)
Pounds sterling	+/- 86
Euro	+/- 51
Australian dollars	+/- 614
Kuwaiti dinar..	+/- 11,390
Jordanian dinar	+/- 0.32
Moroccan dirham	+/- 574

Tunisian dinar	+/- 9,559
Indian rupee	+/- 12,687

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk is monitored using specified limits (such as stop loss limit, stop loss trigger and overall stop loss limit cap). The Group's unquoted equity type instruments carried at cost are exposed to risk of changes in equity values. GFH manages the Group's exposure to other price risks by actively monitoring the performance of the unquoted equity securities.

Management of market risks

As a matter of general policy, the Group does not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. GFH seeks to manage currency risk by continually monitoring exchange rates against Board approved limits for different currencies. Profit rate risk is managed principally through monitoring profit rate gaps, by having pre-approved limits for repricing bands and assessment of the impact on earnings and equity value. Equity price risk is managed by setting exposure limits on each of the instruments in accordance with the Group's delegated authority level matrix and regular monitoring and reporting of market prices. Overall authority for market risk is vested in the BARC. The RMD is responsible for the development and recommendation of detailed risk management policies, procedures and risk appetite limits for market risk.

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.

Operational risk management

Whilst operational risk cannot be eliminated entirely, GFH endeavours to minimise it by ensuring that a strong control infrastructure is in place throughout the Group. Various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. The RMD manages the framework and facilitates the process of operational risk management by assisting in the identification of, monitoring and managing of operational risk in the Group.

GFH has an operational risk management framework manual which includes components such as key risk indicators, operational loss data and risk and control self assessment.

To ensure effective governance across all processes and functions, GFH has adopted a three lines of defence approach, under which:

- the first line of defence is the business line operations which (i) embed the risk management framework and sound risk management practices into their standard operating procedures, (ii) monitor risk management performance and (iii) are accountable for their effectiveness of risk management;
- the second line of defence is the RMD which (i) develops and implements the risk management framework, including the relevant risk management policies, systems, processes and tools, (ii) ensures that the framework encompasses event identification, risk assessment, risk response, control activities, information and communication, monitoring and reporting and (iii) exercises approval authorities in accordance with delegated authorities; and
- the third line of defence is the Internal Audit department which (i) reviews the effectiveness of the risk management practices, (ii) confirms the level of compliance with the operational risk policy and (iii) recommends improvements and enforces corrective action where necessary.

GFH's definition of operational risk also includes legal and *Shari'a* compliance risk. This is defined as an operational risk facing Islamic banks which can lead to loss of reputation, non-recognition of income and loss of revenue. This definition excludes strategic, liquidity, credit, market and reputational risks. However, operational risk that has a direct impact upon reputation (and by default a subsequent impact on profit and/or performance) is formally considered and reported upon. Whilst operational risk excludes losses attributable to traditional banking risk (credit, market and liquidity), GFH recognises that operational risk is attached to the management of those traditional risks. For example, operational risk includes legal and compliance related risks attached to the management of credit and market risk.

Legal, compliance and regulatory risk

Legal, compliance and regulatory risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures or ethical standards.

The Group has established approved policies in relation to legal, regulatory and compliance risk and has dedicated compliance and legal departments. Compliance is the responsibility of all members of staff. The compliance monitoring plan and compliance training programmes are also designed to minimise the risk of non-compliance. In addition, GFH's legal department comprises in-house legal advisers who are consulted on all major activities conducted by it. All contracts and documents must also be reviewed by the legal department.

***Shari'a* compliance**

The Group's Shari'a Supervisory Board (the "**SSB**") comprises four Islamic scholars who review the Group's compliance with general *Shari'a* principles and specific fatwas, rulings and guidelines. Their review includes examination of the documentation and procedures adopted by the Group to ensure that the Group's activities are conducted in accordance with Islamic *Shari'a* principles. GFH also has a dedicated internal *Shari'a* team which performs an ongoing review of compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the *Shari'a* standards prescribed by AAOIFI.

OTHER RISKS

Strategic/business risk

Strategic/business risk refers to the risk that the Group would be exposed to in the event that its business strategy and plan are not achieved and could have an adverse impact on the Group's profitability and capital position.

The Group has a robust budgeting process. The approved budget forms a baseline for the Group's businesses and support functions to assess their performance. The Group has established monitoring mechanisms to periodically identify and assess any deviation from the approved business plans that could impact its performance in terms of asset growth and financial health or which could lead to an adverse impact on the Group's profitability and capital position. Mechanics include key performance indicators, internal capital adequacy assessment process, key risk indicators and risk policies that reduce the inherent risks to which the Group is exposed.

Reputational risk

Reputational risk is the risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect the Group's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. As an Islamic investment bank, reputation is an important asset and among the issues that could affect GFH's reputation are the inability to exit from investments, lower than expected returns on investments and poor communication to investors. A well developed and coherently implemented communication strategy coupled with a strong corporate governance process help GFH to mitigate reputational risks.

Displaced commercial risk

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

Other risks

Risk management has been embedded in GFH's policies, procedures and reports. The Board has overall responsibility for approving and reviewing GFH's risk strategies and significant amendments to the risk policies. GFH's senior management is responsible for implementing the risk strategy approved by the Board to identify, measure, monitor and control the risks faced by it. As a matter of policy, GFH regularly reviews and monitors financial and marketing strategies, business performance, new legal and regulatory developments and their potential impact on GFH's business activities and practices.

MANAGEMENT AND EMPLOYEES

BOARD OF DIRECTORS

The Board is responsible for the establishment and oversight of the Group's business strategy and priorities, setting high-level policies and overall management, and is accountable to shareholders for the financial and operational performance of the Group. It is responsible for the raising and allocation of capital, monitoring of Executive Management and its conduct of the Group's operations, making critical business decisions and building long-term shareholder value. The Board ensures that the Group manages risk effectively, by approving and monitoring the Group's risk appetite, and identifying and guarding against the longer-term strategic threats to the business.

In line with applicable regulations and international best practices, the Board has instituted corporate governance measures to ensure that the interests of all shareholders are protected, including the requirement that more than one-third of the Board's directors are Independent Directors (as defined in the CBB Rulebook).

The Board has established a written compliance policy governing the Group's compliance with all laws and regulations, in particular those issued by the CBB and other relevant regulators. The Board has delegated overall responsibility for the Group's compliance function to GFH's Chief Executive Officer (the "**CEO**"). In practice, the Group's day-to-day compliance function is carried out through a dedicated compliance department, with a mandate to cover all aspects of compliance, as applicable to the Group as a whole, including: formulation of effective policies and processes for the management of the Group's compliance risk; assisting Executive Management and staff in managing compliance risk; advising on laws and regulations and applicable compliance standards; disseminating compliance policies and providing guidelines to the Group's staff members; ensuring an effective compliance framework; providing periodical reports to the Board in connection with compliance controls; and establishing operational controls and a robust Know Your Customer and Anti-Money Laundering framework.

The Board meets regularly and, at a minimum, four times a year. The Board has met five times to date in 2019 and met seven times in 2018, six times in 2017 and seven times in 2016. The Board is required to maintain a minimum of five and a maximum of 14 members, and currently comprises nine members. Members of the Board hold office for a three-year renewable term. The current term of office of the Board expires in March 2020.

The table below provides brief information about the members of the Board.

Name	Position	Date appointed
Mr. Jassim Mohamed Rafi Alseddiqi Alansaari	Chairman and Executive Director	1 March 2017
H.E. Shaikh Ahmed Bin Khalifa Al Khalifa	Vice Chairman and Executive Director	1 March 2017
Mr. Hisham Ahmed Noor Al Rayes	Executive Director	1 March 2017
Mr. Musabah Said Musabah Al Mutairy	Independent Director	1 March 2017
Mr. Bashar Mohamed Ebrahim Al Mutawa	Independent Director	1 March 2017
Mr. Ghazi Faisal Ebrahim Al Hajeri	Independent Director	1 March 2017
Mr. Rashid Nasser Rashid Al Kaabi	Non-Executive Director	1 March 2017
Mr. Mustafa Ghazi Kheriba	Executive Director	27 March 2017
Mr. Amro Saad Omar Saad Al Menhali	Independent Director	28 March 2017

Mr. Jassim Alseddiqi, Chairman and Executive Director

Mr. Jassim Alseddiqi is the Chairman and Executive Director of GFH. Mr. Alseddiqi is also the chief executive officer of ADFG, an Abu-Dhabi based global investment group. He brings extensive investment expertise and a dynamic and innovative approach.

Mr. Alseddiqi is also the Chairman of KHCB and Eshraq Properties. He also serves on the boards of several institutions including First Abu Dhabi Bank, the Abu Dhabi Tourism and Development

Investment Company, Abu Dhabi Capital Group and ADNOC Distribution.

Mr. Alseddiqi holds a bachelor's degree in Electrical Engineering from the University of Wisconsin-Madison and a master's degree in Electrical Engineering from Cornell University. He has also served as a lecturer at the Abu Dhabi-based Petroleum Institute.

H.E. Shaikh Ahmed Bin Khalifa Al Khalifa, Vice-Chairman and Executive Director

H.E. Shaikh Ahmed Al Khalifa has more than 23 years' experience ranging from banking to advisory and ministerial positions. He is currently the Advisor for Community Affairs at the Bahrain Crown Prince Court (Rank of Minister).

In 2009, H.E. Al Khalifa became the Advisor to His Royal Highness the Crown Prince of Bahrain (Rank of Minister). In 2006, he was the Secretary General of the Supreme Council for Defence of Bahrain (Rank of Minister). Shaikh Ahmed also served as the Bahraini ambassador to the UAE from 2000 to 2006. He has also worked with Arab Banking Corporation ("**ABC**"), including as head of the ABC office in Abu Dhabi.

H.E. Al Khalifa holds a bachelor's degree in Computer Science and Accounting from the University of Bahrain. He also holds a certificate from the College of Science at King Fahad University of Petroleum and Minerals. Shaikh Ahmed also holds the Global Credit Analysis Certificate from BPP Training and Consultancy in London, and the Gulf Executive Management and Strategic Leadership Certificate from Colombia University in New York.

Mr. Hisham Al Rayes, Executive Director

Mr. Hisham Al Rayes has been the CEO of GFH since 2012.

Prior to his appointment as CEO, Mr. Al Rayes was GFH's Chief Investment Officer during which he was responsible for driving the development and execution of its regional and international investment strategy along with management of the Group's liabilities.

Before joining the Group in 2007, Mr. Al Rayes was part of the senior management team of the Bank of Bahrain & Kuwait ("**BBK**"), a leading commercial bank in Bahrain. During his tenure at BBK, Mr. Al Rayes was responsible for a number of key projects and new venture initiatives, including establishing one of BBK's key subsidiaries as well as developing BBK's e-banking platform.

Mr. Al Rayes is the chairman of Balexco and Gulf Holding Company and a director in KHCB, Falcon Cement Company, GFH Capital and Shuaa Capital.

Mr. Al Rayes holds a master's degree with honours in Business Administration from the University of DePaul, Chicago and a bachelor's degree in Engineering with honours from the University of Bahrain.

Mr. Musabah Al Mutairy, Independent Director

Mr. Musabah Al Mutairy has extensive financial expertise gained throughout his 26-year career in the fields of investment, finance and accounting. He is currently a member of several boards including the board of directors and investment committee of Royal Guard of Oman Pension Fund. He is also a member of the board of directors at Hotels Management Company International, Bank Nizwa, Oman Munitions Production Company, Takaful Oman Insurance and Oman National Investments Development Company.

Mr. Al Mutairy currently holds a Master of Business Administration ("**MBA**") in Finance from the University of Humberside & Lincolnshire and a bachelor's degree in Accounting from South West London College in the UK. In addition, he holds several internationally recognised accounting qualifications.

Mr. Bashar Al Mutawa, Independent Director

Prior to his appointment as Board member and Board advisor, Mr. Al Mutawa was managing director of Noon Investment Company, a real estate focused investment company. Before that, he was employed as a consultant with KPMG's Corporate Advisory Department, responsible for providing corporate advice to major corporations and companies in Bahrain, including financial institutions, industry, government entities and real estate companies.

Mr. Al Mutawa is also a board member of Al Jazeer Tourism Company, Naseej BSC, Tahsyeed Properties, Bahrain Film Production Company and Saar Investment Company.

Mr. Al Mutawa graduated from Babson College, Boston in 2000 with a bachelor's degree in Finance and Economics.

Mr. Ghazi Al Hajeri, Independent Director

Mr. Ghazi Al Hajeri is the deputy CEO of Touristic Enterprises Co., an entity owned by the Kuwait Investment Authority, where he is responsible for facility operations and development. Mr. Al Hajeri was managing director of Wafra InterVest Corp. He established its regional office in 2007 and was its regional director until 2017. Mr. Al Hajeri was responsible for the firm's regional business strategy and product development and served as a corporate liaison with the firm's largest clients. Mr. Al Hajeri also managed complex projects for sovereign wealth and pension clients that included asset allocation, business development and investment planning.

Mr. Al Hajeri was a member of the Alternative Investments Division Committee and responsible for reviewing and monitoring external investment managers while directing departmental strategy at Wafra Investment Advisory Group in New York from 2000 – 2006. Prior to that, Mr. Al Hajeri served as an assistant to financial consultant at Merrill Lynch.

Mr. Al Hajeri holds a bachelor's degree in Science in Business Administration from the University of Denver.

Mr. Rashid Al Kaabi, Non-Executive Director

Mr. Rashid Al Kaabi is the vice chairman for Al Sraiya Holding Group, a group with diversified operations in engineering consultancy, civil construction, readymix, concrete blocks, interlock tiles, electrical products, landscaping and water management. Mr. Al Kaabi is member of the board of directors of the Qatar Chamber of Commerce and Industry ("**QCCI**"), chairman of the industry committee at QCCI and head of the Qatari side in the Qatari-Lebanese Business Council, a member of the steering committee of Manateq (Qatar Economy Zones Company) and a member of the board of Qatar Enterprises Company.

Mr. Al Kaabi holds a bachelor's degree in Law from Beirut Arab University and a Doctor of Honours in Business Management from the Open International University for complementary Medicine and Medicina Alternativa.

Mr. Mustafa Kheriba, Executive Director

Mr. Mustafa Kheriba is the deputy CEO and group head of asset & wealth management at ADFG and executive director of ADFG's investment manager, ADCM Ltd.

Mr. Kheriba manages the investment activities, business development and control aspects of ADFG and its subsidiary companies. He also oversees deal origination, fund raising activities and directly manages key investments for the group.

Mr. Kheriba currently serves as executive director of Integrated Alternative Finance Ltd., Spadille Ltd, Northacre Plc, Reem Finance (PrJSC) and Integrated Securities (L.L.C.), in addition to being a non-executive director at Qannas Investments Limited. Mr. Kheriba is also currently a board member and managing director of Gulf Finance Company (PrJSC) in the UAE and Saudi Arabia. He also serves on the board of directors of KHCB, Gulf Finance House (B.S.C.), Dalama Insurance Company (PJSC) and ADCorp.

Mr. Kheriba has previously held senior posts in financial services and investment companies in the GCC, the US and Canada. He was named among the top 50 MENA Fund Managers in the annual survey conducted by MENA FM Magazine in 2015 and 2016.

Mr. Kheriba holds a bachelor's degree from the University of Toronto and an MBA from Ohio Dominican University with Magna Cum Laude honors.

Mr. Amro Al Menhali, Independent Director

Mr. Amro Al Menhali has 20 years' experience in leading UAE banks in a variety of leadership roles across the banking industry. In his previous roles, he helped formulate a robust credit risk culture and also headed an Islamic banking business during its transformational stage.

Mr. Al Menhali sits on several boards and is a representative in the UAE Banks Federation. He has acquired expertise in finance, risk, strategy and corporate governance.

Mr. Al Menhali holds a bachelor's degree with honours in Business Administration. He also successfully completed a post-graduation General Management Programme from Harvard Business School in May 2011.

BOARD COMMITTEES

The Board has established three Board committees, membership of which is drawn from the Board, and to which it has delegated specific responsibilities.

Board Executive Committee

The Board Executive Committee approves investment and funding requests, prepares the investment policies and controls, organises banking relationships and oversees items that are not included in the budget.

The members of the Board Executive Committee are Jassim Alseddiqi, Shaikh Ahmed Al Khalifa, Hisham Al Rayes and Mazen Al Saeed. The committee is required to meet at least four times a year. The committee met five times in 2018. The predecessor to the Board Executive Committee, the Board Investment Committee, met seven times in 2017 and eight times in 2016.

Board Audit and Risk Committee

The BARC monitors the internal and external audit, risk management and compliance and anti-money laundering matters.

The members of the BARC are Bashar Al Mutawa, Ghazi Al Hajeri and Musabah Al Mutairy. The committee is required to meet at least four times a year. The committee met seven times in 2018, five times in 2017 and six times in 2016.

Board Nomination Remuneration and Governance Committee

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

The members of the BNRGC are Musabah Al Mutairy, Ghazi Al Hajeri and Amro Al Menhali. The committee is required to meet at least twice a year. The committee met twice in 2018, four times in 2017 and twice in 2016.

EXECUTIVE MANAGEMENT

The Board has delegated to the Executive Management the primary responsibility for implementing the strategy of the Group, identifying and evaluating significant risks to the business of the Group and for the design and operation of appropriate internal controls.

The table below provides the name, current position and date of joining the Group for each of the members of the Executive Management team.

Name	**Position**	**Date joined**
Mr. Hisham Al Rayes	CEO	29 May 2007
Mr. Baha Al-Marzooq	Chief Internal Audit	15 February 2006
Mr. Hammad Younas	Chief Investment Management	16 November 2016
Mr. Salah Sharif	Chief Administrative Officer	1 October 2016

Mr. Suryanarayanan Hariharan	Head of Financial Control	2 November 2014
Mr. Salem Patel	Head of Proprietary Investment	21 August 2007
Mr. Ahmed Jamsheer	Acting Head of Treasury & Capital Markets	01 March 2016
Mr. Abesh Chatterjee	Head of Risk Management	23 October 2016
Mr. Hussain Abbas	Head of Internal Audit	25 June 2006
Mr. Imran Sami	Head of Legal	25 May 2016
Dr. Mohammed Abdulsalam	Head of Shari'a & Corporate Secretary	27 August 2006
Mr. Hazim Abdulkarim	Head of SPV Administration & Government Relations	1 September 2000
Ms Maryam Jowhary	Head of Compliance	22 December 2019
Mr. Nabeel Mirza	Corporate Governance Officer	22 April 2012
Mr. Osama Janahi	Head of Information Technology	7 October 2000
Ms. Muneera Isa	Head of Human Resources	1 September 2014
Mr. Mohammed Abdulmalik	Head of Placement Management	1 October 2002
Mr. Mohamed Khonji	Head of UAE Market	2 November 2014
Mr. Razi Almerbati	Head of Riyadh & Jeddah Markets	15 January 2015
Mr. Ebrahim Alshaibeh	Head of Bahrain, Oman & Eastern Province Markets	3 April 2016
Mr. Osama Alharam	Head of Kuwait Market	3 December 2017
Shaikh Hamed Al Khalifa	CEO – GFH Properties	15 December 2019
Mr. Timothy O'Donnell	Senior Executive Director – Development, GFH Properties	19 May 2019
Ms. Ahlam Zainal	Senior Director - Development, GFH Properties	20 May 2019
Mr. Rakesh Patnaik	Senior Executive Director – CEO of India Projects	13 January 2019
Mr. Chetan Dongra	Executive Director, Infrastructure Development	26 May 2011
Dr. Essa Faqeeh	CEO – Al-Areen Investment Company	2 January 2018

Mr. Hisham Al Reyes, CEO

See "—*Board of directors*" above.

Mr. Baha Al-Marzooq, Chief Internal Audit

Mr. Baha Al-Marzooq supports the Group's strategic success by ensuring a systematic and disciplined approach to internal control, risk management and governance processes. A member of GFH's Management Committee, he also leads several departments, either directly or administratively, including Corporate Control, IT, Litigation, Legal and Compliance.

Mr. Al Mazrooq has 20 years' experience in auditing and banking in the Islamic and investment banking sectors. Prior to joining the Group, Mr. Al Mazrooq worked with Ernst & Young – Bahrain as manager in the assurance services of the Islamic banking group during which time he also served in other regional offices including Kuwait, Qatar and Houston in the United States.

Mr. Al Mazrooq holds a bachelor's degree in Accounting from Bahrain University and is a Certified Public Accountant (CPA) California, USA in 2001. He holds an Executive MBA from the University of Bahrain in addition to a number of specialised professional qualifications including Certified Internal Auditor, Chartered Global Management Accountant and a Certification in Risk Management Assurance.

Mr. Hammad Younas, Chief Investment Management

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

Mr. Younas has more than 20 years' experience in corporate finance, investment banking, private equity, real estate and asset management, including regional and cross-border transactions in the MENA region, the US, Europe and South Asia across multiple sectors and asset classes. His transaction experience includes mergers and acquisitions, initial public offerings, listings, secondary offerings, private placements and debt raising.

Prior to joining GFH in 2016, Mr. Younas was a Partner at Ernst & Young MENA and their transaction advisory leader for Bahrain. He was also the CEO of Ernst &Young Corporate Finance, Bahrain. Mr. Younas spent more than 13 years with Ernst & Young advising a wide range of clients including financial institutions, sovereign wealth funds, private equity and real estate investment firms, governments, family businesses and high net worth individuals on their investment, capital raising, performance improvement, restructuring and strategy.

Mr. Younas is a CFA charter holder from the CFA Institute USA, an ACCA from the Association of Chartered Certified Accountants of the UK and ACA from the Institute of Chartered Accountants of Pakistan.

Mr. Salah Sharif, Chief Administrative Officer

Mr. Salah Sharif participates in the strategic and day to day management of the Group's core corporate support functions and is responsible for ensuring that high standards of operational excellence are achieved for the Group's special purpose vehicles and project companies. He also serves as a board member in several of the Group's project and operating companies.

Mr. Sharif has more than 30 years' experience in both conventional and Islamic financial institutions. His experience covers commercial and wholesale banking and the industrial/infrastructure advisory sector. Before joining the Group in 2016, he served as the CEO of Cemena Holding Company ("**CHC**"), an industrial subsidiary of the Group and one of the largest cement holding companies in the MENA region.

Mr. Sharif has also held a number of senior roles at global financial institutions, including operations and facilities manager for the Middle East & North Africa at American Express in Bahrain and at Standard Chartered Bank in Bahrain where he held various managerial and executive positions, including head of operations.

Mr. Sharif holds an MBA with a distinction from the University of South Wales, UK.

Mr. Suryanarayanan Hariharan, Head of Financial Control

Mr. Suryanarayanan Hariharan works closely with the Group's executive management team and is responsible for accounting, financial planning and analysis and stakeholder reporting, including regulatory reporting, for the Group and its subsidiaries. Mr. Hariharan has more than 16 years' experience in stakeholder reporting, audit services, business process improvement and transition and risk advisory. Prior to joining the Group in 2014, Mr. Hariharan was the head of finance for a private equity venture in Abu Dhabi. Before that he was with KPMG in both Bahrain and Qatar and PricewaterhouseCoopers in India.

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

Mr Salem Patel, Head of Proprietary Investment

Mr. Salem Patel facilitates strategic transactions for GFH. He has over 20 years' local and international financial industry experience, having previously worked in the financial services division with Accenture in London and before that as a financial analyst with Longview Partners, London. He also held roles in equity research at both UBS and Société Generale.

Mr. Patel currently holds a number of directorships, including GFH Properties, Al Khaleej Funds and Investment Company (Al Basha'er GCC Equity Fund) and Sheffield School. He graduated from the City University Business School in London with a B.S.C (Hons) in Business Studies specialising in Finance and has obtained a number of certifications including the Islamic Finance Qualification and the Securities and Futures Authorities Registered Representative. He also recently completed a Senior Executive Leadership Program at Harvard Business School.

Mr. Ahmed Jamsheer, Acting Head of Treasury & Capital Markets

Mr. Ahmed Jamsheer is currently overseeing the Group's treasury and capital markets activities and has over 12 years' experience in financial markets, particularly fixed income, money markets, equities, alternative investments, liquidity management and debt financing.

Mr. Jamsheer was previously the head of capital markets, finance and investments in Promoseven Holdings and managing partner in Fortuna Company.

Mr. Jamsheer holds a master's degree in Finance with High Distinction and a bachelor's degree in Finance & Information Technology from Bentley University in Waltham, Massachusetts.

Mr. Abesh Chatterjee, Head of Risk Management

Mr. Abesh Chatterjee is the Group's Head of Risk Management. He has over 11 years' experience in risk management. He is responsible for managing all types of risk, including credit, market, liquidity and operational risk across the Group and ensuring that the risk framework is effective. He works closely with the CEO and other members of the Group's executive management team and reports independently to the Board Audit & Risk Committee.

Mr. Chatterjee began his career as a risk management professional in India with ICICI Bank. He subsequently transferred to Bahrain where he managed the risk management function of ICICI Bank Bahrain. He also worked as head of risk management in International Investment Bank, Bahrain. In addition to risk management, Mr. Chatterjee has experience in enterprise resource planning system development and engineering gained while working at Infosys Technologies Limited and Larsen & Toubro Limited in India.

Mr. Chatterjee holds a post graduate diploma in Management from NITIE in India and a bachelor's degree in Mechanical Engineering from Jadavpur University in India. He has also completed a certification in Financial Risk Manager from the Global Association of Risk Professionals.

Mr. Hussain Yousif, Head of Internal Audit

Mr. Husain Yousif is the Group's Head of Internal Audit and is responsible for managing the Group's internal audit department and the establishment and oversight of all of its risk-based internal audit activities aimed at ensuring the effectiveness and efficiency of internal control, risk management and governance systems and processes, regulatory and other compliance, reliability and integrity of the Group's information and data and safeguarding its assets.

Mr. Yousif has 16 years' experience in all aspects of internal audit including both domestic and international audit practices. Prior to joining the Group in 2006, he worked at the Bahrain Commercial Facilities Company – Tasheelat as an internal auditor and began his career in audit at Ernst & Young.

Mr. Yousif holds a bachelor's degree and diploma in Accounting from the University of Bahrain and is a Certified Public Accountant, a Certified Internal Auditor and is certified in Risk Management Assurance.

Mr. Imran Sami, Head of Legal

Mr. Imran Sami's experience covers all aspects of both public and private national and cross border mergers and acquisitions and capital markets transactions. He also has wide experience of acting for private equity and venture capital funds and businesses. He supports the Group's general corporate, commercial and financing legal matters, and works with external local and international counsel on regulatory and litigation matters.

Prior to joining the Group in 2016, Mr. Sami was a partner and head of the international transactions practice at Burlingtons LLP, an international law firm based in London. Before this, he led Clyde & Co's Middle East regional private equity practice, was a corporate partner at Starr & Partners and a partner at the London office of US law firm Katten Muchin Rosenman LLP.

Mr. Sami holds a bachelor's degree in law from University College London and a postgraduate diploma in Legal Practice from the College of Law, Guildford. He is a member of the New York State Bar and is a solicitor in England & Wales.

Dr. Mohammed Abdulsalam, Head of Shari'a & Corporate Secretary

As Head of Shari'a and Corporate Secretary at GFH, Dr. Mohammed Abdulsalam supervises all the Group's transactions to ensure that they are conducted in accordance with the teachings of Islamic Shari'a. Dr. Abdulsalam is also responsible for ensuring that the records, meetings and minutes of the Board and its committees are properly maintained in addition to moderating meetings, and managing all record keeping activities for GFH's project companies.

Dr. Abdulsalam joined the Group in 2006 with 17 years' *Shari'a* experience. Prior to joining GFH, Dr. Abdulsalam worked with other Islamic financial institutions in Bahrain. He was a *Shari'a* auditor at Kuwait Finance House and an internal auditor at Bahrain Islamic Bank.

Dr. Abdulsalam obtained his bachelor's degree in Islamic Accounting in 2003 from Al-Imam Mohammed Ibn Saud University. He also holds an MBA in Accounting and Financial Control and a Ph.D in Accounting. He has also pursued additional qualifications including a Masters of Shari'a and Accounting Standards from AAOIFI and courses in Shari'a Control Fatwa for Islamic banks. Dr. Abdulsalam also completed the third module of the International Arbitration Certificate from the Bahrain Chamber for Dispute Resolution in 2014.

Mr. Hazim Abdulkarim, Head of SPV Administration & Government Relations

Mr. Hazim Abdulkarim's responsibilities include ensuring transparent communications with stakeholders and shareholders and building brand equity both online and offline.

Mr. Abdulkarim has more than 23 years' industry experience. Since his appointment in 2000, he has held several positions within the Group, including roles in Operations and Fund Administration, and directorships in several project companies and special purpose vehicles. Prior to joining the Group, he worked in the corporate banking division of Bank of Bahrain and Kuwait.

Mr. Abdulkarim holds an MBA from the University of Glamorgan, UK and an Advanced Diploma in Islamic Banking. He has also passed the Investment Representative Certification Series 7.

Ms Maryam Jowhary

Ms. Maryam Jowhary joined the Group in 2019. She is responsible for establishing and maintaining a robust and effective compliance and corporate governance framework across the Group that complies with regulatory requirements and industry legislation. She is also responsible for ensuring compliance with the rules and regulations of the CBB, the Bahrain Bourse, the Dubai Financial Market, the UAE Securities and Commodities Authority, the Boursa Kuwait and the Kuwaiti Capital Markets Authority.

Ms. Maryam has significant experience in compliance and anti-money laundering. She works closely with the CEO and other members of the Group's executive management and reports independently to the Board Audit & Risk Committee. Ms. Jowhary has previously worked with Bahraini Saudi Bank and most recently in Central Bank of Bahrain for more than 14 years.

Ms. Jowhary holds a bachelor's degree in Banking and Finance from the University of Bahrain, an Advanced Islamic Banking Diploma from BIBF, as well as APRM & CIPA Certifications.

Mr. Nabeel Mirza, Corporate Governance Officer

Mr. Nabeel Mirza joined the Group in April 2012 and has recently taken the role of Corporate Governance Officer, where he is responsible for monitoring and embedding corporate governance standards within the Group whilst ensuring that the commitments of senior management remain in alignment with the Group's interests and regulatory requirements. Additionally he is responsible for the development and implementation of authority matrixes, corporate governance framework and practices across the Group. He is also designated as the Data Protection Officer for the Group.

Prior to this role, Mr. Mirza was the GFH's Head of Compliance and Money Laundering Reporting Officer for over 7 and a half years and has also held compliance roles at Mashreq Bank and Citibank.

Mr. Mirza holds a Master's degree in Public Administration from the University of Karachi and has completed a number of professional courses in compliance, risk management and corporate governance.

Mr. Osama Janahi, Head of Information Technology

As Head of Information Technology, Mr. Osama Janahi oversees the application, development and infrastructure teams. In 2000, he was part of the team that established GFH's IT department.

Mr. Janahi has previously worked with Al Baraka Bank and Arthur Anderson.

He holds a bachelor's degree in Computer Science from the University of Bahrain. He also has IT technical and non-IT professional certifications, including CISA, ITIL and Oracle.

Ms. Muneera Isa, Head of Human Resources

Ms. Muneera Isa manages employee strategies, recruitment, development and retention, career progression and performance management in addition to compliance, policy making and the overall implementation of regulations relating to human resources ("**HR**").

Ms. Isa joined the Group in September 2014 and has more than 17 years' HR experience with regional and international financial institutions in the Kingdom of Bahrain, including Bahrain Mumtalakat Holding Company, Capivest and BNP Paribas.

Ms. Isa holds a bachelor's degree in English Literature from the University of Bahrain and a level 5 Chartered Institute of Personal Development Certificate.

Mr. Mohammed Abdulmalik, Head of Placement Management

Mr. Mohammed Abdulmalik is the Group's Head of Placement Management. He is responsible for developing and implementing placement strategies and business models designed to capitalise on current market dynamics and potential opportunities. Mr. Abdulmalik is also a board member of Capital Real Estate Projects and Sheffield Private School.

Mr. Abdulmalik has 21 years' industry experience. Prior to joining the Group in 2002, he held a number of roles in financial control and auditing with Arthur Anderson, Ernst & Young and HSBC.

Mr. Abdulmalik holds a bachelor's degree in Accounting from the University of Bahrain.

Mr. Mohamed Khonji, Head of UAE Market

Mr. Mohamed Khonji is an Executive Director in the Placement & Relationship Management department heading the UAE market.

Mr. Khonji has more than 21 years' experience in investment, relationship management, wealth management, business development and corporate communications. Before he joined the Group in 2014, he had worked at International Investment Bank, First Energy Bank and Qatar First Bank.

Mr. Khonji holds an MBA from the University of Hull, UK and is a graduate of the Harvard Business School Executive Program. He is a Certified Islamic Financial Analyst and an Associated Member of Chartered Wealth Management at the International Academy of Finance Management, UAE. He has also gained the Securities Market Regulation Certificate Series 79.

Mr. Razi Almerbati, Head of Riyadh & Jeddah Markets

Mr. Razi Almerbati is a Senior Executive Director in the Placement & Relationship Management team, responsible for overseeing the Riyadh and Jeddah markets . He has more than 15 years' experience in the banking and finance sector, including in Islamic investments and advisory. His areas of expertise include private banking and wealth management as well as private equity.

Prior to joining GFH in 2015, he most recently served as head of investment development & distribution for the GCC region at The First Investor in Qatar, a subsidiary of Barwa Bank. Prior to that, he was regional director of the Investment Advisory Group of Abu Dhabi Investment House. Mr. Almerbati began his career with Deutsche Bank in Bahrain.

Mr. Almerbati is currently a board member of Falcon Cement Company and a member of that board's audit committee.

Mr. Ebrahim Alshaibeh, Head of Bahrain, Oman & Eastern Province Markets

Mr. Ebrahim Alshaibeh is an Executive Director in the Placement & Relationship Management team, responsible for the Bahrain, Oman & Eastern Province markets. Prior to that, Mr. Alshaibeh was the Chief Business Development Officer in the Group's subsidiary, GFH Properties.

Mr. Alshaibeh also served 5 years in Omniyat, a Dubai-based real estate development company. In addition, he spent most of his professional career as an investment banker, with approximately 12 years' experience.

Mr. Osama Alharam, Head of Kuwait Market

Mr. Osama Alharam is an Executive Director in the Placement & Relationship Management team, responsible for the Kuwait market. He has more than 20 years' experience in investments, strategy and management. Prior to joining the Group in 2017, he was a principle for the Kuwait market with Arcapita for over 11 years, managing the firm's placements and relationships.

Previously, Mr. Alharam held senior roles Saudi Bahraini Transport Co and Bahrain Limo, the AlBassam Group of Companies and PricewaterhouseCoopers in both Bahrain and Saudi Arabia.

Mr. Alharam holds a bachelor's degree in Business Administration & Marketing Analysis from Fort Lewis College, Colorado.

Shaikh Hamed Al Khalifa, CEO – GFH Properties

Shaikh Hamed Al Khalifa currently holds the position of CEO in GFH Properties. Mr. Al-Khalifa holds a bachelor's degree in Science in Systems Analysis Engineering as well as a master's degree in Engineering Management from the George Washington University, USA. He has previously worked in Mumtalakat and most recently as the General Director of Urban Planning in Bahrain's Ministry of Urban Planning & Municipalities.

Mr. Timothy O'Donnell, Senior Executive Director – Development, GFH Properties

Mr. Timothy O'Donnell has over 25 years' experience in the planning, delivery and operation of major real estate projects, including City Centre Doha, Sahara Centre, Dubai Internet City, Dubai Media City, Bahrain City Centre and the Diyar Al Muharraq and Marassi master plans.

Prior to joining the Group in 2019, Mr. O'Donnell was group head, property & administration at Ahli United Bank and CEO of AREC. His other roles include head of development at Diyar Al Muharraq, senior development manager at the Majid Al Futtaim Group and project manager at Mace International.

Mr. O'Donnell has a bachelor's degree in Civil Engineering and an MBA (with distinction) from the University of Strathclyde. He is a member of the Urban Land Institute and the Society of Construction Law.

Dr. Ahlam Zainal, Senior Director – Development, GFH Properties

Dr. Ahlam Zainal currently holds the position of Senior Director of design development in GFH Properties and has over 12 years' design, project management and real estate experience. She has also been a board director in Al Sahel Resort Company since 2015.

Prior to joining the Group in 2019, Dr. Zainal was the projects director at Amlak SIO Development Company. She has also held positions in Mumtalakat, Bahrain Real Estate Investment Edamah, Ithmaar Development and the General Directorate of Urban Planning in Bahrain.

Dr. Zainal holds a PhD in Urban Engineering from the University of Tokyo, Japan, a master's of Architecture in Urban Design (MAUD) from Harvard University Graduate School of Design in Massachusetts and a bachelor's degree in Architectural Engineering from the University of Bahrain.

Mr. Rakesh Patnaik, Senior Executive Director – CEO of India Projects

Mr. Rakesh Patnaik has 24years' experience in structuring investments, funds and real estate investments in the US, Europe, the Middle-East and Asia. Mr. Patnaik is responsible for infrastructure investments at the Group with a focus on Indian projects and is also a member of the project teams for

Tunisia and Morocco. Mr. Patnaik previously held senior investment positions with investment firms in the GCC and real estate advisory firms in Asia. Mr. Patnaik is currently based in Bahrain and has prior working experience in Singapore, Kuwait, Qatar, the UAE and India.

Mr. Patnaik has a postgraduate degree in Business Management from T.A. Pai Management Institute (TAPMI) in Manipal, India.

Mr. Chetan Dongra, Executive Director, Infrastructure Development

Mr. Dongra joined the Group in 2011. He is responsible for the overall financial elements of GFH Properties' business, including financial management, structuring, financial plans and ensuring that its investments are performing at optimal levels with a special focus on the regional projects.

Mr. Dongra's experience covers both emerging and developed markets, including the MENA region, the GCC and India. Mr. Chetan has over 15 years' experience in financial management, financial models, budgeting and forecasting, strategic planning, acquisitions, project evaluation, commercial and financial due diligence, statutory reporting and variance analysis. He has held senior positions in real estate development and management consultancy, including at Al Areen Holding Company as finance manager, Keypoint Consulting as senior analyst, Packaging Warehouse Limited as senior credit analyst and GS Doot & Co as assistant manager.

Mr. Dongra is a fellow member of the Institute of Chartered Accountants of India.

Dr. Essa Faqeeh, CEO - Al Areen Investment Company

Dr. Essa Faqeeh started his career in hospitality and tourism and has over 30 years' experience in managing and operating hotels and providing consultancy for tourism authorities in the GCC.

Dr. Faqeeh has held many senior positions, including chairman, director, managing director, advisor and consultant and has managed many companies in the hospitality industry. Dr. Faqeeh is the advisor to the President of Arab Tourism Organization.

Dr. Faqeeh holds a master's degree and a PhD in Hospitality Businesses.

EXECUTIVE MANAGEMENT COMMITTEES

The Group has a number of executive committees, the most important of which are listed below.

Management Investment Committee ("**MIC**")

MIC is the senior management committee responsible for maintaining oversight of GFH's investment risk profile and governance aspects. It is responsible for determining the key investment risk areas and for adopting sound risk management practices that contribute to realising the Group's strategic corporate objectives.

MIC's members are the CEO, the Chief Administrative Officer, the Head of Financial Control, the Head of Proprietary Investment, Chief Investment Management and the Head of Placement Management.

Asset and Liability Committee

ALCO is the senior management committee responsible for maintaining oversight of GFH's credit, liquidity and market risk profile and governance aspects. In addition, management of the balance sheet and liquidity to meet day to day business needs and orderly growth of the business is ALCO's responsibility.

ALCO's members are the CEO, the Chief Administrative Officer, the Head of Financial Control, the Head of Proprietary Investment, the Head of Risk Management and the Head of the Riyadh & Jeddah Markets.

Real Estate Committee ("**ReCom**")

RECOM is the senior management committee responsible for maintaining oversight of GFH's real estate investments (development, management and disposal) while monitoring the overall portfolio risk profile. It is also responsible for determining the key investment decisions that contribute to realising the Group's strategic corporate objectives.

ReCom's members are the CEO, the Chief Administrative Officer, the Head of Financial Control, the Acting CEO of GFH Properties and the Executive Director, Infrastructure Development of GFH Properties.

Management Committee ("**ManCom**")

ManCom is the senior management committee responsible for communicating the board-approved risk management policies, framework and appetite to all personnel. ManCom is responsible for ensuring that all personnel have an adequate understanding of material risks that are impacting the business, as well as an awareness of emerging risks and vulnerabilities and for ensuring effective implementation of relevant policies and procedures, systems and controls.

ManCom's members are the CEO, the Chief Administrative Officer, the Head of Financial Control, the Head of Proprietary Investment, Chief Investment Management, the Head of Placement Management and the Head of Risk Management.

BUSINESS ADDRESSES AND CONFLICTS

The business address of each member of the Board and each member of Executive Management is GFH Financial Group B.S.C, Bahrain Financial Harbour, Office 2901, 29th Floor, Building 1398, East Tower, Block 346, Road 4626, Manama, Kingdom of Bahrain.

No member of the Board or Executive Management has any actual or potential conflict of interest between his duties to the Bank and his private interests and/or other duties.

SHARI'A SUPERVISORY BOARD

GFH's Shari'a Supervisory Board (the "**SSB**") is actively involved in the development of the Group's products and services and certifies every product and service as complying with the standards and principles of *Shari'a*.

The SSB operates within its own charter which covers its policies, procedures and responsibilities. In carrying out its responsibilities, the SSB has full access to the Board and Executive Management. In addition to reviewing and advising on the *Shari'a* compliance of all products and services, it also audits the operations of the Group from a *Shari'a* perspective.

The SSB meets at least four times a year. Its members are remunerated by an annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

The SSB comprises the following four members:

Shaikh Abdulla bin Sulaiman Al-Maine, Chairman

Shaikh Abdulla Al-Maine is a consultant to His Majesty the Custodian of the Two Holy Mosques with the rank of Minister in Saudi Arabia, a member of the Grand Scholars Panel in Saudi Arabia and an expert of the Islamic Fiqh Academy. He is also a retired judge of the Supreme Court in Makkah Al-Mukarramah in Saudi Arabia, and a member of the *Shari'a* supervisory boards of a number of Islamic banks and financial institutions.

Dr. Fareed Mohammed Hadi, Executive Member

Dr. Fareed Hadi is Assistant Professor at the College of Arts in the Department of Arabic and Islamic Studies at the University of Bahrain. He holds a Ph.D. in Ibn Hazm's Methodology of Jahala from Edinburgh University and a Ph.D. in Al-Bukhari's Methodology from the University of Mohammed V in Morocco. Dr Hadi is also a member of the *Shari'a* supervisory boards of a number of leading Islamic banks.

Shaikh Nidham Mohammed Saleh Yaquby, Executive Member

Shaikh Nidham Yaquby holds a number of memberships on *Shari'a* boards of different institutions, including executive member of Abu Dhabi Islamic Bank, member of Bahrain Islamic Bank and Shamil Bank, member of the Dow Jones Islamic Index and member of a number of other Islamic banks.

Dr. Abdulaziz Khalifa Al-Qassar, Member

Dr. Abdulaziz is Al-Qassar is a Professor at the College of Fiqh and Department of *Shari'a* and Islamic Studies at the University of Kuwait. Dr. Al-Qassar holds a Ph.D. in law and *Shari'a* from Al-Azhar University in Cairo. He is also a member of the Fatwa and *Shari'a* supervisory boards of a number of institutions in Kuwait.

EMPLOYEES

As at 30 September 2019, the Group had 156 full time staff. The percentage of Bahrain nationals (as a percentage of total Group full time staff) was 83.9 as at 31 December 2018.

The Group pays its staff a fixed salary and a discretionary annual performance bonus. In the case of senior management, part of the performance bonus may be paid on a deferred basis in the form of shares, share purchase plans or long-term incentive plans with different conditions. The Group also pays end of service benefits and offers its employees a range of benefits, including education allowances, air fare and vacation allowances, health club memberships and health insurance.

The Group is committed to the development of its employees and has developed a robust framework to facilitate this process. The Group employs various training and development initiatives and provides a number of training programmes, including compliance e-learning which is available to all employees and comprises practical and interactive training sessions that promote a culture of integrity and compliance within the Group.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions). Words and expressions defined in "Terms and Conditions of the Certificates" shall have the same meanings in this section.

The Trust Deed

The Trust Deed will be entered into on the Issue Date between the Trustee, the Obligor and the Delegate and will be governed by English law. Upon issue of the Global Certificate initially representing the Certificates, the Trust Deed will constitute the trust over the Trust Assets declared by the Trustee.

The Trust Assets comprise the cash proceeds of the issue of Certificates, pending application thereof in accordance with the terms of the Transaction Documents, any and all of the rights, title, interest, benefits and entitlements, present and future, of the Trustee in, to and under the Wakala Portfolio, any and all of the interest, rights, benefits and entitlements, present and future, of the Trustee in, to and under the Transaction Documents (excluding the Excluded Representations and the covenant given to the Trustee pursuant to clause 17.1 of the Trust Deed) and any and all moneys standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

Pursuant to the Trust Deed, the Trustee will, *inter alia*:

(a) hold the Trust Assets upon trust absolutely for the Certificateholders as beneficiaries *pro rata* according to the face amount of Certificates held by each Certificateholder; and

(b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Trust Deed.

The Trust Deed specifies, *inter alia*, that:

(a) no payment of any amount whatsoever shall be made by the Trustee or the Delegate or any of their respective directors, officers, employees or agents on their behalf except to the extent funds are available therefor from the Trust Assets and no recourse shall be had for the payment of any amount owing under the Trust Deed or any other Transaction Document, whether for the payment of any fee, indemnity or other amount under the Trust Deed or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee to the extent the Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished;

(b) the Trustee may from time to time (but always subject to the provisions of the Trust Deed), without the consent of the Certificateholders, create and issue additional Certificates having the same terms and conditions as the outstanding Certificates on terms and conditions which are the same in all respects save for the date and amount of the first payment of the Periodic Distribution Amount and the date from which Periodic Distribution Amounts start to accrue, and so that the same shall be consolidated, and form a single series, with the outstanding Certificates, and that any additional Certificates which are to be created and issued so as to form a single series with the Certificates shall be constituted by a deed supplemental to the Trust Deed; and

(c) on the date upon which additional Certificates are created and issued pursuant to the provisions described in paragraph (b) above and the Purchase Agreement (being the relevant issue date for that New Tranche), the Trustee will execute a Declaration of Commingling of Assets for and on behalf of the holders of the existing Certificates and the holders of such additional Certificates so created and issued, declaring that the Additional Wakala Assets and the Wakala Assets as in existence immediately prior to the creation and issue of the additional Certificates and the investments made pursuant to the Murabaha Agreement (if any) (and all rights arising under or with respect to such investments made pursuant to the Murabaha Agreement) are commingled and shall collectively comprise part of the Trust Assets for the benefit of the holders of the existing Certificates and the holders of such additional Certificates as beneficiaries *pro rata* according to the face amount of Certificates held by each Certificateholder, in accordance with the Trust Deed.

In the Trust Deed, the Trustee will irrevocably and unconditionally appoint the Delegate to, *inter alia*, exercise all of the present and future powers (including the power to sub-delegate), rights, trusts, authorities (including, but not limited to the authority to request instructions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the relevant provisions of the Trust Deed. The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee of the Trust.

The Obligor will also covenant and undertake in the Trust Deed that if the outstanding Deferred Sale Price is not paid on the relevant Dissolution Date in accordance with the provisions of the Murabaha Agreement for any reason whatsoever, the Obligor shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose of redemption of the outstanding Certificates and, accordingly, the amount payable under any such indemnity claim will equal the outstanding Deferred Sale Price.

The Delegate shall, *inter alia*, (i) if it has received express notice in writing pursuant to the Trust Deed of the occurrence of a Dissolution Event in respect of the Certificates and subject to Condition 12, it shall promptly notify the Certificateholders of the occurrence of such Dissolution Event, and (ii) if so requested in writing by the holders of at least 25 per cent. of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), give a Dissolution Notice to the Trustee, the Obligor and the Certificateholders in accordance with Condition 17 that the Certificates are immediately due and payable at the Dissolution Distribution Amount, whereupon they shall become so due and payable.

A non-interest bearing Transaction Account will be established in respect of the Certificates. Moneys received in the Transaction Account will, *inter alia*, comprise payments by the Servicing Agent of amounts standing to the credit of the Collection Account pursuant to the terms of the Servicing Agency Agreement, comprising, among other things (i) Wakala Portfolio Revenues and (ii) the Exercise Price received from GFH under the relevant Sale Agreement (see "*Summary of the Principal Transaction Documents - Purchase Undertaking*" and "*Summary of the Principal Transaction Documents - Sale and Substitution Undertaking*" below. The Trust Deed provides that all moneys credited to the Transaction Account will be applied in the order of priority set out in Condition 5(b).

Purchase Agreement

The Purchase Agreement will be entered into on the Issue Date between the Trustee (in its capacity as Purchaser), Harbour North 2b Real Estate S.P.C. Owned by GFH Asset Company, Harbour East 3 Real Estate S.P.C. Owned by GFH Asset Company, South East Real Estate S.P.C. and Delmon Lost Paradise Project Company 2 S.P.C. (as Sellers) and the Obligor. The Purchase Agreement will be governed by the laws of the Kingdom of Bahrain. Pursuant to the Purchase Agreement, the Sellers will irrevocably and unconditionally sell, transfer, assign and convey to the Purchaser, and the Purchaser will irrevocably and unconditionally purchase and accept the transfer and conveyance from the Sellers of, all of the Sellers' rights, benefits, entitlements, title and interests in, to and under the Real Estate Assets for the Purchase Price. The parties to the Purchase Agreement do not intend to register the sale of the Sellers' rights, benefits, entitlements, title and interests in, to and under the Real Estate Assets. The Real Estate Assets will comprise, on the Issue Date, those assets described in the relevant schedule to the Purchase Agreement.

Further, in connection with the exercise by the Trustee of its rights under Condition 18, the Trustee will, pursuant to the Purchase Agreement, irrevocably and unconditionally purchase and accept the transfer, assignment and conveyance from the seller(s) named in the relevant Supplemental Purchase Agreement, of all of their rights, benefits, entitlements, title and interests in, to and under any Additional Wakala Assets for the Purchase Price, as specified in the relevant Supplemental Purchase Agreement.

The purchase of the relevant Additional Wakala Assets will become effective on the relevant Additional Wakala Asset Purchase Date (as specified in the relevant Supplemental Purchase Agreement and being the date upon which such Supplemental Purchase Agreement described above is entered into) by the Trustee, the seller(s) named therein and the Obligor entering into such Supplemental Purchase Agreement.

Each Supplemental Purchase Agreement entered into upon such purchase will effect the irrevocable and unconditional sale, transfer, assignment and conveyance of rights in the relevant Additional Wakala Assets from the seller named therein to the Trustee.

The Real Estate Assets or the Additional Wakala Assets (as the case may be) will be of an aggregate value which is not less than 51 per cent. of the aggregate face amount of the relevant Tranche of Certificates.

Lease Agreement

The Lease Agreement will be entered into on the Issue Date between the Trustee (in its capacity as Lessor), the Obligor (in its capacity as Lessee) and Citibank N.A., London Branch in its capacity as Delegate. The Lease Agreement will be governed by the laws of the Kingdom of Bahrain.

Pursuant to the Lease Agreement, the Lessor will irrevocably and unconditionally lease to the Lessee, and the Lessee will irrevocably and unconditionally lease from the Lessor, the Lease Assets, during the renewable Rental Periods commencing on the Lease Commencement Date and extending to the Scheduled Dissolution Date of the Certificates (unless the Lease Agreement is terminated earlier in accordance with its terms or extended in accordance with the Purchase Undertaking). Neither the Lessor nor the Lessee intends to register the lease of any of the Lease Assets and, as at the date of the Lease Agreement, will not have done so or taken any steps to do so.

On a relevant Additional Wakala Asset Purchase Date (see *"Summary of the Principal Transaction Documents - Purchase Agreement"*), a replacement Lease Agreement shall be executed in the manner provided in the Lease Agreement (pursuant to a notice given by the Lessor to the Lessee thereunder). The relevant existing Lease Assets and the Additional Real Estate Assets will be leased by the Lessee under such replacement Lease Agreement (which will be entered into on the relevant Additional Real Estate Asset Purchase Date).

The Lessee will agree to use the Lease Assets at its own risk. Accordingly, the Lessee shall bear the entire risk of loss of or damage to the Lease Assets or any part thereof arising from the usage or operation thereof by the Lessee to the extent that such loss or damage has resulted from the Lessee's gross negligence, wilful default, actual fraud, or breach of its obligations under the Lease Agreement. In addition, the Lessor shall not be liable (and the Lessee will waive any claim or right, howsoever arising, to the contrary) for any indirect, consequential or other losses, howsoever arising, in connection with, and attributable to, the Lessee's use or operation of any of the Lease Assets, save to the extent that such loss or damage has resulted from the Lessor's gross negligence, wilful default, actual fraud or breach of its obligations under the relevant Lease Agreement.

Under the Lease Agreement, the Lessee will agree to be responsible, at its own cost and expense, for the performance of all Ordinary Maintenance and Repair (as defined in the Lease Agreement) required for the Lease Assets. The Lessor is responsible for (i) the performance of all Major Maintenance and Structural Repair (as defined in the Lease Agreement), (ii) the payment of any Proprietorship Taxes (as defined in the Lease Agreement) or other relevant Taxes (as defined in the Lease Agreement) (excluding all Taxes that are by law imposed, charged or levied against a lessee or a tenant) and (iii) insuring the Lease Assets in accordance with the terms and conditions of the Servicing Agency Agreement, and the Lessee will acknowledge that the Lessor may procure that the Servicing Agent, in accordance with the terms and conditions set out in the Servicing Agency Agreement, shall perform, or shall procure the performance of, Major Maintenance and Structural Repair (as defined in the Lease Agreement), the payment of such Taxes and the insurance of the Lease Assets, on behalf of the Lessor.

All payments by the Lessee to the Lessor under the Lease Agreement shall be made in U.S. dollars without set off (save as provided in the Lease Agreement) or counterclaim of any kind and free and clear of, and without any deduction or withholding for, or on account of, any Taxes imposed, levied, collected, withheld or assessed by any Relevant Jurisdiction, unless required by law. In that event, the Lessee shall pay such additional amounts as shall result in the receipt by the Lessor of such amounts as would have been received by it if no such deduction or withholding had been required and, accordingly, the Lessee will undertake to pay to the Lessor or such other persons as the Lessor may direct, such additional amounts forthwith upon demand and in the manner and currency prescribed in the Lease Agreement. The Lessee covenants under the Lease Agreement to ensure that its payment obligations under the Lease Agreement will be direct, unconditional, unsubordinated and (subject to the negative pledge provisions described in Condition 6(b)(vii)) unsecured obligations of the Lessee and shall (save for such exceptions as may be provided by applicable legislation and subject to the negative pledge provisions described in the Purchase Undertaking) at all times rank at least equally with all other unsecured and unsubordinated obligations of the Lessee, present and future.

Purchase Undertaking

The Purchase Undertaking will be executed on the Issue Date by the Obligor as a deed in favour of the Trustee and Citibank N.A., London Branch (in its capacity as Delegate) and will be governed by English law.

The Obligor will irrevocably undertake in favour of the Trustee and the Delegate to purchase or procure the purchase of all of the Trustee's rights, benefits, entitlements, title and interests in, to and under the Wakala Assets (or a proportion thereof, as applicable) on the Scheduled Dissolution Date or, if a Dissolution Event has occurred and is continuing, on the Dissolution Event Redemption Date, in each case by paying an amount equal to the Exercise Price, as specified in the relevant Exercise Notice, into the Transaction Account and, following payment of the relevant amount in full, entering into a Sale Agreement. The Exercise Price, payable by the Obligor shall be equal to the aggregate face amount of the Certificates then outstanding plus all accrued but unpaid Periodic Distribution Amounts (if any) relating to such Certificates plus, without duplication or double counting, if all the Certificates are being redeemed in full, an amount representing any amounts payable by the Trustee (in any capacity) under the Transaction Documents to which it is a party (including but not limited to an amount equal to service charge amounts incurred in accordance with the Servicing Agency Agreement) in respect of which the Lessee has agreed to make a corresponding payment of Additional Supplementary Rental (as defined in the Lease Agreement) but such payment has not been made in accordance with the Lease Agreement) provided that, in the case of any amounts payable pursuant to Condition 5(b)(i), the Obligor has received a notification from the Delegate of such amounts by not later than the third Business Day prior to the date on which the Exercise Notice is delivered, plus the sum of any outstanding amounts repayable in respect of any Liquidity Facility, less the aggregate amounts of Deferred Sale Price then outstanding, if any, and the amounts standing to the credit of the Transaction Account, if any.

The specific terms applicable to each such sale will be confirmed in a Sale Agreement, to be executed by the Trustee and the Obligor. The form of each such Sale Agreement is scheduled to the Purchase Undertaking.

In the Purchase Undertaking, the Obligor will agree/undertake as follows:

(a) that each of the events defined as an "Obligor Event" pursuant to the Conditions shall constitute an Obligor Event (and the occurrence thereof shall constitute a Dissolution Event); and

(b) (i) to comply with the terms of the Transaction Documents to which it is a party; (ii) to comply with all provisions of the Conditions which are expressed to be applicable to it including, without limitation, the covenants described in Condition 6(b); and (iii) to notify the Delegate and the Trustee in writing of any Dissolution Event (and the steps, if any, being taken to remedy it), Potential Dissolution Event, and/or Total Loss Event, in each case promptly upon becoming aware of its occurrence.

The Obligor will covenant that it will fully accept all or any ownership interest the Trustee may have in the Wakala Assets and that if the Exercise Price is not paid in accordance with the provisions of the Purchase Undertaking, whether as a result of a dispute or challenge in relation to the rights, benefits, entitlements, title and interests that the Trustee may have in, to and under the Wakala Assets or any of them, or for any other reason, the Obligor shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose of redemption in full of the outstanding Certificates and, accordingly, the amount payable under any such indemnity claim will equal the Exercise Price. The Obligor will irrevocably undertake in the Purchase Undertaking that it will, following payment in full of such indemnity in accordance with the Purchase Undertaking, enter into a Sale Agreement, for the sale and purchase of the relevant Wakala Assets.

The Obligor will agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking (or the relevant Sale Agreement entered into pursuant to the Purchase Undertaking) will be made without any set-off (save as provided in the Purchase Undertaking) or counterclaim of any kind and free and clear of, and without withholding or deduction for, or on account of, any Taxes imposed, levied, collected, withheld or assessed by a Relevant Jurisdiction, unless required by law. In that event, the Obligor shall pay such additional amounts as shall result in the receipt by the Trustee of such amounts as would have been received by it if no such withholding or deduction had been required and, accordingly, the Obligor will undertake to pay to the Trustee or such other persons as the Trustee may direct such additional amounts forthwith upon demand and in the manner and currency prescribed in the Purchase Undertaking.

The Purchase Undertaking provides that the payment obligations of the Obligor thereunder will be direct, unconditional, unsubordinated and (subject to the negative pledge provisions of Condition 6(b)(vii)) unsecured obligations of the Obligor and shall (save for such exceptions as may be provided by applicable legislation and subject to the negative pledge provisions of Condition 6(b)(vii)) at all times rank at least equally with all other unsecured and unsubordinated obligations of the Obligor, present and future.

Sale and Substitution Undertaking

The Sale and Substitution Undertaking will be executed on the Issue Date by the Trustee as a deed in favour of the Obligor and is governed by English law.

Pursuant to the Sale and Substitution Undertaking, subject to the Trustee being entitled to redeem the Certificates pursuant to Condition 8(b), the Obligor may, by exercising its option under the Sale and Substitution Undertaking and serving notice on the Trustee not less than 45 days nor more than 75 days prior to the Early Tax Dissolution Date in connection with the exercise of such option, oblige the Trustee to sell, transfer, assign and convey all the Trustee's rights, benefits, entitlements, title and interests in, to and under the Wakala Assets on the Early Tax Dissolution Date. The Exercise Price payable by the Obligor will be an amount equal to the aggregate face amount of the Certificates then outstanding plus all accrued but unpaid Periodic Distribution Amounts (if any) relating to such Certificates plus, without duplication or double counting, if all the Certificates are being redeemed in full, an amount representing any amounts payable by the Trustee (in any capacity) under the Transaction Documents to which it is a party (including but not limited to an amount equal to service charge amounts incurred in accordance with the Servicing Agency Agreement) in respect of which the Lessee has agreed to make a corresponding payment of Additional Supplementary Rental (as defined in the Lease Agreement) but such payment has not been made in accordance with the Lease Agreement), provided that, in the case of any amounts payable pursuant to Condition 5(b)(i), the Obligor has received notification from the Delegate of such amounts by not later than the third Business Day prior to the date on which the Exercise Notice is delivered by the Obligor to the Trustee, plus the sum of any outstanding amounts repayable in respect of any Liquidity Facility, less the aggregate amounts of Deferred Sale Price then outstanding, if any, and the amounts standing to the credit of the Transaction Account, if any.

Further, pursuant to the Sale and Substitution Undertaking, the Trustee will grant to the Obligor the right to require the Trustee to sell, transfer, assign and convey all of the Trustee's rights, benefits, entitlements, title and interests in, to and under the Substituted Wakala Assets in exchange for the sale, transfer, assignment and conveyance by the Obligor to the Trustee of its rights, benefits, entitlements, title and interests in, to and under the New Wakala Assets of a value which is equal to or greater than the value of the Substituted Wakala Assets.

The substitution of the Substituted Wakala Assets with the New Wakala Assets will become effective on the Substitution Date (as specified in the Substitution Notice to be delivered by the Obligor in accordance with the Sale and Substitution Undertaking) by the Trustee and the Obligor entering into a Sale Agreement on the Substitution Date and the relevant replacement Lease Agreement (if required) being executed on the Substitution Date in the manner provided for in the Substitution Notice.

Under a Sale Agreement entered into upon such substitution, the Trustee and the Obligor will agree to (i) effect the transfer, assignment and conveyance of the rights, benefits, entitlements, title and interests in the Substituted Wakala Assets from the Trustee to the Obligor and (ii) effect the transfer, assignment and conveyance of the rights, benefits, entitlements, title and interests in the New Wakala Assets from the Obligor to the Trustee and the Substitution Notice will provide that the New Lease Assets and any Lease Assets not replaced will be leased to the Obligor under the new replacement Lease Agreement.

The Sale and Substitution Undertaking will provide that any Exercise Price under the Sale and Substitution Undertaking will be paid without set-off (except as provided in the Sale and Substitution Undertaking) or counterclaim of any kind and, free and clear of, and without any deduction or withholding for, any Taxes imposed, levied, collected, withheld or assessed by any Relevant Jurisdiction. In the event that there is any such deduction or withholding, the Obligor shall pay such additional amounts as shall result in the receipt by the Trustee of such amounts as would have been received by it if no such deduction or withholding been made.

In addition, under the terms of the Sale and Substitution Undertaking, if at any time the Obligor wishes to cancel or procure the cancellation of any Certificates purchased pursuant to Condition 8(e), the Obligor may, by exercising its option under the Sale and Substitution Undertaking (by serving notice on the Trustee), oblige the Trustee to transfer, assign and convey all of the Trustee's rights, benefits, entitlements, title and interests in, to and under the Cancelled Wakala Assets in return for which the relevant Certificates shall be cancelled. The transfer, assignment and conveyance of the Cancelled Wakala Assets will take effect by the Obligor and the Trustee entering into a Sale Agreement (in the form scheduled to the Sale and Substitution Undertaking). Following the entry into such Sale Agreement, the Trustee shall forthwith cancel the relevant Certificates identified for cancellation in the Cancellation Notice served on the Trustee by the Obligor on the Cancellation Date.

Servicing Agency Agreement

The Servicing Agency Agreement will be entered into on the Issue Date by the Trustee (in its capacities as Trustee and Lessor) and the Obligor, as Servicing Agent, and is governed by English law.

Pursuant to the Servicing Agency Agreement, the Trustee will appoint the Servicing Agent to manage the Wakala Portfolio. In particular, the Servicing Agent:

(a) will carry out all Major Maintenance and Structural Repair (as defined in the Lease Agreement) on relevant Lease Assets;

(b) will pay all Proprietorship Taxes (as defined in the Servicing Agency Agreement) charged, levied or claimed in respect of the Lease Assets by any relevant taxing authority;

(c) will effect all appropriate insurances in respect of the Lease Assets;

(d) will maintain the Collection Account and the Reserve Account (each as defined in the Servicing Agency Agreement), in each case in accordance with the Servicing Agency Agreement;

(e) will use reasonable endeavours to ensure the timely receipt of all Wakala Portfolio Revenues (free and clear of, and without withholding or deduction for, Taxes), investigate non-payment of Wakala Portfolio Revenues and generally make all reasonable efforts to collect or enforce the collection of such Wakala Portfolio Revenues as and when the same shall become due and shall record such Wakala Portfolio Revenues in the Collection Account;

(f) will ensure, using reasonable endeavours, that the Tangible Asset Ratio shall at all times remain 51 per cent. or more (where Tangible Asset Ratio means the ratio of (i) the aggregate value of the Wakala Assets comprised in the Wakala Portfolio and (ii) the aggregate value of the Wakala Portfolio, at the relevant time);

(g) will ensure, using reasonable endeavours, that the aggregate value of: (i) the Lease Assets; and (ii) the value of the Securities Interests relating to any Sukuk, is not less than 26 per cent. of the aggregate face amount of the Certificates then outstanding;

(h) will use all reasonable endeavours to manage the Wakala Portfolio such that the aggregate of the Value of the Wakala Assets and the aggregate amounts of Deferred Sale Price then outstanding (if any), is at all times at least equal to the aggregate face amount of the Certificates then outstanding;

(i) will ensure that any Securities comprised in the Wakala Portfolio satisfy certain eligibility criteria;

(j) will exercise (or refrain from exercising) all voting rights and take (or refrain from taking) all corporate actions in relation to the Securities in its absolute discretion on behalf of the Trustee, provided that such action or exercise of such voting rights is not prejudicial to the interests of the Certificateholders;

(k) will discharge or procure the discharge of all obligations to be discharged by the Trustee in respect of the Wakala Portfolio, it being acknowledged that the Servicing Agent may appoint one or more agents to discharge these obligations on its behalf;

(l) will pay on behalf of the Trustee any actual costs, expenses and losses which would otherwise be payable by the Trustee as a result of the Trustee's ownership of the Wakala Portfolio;

(m) will keep and maintain all documents, books, records and other information reasonably necessary or advisable for the collection of all amounts due in respect of the Wakala Portfolio Revenues;

(n) will obtain and maintain all necessary licences, consents and authorisations in connection with any of the Wakala Assets and its obligations under or in connection with the Servicing Agency Agreement;

(o) if any non-Shari’a compliant revenue is received in respect of any Shares (as defined in the Servicing Agency Agreement), it will seek to purify and deal with such revenue in accordance with the standard processes and guidelines of the Shari’a supervisory board of GFH; and

(p) will carry out any incidental matters relating to any of the above.

The Servicing Agent may deduct amounts standing to the credit of the Collection Account at any time during the term of the Lease (other than any amounts of Initial Supplementary Rental and/or Supplementary Rental (each as defined in the Lease Agreement), and/or any proceeds of Insurances and/or (as the case may be) amounts equal to Total Loss Shortfall Amounts in respect of a Total Loss Event) and use such amounts for its own account, provided that it shall immediately re-credit all such amounts to the Collection Account (for on-payment to the Transaction Account) (A) if, on the Business Day prior to a Periodic Distribution Date, so required to fund a shortfall between: (i) the amount standing to the credit of the Transaction Account; and (ii) the Required Amount payable on such Periodic Distribution Date, or (B) upon the occurrence of a Dissolution Event or Total Loss Event.

If the Wakala Portfolio Revenues are greater than the Required Amount, such excess returns shall be credited to a separate account by the Servicing Agent (such account, the “**Reserve Account**”). If the amount standing to the credit of the Transaction Account are insufficient to fund the Required Amount, the Servicing Agent shall apply amounts standing to the credit of the Reserve Account towards such shortfall, by paying an amount equal to the same into the Transaction Account.

If, having applied such amounts from the Reserve Account, there remains a shortfall between the amount standing to the credit of the Transaction Account and the Required Amount, the Servicing Agent may in its sole discretion provide *Shari’a*-compliant funding to the Trustee in an amount equal to the shortfall remaining (if any) on terms that such funding is repayable (i) from Wakala Portfolio Revenues received in respect of a subsequent period; or (ii) on the relevant Dissolution Date (such funding, a “**Liquidity Facility**”).

Following payment in full of all amounts due and payable under the Certificates on the Scheduled Dissolution Date (or any earlier Dissolution Date on which all of the Certificates are redeemed), the Servicing Agent shall be entitled to retain any remaining amount standing to the credit of the Collection Account, or the Reserve Account for its own account as an incentive payment for acting as Servicing Agent.

Murabaha Agreement

The Murabaha Agreement will be entered into on the Issue Date by the Buyer and the Seller and is governed by English law.

The Seller will enter into a murabaha contract (a "**Murabaha Contract**") with the Buyer using no more than 49 per cent. of the aggregate face amount of the Certificates then outstanding.

Pursuant to the Murabaha Agreement, the Seller shall agree and undertake that, on receipt of and pursuant to a Purchase Order from the Buyer, the Seller shall, on the issue date for the relevant Tranche and on the terms set out in the Purchase Order, purchase commodities from the Supplier for Purchase at the Commodity Purchase Price (as defined in the Murabaha Agreement). Following the purchase of the commodities by the Seller from the Supplier for Purchase, and provided that the Seller has acquired title thereto and actual or constructive possession thereof, the Seller shall deliver to the Buyer, by no later than the issue date for the relevant Tranche, a Letter of Offer and Acceptance indicating the Seller's acceptance of the terms of the Purchase Order made by the Buyer and detailing the terms of the offer for the sale of the commodities to the Buyer from the Seller by no later than the issue date for the relevant Tranche.

Provided that the Buyer has delivered a Purchase Order to the Seller in accordance with the Murabaha Agreement, the Buyer irrevocably and unconditionally undertakes to accept the terms of, countersign and deliver to the Seller, any Letter of Offer and Acceptance delivered to it in accordance with the Murabaha Agreement and (as a result of the Seller having acted on the request of the Buyer set out in the Purchase Order) purchase the commodities acquired by the Seller for the Deferred Sale Price.

As soon as the Buyer has countersigned the Letter of Offer and Acceptance, a Murabaha Contract is to be created between the Seller and the Buyer upon the terms of the letter of offer and acceptance and incorporating the terms and conditions set out in the Murabaha Agreement, the Seller sells and the Buyer buys the commodities on the terms set out in the Letter of Offer and Acceptance, and ownership of and all risks in and to the relevant commodities immediately passes to and is vested in the Buyer, together with all rights and obligations relating thereto.

Each of the Seller and the Buyer shall acknowledge and agree that a failure to create the relevant Murabaha Contract by the time specified in the Murabaha Agreement shall result in the Letter of Offer and Acceptance for such Murabaha Contract being void ab initio, whereupon the Buyer undertakes irrevocably and unconditionally to compensate the Seller (on an after tax basis) in respect of all actual costs, claims, losses and expenses of whatsoever nature (not to include any opportunity costs and funding costs) suffered or incurred by the Seller as a result of such failure (except to the extent arising from the gross negligence, wilful default or actual fraud of the Seller).

Shari'a Compliance

Each Transaction Document provides that each of GFH Sukuk Company Limited and GFH Financial Group B.S.C. agrees that it has accepted the *Shari'a* compliant nature of the Transaction Documents to which it is a party and, to the extent permitted by law, further agrees that:

(a) it shall not claim that any of its obligations under the Transaction Documents to which it is a party (or any provision thereof) is *ultra vires* or not compliant with the principles of *Shari'a*;

(b) it shall not take any steps or bring any proceedings in any forum to challenge the *Shari'a* compliance of the Transaction Documents to which it is a party; and

(c) none of its obligations under the Transaction Documents to which it is a party shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that the Transaction Documents to which it is a party are not compliant with the principles of *Shari'a*.

TAXATION

General

The following is a general description of certain Bahrain, Cayman Islands and United States tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates, whether in those jurisdictions or elsewhere. Prospective purchasers of Certificates should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Certificates and receiving payments under the Certificates and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Kingdom of Bahrain

The following summary of the anticipated tax treatment in the Kingdom of Bahrain in relation to the payments on the Certificates is based on the taxation law and practice in force at the date of this Offering Circular, and does not constitute legal or tax advice. Prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Certificates and the receipt of any payments in respect of any Periodic Distribution Amounts and distributions (whether or not on a winding-up) with respect to such Certificates under the laws of the jurisdictions in which they may be liable to taxation.

As at the date of this Offering Circular, there are no taxes payable with respect to income, withholding or capital gains under existing Bahraini laws. There are no currency or exchange control restrictions currently in force under Bahraini law and the free transfer of currency into and out of Bahrain is permitted, subject to any anti-money laundering regulations and international regulations in force from time to time. Under existing Bahraini laws, payments under the Certificates will not be subject to taxation in Bahrain, no withholding will be required on such payments to any holder of Certificates and gains derived from the sale of Certificates will not be subject to Bahraini income, withholding or capital gains tax. In the event of the imposition of any such withholding, the Obligor has undertaken to gross-up any payments subject to such withholding, as described under Condition 10.

Corporate income tax is only levied on oil, gas and petroleum companies at a flat rate of 46 per cent. This tax is applicable to any oil company conducting business activity of any kind in Bahrain, including oil production, refining and oil exploration, regardless of the company's place of incorporation.

Bahrain has introduced the Value Added Tax Law No. 48 of 2018 for the imposition of value added tax on certain products and services.

Cayman Islands

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Certificates. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws, payments on the Certificates will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of the Certificates, nor will gains derived from the disposal of the Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

The Trustee has received an undertaking from the Governor in Cabinet of the Cayman Islands, pursuant to the Tax Concessions Law (as amended) of the Cayman Islands, that for a period of 30 years from the date of grant of that undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Trustee or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which includes the Certificates) of the Trustee or by way of the withholding in whole or part of any relevant payment. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Certificates. However, an instrument transferring title to such Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately U.S.$854. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Trustee may be a foreign financial institution for these purposes. A number of jurisdictions (including the Cayman Islands and the UAE) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Certificates, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, such withholding would not apply to "foreign passthru payments" prior to 1 January 2019. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Certificates. In the event that any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Certificates, no person would be required to pay additional amounts as a result of such withholding.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement dated 27 January 2020 (the "**Subscription Agreement**"), the Trustee has agreed to issue to the Joint Lead Managers U.S.$300,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Joint Lead Managers have jointly and severally agreed to subscribe for the Certificates.

In accordance with the terms of the Subscription Agreement, each of the Trustee and the Obligor has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the Certificates and to indemnify the Joint Lead Managers against certain liabilities incurred by them in connection therewith.

The Trustee and the Obligor will pay each Joint Lead Manager a commission as agreed between them in respect of Certificates subscribed by it. To the extent permitted by law, the Trustee, the Obligor and the Joint Lead Managers may agree that commissions or fees may be paid to certain brokers, financial advisers and other intermediaries based upon the amount of investment in the Certificates by such intermediary and/or its customers. Any disclosure and other obligations in relation to the payment of such commission to such intermediary are solely the responsibility of the relevant intermediary and none of the Trustee, the Obligor, the Joint Lead Managers or any of their affiliates, nor any person who controls or is a director, officer, employee or agent of any such person accepts any liability or responsibility whatsoever for compliance with such obligations. Each customer of any such intermediary is responsible for determining for itself whether an investment in the Certificates is consistent with its investment objectives.

The Subscription Agreement entitles the Joint Lead Managers to terminate any agreement that they make to subscribe Certificates in certain circumstances prior to payment for such Certificates being made to the Trustee.

The Obligor, any of its shareholders or related parties, and the Joint Lead Managers may invest in and may take up Certificates and may retain, purchase or sell for its own account such Certificates. Such persons do not intend to disclose the extent of such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

United States

The Certificates have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has represented and agreed that it has not offered and sold any Certificates and will not offer or sell any Certificates as part of its distribution at any time except in accordance with Rule 903 of Regulation S.

Each Joint Lead Manager has represented and agreed that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Certificates.

The Certificates are being offered and sold outside of the United States in reliance on Regulation S.

Until 40 days after the commencement of the offering of the Certificates, an offer or sale of the Certificates within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the

Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Trustee, or the Obligor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

Cayman Islands

Each Joint Lead Manager has represented and agreed that it has not made and will not make, whether directly or indirectly, any offer or invitation to the public in the Cayman Islands to subscribe for the Certificates.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority ("**DFSA**") rulebook; and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook.

State of Qatar (including the Qatar Financial Centre)

Each Joint Lead Manager has represented and agreed that it has not offered, delivered or sold, and will not offer, deliver or sell at any time, directly or indirectly, any Certificates in the State of Qatar (including the Qatar Financial Centre) except: (a) in compliance with all applicable laws and regulations of the State of Qatar, including the Qatar Financial Centre; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

Kingdom of Bahrain

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Certificates except on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an "**accredited investor**" means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more, excluding that person's principal place of residence;

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Hong Kong

Each Joint Lead Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**Securities and Futures Ordinance**") and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Winding Up and Miscellaneous Provisions) (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Malaysia

Each Joint Lead Manager acknowledges that this Offering Circular has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the "**CMSA**"). Accordingly, each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be offered or sold by it, and no invitation to subscribe for or purchase any Certificates has been or will be made, directly or indirectly, by it nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons or in categories falling within Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Kingdom of Saudi Arabia

No action has been or will be taken in Saudi Arabia that would permit a public offering of the Certificates. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under Article 9 or Article 10 of the "Rules on the Offer of Securities and Continuing Obligations" as issued by the Board of the Capital Market Authority resolution number 3-123-2017 dated 27 December 2017, as amended by Capital Markets Authority resolution number 1-104-2019 dated 30 September 2019 (the "**KSA Regulations**"), made through an authorised person licensed to carry out arranging activities by the Capital Market Authority and following a notification to the Capital Market Authority under Article 11 of the KSA Regulations.

The Certificates may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "Sophisticated Investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 of the KSA Regulations. Each Joint Lead Manager has represented and agreed that any offer of Certificates by it to a Saudi Investor will be made in compliance with Article 11 and either Article 9 or Article 10 of the KSA Regulations.

The offer of Certificates shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 15 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 9 or Article 10 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Capital Market Authority and: (i) the Certificates are offered or sold to a Sophisticated Investor (as defined in Article 9 of the KSA Regulations); (ii) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals 1 million or an equivalent amount; or (iii) the offer or sale is otherwise in compliance with Article 15 of the KSA Regulations.

Singapore

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Certificates or caused such Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell any Certificates or cause the Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed nor will it circulate or distribute this Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of the Certificates, whether directly or indirectly, to any person in Singapore other than: (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA; (b) to a relevant person (as defined in Section 275(2) of the SFA) under Section 275(1) of the SFA or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)), the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offer of Investments) (Securities and Securities-based Derivatives (Contracts) Regulations 2018).

In connection with Section 309B of the SFA and the CMP Regulations 2018, the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Certificates are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

General

Each Joint Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Certificates or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Trustee, the Obligor and any other Manager shall have any responsibility therefor.

None of the Trustee, the Obligor or any of the Joint Lead Managers (i) makes any representation that any action has been or will be taken in any jurisdiction that would permit a public offering of any Certificates, or possession or distribution of the Offering Circular, any other offering material, in any country or jurisdiction where action for that purpose is required; or (ii) represents that Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

GENERAL INFORMATION

Authorisation

The issue of the Certificates and the entry by the Trustee into the Transaction Documents to which it is a party has been duly authorised by a resolution of the Board of Directors of the Trustee dated 9 January 2020. The entry by the Obligor into the Transaction Documents to which it is a party has been duly authorised by a resolution of the Board of Directors of the Obligor dated 16 October 2019 and by a resolution of the shareholders of the Obligor dated 29 December 2019.

The Trustee and the Obligor have each obtained all necessary consents, approvals and authorisations in connection with the issue of the Certificates and the execution and performance of the Transaction Documents to which they are a party.

Listing

An application has been made to the London Stock Exchange for the Certificates to be admitted to trading on the ISM. The ISM is not a regulated market within the meaning of MiFID II. The ISM is a market designated for professional investors. Certificates admitted to trading on the ISM are not admitted to the Official List of the United Kingdom Listing Authority. The London Stock Exchange has not approved or verified the contents of this Offering Circular. Such admission to trading is expected to be effective on or immediately following the Issue Date.

Legal Entity Identifier

The legal entity identifier of the Trustee is 549300T933IMJHJ2GQ09.

Documents available

For so long as any Certificates remain outstanding, copies of the following documents will be available for inspection and/or collection by Certificateholders at the specified office of each Paying Agent during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays):

(a) the constitutional documents of the Trustee and the Obligor;

(b) the review report and unaudited reviewed condensed consolidated interim financial statements of the Group as at and for the nine month period ended 30 September 2019;

(c) the auditors' report and audited consolidated financial statements of the Group as at and for each of the financial years ended 31 December 2018 and 31 December 2017;

(d) the Transaction Documents; and

(e) this Offering Circular and any supplement(s) thereto.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The Common Code for the Certificates is 210058214, the ISIN for the Certificates is XS2100582142, the FISN is GFH SUKUK COMPA/VARASST BKD 2200123 and the CFI is DAVNFR.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of the Obligor or the Group since 30 September 2019, and no material adverse change in the financial position or prospects of the Obligor or the Group since 31 December 2018.

There has been no significant change in the financial or trading position, and no material adverse change in the financial position or prospects of the Trustee, in each case, since 4 December 2019, being the date of its incorporation.

Litigation

Other than as disclosed in the section entitled "*Description of the Group—Litigation*", none of the Trustee nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee or the Obligor is aware) in the 12 months preceding the date of this document which may have or have had in the recent past a significant effect on the financial position or profitability of the Trustee, the Obligor and/or the Group.

Auditors

The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

The Annual Financial Statements have been audited by KPMG Fakhro in accordance with the Financial Accounting Standards issued by AAOIFI, as stated in their reports dated 11 February 2019 and 13 February 2018, respectively. KPMG Fakhro is registered with the Ministry of Industry, Commerce and Tourism in Bahrain. Some of the professionals of KPMG Fakhro are members of professional accounting bodies.

The Interim Financial Statements have been reviewed by KPMG Fakhro in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as stated in their report dated 13 November 2019.

Joint Lead Managers transacting with the Trustee, the Obligor and/or their respective affiliates

Certain of the Joint Lead Managers and their affiliates have engaged in, and may in the future engage in, investment banking and/or commercial banking transactions with, and may perform services for, the Trustee, the Obligor and/or their respective affiliates in the ordinary course of business, for which they may receive fees.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans and/or *Shari'a* compliant financings) for their own account and/or for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Trustee, the Obligor and/or their respective affiliates, including the Certificates themselves.

Certain of the Joint Lead Managers or their affiliates that have a financing relationship with the Obligor and/or their respective affiliates may hedge their credit exposure to the Obligor and their respective affiliates consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Certificates. Any such short positions could adversely affect future trading prices of the Certificates. The Joint Lead Managers and/or their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

***Shari'a* Approvals**

The transaction structure relating to the Certificates has been approved by each of (i) Shari'a Supervisory Board of GFH; (ii) Shari'a Supervisory Board of Société Generale Dubai International Financial Centre Branch; and (iii) the Shari'a Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

FINANCIAL STATEMENTS

GFH FINANCIAL GROUP BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 SEPTEMBER 2019

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an Islamic wholesale Bank)
Registered Office	:	Bahrain Financial Harbour Office: 2901, 29th Floor Building 1398, East Tower Block: 346, Road: 4626 Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	:	Jassim Al Seddiqi, *Chairman* H.E. Shaikh Ahmed Bin Khalifa Al-Khalifa, *Vice Chairman* Hisham Alrayes Amro Saad Omar Al Menhali Mazen Bin Mohammed Al Saeed Mosabah Saif Al Mautairy Ghazi Faisal Ebrahim Alhajeri Bashar Mohamed Al Mutawa Rashid Nasser Al Kaabi Mustafa Kheriba
Chief Executive Officer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

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Fax +973 17 227443
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CR No. 6220

Independent auditors' report on review of condensed consolidated interim financial information

To
The Board of Directors
GFH Financial Group BSC
Manama
Kingdom of Bahrain

13 November 2019

Introduction

We have reviewed the accompanying 30 September 2019 condensed consolidated interim financial information of GFH Financial Group BSC (the "Bank") and its subsidiaries (together the Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2019;
- the condensed consolidated income statement for the three-month and nine-month periods ended 30 September 2019;
- the condensed consolidated statement of changes in owners' equity for the nine-month period ended 30 September 2019;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2019;
- the condensed consolidated statement of changes in restricted investment accounts for the nine-month period ended 30 September 2019;
- the condensed consolidated statement of changes in sources and uses of zakah and charity fund for the nine-month period ended 30 September 2019; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with Financial Accounting Standards issued by Accounting and Auditing Organisation for Islamic Financial Institutions. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2019 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

kpmg

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2019 US$ 000's

	note	30 September 2019 (reviewed)	31 December 2018 (audited)	30 September 2018 (reviewed)
ASSETS				
Cash and bank balances		401,873	341,567	277,044
Treasury portfolio	9	1,655,850	818,000	534,654
Financing assets	10	1,316,727	1,208,947	1,177,479
Real estate Investments	11	1,815,757	1,840,010	1,770,282
Proprietary investments	12	276,527	234,012	235,638
Co-investments	13	74,352	77,644	79,955
Assets held-for-sale	14	101,213	147,141	-
Receivables and prepayments		471,368	229,142	264,107
Property and equipment		24,584	92,902	92,537
Total		**6,138,251**	4,989,365	4,431,696
LIABILITIES				
Clients' funds		74,469	46,639	25,167
Placements from financial, non-financial institutions and individuals		2,675,375	1,628,389	1,119,747
Customer current accounts		169,432	177,906	160,276
Term financing	15	268,016	256,137	260,079
Liabilities directly related to assets held-for-sale	14	39,936	42,749	-
Payables and accruals		526,902	517,857	533,960
Total		**3,754,130**	2,669,677	2,099,229
Equity of investment account holders		**971,485**	896,910	916,490
OWNERS' EQUITY				
Share capital	8	975,638	975,638	975,638
Treasury shares		(47,158)	(85,424)	(89,029)
Statutory reserve		117,301	117,301	105,893
Investment fair value reserve		(4,909)	(4,725)	-
Foreign currency translation reserve		(36,655)	(43,380)	(26,713)
Retained earnings	8	67,039	98,318	121,830
Share grant reserve		1,198	1,086	1,086
Total equity attributable to shareholders of Bank		**1,072,454**	1,058,814	1,088,705
Non-controlling interests		314,786	323,408	327,272
Non-controllintg interests held-for-sale		25,396	40,556	-
Total owners' equity		**1,412,636**	1,422,778	1,415,977
Total liabilities, equity of investment account holders and owners' equity		**6,138,251**	4,989,365	4,431,696

The Board of Directors approved the condensed consolidated interim financial information on 13 November 2019 and signed on its behalf by:

Jassim Al Seddiqi
Chairman

Hisham Alrayes
Chief Executive Officer & Board member

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT
for the nine months ended 30 September 2019 US$ 000's

		Nine months ended		Three months ended	
		30 September 2019 (reviewed)	30 September 2018 (reviewed)	**30 September 2019** (reviewed)	30 September 2018 (reviewed)
Continuing operations					
Investment banking income					
Asset management		2,007	1,766	649	658
Deal related income		77,012	31,600	34,923	-
		79,019	*33,366*	***35,572***	*658*
Commercial banking income					
Income from financing		61,416	50,857	22,654	17,573
Treasury and investment income		21,240	16,549	3,910	5,069
Fee and other income		13,526	5,393	2,781	1,934
Less: Return to investment account holders		(29,615)	(16,782)	(10,485)	(6,015)
Less: Finance expense		(14,143)	(16,566)	(4,355)	(5,965)
		52,424	*39,451*	***14,505***	*12,596*
Income from proprietary and co-investments					
Direct investment income, net		10,371	17,906	285	9,719
Restructuring related income	16	29,406	35,300	-	-
Dividend from co-investments		1,607	721	1,099	-
		41,384	*53,927*	***1,384***	*9,719*
Real estate income					
Development and sale		18,012	4,912	4,495	501
Rental and operating income		1,901	2,087	654	677
		19,913	*6,999*	***5,149***	*1,178*
Treasury and other income					
Finance income		18,094	663	8,671	190
Dividend and net gain on treasury investments		30,881	1,270	14,351	1,270
Other income, net		12,308	69,622	10,847	45,569
		61,283	*71,555*	***33,869***	*47,029*
Total income		**254,023**	205,298	**90,479**	71,180
Operating expenses		70,209	70,966	21,425	28,422
Finance expense		84,669	24,836	30,965	9,428
Impairment allowances	17	28,433	9,455	16,269	3,756
Total expenses		**183,311**	105,257	**68,659**	41,606
Profit from continuing operations		**70,712**	100,041	**21,820**	29,574
(Loss) / profit from assets held-for-sale and discontinued operations, net		(467)	4,619	-	1,681
Profit for the period		**70,245**	104,660	**21,820**	31,255

Attributable to:				
Shareholders of the Bank	73,562	103,438	24,429	30,937
Non-controlling interests	(3,317)	1,222	(2,609)	318
	70,245	104,660	**21,820**	31,255

Earnings per share				
Basic and diluted earnings per share (US cents)	**1.99**	2.91	**0.58**	0.87

Earnings per share – continuing operations				
Basic and diluted earnings per share (US cents)	**2.01**	2.81	**0.58**	0.84

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the nine months ended 30 September 2019 US$ 000's

	Attributable to shareholders of the Bank										
30 September 2019 (reviewed)	**Share capital**	**Treasury shares**	**Statutory reserve**	**Investment fair value reserve**	**Foreign currency translation reserve**	**Retained earnings**	**Share grant reserve**	**Total**	**Non – controlling interests**	**Non – controlling interests held-for-sale**	**Total owners' equity**
Balance at 1 January 2019 *	975,638	(85,424)	117,301	(4,725)	(43,380)	98,318	1,086	1,058,814	323,408	40,556	1,422,778
Profit for the period (page 3)	-	-	-	-	-	73,562	-	73,562	(3,317)	-	70,245
Fair value changes during the period	-	-	-	(184)	-	-	-	(184)	-	-	(184)
Total recognised income and expense	**-**	**-**	**-**	**(184)**	**-**	**73,562**	**-**	**73,378**	**(3,317)**	**-**	**70,061**
Bonus shares issued	55,000	-	-	-	-	(55,000)	-	-	-	-	-
Extinguisment of treasury shares	(55,000)	50,549	-	-	-	4,451	-	-	-	-	-
Dividends declared (note 8)	-	-	-	-	-	(30,000)	-	(30,000)	-	-	(30,000)
Transfer to zakah and charity fund (page 8)	-	-	-	-	-	(2,219)	-	(2,219)	(223)	-	(2,442)
Issue of shares under incentive scheme	-	-	-	-	-	-	112	112	-	-	112
Purchase of treasury shares	-	(146,592)	-	-	-	-	-	(146,592)	-	-	(146,592)
Sale of treasury shares	-	134,309	-	-	-	(22,504)	-	111,805	-	-	111,805
Foreign currency translation differences	-	-	-	-	6,725	-	-	6,725	(5,082)	-	1,643
Acquisition of NCI without a change in control	-	-	-	-	-	431	-	431	-	(15,160)	(14,729)
Balance at 30 September 2019	**975,638**	**(47,158)**	**117,301**	**(4,909)**	**(36,655)**	**67,039**	**1,198**	**1,072,454**	**314,786**	**25,396**	**1,412,636**

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

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the nine months ended 30 September 2019 *(continued)* US$ 000's

30 September 2018 (reviewed)	Attributable to shareholders of the Bank									
	Share capital	Share premium	Treasury shares	Statutory reserve	Retained earnings	Share grant reserve	Foreign currency translation reserve	Total	Non – controlling interests	Total owners' equity
Balance at 1 January 2018 (as previously reported)	975,638	3,058	(58,417)	105,893	122,825	1,026	-	1,150,023	345,770	1,495,793
Impact of adoption of FAS 30	-	-	-	-	(16,586)	-	-	(16,586)	(13,092)	(29,678)
Balance at 1 January 2018 (restated)	975,638	3,058	(58,417)	105,893	106,239	1,026	-	1,133,437	332,678	1,466,115
Profit for the period (page 3)	-	-	-	-	103,438	-	-	103,438	1,222	104,660
Total recognised income and expense	-	-	-	-	103,438	-	-	103,438	1,222	104,660
Dividends declared	-	-	-	-	(82,412)	-	-	(82,412)	-	(82,412)
Transfer to zakah and charity fund	-	-	-	-	(2,432)	-	-	(2,432)	(522)	(2,954)
Derecognition on loss of control	-	-	-	-	(35)	-	-	(35)	(745)	(780)
Issue of shares under incentive scheme	-	-	-	-	62	60	-	122	49	171
Purchase of treasury shares	-	-	(72,311)	-	-	-	-	(72,311)	-	(72,311)
Sale of treasury shares	-	(3,058)	41,699	-	(3,030)	-	-	35,611	-	35,611
Foreign currency translation differences	-	-	-	-	-	-	(26,713)	(26,713)	(11,793)	(38,506)
Non-controlling interests arising on acquisition of a subsidiary	-	-	-	-	-	-	-	-	6,383	6,383
Balance at 30 September 2018	975,638	-	(89,029)	105,893	121,830	1,086	(26,713)	1,088,705	327,272	1,415,977

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the nine months ended 30 September 2019 US$ 000's

	30 September 2019 (reviewed)	30 September 2018 (reviewed)
OPERATING ACTIVITIES		
Profit for the period	70,245	104,660
Adjustments for:		
Income from deal related income	(77,012)	-
Income from commercial banking	(15,926)	(16,549)
Income from proprietary investments	(11,851)	(11,885)
Income from dividend and gain / (loss) on treasury investments	(30,880)	(1,270)
Foreign exchange (gain) / loss	1,567	(351)
Restructuring related income	(29,406)	(80,300)
Other income	-	(4,586)
Finance expense	84,672	41,401
Impairment allowances	28,433	9,455
Depreciation and amortisation	1,636	1,557
	21,478	42,132
Changes in:		
Placements with financial institutions (original maturities of more than 3 months)	(123,305)	(15,465)
Financing assets	(107,780)	42,298
Other assets	(122,752)	(25,508)
CBB Reserve and restricted bank balance	(13,165)	(7,972)
Clients' funds	27,830	(14,246)
Placements from financial and non-financial institutions	1,046,986	261,251
Customer current accounts	(8,474)	(29,331)
Equity of investment account holders	74,575	10,137
Payables and accruals	9,045	(8,148)
Net cash generated from operating activities	**804,438**	255,148
INVESTING ACTIVITIES		
Payments for purchase of equipment	(556)	(1,447)
Proceeds from sale of proprietary investment securities, net	2,156	(87,769)
Purchase of treasury portfolio, net	(419,306)	(30,612)
Proceeds from sale of a subsidiary	-	104,591
Proceeds from sale of investment in real estate	38,352	-
Purchase of investment in real estate	-	(2,652)
Dividends received from proprietary investments and co-investments	4,164	21,255
Advance paid for development of real estate	(16,282)	(9,099)
Acquisition of additional stake in a subsidiary	-	(5,144)
Net cash used in investing activities	**(391,472)**	(10,877)
FINANCING ACTIVITIES		
Financing liabilities, net	11,312	(57,477)
Finance expense paid	(67,569)	(33,888)
Dividends paid	(30,590)	(75,646)
Acquisition of NCI	(9,026)	-
Purchase of treasury shares, net	(12,283)	(30,776)
Net cash used in financing activities	**(108,156)**	(197,787)
Net increase in cash and cash equivalents during the period	**304,810**	46,484
Cash and cash equivalents at 1 January *	397,620	256,887
Cash and cash equivalents at 30 September	**702,430**	303,371
Cash and cash equivalents comprise: *		
Cash and balances with banks (excluding CBB Reserve balance and restricted cash)	333,483	220,398
Placements with financial institutions (original maturities of 3 months or less)	368,947	82,973
	702,430	303,371

** net of expected credit loss of US$ 55 thousand (31 December 2018: US$ 1,041 thousand).*The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the nine months ended 30 September 2019

30 September 2019 (reviewed)	**Balance at 1 January 2019**			**Movements during the period**						**Balance at 30 September 2019**		
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	0.33	50	-	-	-	-	-	-	150	0.33	50
Al Basha'er Fund	13	7.03	91	-	12	-	-	-	-	13	7.91	103
Safana Investment (RIA 1)	6,254	2.65	16,573	-	-	-	-	-	-	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5)	3,434	2.65	9,100	-	-	-	-	-	-	3,434	2.65	9,100
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,447	-	12	-	-	-	-			**28,459**

30 September 2018 (reviewed)	Balance at 1 January 2018			Movements during the period						Balance at 30 September 2018		
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	53	-	-	-	-	-	-	150	0.35	53
Al Basha'er Fund	13	7.15	93	-	-	-	-	-	-	13	7.15	93
Safana Investment (RIA 1)	6,254	2.65	16,573	-	-	-	-	-	-	6,254	2.65	16,573
Shaden Real Estate Investment WLL (RIA 5)	3,529	2.66	9,387	-	-	-	-	-	-	3,529	2.66	9,387
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,739	-	-	-	-	-	-			28,739

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the nine months ended 30 September 2019 US$ 000's

	30 September 2019 (reviewed)	30 September 2018 (reviewed)
Sources of zakah and charity fund		
Contribution by the Group	2,437	2,954
Non-Islamic income	282	32
Total sources	**2,719**	2,986
Uses of zakah and charity fund		
Contributions to charitable organisations	(1,466)	(104)
Total uses	**(1,466)**	(104)
Surplus of sources over uses	**1,253**	2,882
Undistributed zakah and charity fund at beginning of the period	4,636	2,840
Undistributed zakah and charity fund at end of the period	**5,889**	5,722
Represented by:		
Zakah payable	944	1,870
Charity fund	4,945	3,852
	5,889	5,722

The accompanying notes 1 to 22 form an integral part of the condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

1 Reporting entity

The condensed consolidated interim financial information for the nine months ended 30 September 2019 comprise the financial information of GFH Financial Group BSC (GFH or the "Bank") and its subsidiaries (together referred to as "the Group").

The following are the principal subsidiaries consolidated in the condensed consolidated interim financial information.

Investee name	Country of incorporation	Parent / Owning Company	Effective ownership interests 2019	Activities
GFH Capital Limited	United Arab Emirates	GFH	100%	Investment management
Khaleeji Commercial Bank BSC ('KHCB')	Kingdom of Bahrain	GFH	55.41%	Islamic retail bank
Morocco Gateway Investment Company ('MGIC')	Cayman Islands	GFH	89.26%	Real estate development
Tunis Bay Investment Company ('TBIC')	Cayman Islands	GFH	51.41%	Real estate development
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects")	Cayman Islands	GFH	77.20%	Real estate development
Al Areen Project companies	Cayman Islands	GFH	100%	Real estate development
Falcon Cement Company BSC (c)	Cayman Islands	GFH	51.72%	Cement manufacturing
Gulf Holding Company KSCC	State of Kuwait	GFH	51.18%	Investment in real estate
Surooh Company ('Surooh')	Cayman Islands	KHCB	10.00%	Construct and sell properties at "Oryx Hills".

2 Basis of preparation

The condensed consolidated interim financial information has been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). 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 Standards (IFRS). Accordingly, the condensed consolidated interim financial information has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – 'Interim Financial Reporting'.

The condensed consolidated interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2018. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2018.

2 Basis of preparation (continued)

Change in presentation:

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

Activities:

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

Segments:

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

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

Each of the above operating segments, except commercial banking which is a separate subsidiary has its own dedicated team of professionals and are supported by a common placement team and support units.

2 Basis of preparation (continued)

The strategic business units offer different products and services, and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

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

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level. Expenses are not allocated to the business segment.

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

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

2 Basis of preparation (continued)

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

3 Significant accounting policies

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group's audited financial statements for the year ended 31 December 2018.

4 Estimates

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainties were the same as those applied to the audited consolidated financial statements for the year ended 31 December 2018.

5 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2018.

6 Seasonality

Due to the inherent nature of the Group's business (investment banking, commercial banking and leisure and hospitality management business), the nine month results reported in this condensed consolidated interim financial information may not represent a proportionate share of the overall annual results.

7 The condensed consolidated interim financial information is reviewed, not audited. The comparatives for the condensed consolidated statement of financial position have been extracted from the Group's audited consolidated financial statements for the year ended 31 December 2018 and the reviewed condensed consolidated interim financial information for the nine months ended 30 September 2018. The comparatives for the condensed consolidated statements of income, cash flows, changes in owners' equity, changes in restricted investment accounts and sources and uses of zakah and charity fund have been extracted from the reviewed condensed consolidated interim financial information for the nine months ended 30 September 2018.

8 Appropriations

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

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

a) Cash dividend of 3.34% of the paid-up share capital amounting to US$ 30 million;

b) Bonus shares of US$ 55 million representing 5.97% of the nominal value of shares (1 share for every 16.74 shares held).

c) Appropriation of US$ 1 million towards charity for the year;

d) Appropriation of US$ 941 thousand towards zakah for the year;

e) Transfer of US$ 11.4 million to statutory reserve; and

f) Extinguishment of 207,547,170 treasury shares held by the Bank as of the date of the AGM, after obtaining the approval of relevant authorities.

9 Treasury portfolio

	30 September 2019 US$ 000's (reviewed)	31 December 2018 US$ 000's (audited)	30 September 2018 US$ 000's (reviewed)
Placements with financial institutions	668,839	289,558	106,739
Equity type investments			
At fair value through income statement			
- Structured notes *	216,060	-	-
Debt type investments			
At fair value through income statement			
- Quoted sukuk	265,610	100,527	76,059
At amortised cost			
- Quoted sukuk *	505,341	427,915	351,856
	1,655,850	818,000	534,654

* Includes structured notes of US$ 216,060 thousand (31 December 2018: Nil) and quoted sukuk of US$ 50,487 thousand (31 December 2018: US$ 177,092 thousand) pledged against financing liabilities of US$ 197,999 thousand (31 December 2018: US$ 142,447 thousand).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

10 Financing assets

	30 September 2019 US$ 000's (reviewed)	31 December 2018 US$ 000's (audited)	30 September 2018 US$ 000's (reviewed)
Murabaha	982,207	948,189	946,510
Musharaka	6,237	9,393	9,977
Wakala	13,280	13,281	13,280
Mudharaba	2,776	2,782	2,782
Istisnaa	3,000	5,448	3,789
Assets held-for-leasing	394,855	294,788	264,955
	1,402,355	1,273,881	1,241,293
Less: Impairment allowances	(85,628)	(64,934)	(63,814)
	1,316,727	1,208,947	1,177,479

11 Real estate investments

	30 September 2019 US$ 000's (reviewed)	31 December 2018 US$ 000's (audited)	30 September 2018 US$ 000's (reviewed)
Investment Property			
- Land	465,847	482,851	485,291
- Building	40,841	40,841	40,841
	506,688	523,692	526,132
Development Property			
- Land	796,639	811,684	772,658
- Building	512,430	504,634	471,492
	1,309,069	1,316,318	1,244,150
	1,815,757	1,840,010	1,770,282

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

12 Proprietary investments

	30 September 2019 US$ 000's (reviewed)	31 December 2018 US$ 000's (audited)	30 September 2018 US$ 000's (reviewed)
Equity type investments			
At fair value through income statement			
- Quoted securities	-	-	917
- Unquoted securities	30,435	34,875	34,875
	30,435	34,875	35,792
At fair value through equity			
- Listed securities (at fair value)	27,246	29,093	103
- Unquoted securities (at cost less impairment)	102,969	103,080	104,613
	130,215	132,173	104,716
Equity-accounted investees	115,877	66,964	95,130
	276,527	234,012	235,638

13 Co-investments

	30 September 2019 US$ 000's (reviewed)	31 December 2018 US$ 000's (audited)	30 September 2018 US$ 000's (reviewed)
At fair value through equity			
- Unquoted securities (at cost less impairment)	74,352	77,644	79,955
	74,352	77,644	79,955

14 Assets held-for-sale and liabilities related to it

	30 September 2019 US$ 000's (reviewed)	31 December 2018 US$ 000's (audited)	30 September 2018 US$ 000's (reviewed)
Assets	101,213	147,141	-
Liabilities	39,936	42,749	-

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

15 Term financing

	30 September 2019 US$ 000's (reviewed)	31 December 2018 US$ 000's (audited)	30 September 2018 US$ 000's (reviewed)
Murabaha financing	196,158	145,167	173,633
Wakala financing	-	24,797	45,982
Ijarah financing	25,182	26,743	12,848
Other borrowings	46,676	59,430	27,616
	268,016	256,137	260,079

16 Restructuring related income

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

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

17 Impairment allowances

	Nine months ended	
	30 September 2019 US$ 000's (reviewed)	30 September 2018 US$ 000's (reviewed)
Expected credit loss on:		
- Bank balances	7	1
- Placement with financial institutions	816	49
- Financing assets	17,952	4,485
- Other receivables	2,580	1,382
- Investment in equity securities	7,078	3,538
	28,433	9,455

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

18 Related party transactions

The significant related party balances and transactions as at 30 September 2019 are given below:

	Related parties as per FAS 1			Assets under management (including special purpose and other entities)	
30 September 2019 (reviewed)	**Associates and joint venture**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**		**Total**
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
Assets					
Financing assets	-	5,621	3,166	60,530	69,317
Proprietary investments	103,868	-	6,058	52,798	162,724
Co-investments	-	-	-	29,795	29,795
Receivables and prepayments	13,235	-	13,257	233,634	260,126
Liabilities					
Clients' funds	72	-	-	14,661	14,733
Placements from financial, non-financial institutions and individuals	-	4,761	396	-	5,157
Customer accounts	167	371	13,237	3,199	16,974
Term financing	39,936	-	-	-	39,936
Payables and accruals	1,398	-	10,010	93,312	104,720
Equity of investment account holders	1,111	1,886	25,516	1,103	29,616
Income					
Income from Investment banking	-	-	-	78,917	78,917
Income from commercial banking	(143)	42	325	(95)	129
Income from proprietary and co-invetments	7,814	-	-	1,606	9,420
Real estate income	-	50	17,962	-	18,012
Treasury and other income	313	-	-	876	1,189
Expenses					
Operating expenses	-	11,437	-	-	11,437
Finance expense	-	-	623	-	623
Transactions during the period					
Sale of real estate investment	167,771	24,418	90,550	570,336	853,075

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

18 Related party transactions (continued)

31 December 2018 (audited)	Related parties as per FAS 1: Associates and joint venture US$ 000's	Related parties as per FAS 1: Key management personnel US$ 000's	Related parties as per FAS 1: Significant shareholders / entities in which directors are interested US$ 000's	Assets under management (including special purpose and other entities) US$ 000's	Total US$ 000's
Assets					
Financing assets	-	6,016	15,146	44,810	65,972
Proprietary investments	54,829	-	6,058	54,958	115,845
Co-investments	-	-	-	16,798	16,798
Receivables and prepayments	914	-	13,257	47,605	61,776
Liabilities					
Investment funds	129	-	-	14,412	14,541
Placements from financial, non-financial institutions and individuals	-	-	249,117	-	249,117
Customer accounts	178	2,117	1,844	3,196	7,335
Term financing	-	-	24,797	-	24,797
Payables and accruals	-	3,499	3,132	8,364	14,995
Equity of investment account holders	1,273	3,634	28,592	1,241	34,740

Nine months ended 30 September 2018 (reviewed)	Related parties as per FAS 1: Associates and joint venture US$ 000's	Related parties as per FAS 1: Key management personnel US$ 000's	Related parties as per FAS 1: Significant shareholders / entities in which directors are interested US$ 000's	Assets under management (including special purpose and other entities) US$ 000's	Total US$ 000's
Income					
Income from investment banking services	-	-	15,000	16,600	31,600
Fee and commission income	-	-	-	1,766	1,766
Income from financing assets		265	740	-	1,005
Share of profit of equity-accounted investees	3,431	-	-	-	3,431
Income from investment securities, net	-	-	-	280	280
Other income	(48)	-	-	-	(48)
Expenses					
Return to investment account holders	24	138	147	21	330
Finance expense	-	-	5,246	-	5,246
Staff cost	-	3,406	-	-	3,406
Other expenses	-	-	-	98	98
Transaction during the period					
Subscription in projects promoted by the Group	-	-	38,100	-	38,100
Discount on subscription	-	-	8,100	-	8,100

19 Segment reporting

The Group is organised into business units based on their nature of operations and independent reporting entities and has four reportable operating segments namely real estate development, investment banking, commercial banking and corporate and treasury.

	Real estate development	Investment banking	Commercial banking	Corporate and treasury	Total
	US$ '000s	US$ '000s	US$ '000s	US$ '000s	US$ '000s
30 September 2019 (reviewed)					
Segment revenue	19,699	133,207	52,425	48,692	**254,023**
Segment expenses	(20,633)	(50,979)	(52,453)	(59,713)	**(183,778)**
Segment result *	(934)	82,228	(28)	(11,021)	**70,245**
Segment assets	2,156,046	379,982	2,450,378	1,151,845	**6,138,251**
Segment liabilities	548,038	771,848	784,679	1,649,565	**3,754,130**
Other segment information					
Impairment allowance	209	528	27,681	15	**28,433**
Proprietary investments *(Equity-accounted investees)*	46,661	57,207	12,009	-	**115,877**
Equity of investment account holders	-	-	970,891	594	**971,485**
Commitments	28,186	-	227,565	23,500	**279,251**

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

19 Segment reporting (continued)

	Real estate development US$ '000s	Investment banking US$ '000s	Commercial banking US$ '000s	Unallocated / Elimination US$ '000s	Total US$ '000s
30 September 2018 (reviewed)					
Segment revenue *	68,467	61,003	39,450	22,561	191,481
Segment expenses	(14,141)	(27,539)	(33,573)	(11,568)	(86,821)
Segment result	54,326	33,464	5,877	10,993	104,660
31 December 2018 (audited)					
Segment assets	2,035,664	686,688	2,246,159	20,854	4,989,365
Segment liabilities	1,238,147	558,787	817,529	55,214	2,669,677
Other segment information					
Finance expense	20,395	4,199	16,566	242	41,402
Impairment allowance	-	319	9,136	-	9,455
Proprietary investments (Equity accounted investees)	5,702	49,127	12,135	-	66,964
Equity of investment account holders	-	-	896,320	590	896,910
Commitments	114,314	-	122,167	25,000	261,481

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the nine months ended 30 September 2019

20 Commitments and contingencies

The commitments contracted in the normal course of business of the Group:

	30 September 2019 US$ 000's (reviewed)	31 December 2018 US$ 000's (audited)	30 September 2018 US$ 000's (reviewed)
Undrawn commitments to extend finance	194,056	88,045	89,565
Financial guarantees	33,509	34,122	47,067
Capital commitment for infrastructure development projects	27,086	55,407	65,584
Purchase commitment for investment in real estate	-	58,907	-
Commitment to invest	-	-	-
Commitment to lend	16,500	18,000	-
Other commitments	8,100	7,000	-
	279,251	261,481	202,216

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 30 September 2019 due to the performance of any of its projects.

Litigations, claims and contingencies

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

21 Financial instruments

Fair values

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 30 September 2019 and 31 December 2018, the fair value of bank balances, placements with financial institutions, investment in quoted sukuk carried at amortised cost, other financial assets, client funds, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quotes market prices and internal valuation models for unquoted investments. Other investments are carried at cost in the absence of a reliable measure of fair value.

21 *Financial instruments (continued)*

Term financing

As at 30 September 2019, the fair value of term financing was estimated at US$ 199,960 thousand (carrying value US$ 199,960 thousand) (31 December 2018: fair value US$ 256,137 thousand (carrying value US$ 256,137 thousand)). These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of financing liabilities as these are largely floating rate instruments which were re-priced recently as part of the debt restructuring process.

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).

30 September 2019 (reviewed)	**Level 1**	**Level 2**	**Level 3**	**Total**
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
i) Proprietary investments				
Investment securities carried at fair value through:				
- income statement	-	-	30,435	30,435
- equity	27,246	-	-	27,246
	27,246	-	30,435	57,681
ii) Treasury portfolio				
Investment securities carried at fair value through income statement	481,671	-	-	481,671
	481,671	-	-	481,671
	508,917	**-**	**30,435**	**539,352**

31 December 2018 (audited)	Level 1	Level 2	Level 3	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
i) Proprietary investments				
Investment securities carried at fair value through:				
- income statement	-	-	34,875	34,875
- equity	29,093	-	-	29,093
	29,093	-	34,875	63,968
ii) Treasury portfolio				
Investment securities carried at fair value through income statement	100,527	-	-	100,527
	100,527	-	-	100,527
	129,620	-	34,875	164,495

21 Financial instruments (continued)

The following table analyses the movement in Level 3 financial assets during the period:

	30 September 2019 US$ 000's (reviewed)	31 December 2018 US$ 000's (audited)
At beginning of the period	34,875	34,875
Losses in income statement	(4,440)	-
Derecognition on loss of control	-	-
Transfers into (out) of Level 3	-	-
At end of the period	**30,435**	34,875

22 Comparatives

Certain prior period amounts have been regrouped to confirm current period presentation. Such regrouping does not affect the previously reported profit for the period or total owners' equity.

GFH Financial Group BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

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

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

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Dear Shareholders,

On behalf of the Board of Directors of GFH Financial Group, I am pleased to present the Group's financial results for the fiscal year ended 31 December 2018, marking another period of enhanced profitability and strengthened performance across the Group and its subsidiaries.

This marks the fourth consecutive year that GFH has made solid gains across the top and bottom line, an achievement made all the more gratifying against the backdrop of challenging market conditions that have impacted the MENA region and other global markets where we have historically invested and continue to pursue value creation and growth.

The Group's demonstrated ability to deliver steady and sustained financial and operational improvements has been instrumental in solidifying trust in GFH and its position as one the foremost financial groups in the region.

At the center of this continued progress has been a highly successful transformation that has seen GFH develop into what is today a fully-fledged financial group with a sound financial base and a well-diversified model that has established strong revenue generating business lines active in Commercial and Investment Banking, Real Estate and Asset Management. Our diversification has also focused on ensuring we are able to effectively take advantage of opportunities across diverse assets classes as well as sectors and regions with high potential. This includes our home markets of the GCC as well North Africa, India, Europe and the US.

In line with our strategy and objectives, during 2018, the focus of our efforts were three-fold. They included the continued deployment of the Group's knowledge, talent and track record to identity and close promising new income yielding investments, to further build and extract value from our existing assets and to secure timely and profitable exits in support of our primary goal, which remains delivering superior returns to our investors and shareholders.

Our successful execution across all of these areas underpins our strong results for 2018. For the year, the the Group reported consolidated net profit of US$115 million as compared with US$103.19 million from the previous year, an increase of 11.4%, and a net profit attributable to shareholders of US114.08 million compared with US$104.18 for the previous year, an increase of 9.5%.

The Group's total consolidated revenue was US$246.21 million compared with US$204.36 million in 2017, reflecting a healthy year-on-year increase of 20.5%. Growth resulted from a successfully diversified business model and solid contributions from across its investment and commercial banking, real estate and asset management business lines in addition to increases in other income generated through strategic initiatives undertaken by the Group. Importantly, GFH also continued to deliver on its strategy of achieving profitable exists, which for the year amounted to US$120 million.

Total assets for the year grew from US$4.11 billion in 2017 to US$4.99 billion in 2018. The Group also ended the year with a Capital Adequacy Ratio of 17.3% and Return on Equity (ROE) ratio of 11.1%, verifying robust financial health. Improvements were also seen in GFH's liquidity position. The Group raised more than US$1 billion despite tough market conditions, positioning itself for further growth and investment. Enhancements to the balance sheet were again achieved in 2018 and the Group's liability profile was optimised. During the year, GFH repaid the entire amount of a US$200 million Sukuk, which was originally drawn in 2007, and achieved early payment of a Wakala facility. Also of note during the year, GFH took active steps to support its share price and market capitalisation, acquiring treasury shares up to 7% of the Group's total issued shares.

Gains made throughout the year, coupled with these initiatives, have resulted in further strengthening market confidence in the Group, whose ratings were affirmed by a number of international ratings agencies. This included Fitch, which maintained the Group's "B" rating with a stable Outlook, despite tough local and regional market conditions and downgrades.

Strong results enabled the Board to recommend robust cash dividend to shareholders for the year, subject to approval by the General Assembly. These dividends reflects GFH's progressive policy and continue to make the Group one of the strongest dividend payers in the region. Similarly, solid returns were also delivered to our investors throughout the year. In 2018, a total of US$28.5 million was paid to investors across all of the Groups' managed funds and investments.

Looking at some of the key highlights of the past year, we continued to identify and close a number of strategic investments. The Group successfully expanded its international portfolio of income yielding real estate assets. In the UK, we acquired the Westside Office Business Park in Hemel Hempstead, a prime office market, located just north of London. Significant investments were also made in the US including the acquisition of two trophy Chicago suburban office properties in a deal valued at US$150 million. With a continued focus on investing in the future and strong defensive sectors, GFH now plans to establish dedicated healthcare and education real estate platforms in 2019 allowing us to better capture and leverage opportunities in these segments.

On the private equity front, the Group made its first technology investment during 2018. In a US$150 million deal, it acquired the UAE-based ENTERTAINER, one of the leading incentive providers and lifestyle technology platforms in the region with global reach and operations. Having already doubled its size over the past two years, we are working closely with our partners in this investment, including Al-Futtaim, to build further market share and derive value from the high growth technology and lifestyle sectors.

Strong progress from across the Group's existing assets was also reported. The Group's commercial banking business, Khaleeji Commercial Bank performed well. A Total assets of the Bank grew 8.7% from US$2.08 Billion in 2017 to US$2.26 Billion in 2018. While customer deposits also increased by 8.3% from US$1.3 Billion to US$1.42 Billion. The Bank's corporate finance division also witnessed a positive growth trajectory.

The Group's other assets also continued to perform well and support revenue generation and dividends to investors. These included our investments in AMA International, Jeddah Mall, US Industrial Real Estate I & II, Sheffield Private School, US Data Center and our Diversified US Office Portfolio.

In our real estate and infrastructure portfolio, we successfully took assets with relatively low book value and have begun turning them into revenue generators such as hotels and retail centres. This includes our land banks in Bahrain, Dubai, India, Tunisia and Morocco, which will provide the Group with a range of markets and classes from which we can realise benefit over the medium to longer term. Particular progress was made in our India project, where we successfully inaugurated the first integrated township in the Navi Mumbai Airport Influence Notified Area, a housing development called Wadhwa Wise City, where pre-sale of units has begun.

Significantly, in our home market of Bahrain, great strides were made in furthering our landmark Villamar project, for which we acquired the majority Sukuk and are rapidly taking the development towards expected completion. New master planning was also commenced at Al Areen, which is being upgraded with the aim to establish another key tourism, exhibition and sports and leisure destination in Bahrain following the project's completion in 2019. Supporting economic and social development in the Kingdom and support for the achievement of its Vision 2030 goals is at the heart of what we do and underpins our position as one of the most significant and active investors in the Kingdom.

Further, in line with our efforts to return value to shareholders and investors, a number of strategic exits were achieved during the year. Among these were the sale of the Lost Paradise of Dilmun in a deal valued at US$60 million. The Group also exited its 70% stake in the Dubai-based Philadelphia Private School, which it acquired in October 2014, delivering a return of 33% over a three year investment period.

With another year of measurable progress behind us, we have entered 2019 with even stronger foundations upon which to grow and execute on our strategy. 2019 marks 20 years of focus and dedication that has seen GFH effectively navigate many highs and lows. We are extremely proud of the position in which we have emerged today at this important milestone for the Group and redouble our commitment to all of our partners, shareholders and investors that have been instrumental in our journey and ultimate success.

We have every confidence that we can build on this momentum and deliver further top and bottom line growth both outright and from across our various business lines including achieving greater contributions from our real estate activities. In terms of our focus, three key themes will continue to guide our strategy with further planned investments in education and healthcare, the well performing US markets and growth private equity. We will also continue to seek cross listings and a strengthening of our position in strong liquidity markets with plans to establish operations in Saudi Arabia and the UK that will better enable us to access capital and opportunity.

In concluding, I would like to thank GFH's management team and our staff for their continued contributions and stellar performance again this year. I would also like to extend our deep appreciation to our shareholders and investors for their sustained confidence in GFH, to the Central Bank of Bahrain for its ongoing guidance and support and the Government of the Kingdom of Bahrain for its visionary leadership under His Royal Majesty King Hamad bin Isa Al Khalifa, His Royal Highness the Prime Minister Prince Khalifa bin Salman Al Khalifa and His Royal Highness the Crown Prince and Deputy Supreme Commander Prince Salman bin Hamad Al Khalifa.

We look forward to another year that will take GFH from strength to strength and to sharing our progress over this next phase of growth and development for the Group and the markets in which we operate.

Sincerely,

P.A

Jassim Al Siddiqi
Chairman

11 February 2019

10 February 2019
5 Jumada II 1440 AH

SHARIA SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS
Report on the activities of GFH Financial Group B.S.C.
for the financial year ending 31 December 2018

Prayers and Peace Upon the Last Apostle and Messenger, Our prophet Mohammed, His comrades and Relatives.

The Sharia Supervisory Board of GFH Financial Group have reviewed the Bank's investment activates and compared them with the previously issued fatawa and rulings during the financial year 31st December 2018.

Respective Responsibility of Sharia Supervisory Board

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

Basis of opinion

Based on Sharia Supervisory Board fatwas and decisions, AAOIFI standards and Sharia Audit plan, the Sharia Supervisory Board through its periodic meetings reviewed the Sharia Audit function reports and examined the compliance of documents and transactions in regards to Islamic Sharia rules and principles, in coordination with Sharia Implementation & Coordination function. Furthermore, the Bank's management explained and clarified the contents of Consolidated Balance Sheet, Consolidated Income Statement, Consolidated statement of Zakah and Charity fund, and attached notes for the financial year ended on 31st December 2018 to our satisfaction.

Opinion

The Sharia Supervisory Board believes that,

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

Praise be to Allah, Lord of the worlds.
Prayer on Prophet Mohammed (Peace Be Upon Him), all his family and Companions.

Sheikh Nedham Yaqoubi

Sheikh Abdulla Al Manie

Sheikh Abdulaziz Al Qassar

Sheikh Fareed Hadi

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CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

GFH Financial Group BSC
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of GFH Financial Group BSC (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of income, changes in owners' equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in owners' equity, its consolidated changes in restricted investment accounts and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on other regulatory requirements

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

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

KPMG

KPMG Fakhro
Partner Registration No. 100
11 February 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

US$ 000's

	note	**31 December 2018 ***	31 December 2017
ASSETS			
Cash and bank balances	6	341,567	216,445
Placements with financial institutions		289,558	95,569
Financing assets	7	920,676	992,502
Investment securities	8	773,134	521,408
Assets acquired for leasing		288,271	257,806
Investment property	9	523,692	616,263
Development properties	10	1,316,318	893,037
Equity-accounted investees	11	66,964	81,440
Assets held-for-sale	20	147,141	-
Property and equipment	12	92,902	117,135
Other assets	13	229,142	318,852
Total assets		**4,989,365**	4,110,457
LIABILITIES			
Investors' funds		46,639	39,413
Placements from financial institutions, other entities and individuals	14	1,628,389	858,496
Customer current accounts		177,906	189,607
Financing liabilities	15	256,137	365,062
Liabilities directly associated with assets held-for-sale	20	42,749	-
Other liabilities	16	517,857	255,733
Total liabilities		**2,669,677**	1,708,311
Equity of investment account holders	17	**896,910**	906,353
OWNERS' EQUITY			
Share capital	18	975,638	975,638
Share premium		-	3,058
Treasury shares	18	(85,424)	(58,417)
Statutory reserve		92,483	105,893
Fair value reserve		(4,725)	-
Foreign currency translation reserve		(43,380)	-
Retained earnings		123,136	122,825
Share grant reserve	19	1,086	1,026
Total equity attributable to shareholders of Bank		**1,058,814**	1,150,023
Non-controlling interests		323,408	345,770
Non-controlling interests held-for-sale	20	40,556	-
Total owners' equity (page 9)		**1,422,778**	1,495,793
Total liabilities, equity of investment account holders and owners' equity		**4,989,365**	4,110,457

** December 2018 results reflect the adoption of FAS 30. Prior periods have not been restated. Refer note 4(a)iii for further details.*

The consolidated financial statements were approved by the Board of Directors on 11 February 2019 and signed on its behalf by:

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

Hisham Alrayes
Chief Executive Officer & Board member

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2018 US$ 000's

	note	2018	2017
Continuing operations			
Income from investment banking activities		40,100	121,294
Fees and commission income		7,989	6,631
Income from placements with financial institutions		3,980	3,177
Income from financing assets and assets acquired for leasing		72,799	73,377
Share of profits of equity-accounted investees, net	11	3,161	(248)
Income from investment securities, net	21	33,725	11,313
Foreign exchange gain, net		1,252	4,050
Income from settlement of liabilities	22	113,147	-
Other income, net	23	55,472	48,211
Income before return to investment account holders and finance expense		**331,625**	267,805
Return to investment account holders before Group's share as Mudarib		(37,731)	(39,480)
Bank's share as Mudarib		14,904	19,726
Return to investment account holders	17	**(22,827)**	(19,754)
Less: Finance expense		(62,585)	(43,692)
Total income		**246,213**	204,359
Staff cost	24	53,135	40,914
Investment advisory expenses		14,477	8,778
Other operating expenses	25	49,477	49,387
Total expenses		**117,089**	99,079
Profit before impairment allowances		**129,124**	105,280
Less: Impairment allowances, net	26	(17,614)	(9,381)
Profit for the year from continuing operations		**111,510**	95,899
Discontinued operations			
Profit from operations of non-banking subsidiaries, net	1	3,539	7,289
Profit for the year		**115,049**	103,188
Profit for the year attributable to:			
Shareholders of the Bank		114,076	104,182
Non-controlling interests		973	(994)
		115,049	103,188
Earnings per share			
Basic and diluted earnings per share (US cents)		**3.22**	3.58
Earnings per share – continuing operations			
Basic and diluted earnings per share (US cents)		**3.12**	3.30

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

Hisham Alrayes
Chief Executive Officer & Board member

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2018 US$ 000's

	Attributable to shareholders of the Bank											
2018	**Share capital**	**Share premium**	**Treasury shares**	**Statutory reserve**	**Fair value reserve**	**Foreign currency translation reserve**	**Retained earnings**	**Share grant reserve**	**Total**	**Non – controlling interests**	**Non – controlling interests held-for-sale**	**Total owners' equity**
Balance at 1 January 2018 (as previously reported)	975,638	3,058	(58,417)	105,893	-	-	122,825	1,026	1,150,023	345,770	-	1,495,793
Impact of adoption of FAS 30 (note4(a)iii)	-	-	-	-	-	-	(16,586)	-	(16,586)	(13,092)	-	(29,678)
Impact of adoption of FAS 30 by associates	-	-	-	-	-	-	(965)	-	(965)	-	-	(965)
Balance at 1 January 2018 (restated)	**975,638**	**3,058**	**(58,417)**	**105,893**	**-**	**-**	**105,274**	**1,026**	**1,132,472**	**332,678**	**-**	**1,465,150**
Profit for the year (page 8)	-	-	-	-	-	-	114,076	-	114,076	973	-	115,049
Foreign currency translation differences	-	-	-	-		(43,380)	-	-	(43,380)	(15,331)	-	(58,711)
Fair value changes during the year	-	-	-	-	(4,725)	-	-	-	(4,725)	-	-	(4,725)
Total recognised income and expense	**-**	**-**	**-**	**-**	**(4,725)**	**(43,380)**	**114,076**	**-**	**65,971**	**(14,358)**	**-**	**51,613**
Dividends declared for 2017 (note 18)	-	-	-	-	-	-	(82,412)	-	(82,412)	-	-	(82,412)
Transfer to zakah and charity fund (page 13)	-	-	-	-	-	-	(2,432)	-	(2,432)	(522)	-	(2,954)
Derecognition on loss of control	-	-	-	-	-	-	(24)	-	(24)	(804)	-	(828)
Issue of shares under incentive scheme (note 19)	-	-	-	-	-	-	62	60	122	98	-	220
Transfer to statutory reserve	-	-	-	11,408	-	-	(11,408)	-	-	-	-	-
Purchase of treasury shares	-	-	(160,973)	-	-	-	-	-	(160,973)	-	-	(160,973)
Sale of treasury shares	-	(3,058)	133,966	(24,818)	-	-	-	-	106,090	-	-	106,090
Non-controlling interests arising on acquisition of subsidiaries (note 20)	-	-	-	-	-	-	-	-	-	6,316	40,556	46,872
Balance at 31 December 2018	**975,638**	**-**	**(85,424)**	**92,483**	**(4,725)**	**(43,380)**	**123,136**	**1,086**	**1,058,814**	**323,408**	**40,556**	**1,422,778**

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2018 *(continued)*

US$ 000's

	Attributable to shareholders of the Bank									
2017	Share capital	Share premium	Treasury shares	Capital adjustment account	Statutory reserve	Retained earnings	Share grant reserve	Total	Non-controlling interests	Total owners' equity
Balance at 1 January 2017	597,995	-	(340)	24,320	93,768	191,379	902	908,024	213,683	1,121,707
Profit for the year (page 8)	-	-	-	-	-	104,182	-	104,182	(994)	103,188
Total recognised income and expense	-	-	-	-	-	104,182	-	104,182	(994)	103,188
Issuance of share capital	314,530	2,896	-	(24,320)	-	-	-	293,106	176,754	469,860
Bonus shares issued	59,799	-	-	-	-	(59,799)	-	-	-	-
Dividends declared	-	-	-	-		(59,799)	-	(59,799)	-	(59,799)
Transfer to zakah and charity fund	-	-	-	-		(3,509)	-	(3,509)	-	(3,509)
Acquisition of additional interests in subsidiaries and resulting changes in non-controlling interests, net (note 20)	-	-	-	-	1,707	(39,211)	(40)	(37,544)	(34,816)	(72,360)
Transfer to statutory reserve	-	-	-	-	10,418	(10,418)	-	-	-	-
Issue of shares under staff incentive scheme, net of forfeitures (note 24)	3,314	3,564	-	-	-	-	164	7,042	-	7,042
De-recognition of a subsidiary on loss of control	-	-	-	-	-	-	-	-	(8,857)	(8,857)
Purchase of treasury shares	-	-	(82,839)	-	-	-	-	(82,839)	-	(82,839)
Sale of treasury shares	-	(3,402)	24,762	-	-	-	-	21,360	-	21,360
Balance at 31 December 2017	975,638	3,058	(58,417)	-	105,893	122,825	1,026	1,150,023	345,770	1,495,793

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2018 US$ 000's

	2018	2017
OPERATING ACTIVITIES		
Profit for the year	**115,049**	103,188
Adjustments for:		
Income from investment banking activities	(8,500)	(80,511)
Income from investment securities	(33,725)	(11,313)
Share of profit of equity-accounted investees, net	(3,161)	(7,041)
Foreign exchange gain, net	(434)	(4,050)
Other income	(6,902)	(18,000)
Income from settlement of liabilities	(113,147)	-
Finance expense	62,585	43,692
Depreciation and amortisation	2,099	6,279
Impairment allowances	17,614	9,381
	31,478	41,625
Changes in:		
Placements with financial institutions	(168,286)	3,193
Financing assets	9,256	(21,912)
Asset acquired for leasing	(30,465)	(11,549)
Other assets	9,458	(97,437)
Investors' funds	7,226	(5,152)
Placements from financial institutions, other entities and individuals	769,893	287,981
Customer current accounts	(11,701)	(3,176)
Other liabilities	(132,128)	9,049
Equity of investment account holders	(9,443)	(115,837)
CBB reserve account	(8,913)	6,354
Net cash generated from operating activities	**466,375**	93,139
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(2,814)	(921)
Purchase of investment securities	(336,120)	(220,030)
Purchase of additional stake in an associate	(5,730)	-
Proceeds from sale of investment securities	118,860	51,875
Dividend and income from investment securities	25,308	14,857
Net cash paid for acquisition of a subsidiary	(17,276)	-
(Purchase) / sale of investment and development properties	(15,952)	1,857
Proceeds from sale of private equity subsidiaries	104,591	53,694
Net cash used in investing activities	**(129,133)**	(98,668)
FINANCING ACTIVITIES		
Financing liabilities, net	(9,810)	126,255
Finance expense paid	(55,665)	(36,245)
Purchase of treasury shares, net	(54,883)	(65,139)
Dividends paid	(76,151)	(59,799)
Acquisition of additional stake in a subsidiary	-	(15,228)
Net cash used in financing activities	**(196,509)**	(50,156)
Net increase / (decrease) in cash and cash equivalents	**140,733**	(55,685)
Cash and cash equivalents at 1 January	256,887	312,572
CASH AND CASH EQUIVALENTS at 31 December	**397,620**	256,887
Cash and cash equivalents comprise *		
Cash and balances with banks (excluding CBB reserve account and restricted bank balances)	284,649	169,619
Placements with financial institutions (with original maturity of three months or less)	112,971	87,268
	397,620	256,887

** net of expected credit loss of US$ 1,041 thousand (1 January 2018: US$ 7 thousand)*

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2018

31 December 2018	**Balance at 1 January 2018**			**Movements during the year**						**Balance at 31 December 2018**		
Company	No. of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revalua-tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	-	(3)	-	-	-	-	150	0.33	49
Al Basha'er Fund	13	7.03	93	-	-	-	-	-	-	13	7.03	93
Safana Investment (RIA 1) #	6,254	2.65	16,588	-	-	-	-	-	-	6,254	2.65	16,588
Shaden Real Estate Investment WLL (RIA 5) #	3,529	2.65	9,361	(252)	-	-	(690)	-	-	3,434	2.65	9,109
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			28,726	**(252)**	**(3)**	**-**	**(690)**	**-**	**-**			**28,472**

31 December 2017	Balance at 1 January 2017			Movements during the year						Balance at 31 December 2017		
Company	No. of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revalua-tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	6.85	637	(532)	(12)	-	-	-	-	13	7.03	93
Safana Investment (RIA 1) #	6,304	2.65	16,721	(133)	-	-	-	-	-	6,254	2.65	16,588
Shaden Real Estate Investment WLL (RIA 5) #	3,652	2.65	9,686	(325)	-	-	-	-	-	3,529	2.65	9,361
Locata Corporation Pty Ltd (RIA 6) #	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			29,729	(965)	(12)	-	-	-	-			28,726

#*Represents restricted investment accounts of Khaleeji Commercial Bank BSC*

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the year ended 31 December 2018 US$ 000's

	2018	2017
Sources of zakah and charity fund		
Contributions by the Group	2,954	4,468
Non-Islamic income (note 31)	48	45
Total sources	**3,002**	4,513
Uses of zakah and charity fund		
Utilisation of zakah and charity fund	(1,208)	(3,833)
Total uses	**(1,208)**	(3,833)
Surplus of sources over uses	**1,794**	680
Undistributed zakah and charity fund at 1 January	2,841	2,160
Undistributed zakah and charity fund at 31 December (note 16)	**4,635**	2,840

Represented by:		
Zakah payable	755	13
Charity fund	3,880	2,827
	4,635	2,840

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

for the year ended 31 December 2018 US$ 000's

1 REPORTING ENTITY

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

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

Consolidated financial statements

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

<table>
<tr><th>Investee name</th><th>Country of incorporation</th><th>Parent / Owning Company</th><th>Effective ownership interests 2018</th><th>Activities</th></tr>
<tr><td>GFH Capital Limited</td><td>United Arab Emirates</td><td rowspan="10">GFH</td><td>100%</td><td>Investment management</td></tr>
<tr><td>Khaleeji Commercial Bank BSC ('KHCB')</td><td rowspan="4">Kingdom of Bahrain</td><td>55.41%</td><td>Islamic retail bank</td></tr>
<tr><td>Al Areen Hotels SPC</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>Falcon Cement Company BSC (c) *</td><td>51.72%</td><td>Cement manufacturing</td></tr>
<tr><td>Morocco Gateway Investment Company ('MGIC')</td><td rowspan="4">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>Sheffield Dubai Investment Company *</td><td>61.18%</td><td>Holding Company for educational institutions</td></tr>
<tr><td>Gulf Holding Company KSCC *</td><td>State of Kuwait</td><td>51.18%</td><td>Investment in real estate</td></tr>
<tr><td>Surooh Company ('Surooh')</td><td>Cayman Islands</td><td>KHCB</td><td>10.00%</td><td>Construct and sell properties at "Oryx Hills".</td></tr>
</table>

** refer note 20*

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

During the year, the Group disposed of its investment in a wholly owned subsidiary AlAreen Leisure and Tourism Company – Lost Paradise of Dilmun Water Park as part of settlement of liabilities (note 22). Also, the Group disposed of its entire stake in GCL CPOL Management Company, a wholly owned subsidiary. Accordingly, the assets and liabilities of these subsidiaries were deconsolidated on loss of control. The net operations of the subsidiaries till loss of control is presented as 'Profit from operations of non-banking subsidiaries, net' under discontinued operations in the consolidated income statement including comparative representing amounts for 2017.

2 Statement of compliance

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

3 Basis of preparation

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

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been consistently applied by Group except for changes arising from adoption of FAS 30 as set out below.

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

i) New standards effective from 1 January 2018

There were no new relevant standards there were issued and effective from 1 January 2018.

ii) New standards issued but not yet effective

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

The objective of this standard is to establish principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations as applicable, for the Islamic financial institutions from both perspectives as principal (investor) and agent. The standard is effective for the financial periods beginning on or after 1 January 2020 and expected to impact presentation of income and expenses, including variable consideration, from Wakala arrangements. The Group is currently evaluating the impact from adoption of the standard.

FAS 33 – Investment in Sukuk, shares and similar instruments

The standards replaces FAS 25 and produces revised guidance for classification and measurement of investments to align with international practices. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively. The standard is effective for the financial periods beginning on or after 1 January 2020 and the Group is currently evaluating the impact from adoption of the standard, however, given the nature of investments of the Group, the adoption of this standard is not expected to have a material impact on the consolidated financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

FAS 35 – Risk reserves

The standard shall apply to risk reserves that are established by an islamic financial institution, to mitigate the credit, market, equity investment, liquidity, rate of return or displaced commercial risks faced by the stakeholders (mainly the profit and loss taking investors). The standard does not mandatorily require the Islamic financial institutions to maintain risk reserves, however, if a reserve is established, such reserves shall follow the requirements of the standards in its entirety. The standard is effective for the financial periods beginning on or after 1 January 2020. Currently the Group is not providing for Profit Equalisation Reserve and Investment Risk Reserve on a risk adjusted basis and it remains at the choice of the Group. The Group is currently working on adopting Basel and IFSB guidance on profit rate risk management and the Risk Reserve policy will be addressed as part of this exercise.

iii) Early adoption of FAS 30 – Impairment, Credit Losses and Onerous Commitments

AAOIFI issued FAS 30 Impairment, Credit losses and onerous commitments in 2017 with effective date of 1 January 2020 with early adoption permitted. The Group early adopted the standard as of 1 January 2018 as mandated by the CBB. The objective of this standard is to establish the principles of assessing impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets. FAS 30 replaces FAS 11 Provisions and Reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments that deals with impairment.

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

- Assets and exposures subject to credit risk (subject to credit losses approach):
  - Receivables; and
  - Off-balance sheet exposures.
- Inventories (subject to net realizable value approach); and
- Other financing and investment assets subject to risks other than credit risk (subject to impairment approach).

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

Expected credit losses

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

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

for the year ended 31 December 2018 US$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment loss is the amount by which the carrying amount of asset exceeds its recoverable amount.

The adoption of FAS 30 has resulted in changes in accounting policies for exposures that are subject to credit risk and adjustments to the amounts previously recognised in the consolidated financial statements as of the year ended 31 December 2017. As permitted by the transitional provisions of FAS 30, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of exposures that are subject to credit risk as at the date of transition were recognised in the opening balance of retained earnings.

FAS 30 also amends disclosures required under other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'. Set out below are the FAS 30 transition impact disclosures for the Group.

- **Changes in accounting policies**
  The key changes to the Group's accounting policies resulting from the adoption of FAS 30 are summarised in note 4(o). Since the comparative financial information has not been restated, the accounting policies in respect of the financial instruments for comparative periods are based on respective standards as disclosed in the audited financial statements for the year ended 31 December 2017.

- **Impact of adopting FAS 30**
  The adoption of FAS 30 as at 1 January 2018 has resulted in decrease in retained earnings by US$ 16,586 thousand:

	Retained earnings	**Non - controlling interests**
Balance as of 1 January 2018 (as previously reported)	122,825	345,770
Impact on recognition of expected credit losses		
Bank balances and placements with financial institutions	(5)	(2)
Investment in sukuk	(4)	(4)
Financing assets	(12,983)	(10,447)
Assets acquired for leasing and lease rental receivables	(2,523)	(2,031)
Other receivables	(316)	-
Commitments and financial guarantees	(755)	(608)
	(16,586)	(13,092)
Balance as of 1 January 2018 (restated)	**106,239**	**332,678**

for the year ended 31 December 2018 US$ 000's

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Exposures subject to ECL**

The following table reconciles the carrying amounts of exposures subject to credit risk under FAS 11 to the carrying amounts under FAS 30 on 1 January 2018

	31 December 2017	**Effect of re-measurement ***	**1 January 2018**
Bank balances and placements with financial institutions	290,501	(7)	290,494
Financing assets	992,502	(23,430)	969,072
Investment in sukuk	300,655	(8)	300,647
Assets acquired for leasing and lease rental receivables	280,591	(4,554)	276,037
Other receivables	238,584	(316)	238,268
Commitments and financial guarantees	229,689	(1,363)	228,326
	2,332,522	**(29,678)**	**2,302,844**

** including those attributable to non-controlling interests*

The following table sets out the carrying amounts of exposures subject to credit risk as of 1 January 2018 by stage:

1 January 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Bank balances	194,932	-	-	194,932
Placements with financial institutions	95,569	-	-	95,569
Financing assets	654,741	221,053	116,708	992,502
Assets acquired for leasing and lease rental receivables	210,119	43,517	26,955	280,591
Investment in sukuk	300,265	-	390	300,655
Other receivables	238,584	-	-	238,584
Commitments and financial guarantees	176,018	50,265	3,406	229,689
	1,870,228	314,835	147,459	2,332,522

Movement on ECL on various stages during the year:

31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2018	7,902	27,950	31,548	67,400
Transfer to Stage 1	8,456	(8,186)	(270)	-
Transfer to Stage 2	(838)	1,056	(218)	-
Transfer to Stage 3	(607)	(6,534)	7,141	-
Net transfers	7,011	(13,664)	6,653	-
Charge for the period, net (note 26)	(137)	(3,894)	15,796	11,765
Write-off	-	-	(4,154)	(4,154)
Balance at 31 December 2018	**14,776**	**10,392**	**49,843**	**75,011**

(b) Basis of consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

(ii) Subsidiaries

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Special purpose entities

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

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

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are usually not included in these consolidated financial statements. Information about the Group's fiduciary assets under management is set out in note 28.

(v) Loss of control

When the Group 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

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 internally on a fair value basis (refer to note 4(f)iii).

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(vii) Transactions eliminated on consolidation and equity accounting

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

(c) Assets held-for-sale

(i) Classification

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

(ii) Measurement

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Foreign operations

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

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

(e) Offsetting of financing instruments

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expense are presented on a net basis only when permitted under AAOIFI, or for gains and losses arising from a group of similar transactions.

(f) Investment securities

Investment securities comprise of debt and equity instruments, but exclude investment in subsidiaries and equity-accounted investees (note 4 (a)(ii) and (vi)).

(i) Classification

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

Debt-type instruments

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

At fair value through income statement (FVTIS)
These investments are either not managed on contractual yield basis or designated on initial recognition as FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. This represents investments in Sukuk.

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

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

At fair value through income statement (FVTIS)
Equity-type instruments classified and measured at FVTIS include investments held-for-trading or designated on initial recognition at FVTIS.

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

(g) Financing assets

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

(h) Assets acquired for leasing

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Placements with and from financial and other institutions

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

(j) Cash and cash equivalents

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

(k) Investment property

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

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

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

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

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

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

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

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

(l) Development properties

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

(m) Property and equipment

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

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

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

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

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

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

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

(n) Intangible assets

Goodwill

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

Other Intangible assets

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(o) Impairment of exposures subject to credit risk

Policy applicable from 1 January 2018

The Group recognises loss allowances for ECLs on:

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

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

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Credit-impaired exposures
At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that an exposure is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a financing facility or advance by the Bank on terms that the Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for exposures subject to credit risk are deducted from the gross carrying amount of the assets.

Policy applicable before 1 January 2018

The Group assesses at each reporting date whether there is objective evidence an exposure subject to credit risk is impaired. Objective evidence that exposures subject to credit risk are impaired can include default or delinquency by a borrower, restructuring of financing facility or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets carried at amortised cost
These include financing assets, Sukuk (debt-type instruments), and other receivables. For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement. Recovery of written off financial assets is credited to impairment charge for the year. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level.

All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

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

For FVTE investments carried at cost less impairment due to the absence of reliable measure of fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is below the carrying value of the investment.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets (other than those subject to credit risk covered above) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

(r) Investors funds

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

(s) Customers' current accounts

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

(t) Financing liabilities

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

(u) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment to settle the liability, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (note 37).

(v) Dividends and board remuneration

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Share capital and reserves

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

Treasury shares

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

Statutory reserve

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

(x) Equity of investment account holders

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

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

Restricted investment accounts

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

(y) Revenue recognition

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

Banking business

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

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

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

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

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

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

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

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

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

Non banking business

Revenue from the sale of goods is recognised when customer takes possession. Revenue from rendering of services is recognised when services are rendered.

(z) Earnings prohibited by Shari'a

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Zakah

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

(bb) Employees benefits

(i) Short-term benefits

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

(ii) Post employment benefits

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

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

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

(iii) Share-based employee incentive scheme

The Bank operates a share-based incentive scheme for its employees (the “Scheme”) whereby employee are granted the Bank’s shares as compensation on achievement of certain non-market based performance conditions and service conditions (the ‘vesting conditions’). The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(cc) Provisions

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

(dd) Onerous contracts

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

(ee) Trade date accounting

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

(ff) Investment account holder protection scheme

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

(gg) Income tax

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

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

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Judgements

Applicable to 2018 only

Establishing the criteria for determining whether credit risk on an exposure subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in note 4(o) and note 38(a);

Applicable to 2017 and 2018

(i) Going concern

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

(ii) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (note 4 (e)).

(iii) Special purpose entities

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

Estimations

Applicable to 2018 only

Impairment of exposures subject to credit risk

Determining inputs into ECL measurement model including incorporation of forward looking information is set out in note 4(o) and note 38(b).

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

Applicable to 2018 and 2017

(i) Fair value of investments

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

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

The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group generally considers a decline in value below cost of 30%, or a decline that persists for more than 12 months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of the investee companies' financial health, industry and sector performance.

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

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

(iii) Impairment of investment property

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

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

Investment in associates and recognised goodwill are subject to an impairment based on indicators of performance and market conditions. Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy note 4 (n). For equity-accounted investees with indicators of impairment, the recoverable amounts is determined based on higher of fair value less costs to sell (FVLCTS); and value in use.

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

(v) Estimating of net realisable value of development property

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

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

The estimate in relation to consideration transferred and determination of fair value of identifiable assets acquired and liabilities assumed in a business combination are given in note 20.

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6 CASH AND BANK BALANCES

	31 December 2018	31 December 2017
Cash	21,609	21,460
Balances with banks	225,024	80,365
Balances with Central Bank of Bahrain:		
- Current account	39,709	68,308
- Reserve account	55,225	46,312
	341,567	216,445

The reserve account with the Central Bank of Bahrain and bank balances of US$ 1,693 thousand are not available for day-to-day operational purposes. The cash and bank balances are net of ECL of US$ 134 thousand.

7 FINANCING ASSETS

	31 December 2018	31 December 2017
Murabaha	952,372	948,528
Musharaka	9,393	18,350
Wakala	13,281	56,981
Mudharaba	2,782	3,016
Istisnaa	5,448	-
	983,276	1,026,875
Less: Impairment allowances	(62,600)	(34,373)
	920,676	992,502

Murabaha financing receivables are net of deferred profits of US$ 66,546 thousand (2017: US$ 61,111 thousand).

The movement on impairment allowances are as follows:

2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January 2018	7,021	25,520	24,815	57,356
Net movement between stages	6,751	(12,711)	5,960	-
Net charge for the year (note 26)	(1,140)	(3,008)	13,546	9,398
Write-off	-	-	(4,154)	(4,154)
At 31 December 2018	**12,632**	**9,801**	**40,167**	**62,600**

2017	Specific	Collective	Total
At 1 January 2017	55,786	11,590	67,376
Net charge for the year (note 26)	2,183	(98)	2,085
Adjusted on write-off of assets	(35,088)	-	(35,088)
At 31 December 2017	22,881	11,492	34,373

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8 INVESTMENT SECURITIES

	31 December 2018	31 December 2017
Equity type investments		
At fair value through income statement:		
- Unquoted securities	34,875	34,875
	34,875	34,875
At fair value through equity:		
- Listed securities (at fair value)	29,093	103
- Unquoted securities (at cost)	180,724	185,775
	209,817	185,878
Debt type investments		
At fair value through income statement:		
- Quoted sukuk	100,527	-
At amortised cost:		
- Quoted sukuk *	427,915	300,265
- Unquoted sukuk **	-	390
	427,915	300,655
	773,134	521,408

* Includes sukuk of US$ 129,676 thousand pledged against medium-term borrowing of US$ 109,570 thousand (note 15).

** Unquoted sukuk are net of expected credit loss of US$ 3,501 thousand (2017: nil).

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

	2018	2017
At 1 January	34,875	40,557
Disposals during the year, at carrying value	-	(5,305)
De-recognition of investment on deconsolidation of subsidiary	-	(377)
At 31 December	**34,875**	34,875

b) Equity type investments - At fair value through equity

	2018	2017
At 1 January	185,878	289,256
Additions during the year	76,426	293,729
Disposals during the year, at carrying value	(39,958)	(6,895)
Fair value changes	(4,725)	-
Write-offs of fully provided investments during the year	-	(7,926)
De-recognition on acquiring controlling stake (note 20)	(1,955)	(378,709)
Impairment charge for the year (note 26)	(5,849)	(3,577)
At 31 December	**209,817**	185,878

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8 INVESTMENT SECURITIES (continued)

Unquoted equity securities US$ 180,724 thousand (31 December 2017: US$ 185,775 thousand) classified at fair value through equity, but measured at cost less impairment in the absence of reliable measure of fair value, are primarily investment in equities of companies carrying out real estate and infrastructure development projects in different countries. The Group plans to exit these investments principally by means of strategic sell outs or sale of underlying assets.

During the year, the Group recognised an impairment of US$ nil (2017: US$ 3,577 thousand) on such assets. Impairment allowance has been established based on management's assessment of the current market conditions, the marketability of the investments and the assessment of recoverable amounts.

9 INVESTMENT PROPERTY

Investment property includes land plots and buildings in Bahrain, UAE and Morocco. Investment property of carrying amount of US$ 192.2 million (2017: US$ 192.2 million) is pledged against Wakala facilities and Ijarah facility (note 15).

The fair value of the Group's investment property at 31 December 2018 was US$ 674,247 thousand (31 December 2017: US$ 624,710 thousand) based on a valuation carried out by an independent third party external valuers who have recent experience in the location and category of the asset being valued.

	2018	2017
At 1 January	616,263	488,436
Additions during the year	49,740	137,310
Disposals	(6,154)	(2,715)
Transfer to development property (note 10)	(657)	-
Depreciation charge for the year	-	(194)
De-recognition on deconsolidation of a subsidiary	(135,500)	(4,479)
Impairment allowances (note 26)	-	(2,095)
At 31 December	**523,692**	616,263

10 DEVELOPMENT PROPERTIES

Development properties represent real estate under development and for sale in UAE, Bahrain, North Africa and India. Development property of US$ 42.3 million is pledged against a Wakala facility (note 15).

	2018	2017
At 1 January	893,037	280,972
Acquisitions arising on consolidation of a subsidiary (note 20)	377,332	571,970
Additions during the year	93,712	40,095
Transfer from investment property (note 9)	657	-
Disposals	(17,602)	-
Foreign currency translation impact	(30,818)	-
At 31 December	**1,316,318**	893,037

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11 EQUITY-ACCOUNTED INVESTEES

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

Name	Country of incorporation	% holding 2018	% holding 2017	Nature of business
Falcon Cement Company BSC (c) #	Kingdom of Bahrain	-	31.72%	Manufacturing and trading of cement
Capital Real Estate Projects Company B.S.C. (c)	Kingdom of Bahrain	40%	40%	Real estate holding and development
Amlak II SPV	Cayman Islands	23.51%	23.51%	Purchase and sale of real estate in the Kingdom of Bahrain
Bahrain Aluminium Extrusion Company B.S.C. (c) ('Balexco')	Kingdom of Bahrain	17.32%	17.32%	Extrusion and sale of aluminium products
Global Banking Corporation BSC (c)	Kingdom of Bahrain	28.69%	20%	Islamic wholesale banking
Enshaa Development Real Estate B.S.C. (c)	Kingdom of Bahrain	33.33%	33.33%	Holding plot of land in Kingdom of Bahrain.

Consolidated during the year

The movement on equity-accounted investees is given below:

	2018	2017
At 1 January	81,440	79,010
De-recognition on acquiring controlling stake (note 20)	(27,260)	-
Investment recognised on deconsolidation of a subsidiary	-	5,286
Additions during the year	9,623	111
Share of profit / (loss) for the year, net	3,161	(248)
Dividends received during the year	-	(2,719)
At 31 December	**66,964**	81,440

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

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

	2018	2017
Total assets	270,911	233,676
Total liabilities	79,755	107,212
Total revenues	74,884	132,578
Total (loss) / profit	(168)	13,095

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12 PROPERTY AND EQUIPMENT

	31 December 2018	31 December 2017
Land	29,170	40,051
Buildings and infrastructure on leasehold land	45,981	56,092
Others including furniture, vehicles and equipment	17,751	20,992
	92,902	117,135

Depreciation on property and equipment during the year was US$ 2,099 thousand (2017: US$ 1,660 thousand)

13 OTHER ASSETS

	31 December 2018	31 December 2017
Investment banking receivables	22,588	123,506
Financing to projects, net	25,001	21,175
Receivable on sale of development properties	18,882	10,000
Advances and deposits	44,300	38,156
Employee receivables	17,292	18,302
Profit on sukuk receivable	7,485	5,815
Lease rentals receivable	30,570	22,785
Prepayments and other receivables	63,024	79,113
	229,142	318,852

During the year, the Group recognised reversal of US$ 80 thousand (2017: charge of US$ 114 thousand) and charge of US$ 1,923 thousand (2017: charge of US$ 460 thousand) impairment allowance on other receivables and lease rentals receivable respectively (note 26).

14 PLACEMENTS FROM FINANCIAL 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 are subject to regulatory sanctions.

15 FINANCING LIABILITIES

	31 December 2018	31 December 2017
Murabaha financing	40,852	153,899
Wakala financing	24,797	54,167
Sukuk liability	-	25,364
Ijarah financing	26,628	15,607
Other borrowings	163,860	116,025
	256,137	365,062

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15 FINANCING LIABILITIES (continued)

	31 December 2018	31 December 2017
Current portion	197,054	145,687
Non-current portion	59,083	219,375
	256,137	365,062

Murabaha financing comprise:

i) US$ 20 million financing facility for a period of 3 years with profit rate of 6 month LIBOR plus a margin of 4.5% p.a. (subject to minimum 6% p.a.) The Murabaha financing is secured by a pledge over the Group's investment in shares of KHCB and matures in 2020;

ii) US$ 15 million facility obtained for general corporate purposes for a period of 5 years at a profit rate of 3 month LIBOR plus margin of 6% p.a. (subject to a minimum of 7% p.a.). The facility is secured by a pledge on Group's investment in shares of KHCB and matures in 2022; and

iii) Short-term and medium-term facilities of US$ 132,739 thousand (2017: US$ 109,570 thousand) through pledge over sukuk of US$ 152,845 thousand (2017: US$ 129,676 thousand) (note 8).

Wakala financing comprise:

i) US$ 35 million facility from a financial institution repayable in 3 years starting November 2016 and maturing in 2019 at a profit rate of LIBOR plus margin of 7.65% p.a.(subject to a minimum of 8% p.a.). The facility is secured by a pledge over the Group's investment property of carrying value of US$ 24.7 million (31 December 2017: US$ 24.7 million) and development property of carrying value of US$ 44.5 million (31 December 2017: US$ 42.3 million); and

ii) a syndicate facility from a number of financial institutions availed in 2009 and repayable over a period of six years till April 2019 at a profit rate of 6% p.a. The facility is secured by a pledge over the Group's investment property with a carrying value of US$ 136 million (31 December 2017: US$ 136 million).

Sukuk liability

The Sukuk is backed by a pool of assets of the Group and has a liquidity facility provided by the Bank to support timely payments of distributions. The Sukuk were settled during the year.

Ijarah financing facility

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

Other borrowings

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

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16 OTHER LIABILITIES

	31 December 2018	31 December 2017
Employee related accruals	19,008	11,358
Board member allowances and accruals	3,500	4,450
Unclaimed dividends	13,676	7,611
Mudaraba profit accrual	11,348	7,586
Provision for employees' leaving indemnities	3,437	3,994
Zakah and Charity fund (page 13)	4,635	2,840
Advance received from customers	203,314	53,888
Accounts payable	146,862	41,697
Accrued expenses and other payables	112,077	122,309
	517,857	255,733

17 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

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

	31 December 2018	31 December 2017
Balances with banks	125,497	16,813
CBB reserve account	55,225	46,312
Placements with financial institutions	115,748	90,103
Debt type instruments – sukuk	427,923	300,263
Financing assets	172,517	452,862
	896,910	906,353

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

	2018	2017
Returns from jointly invested assets	(37,731)	(39,480)
Banks share as Mudarib	14,904	19,726
Return to investment account holders	**(22,827)**	(19,754)

The average gross rate of return in respect of unrestricted investment accounts was 4.36% for 2018 (2017: 4.12%). Approximately 2.55% (2017: 2.18%) was distributed to investors and the balance was either set aside for provisions and/or retained by the Group as a Mudarib fee. Unrestricted investment accounts include profit equalisation reserve of US$ 9 thousand (2017: US$ 9 thousand) and investment risks reserve of US$ 5 thousand (2017: US$ 5 thousand).

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18 SHARE CAPITAL

	31 December 2018	31 December 2017
Authorised:		
9,433,962,264 shares of US$ 0.265 each (2017: 9,433,962,264 shares of US$ 0.265 each)	**2,500,000**	2,500,000
Issued and fully paid up:		
3,681,650,441 shares of US$ 0.265 each (2017: 3,681,650,441 shares of US$ 0.265 each)	**975,638**	975,638

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

	2018	2017
At 1 January	975,638	597,995
Investment offering (note 20)	-	314,530
Issue of bonus shares	-	59,799
Issue of shares under incentive scheme	-	3,314
At 31 December	**975,638**	975,638

Investment offering

In 2017, after obtaining the requisite approvals, the Group offered to its investors in certain infrastructure projects and investment funds to acquire their holdings in return for pre-determined number of the Bank's shares (note 20). Subscriptions for 1,186,904,148 shares of the Bank were made up to the final closing period of 15 August 2017. Shares were issued to the subscribers resulting in increase in share capital by US$ 314,530 thousand. Excess over the par value of US$ 0.265 per share has been considered as share premium and reflected accordingly under share premium account (including transfer from capital adjustment account).

As at 31 December 2018, the Bank held 255,455,953 (31 December 2017: 106,467,804) treasury shares.

Additional information on shareholding pattern

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

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

Categories*	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	2,521,384,919	7,834	68.49
1% up to less than 5%	971,816,218	10	19.03
5% to less than 10% #	188,449,304	1	12.48
Total	**3,681,650,441**	**7,845**	**100**

** Expressed as a percentage of total outstanding shares of the Bank.*
 # Includes treasury shares held by the Bank.

(iii) As at 31 December 2018, the shareholders who hold more than 5% of the total outstanding shares are as below:

Shareholder name	Number of shares	% of total outstanding shares
Abu Dhabi Financial Group LLC and related entities	530,692,012	14.41%

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18 SHARE CAPITAL (continued)

Appropriations and changes in capital structure

Appropriations, if any, are made when approved by the shareholders. In the ordinary and extraordinary general meeting held on 27 March 2018, shareholders approved the following appropriations for 2017:

a) Cash dividend of 8.72% of the paid-up share capital amounting to US$ 82.4 million;
b) US$ 1 million towards charity;
c) US$ 784 thousand towards zakah; and
d) Transfer of US$ 10 million to statutory reserve.

Proposed appropriations

The Board of Directors proposes the following appropriations for 2018 subject to shareholders' approval in annual general meeting:

- Dividend of 8.71% of the paid-up share capital amounting to US$ 85 million in the form of:
  - Cash dividend of 3.07% amounting to US$ 30 million,
  - Bonus shares at the rate of 5.6% of par value at 1 share for every 17.7 ordinary shares,
- Transfer of US$ 11.4 million to statutory reserve; and
- US$ 1 million towards charity and US$ 941 thousand towards zakah for the year.

19 SHARE GRANT RESERVE

	2018	2017
At 1 January	1,026	902
Issue of share under incentive scheme	158	164
Transfer between interests	(98)	(40)
At 31 December	**1,086**	1,026

20 ACQUISITION OF SUBSIDIARIES

Acquisitions in 2018

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

GHC has the following subsidiaries:

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

20 ACQUISITION OF SUBSIDIARIES (continued)

Consideration transferred and non-controlling interests

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

Identifiable assets acquired and liabilities assumed

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

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

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

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

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

** sukuk financing was settled subsequent to acquisition (refer note 22)*

20 ACQUISITION OF SUBSIDIARIES (continued)

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

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

(ii) During the year, the Group acquired additional stake in the following entities resulting in the Group obtaining control over these entities as at 31 December 2018. The Group has acquired these entities with an intention to subsequent disposal within 12 months, accordingly, the asset, liabilities and non-controlling interests relating to these entities were classified as "held-for-sale".

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

	Current Stake	**Additional stake acquired**	**Total stake**
Falcon Cement Company BSC (c) (FCC)	31.72%	20%	51.72%
Sheffield Dubai Investment Company (SDIC)	4.67%	61.18%	65.85%

Consideration transferred and non-controlling interests

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

Identifiable assets acquired and liabilities assumed

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

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities as at 31 December 2018, being the effective date of acquisition, and have been reported on a provisional basis as permitted by accounting standards.

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20 ACQUISITION OF SUBSIDIARIES (continued)

The Group, as on date of issue of this consolidated financial statements, has not yet concluded on the determination of fair value of tangible and intangible assets acquired, liabilities assumed and residual goodwill, if any, arising from the acquisition. The estimates of fair values for tangible and intangible assets acquired and liabilities assumed is subject to significant judgement and shall be determined by management using appropriate valuation approaches and asset appraisals at the effective date.

	FCC	SDIC
Property, plant and equipment	66,031	361
Inventories	13,372	-
Trade receivables	12,362	-
Due from related parties	417	1,528
Cash and bank balances	73	1,307
Other assets	281	1,013
Total assets	**92,536**	**4,209**
Bank borrowings	23,335	-
Trade and other payables	16,601	2,813
Total liabilities	**39,936**	**2,813**
Total net identifiable assets and liabilities (A)	**52,600**	**1,396**

	FCC	SDIC
Carrying value of Group's previously held equity interest in investee companies	27,260	1,955
Value of consideration transferred in assets and cash	8,621	26,000
Non-controlling interests recognised	25,396	15,160
Total consideration (B)	**61,277**	**43,115**
Intangibles including goodwill (B-A) (provisional)	**8,677**	**41,719**

The Group has an active plan approved by the Board, to sell its stake in FCC and SDIC, and accordingly, the asset and liabilities acquired are classified as held-for-sale in the consolidated statement of financial position. The equity of the remaining stake held by external parties in these entities are classified as "non-controlling interests related to assets held-for-sale"

Acquisitions in 2017

Pursuant to the approval by the shareholders in their Extraordinary General Meeting held on 1 March 2017, the Bank offered its shares in exchange for the holdings of its investors in various infrastructure projects and investment funds. The Group had acquired additional stake in the following infrastructure projects resulting in the Group obtaining control over these projects as at 31 December 2017, and accordingly, these have been consolidated with the results of the Group. The Group's existing stake and additional stake acquired are given below:

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

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20 ACQUISITION OF SUBSIDIARIES (continued)

Consideration transferred and non-controlling interests

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

Identifiable assets acquired and liabilities assumed

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

The reported amounts below represent the adjusted acquisition carrying values of the acquired entities as at 30 September 2017, being the effective date of acquisition.

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

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

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

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20 ACQUISITION OF SUBSIDIARIES (continued)

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

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

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

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

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

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

21 INCOME FROM INVESTMENT SECURITIES

	2018	2017
Dividend income	5,698	2,470
Gain on sale of investment	5,190	1,588
Changes in the fair value of Sukuk carried at fair value through income statement	3,772	(5,305)
Income from sukuk	19,065	12,560
	33,725	11,313

22 INCOME FROM SETTLEMENT OF LIABILITIES

This includes:

(i) Income of US$ 35.3 million arising from restructuring of liabilities of a subsidiary. In 2016, as part of total recoveries made by the Group under litigation settlements, the Group had acquired the holding company of a master developer for a project in the Kingdom of Bahrain under administration and insolvency proceedings which had net liabilities at the time of the settlement. Subsequently, the Group managed to get the company out of administration by restructuring the liabilities of the Company and negotiating settlements with creditors through a court administered process. The legal process of confirming claims for settlement has been completed in 2018 resulting in the Company being taken out of legal administration and handed back to the Group. The final court judgment confirmed the final amounts due to each creditor and hence the difference between the previously recognised liability / provisions and the court approved amounts have been reversed to the income statement as they were no longer required.

(ii) During the year, the Group agreed to settle sukuk liability with a financial institution of US$ 203 million at a lower amount, resulting in a gain of US$ 77.8 million (net of associated costs). The settlement was in the form of cash and other non cash assets.

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23 OTHER INCOME

This mainly includes US$ 22 million received in cash during the year on settlement of litigations and income from non-banking subsidiaries of US$ 18.3 million and rental income of US$ 2.5 million.

24 STAFF COST

	2018	2017
Salaries and benefits	49,748	37,969
Social insurance expenses	3,387	2,945
	53,135	40,914

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

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

Share incentive scheme	**2018**		2017	
	No. of Shares	**USD 000's**	No. of Shares	USD 000's
Opening balance	35,872,407	9,568	29,430,640	3,712
Awarded during the period	10,073,642	4,502	12,504,545	6,878
Dividends	-	-	2,714,064	-
Forfeiture and other adjustments	-	-	-	-
Transfer to employees / settlement	(19,398,069)	(3,662)	(8,776,842)	(1,022)
Closing balance	**26,547,980**	**10,408**	35,872,407	9,568

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

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25 OTHER OPERATING EXPENSES

	2018	2017
Rent	4,898	4,797
Professional and consultancy fees	6,902	3,741
Legal expenses	5,184	2,194
Board member allowance	4,831	5,556
Depreciation (note 12)	2,099	1,660
Expenses relating to non-banking subsidiaries	16,087	21,222
Other operating expenses	9,476	10,217
	49,477	49,387

26 IMPAIRMENT ALLOWANCES

	2018	2017
Bank balances	132	-
Placements with financial institutions	948	-
Financing assets (note 7)	9,398	2,085
Investment securities		
- Equity securities (note 8(b))	5,849	3,577
- Debt type securities	(265)	1,050
Investment property (note 9)	-	2,095
Lease rental receivables (note 13)	1,923	460
Other receivables (note 13)	(80)	114
Commitments and financial guarantees	(291)	-
	17,614	9,381

27 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group. A significant portion of the Group's management fees are from entities over which the Group exercises influence (assets under management). Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The transactions with these entities are based on agreed terms.

The significant related party transactions during the year and balances as at year end included in these consolidated financial statements are as follows:

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

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27 RELATED PARTY TRANSACTIONS (continued)

	Related parties per FAS 1				
2018	**Associates / Joint venture**	**Key management personnel**	**Significant shareholders / entities in which directors are interested**	**Assets under management including special purpose and other entities**	**Total**
Assets					
Financing assets	-	6,016	15,146	15,089	**36,251**
Due from financial institutions	-	-	-	100,088	**100,088**
Equity-accounted investees	54,829	-	-	-	**54,829**
Investment securities	-	-	6,058	72,467	**78,525**
Other assets	1,225	-	13,257	61,463	**75,945**
Liabilities					
Investors' funds	129	-	-	14,412	**14,541**
Customer current account	178	2,117	1,844	3,196	**7,335**
Due to financial and other institutions	-	-	249,117	-	**249,117**
Financing liabilities	-	-	24,797	-	**24,797**
Other liabilities	-	3,499	3,132	8,364	**14,995**
Equity of investment account holders	1,273	3,634	28,592	1,241	**34,740**

	Related parties per FAS 1				
2018	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose and other entities	Total
Income					
Investment banking income	-	-	23,500	16,600	**40,100**
Fee and commission income	-	-	-	2,110	**2,110**
Income from financing assets	-	353	989	-	**1,342**
Share of profit of equity-accounted investees	3,256	-	-	-	**3,256**
Income from investment securities, net	-	-	-	964	**964**
Expenses					
Finance expense	-	-	10,655	-	**10,655**
Staff cost *	-	9,211	-	-	**9,211**
Other operating expenses	-	4,536	-	156	**4,692**
Return to investment account holders	32	82	928	29	**1,071**

***** The amount presented excluded bonus to key management personnel for 2018 as allocation has not been finalized at the date of approval of these consolidated financial statements.

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27 RELATED PARTY TRANSACTIONS (continued)

	Related parties per FAS 1				
2017	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose 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

Key management personnel

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

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

The key management personnel compensation is as follows:

	2018	2017
Board members' remuneration, fees and allowance	4,536	5,475
Salaries, other short-term benefits and expenses	8,821	6,712
Post-employment benefits	390	117

28 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US$ 1,677 million (31 December 2017: US$ 1,623 million). During the year, the Group had charged management fees amounting to US$ 2,570 thousand (2017: US$ 1,840 thousand) to its assets under management.

29 EARNINGS PER SHARE

Basic earnings per share

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

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

	2018	2017
In thousands of shares		
Weighted average number of shares for basic & diluted earnings	**3,543,155**	2,888,874

Diluted earnings per share

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

In case of the legacy share options granted to employees prior to 2014, as the average market value of shares during the current year was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2018. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above. The Bank does not have any other dilutive instruments.

30 ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed (net assets method) by the Bank’s Shari’a Supervisory Board and notified to shareholders annually. The zakah payable by shareholders for 31 December 2018 is US$ 0.0007665/share and the current year calculations for zakah are yet to be approved by the Group’s Shari’a Supervisory Board and will be provided for in the Bank’s website.

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

31 EARNINGS PROHIBITED BY SHARI’A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds. The Group receives interest from deposits placed with the CBB and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amount to US$ 48 thousand (2017: US$ 45 thousand).

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32 SHARI'A SUPERVISORY BOARD

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

33 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation / settlement profile for assets and liabilities respectively. For undiscounted contractual maturity of financial liabilities, refer note 38.

31 December 2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	309,281	9,525	16,087	6,610	-	64	341,567
Placements with financial institutions	117,031	-	172,527	-	-	-	289,558
Financing assets	193,784	70,904	186,523	349,889	119,576	-	920,676
Equity-accounted investees	-	-	-	28,035	38,929	-	66,964
Investment securities	298,239	-	129,676	136,979	208,240	-	773,134
Asset acquired for leasing	12,745	9,414	18,751	91,703	155,658	-	288,271
Investment property	-	-	-	475,731	47,961	-	523,692
Development properties	-	-	-	628,168	688,150	-	1,316,318
Assets held-for-sale	-	101,213	45,928	-	-	-	147,141
Property and equipment	-	-	-	-	92,902	-	92,902
Other assets	10,143	33,687	60,988	109,372	14,952	-	229,142
Total assets	**941,223**	**224,743**	**630,480**	**1,826,487**	**1,366,368**	**64**	**4,989,365**
Liabilities							
Investors' funds	29,532	-	3,179	13,928	-	-	46,639
Placements from financial institutions, other entities and individuals	283,914	422,702	688,949	221,562	11,262	-	1,628,389
Customer current account	48,551	18,178	19,740	22,560	68,877	-	177,906
Financing liabilities	36,998	18,022	32,334	32,084	136,699	-	256,137
Liabilities related to assets held-for-sale	-	39,936	2,813	-	-	-	42,749
Other liabilities	54,562	26,324	34,654	402,317	-	-	517,857
Total liabilities	**453,557**	**525,162**	**781,669**	**692,451**	**216,838**	**-**	**2,669,677**
Equity of investment account holders	**161,409**	**116,220**	**261,812**	**147,247**	**210,223**	**-**	**896,910**
Off-balance sheet items							
Commitments	55,804	69,480	46,981	74,200	8,016	-	254,481
Restricted investment accounts	143	-	-	28,329	-	-	28,472

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33 MATURITY PROFILE (continued)

31 December 2017	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	190,863	8,520	12,788	4,210	-	64	216,445
Placements with financial institutions	92,789	-	2,780	-	-	-	95,569
Financing assets	190,800	84,438	144,589	338,208	234,467	-	992,502
Investment securities	170,979	5,288	-	305,021	40,120	-	521,408
Asset acquired for leasing	5,035	4,536	8,788	53,286	186,161	-	257,806
Investment property	-	135,500	-	427,280	53,483	-	616,263
Development properties	-	-	-	204,551	688,486	-	893,037
Equity-accounted-investees	-	-	-	53,277	28,163	-	81,440
Property and equipment	-	-	-	-	117,135	-	117,135
Other assets	143,277	14,969	32,439	118,722	9,445	-	318,852
Total assets	793,743	253,251	201,384	1,504,555	1,357,460	64	4,110,457
Liabilities							
Investors' funds	608	5,596	17,896	15,313	-	-	39,413
Placements from financial institutions, other entities and individuals	277,506	74,468	212,150	290,958	3,414	-	858,496
Customer current account	115,771	28,027	17,024	9,973	18,812	-	189,607
Financing liabilities	6,225	101,390	38,072	196,039	23,336	-	365,062
Other liabilities	20,547	13,206	56,587	165,393	-	-	255,733
Total liabilities	420,657	222,687	341,729	677,676	45,562	-	1,708,311
Equity of investment account holders	416,408	86,658	126,928	40,297	236,062	-	906,353
Off-balance sheet items							
Commitments	10,247	53,941	70,915	94,583	3	-	229,689
Restricted investment accounts	-	11,995	-	16,731	-	-	28,726

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

(a) Industry sector

31 December 2018	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	340,374	951	242	341,567
Placements with financial institutions	189,471	100,087	-	289,558
Financing assets	29,474	152,038	739,164	920,676
Investment securities	66,212	162,199	544,723	773,134
Assets acquired for leasing	-	284,059	4,212	288,271
Investment properties	-	523,692	-	523,692
Development properties	-	1,316,318	-	1,316,318
Equity-accounted investees	33,227	17,837	15,900	66,964
Assets held-for-sale	-	-	147,141	147,141
Property and equipment	-	18,411	74,491	92,902
Other assets	28,867	125,791	74,484	229,142
Total assets	**687,625**	**2,701,383**	**1,600,357**	**4,989,365**
Liabilities				
Investors' funds	5,694	14,397	26,548	46,639
Placements from financial institutions, other entities and individuals	901,257	6,255	720,877	1,628,389
Customer current accounts	4,177	20,775	152,954	177,906
Financing liabilities	190,989	26,628	38,520	256,137
Liabilities related to assets held-for-sale	-	-	42,749	42,749
Other liabilities	45,000	370,046	102,811	517,857
Total liabilities	**1,147,117**	**438,101**	**1,084,459**	**2,669,677**
Equity of Investment account holders	**16,134**	**34,202**	**846,574**	**896,910**
Off-balance sheet items				
Commitments	1,361	148,566	104,554	**254,481**
Restricted investment accounts	91	25,750	2,631	**28,472**

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

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 and equipment	-	18,194	98,941	117,135
Other assets	9,003	140,386	169,463	318,852
Total assets	438,134	2,302,273	1,370,050	4,110,457
Liabilities				
Investors' funds	3,425	30,268	5,720	39,413
Placements from financial institutions, other entities and individuals	338,621	-	519,875	858,496
Customer current accounts		28,607	161,000	189,607
Financing liabilities	202,192	124,295	38,575	365,062
Other liabilities	-	175,161	80,572	255,733
Total liabilities	544,238	358,331	805,742	1,708,311
Equity of Investment account holders	30,314	43,905	832,134	906,353
Off-balance sheet items				
Commitments	18,999	99,622	111,068	229,689
Restricted investment accounts	-	26,092	2,634	28,726

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

(b) Geographic region

31 December 2018	GCC countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	239,632	516	101	80,609	20,709	341,567
Placements with financial institutions	289,558	-	-	-	-	289,558
Financing assets	849,029	-	101	29,415	42,131	920,676
Investment securities	694,387	-	58,114	5,850	14,783	773,134
Assets acquired for leasing	288,162	-	109	-	-	288,271
Investment properties	446,692	77,000	-	-	-	523,692
Development properties	526,749	393,057	396,512	-	-	1,316,318
Assets held-for-sale	147,141	-	-	-	-	147,141
Equity-accounted investees	66,964	-	-	-	-	66,964
Property and equipment	90,704	2,198	-	-	-	92,902
Other assets	154,560	4,299	22,064	21,320	26,899	229,142
Total assets	**3,793,578**	**477,070**	**477,001**	**137,194**	**104,522**	**4,989,365**
Liabilities						
Investors' funds	32,188	521	1	13,928	-	46,639
Placements from financial institutions, other entities and individuals	1,531,898	94,021	-	2,470	-	1,628,389
Customer current accounts	176,580	-	599	-	727	177,906
Financing liabilities	256,137	-	-	-	-	256,137
Liabilities related to assets held-for-sale	42,749	-	-	-	-	42,749
Other liabilities	394,639	30,671	87,427	2,296	2,824	517,857
Total liabilities	**2,434,198**	**125,213**	**88,027**	**18,694**	**3,545**	**2,669,677**
Equity of investment account holders	**889,525**	**-**	**5,918**	**1,467**	**-**	**896,910**
Off-balance sheet items						
Commitments	253,802	-	-	-	679	**254,481**
Restricted investment accounts	25,838	-	2,634	-	-	**28,472**

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

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

(b) Geography sector (continued)

31 December 2017	GCC countries	MENA	Asia	North America	Others	Total
Assets						
Cash and bank balances	166,645	601	27	-	49,172	216,445
Placements with financial institutions	95,569	-	-	-	-	95,569
Financing assets	910,568	-	95	29,237	52,602	992,502
Investment securities	437,814	103	65,191	8,475	9,825	521,408
Assets acquired for leasing	257,806	-	-	-	-	257,806
Investment properties	403,763	77,000	-	-	135,500	616,263
Development properties	102,474	395,565	394,998	-	-	893,037
Equity-accounted investees	81,440	-	-	-	-	81,440
Property and equipment	114,853	2,282	-	-	-	117,135
Other assets	166,157	817	8,462	23,734	119,682	318,852
Total assets	2,737,089	476,368	468,773	61,446	366,781	4,110,457
Liabilities						
Investors' funds	23,580	520	-	15,313	-	39,413
Placements from financial institutions, other entities and individuals	771,894	86,602	-	-	-	858,496
Customer current accounts	169,710	-	1,539	-	18,358	189,607
Financing liabilities	256,375	14,787	-	-	93,900	365,062
Other liabilities	165,454	22,086	60,500	7,693	-	255,733
Total liabilities	1,387,013	123,995	62,039	23,006	112,258	1,708,311
Equity of investment account holders	891,690	-	6,591	-	8,072	906,353
Off-balance sheet items						
Commitments	215,460	10,930	-	-	3,299	229,689
Restricted investment accounts	26,118	-	-	-	2,634	28,752

35 OPERATING SEGMENTS

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

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

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

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

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

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

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

The Group has primary operations in Bahrain and the Group does not have any significant independent overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 34(b) to the consolidated financial statements.

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35 OPERATING SEGMENTS (continued)

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

	Real estate development	Investment banking	Commercial banking	Unallocated / Elimination	Total
31 December 2018					
Segment revenue	102,812	68,370	55,350	23,220	249,752
Segment expenses (including impairment allowances)	(16,124)	(37,888)	(49,641)	(31,050)	(134,703)
Segment result *	86,688	30,482	5,709	(7,830)	115,049
Segment assets	2,035,664	686,688	2,246,159	20,854	4,989,365
Segment liabilities	1,238,147	558,787	817,529	55,214	2,669,677
Other segment information					
Finance expense	29,338	9,896	23,049	302	62,585
Impairment allowance	-	-	(16,679)	(935)	(17,614)
Equity accounted investees	5,702	49,127	12,135	-	66,964
Equity of investment account holders	-	-	896,320	590	896,910
Commitments	114,314	-	122,167	18,000	254,481

* Includes segment result of discontinued operations, net.

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35 OPERATING SEGMENTS (continued)

	Real estate development	Investment banking	Commercial banking	Unallocated / Elimination	Total
31 December 2017					
Segment revenue	14,893	135,490	56,085	5,180	211,648
Segment expenses (including impairment allowances)	9,931	35,435	44,815	18,279	108,460
Segment result *	4,962	100,055	11,270	(13,099)	103,188
Segment assets	1,556,265	468,122	2,071,510	14,560	4,110,457
Segment liabilities	680,103	217,881	776,471	33,856	1,708,311
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.

36 FINANCIAL INSTRUMENTS

a) FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

As at 31 December 2018 and 31 December 2017, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models. Other investments are carried at cost in the absence of a reliable measure of fair value.

Other than certain investments carried at cost of US$ 180,724 thousand (31 December 2017: US$ 185,775 thousand) (note 8), the estimated fair values of the Group's other financial assets are not significantly different from their book values as at 31 December 2017.

Investments amounting to US$ 180,724 thousand (31 December 2017: US$ 185,775 thousand) in unquoted equity securities are carried at cost less impairment in the absence of a reliable measure of fair value. Such investments are either private equity investments managed by external investment managers or represent investments in development infrastructure projects promoted by the Group for which a reliable estimate of fair value cannot be determined. The Group intends to exit these investments principally by means of strategic sell outs, sale of underlying assets or through initial public offerings.

As at 31 December 2018, the fair value of financing liabilities was estimated at US$ 365,062 thousand (carrying value US$ 365,062 thousand) (31 December 2017: fair value US$ 159,545 thousand (carrying value US$ 159,545 thousand)). These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of financing liabilities as these are largely floating rate instruments.

b) FAIR VALUE HIERARCHY

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

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

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36 *FINANCIAL INSTRUMENTS (continued)*

b) FAIR VALUE HIERARCHY (continued)

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities carried at fair value through:				
- income statement	-	-	34,875	**34,875**
- equity	26,319	-	-	**26,319**
Debt securities carried at fair value through income statement	100,527	-	-	**100,527**
	126,846	**-**	**34,875**	**161,721**

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

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

	2018	2017
At 1 January	34,875	42,153
De-recognized on loss of control	-	(1,973)
Total gains / (losses) in income statement	-	(5,305)
At 31 December	**34,875**	34,875

37 COMMITMENTS AND CONTINGENCIES

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

	31 December 2018	31 December 2017
Undrawn commitments to extend finance	88,045	129,302
Financial guarantees	34,122	73,960
Capital commitments for infrastructure development projects	55,407	20,000
Purchase commitments for investment in real estate	58,907	-
Commitment to invest	-	6,427
Commitment to lend	18,000	-
	254,481	229,689

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group as at 31 December 2018 due to the performance of any of its projects.

37 COMMITMENTS AND CONTINGENCIES (continued)

Litigations and claims

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

38 FINANCIAL RISK MANAGEMENT

Overview

Financial assets of the Group comprise bank balances, placements with financial and other institutions, investment securities and other receivable balances. Financial liabilities of the Group comprise investors' funds, placements from financial and other institutions, financing liabilities and other payable balances. Accounting policies for financial assets and liabilities are set out in note 4.

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

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

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

Risk management framework

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

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

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

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk

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

Management of investment and credit risk

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

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

- Ensuring that the Group has in place investment and credit policies, covering credit assessment, risk reporting, documentary and legal procedures, whilst the Compliance Department is responsible for ensuring compliance with regulatory and statutory requirements.
- Overseeing the establishment of the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are governed by the Board approved Delegated Authority Limits (DAL) Matrix.
- Reviewing and assessing credit risk. Risk Management department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.
- Ongoing review of credit exposures. The risk assessment approach is used in determining where impairment provisions may be required against specific investment / credit exposures. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Risk profile of exposures are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment / credit risk.

The Risk Management Department works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A fair evaluation of investments takes place periodically with inputs from the Investment department. Quarterly updates of investments are presented to the Board of Directors or their respective committees. Regular audits of business units and Group credit processes are undertaken by Internal Audit.

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38 FINANCIAL RISK MANAGEMENT (continued)
a) Credit risk (continued)

Exposures subject to credit risk

31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Placements with financial institutions				
Grade 8 -10 Impaired	24,358	-	-	24,358
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	266,153	-	-	266,153
Gross carrying amount	290,511	-	-	290,511
Less expected credit losses	(953)	-	-	(953)
Net carrying amount	**289,558**	**-**	**-**	**289,558**
Financing facilities				
Grade 8 -10 Impaired	2,841	186	199,281	202,308
Past due but not impaired				
Grade 1-6 Low-Fair Risk	74,690	28,467	8,883	112,040
Grade 7 Watch list	37	40,857	-	40,894
Past due comprises:				
Up to 30 days	72,380	42,086	-	114,466
30-60 days	2,347	4,623	-	6,970
60-90 days	-	22,615	8,883	31,498
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	568,848	49,944	-	618,792
Grade 7 Watch list	369	8,873	-	9,242
Gross carrying amount	646,785	128,327	208,164	983,276
Less expected credit losses	(12,631)	(9,801)	(40,168)	(62,600)
Net carrying amount	**634,154**	**118,526**	**167,996**	**920,676**
Assets acquired for leasing (including lease rentals receivables)				
Grade 8 -10 Impaired	-	838	49,371	50,209
Past due but not impaired				
Grade 1-6 Low-Fair Risk	34,456	6,334	-	40,790
Grade 7 Watch list	-	10,202	-	10,202
Past due comprises:				
Up to 30 days	32,393	5,112	-	37,505
30-60 days	2,064	8,560	-	10,624
60-90 days	-	2,865	-	2,865

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38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	188,044	5,414	-	193,458
Grade 7 Watch list	-	127	-	127
Gross carrying amount	222,500	22,915	49,371	294,786
Less expected credit losses	(281)	(369)	(5,865)	(6,515)
Net carrying amount	**222,219**	**22,546**	**43,506**	**288,271**
Other assets				
Grade 8 -10 Impaired	-	-	-	-
Past due but not impaired				
Grade 1-6 Low-Fair Risk	17,930	-	-	17,930
Past due comprises:				
60-90 days	17,930	-	-	17,930
Neither past due nor impaired				
Grade 1-6 Low-Fair Risk	136,207	-	-	136,207
Gross carrying amount	154,137	-	-	154,137
Less: expected credit losses	(236)	-	-	(236)
Net carrying amount	**153,901**	**-**	**-**	**153,901**
Investment in Sukuk				
Sovereign	333,548	-	-	333,548
Non-investment grade	-	-	3,493	3,493
Investment grade	94,375	-	-	94,375
Gross carrying amount	427,923	-	3,493	431,416
Less: expected credit losses	(8)	-	(3,493)	(3,501)
Net carrying amount	**427,915**	**-**	**-**	**427,915**
Balances with banks				
Grade 1-6 Low-Fair Risk	320,092	-	-	320,092
Gross carrying amount	320,092	-	-	320,092
Less: expected credit losses	(134)	-	-	(134)
Net carrying amount	**319,958**	**-**	**-**	**319,958**

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for the year ended 31 December 2018 US$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)
a) Credit risk (continued)

31 December 2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commitments and financial guarantees				
Grade 8 -10 Impaired	-	-	4,429	4,429
Grade 1-6 Low-Fair Risk	243,012	7,000	-	250,012
Grade 7 Watch list	-	40	-	40
Gross carrying amount (note 37)	243,012	7,040	4,429	254,481
Less: expected credit losses	(531)	(223)	(318)	(1,072)
Net carrying amount	**242,481**	**6,817**	**4,111**	**253,409**
Total net carrying amount	**2,290,186**	**147,889**	**215,613**	**2,653,688**

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

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Significant increase in credit risk

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

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

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

Credit risk grades

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

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

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

Corporate exposures

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

Retail exposures

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

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

All exposures

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

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates and oil price. For exposures to specific industries and/or regions. The analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Qualitative indicators, including different criteria used for different portfolios credit cards, commercial real estate etc.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Definition of default

The Group considers an exposure subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material obligation to the Group.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

In assessing whether the borrower is in default, the Group considers qualitative and quantitative indicators. The definition of default aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information. The Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2018 included the key indicators for the selected countries such as the unemployment rates, interest rates and the GDP growth.

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Modified exposures subject to credit risk

The contractual terms of an exposure subject to credit risk may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance of financing assets is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default (refer note 4). A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective profit rate of the exposure subject to credit risk.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

for the year ended 31 December 2018 US$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For financing assets secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-month ECL, lifetime ECL and credit-impaired.

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	**Total 2018**
Balance at 1 January	7,902	27,950	31,548	**67,400**
Transfer to 12-month ECL	8,456	(8,186)	(270)	**-**
Transfer to lifetime ECL non-credit-impaired	(838)	1,056	(218)	**-**
Transfer to lifetime ECL credit-impaired	(607)	(6,534)	7,141	**-**
Net re-measurement of loss allowance	(137)	(3,894)	15,796	**11,765**
Write-off	-	-	(4,154)	**(4,154)**
Balance at 31 December	**14,776**	**10,392**	**49,843**	**75,011**

for the year ended 31 December 2018 US$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Break down of ECL by category of assets in the consolidated statement of financial position and off-balance sheet commitments:

	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	**Total 2018**
Balances with banks	134	-	-	**134**
Placements with financial institutions	953	-	-	**953**
Financing assets	12,631	9,801	40,168	**62,600**
Assets acquired for leasing and lease rentals receivables	281	369	5,865	**6,515**
Investment in sukuk	8	-	3,493	**3,501**
Other financial assets	236	-	-	**236**
Financing commitments and financial guarantees	531	223	318	**1,072**
Balance at 31 December	**14,774**	**10,393**	**49,844**	**75,011**

Renegotiated facilities

During the year, facilities of US$ 44,817 thousands (2017: BD 66,737 thousand) were renegotiated, out of which US$ 23,358 thousand (2017: US$ 5,305 thousand) are classified as neither past due nor impaired as of 31 December 2018. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of US$ 379,031 thousand (2017: US$ 310,790 thousand) only instalments of US$ 104,161 thousand (2017: US$ 35,416 thousand) are past due as at 31 December 2018.

Allowances for impairment

The Group makes provisions for impairment on individual assets classified under grades 8,9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Bank has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Non-accrual basis

The Group classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognized in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. During the year, the Bank has written off financing facilities amounting to US$ nil (2017: US$ 35,088 thousand) which were fully impaired. The Bank has recovered US$ 698 thousand from a financing facility written off in previous years (2017: US$ 268 thousand).

for the year ended 31 December 2018 US$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Collaterals

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

Concentration risk

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

The geographical and industry wise distribution of assets and liabilities are set out in notes 34 (a) and (b).

	As at 31 December 2018			As at 31 December 2017		
	Financing assets	**Assets acquired for leasing (including lease rentals receivable)**	**Total**	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Against impaired						
Property	107,350	43,997	**151,347**	75,717	15,501	91,218
Other	5,817	-	**5,817**	5,769	-	5,769
Against past due but not impaired						
Property	56,756	51,013	**107,769**	54,610	56,838	111,448
Other	7,769	-	**7,769**	13,745	-	13,745
Against neither past due nor impaired						
Property	232,459	219,310	**451,769**	257,223	208,422	465,645
Other	32,934	-	**32,934**	67,814	53	67,867
Total	**443,085**	**314,320**	**757,405**	474,878	280,814	755,692

The average collateral coverage ratio on secured facilities is 136.05% as at 31 December 2018 (31 December 2017: 126.86%).

for the year ended 31 December 2018 US$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

An analysis of concentrations of credit risk of the commercial banking business at the reporting date is shown below: needs to include columns for 'Sukuk" and bank balances and "placements with FIs"

Concentration by Sector	**As at 31 December 2018**			As at 31 December 2017		
	Financing assets	**Assets acquired for leasing (including lease rentals receivable)**	**Total**	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Banking and finance	27,475	-	**27,475**	29,207	-	29,207
Real estate	181,453	284,059	**465,511**	157,666	280,411	438,077
Construction	145,366	-	**145,366**	95,271	-	95,271
Trading	206,920	-	**206,920**	240,560	-	240,560
Manufacturing	36,817	-	**36,817**	119,602	-	119,602
Others	322,645	4,212	**326,857**	350,196	180	350,376
Total carrying amount	**920,676**	**288,271**	**1,208,947**	992,502	280,591	1,273,093

b) Liquidity risk

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

Management of liquidity risk

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

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

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

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 33 for the expected maturity profile of assets and liabilities.

for the year ended 31 December 2018 US$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

	Gross undiscounted cash flows						
31 December 2018	**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	32,710	-	-	13,929	-	**46,639**	46,639
Placements from financial institutions, other entities and individuals	289,948	431,520	713,760	233,801	7,677	**1,676,706**	1,628,389
Customer current accounts	48,550	18,178	19,740	22,560	68,878	**177,906**	177,906
Financing liabilities	37,689	20,805	156,137	37,368	24,950	**276,949**	256,137
Liabilities related to assets held-for-sale	-	39,936	2,813	-	-	**42,749**	42,749
Other liabilities	54,563	26,323	34,654	402,317	-	**517,857**	517,857
Total liabilities	**463,460**	**536,762**	**927,104**	**709,975**	**101,505**	**2,738,806**	**2,669,677**
Equity of investment account holders	166,362	119,361	268,888	151,227	215,905	**921,743**	896,910
Commitment and contingencies	55,804	69,480	46,981	74,200	8,016	**254,481**	254,481

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 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

for the year ended 31 December 2018 US$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Measures of liquidity

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

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

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

	Liquid asset / Total asset	
	2018	2017
At 31 December	17.61%	7.59%
Average for the year	9.71%	9.56%
Maximum for the year	17.61%	10.76%
Minimum for the year	5.53%	7.59%

c) Market risks

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

Management of market risks

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

Exposure to profit rate risk

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

for the year ended 31 December 2018 US$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

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

31 December 2018	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets						
Placements with financial institutions	117,031	-	172,527	-	-	289,558
Financing assets	108,437	24,788	98,300	208,239	480,912	920,676
Investment securities (Sukuk)	-	-	-	43,042	384,873	427,915
Assets acquired for leasing (including lease rental receivable)	40	19	610	19,968	267,634	288,271
Total assets	**225,508**	**24,807**	**271,437**	**271,249**	**1,133,419**	**1,926,420**
Liabilities						
Investors' funds	32,710	-	-	13,928	-	46,639
Placements from financial institutions, other entities and individuals	529,953	377,891	671,463	45,298	3,784	1,628,389
Financing liabilities	36,998	18,022	142,034	32,084	26,999	256,137
Total liabilities	**599,661**	**395,913**	**813,497**	**91,310**	**30,783**	**1,931,166**
Equity of investment account holders	409,431	193,905	239,707	53,867	-	**896,910**
Profit rate sensitivity gap	**(783,585)**	**(565,011)**	**(781,767)**	**126,072**	**1,102,636**	**(901,655)**

for the year ended 31 December 2018 US$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

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

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

100 bps parallel increase / (decrease)	**2018**	2017
At 31 December	±9,017	±5,250
Average for the year	±4,340	±3,511
Maximum for the year	±11,495	±5,250
Minimum for the year	±7,975	±73

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

for the year ended 31 December 2018 US$ 000's

38 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

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

	2018	2017
Placements with financial institutions	3.22%	1.87%
Financing assets	5.96%	6.12%
Debt type investments	5.24%	5.20%
Placements from financial institutions, other entities and individuals	6.22%	2.60%
Financing liabilities	3.61%	4.58%
Equity of investment account holders	6.15%	2.07%

Exposure to foreign exchange risk

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

	2018 US$ '000 Equivalent	2017 US$ '000 Equivalent
Sterling Pounds	(1,715)	1,416
Euro	(1,020)	(220)
Australian dollars	12,273	4,607
Kuwaiti dinar	227,797	16,842
Jordanian Dinar	6	6
Moroccan Dirham	11,478	5,576
Tunisian Dinar	191,170	171,763
Indian rupee	253,749	253,838
Other GCC Currencies (*)	(597,608)	(51,540)

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

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2018 US$ '000 Equivalent	2017 US$'000 Equivalent
Sterling Pounds	±86	±494
Euros	±51	±36
Australian dollar	±614	±611
Kuwaiti dinar	±11,390	±1,134
Jordanian Dinar	±0.32	±0.32
Moroccan Dirham	±574	±279
Tunisian Dinar	±9,559	±8,588
Indian rupee	±12,687	±1.19

38 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

Exposure to other market risks

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

d) Operational risk

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

39 CAPITAL MANAGEMENT

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

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

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

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

- *Tier 1 capital: includes CET1 and AT1.*

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

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

for the year ended 31 December 2018 US$ 000's

39 CAPITAL MANAGEMENT (continued)

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

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

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

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

	2018	2017
Total risk weighted exposures	**7,370,110**	7,911,983
CET 1	1,169,103	1,340,550
AT1	9,468	7,304
Tier 1 capital	**1,178,571**	1,347,854
Tier 2 capital	35,202	27,096
Total regulatory capital	**1,213,773**	1,374,950
Total regulatory capital expressed as a percentage of total risk weighted assets	**16.47%**	17.36%

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

40 COMPARATIVES

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

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

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2017

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GFH Financial Group BSC

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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CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

GFH Financial Group BSC
Manama, Kingdom of Bahrain

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of GFH Financial Group BSC (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 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	Dr. Ahmed Al Mutawa	Hisham Alrayes
Chairman	*Vice Chairman &*	*Chief Executive Officer &*
	Chairman of the Audit committee	*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

	Attributable to shareholders of the Bank									
2017	**Share Capital**	**Share premium**	**Treasury shares**	**Capital adjustment account**	**Statutory reserve**	**Retained earnings**	**Share grant reserve**	**Total**	**Non-controlling interests**	**Total owners' equity**
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

	Attributable to shareholders of the Bank									
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
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	Revalua-tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	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	Revalua-tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	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

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

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the year ended 31 December 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:

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

** 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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		Nature of business
		2017	2016	
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%	117,160
AlAreen Hotels SPC (Hotels)	100%	
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.

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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.

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

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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.

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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.

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

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.

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

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.

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

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.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN FAS ISSUED BY AAOIFI AND IFRS

STATEMENT OF COMPLIANCE

The Financial Statements were prepared in accordance with FAS issued by the AAOIFI and in conformity with the Bahrain Commercial Companies Law. In line with the requirement of AAOIFI and the rulebook issued by the CBB, for matters that are not covered by FAS, the Group uses guidance from the relevant IFRS. Accordingly, the Interim Financial Statements have been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 "*Interim Financial Reporting*".

BASIS OF PREPARATION

The Financial Statements were 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 Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the 2018 Financial Statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the 2018 Financial Statements.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN FAS AND IFRS

FAS differs from IFRS in certain respects. Accordingly, the Group has prepared as of the date of this Offering Circular a narrative summary of the significant differences between FAS as applied by the Group in the Financial Statements and IFRS in so far as they relate to the significant accounting policies adopted by the Group.

KPMG Fakhro has not performed any audit, review or other procedures including any reconciliation in respect of the summary of differences described below.

The Group has not performed a reconciliation of its Financial Statements to IFRS, nor has it quantified such differences and nor does it undertake to identify all such differences. Had the Group undertaken any such quantification or reconciliation, other accounting and disclosure differences may have come to the Group's attention that are not identified below.

The differences discussed below relate to the significant differences that impact amounts recorded in the Financial Statements rather than differences in presentation or disclosure.

Investment securities

IFRS 9 which is effective from 1 January 2018 requires all equity investments to be measured at fair value. FAS 25 (which is similar to IAS 39) allows equity securities to be measured at cost in the absence of a reliable measure of fair value.

In accordance with FAS, investments in equity-type instruments are classified into the following categories: (i) as FVTIS investments; or (ii) as FVTE investments. Unrealised gains or losses arising from a change in the fair value of FVTE investments are recognised directly in the fair value reserve under shareholders' equity, which is then distributed between shareholders' equity and the unrestricted investment deposit accounts until the investment is sold, collected or otherwise disposed of or the investment is determined to be impaired. In other words, the fair value reserves attributable to shareholders are recognised under statement of changes in shareholders' equity, and the fair value reserves attributable to unrestricted investment accounts are included in the balance for unrestricted investment accounts as disclosed in note 17 to the 2018 Financial Statements.

Under IFRS, the unrealised gains or losses arising from a change in the fair value of investments classified as available for sale investments (prior to 1 January 2018) or fair value through other comprehensive income (from 1 January 2018) are recognised in the other comprehensive income statement.

Investment in real estate

In accordance with FAS, properties held for rental, capital appreciation or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity. Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve is transferred to the consolidated statement of income.

Under IFRS, the unrealised gains or losses arising from a change in the fair value of investments in real estate are measured at fair value through the consolidated statement of income.

Ijarah muntahia bittamleek transactions

The Group's ijarah muntahia bittamleek transactions are treated as operating leases, whereas they are considered as finance leases or financial instruments (depending on the specific deal structure) according to the definition used in IFRS.

In accordance with FAS, ijarah muntahia bittamleek assets are presented at original cost less accumulated depreciation up to the relevant date of financial position.

Under IFRS, the leased assets would be presented at an amount equal to the net investment in the lease, and income accrued since inception of the lease.

Reclassification of statement of financial position captions in line with IFRS

Under AAOIFI, equity of investment accountholders is disclosed and presented in the consolidated statement of financial position as a separate line item between liabilities and owners' equity and is recognised as quasi-equity. Under AAOIFI, finance lease assets are shown separately as a class of non-financial assets.

Under IFRS, equity of investment accountholders would be presented in the consolidated statement of financial position as a liability. Under IFRS, all items relating to financing assets and related accounts are grouped under a single line item in the statement of financial position.

ANNEX: GFH SHARI'A SUPERVISORY BOARD APPROVAL

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SHARIA PRONOUNCEMENT

In the name of Allah, the Most Gracious, the Most Merciful
All praise is due to Allah, the Cherisher of the world, and peace and blessing upon
The Prophet of Allah, on his family and all his companions

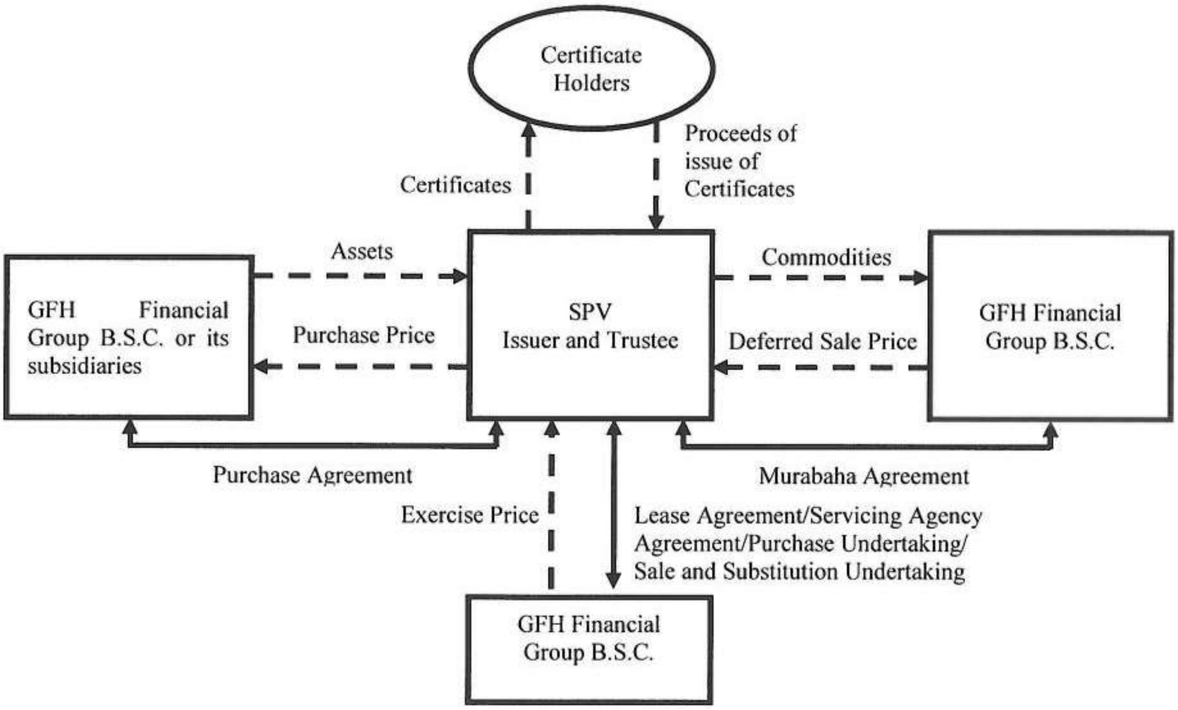
PROPOSED ISLAMIC MEDIUM TERM NOTES ("SUKUK") ISSUANCE OF UP TO USD 500 MILLION

GFH Financial Group backed by their Sharia Supervisory Board has reviewed the proposed structure and mechanism to be entered into in respect of the Sukuk Issuance to ensure compliance with Sharia principles.

Except where defined herein, defined terms used in this Sharia Pronouncement have the meanings given to them in the Principal Terms and Conditions in connection with the Sukuk Issue.

STRUCTURE AND MECHANISM

This structure paper sets out the proposed sukuk structure and a description of the principal cashflows in respect of the issuance of trust certificates (the "**Certificates**") by a special purpose vehicle incorporated in the Cayman Islands to act as issuer and trustee in respect of the Certificates (the "**Trustee**") with GFH Financial Group B.S.C. ("**GFH**") acting as obligor.



Introduction

The Trustee will pursuant to a trust deed (the "**Trust Deed**") declare a trust in favour of the Certificateholders over (i) the Issue Proceeds (as defined below); (ii) the Wakala Assets (as defined below); (iii) the transaction documents; (iii) all amounts standing to the credit of the collection account

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(the "**Collection Account**") from time to time; (iv) all amounts standing to the credit of the transaction account (the "**Transaction Account**") from time to time, and all proceeds of the foregoing.

The Trustee may from time to time, create and issue additional certificates to be constituted by a trust deed supplemental to the original Trust Deed and having the same terms and conditions as the outstanding Certificates (the "**New Tranche**"), and so that the same shall be consolidated and form a single series with the outstanding Certificates. In the case of a New Tranche, any Additional Assets (as defined below) and Wakala Assets together with any Commodity Murabaha Investment (as defined below) will be commingled pursuant to a declaration of commingling of assets (the "**Declaration of Commingling of Assets**").

Purchase Agreement and Murabaha Agreement

On the issue date in respect of each Tranche (a "**Tranche**" being a New Tranche or the Certificates issued on the "**Issue Date**"), the Certificateholders will pay the issue price (the "**Issue Proceeds**") in respect thereof to the Trustee and the Trustee will apply:

(a) as the purchase price (the "**Purchase Price**") payable pursuant to a purchase agreement (the "**Purchase Agreement**") for the purchase of certain real estate assets (the "**Initial Lease Assets**") or (in the case of a New Tranche), the purchase price payable under the relevant supplemental purchase agreement (a "**Supplemental Purchase Agreement**") entered into pursuant to the Purchase Agreement for certain additional real estate assets ("**Additional Assets**"), in each case from GFH or subsidiaries of GFH in their capacities as sellers (the "**Sellers**"), provided that the aggregate value of such Initial Lease Assets or Additional Assets, as the case may be, will be not less than 51 per cent. of the aggregate face amount of such Tranche of Certificates, such valuation to be supported by a representation from GFH based on an external independent valuation and, to the extent that such real estate assets are plots of land, that they are earmarked for development during the life of the Certificates; and

(b) the remaining Issue Proceeds, being no more than 49 per cent. of the aggregate face amount of such Tranche of Certificates, in the purchase of commodities to be sold to GFH on a deferred payment basis for an amount specified in a letter of offer and acceptance (the "**Deferred Sale Price**") and shall be the aggregate of: (i) the relevant Commodity Purchase Price; and (ii) the relevant Profit Amount, pursuant to a murabaha agreement (the "**Murabaha Agreement**") entered into between the Trustee and GFH (the "**Commodity Murabaha Investment**").

The Lease Assets, the Securities Interests relating to any Securities (each as defined below) and, if applicable, the Commodity Murabaha Investment and all other rights arising under or with respect thereto (including the right to receive payment of rental, Deferred Sale Price and any other amounts or distributions due in connection with the relevant Lease Assets, Securities and Commodity Murabaha Investment) shall comprise the "**Wakala Portfolio**", and the Lease Assets and the Securities Interests relating to any Securities comprised in such Wakala Portfolio, the "**Wakala Assets**".

Lease Agreement

Pursuant to a lease agreement (the "**Lease Agreement**"), the Trustee, in its capacity as lessor (the "**Lessor**") will irrevocable and unconditionally lease to GFH in its capacity as lessee (the "**Lessee**") and the Lessee, will irrevocable and unconditionally lease from the Lessor, the Initial Lease Assets for renewable rental periods commencing on the Issue Date and extending to the date scheduled for the final redemption of the Certificates (the "**Scheduled Dissolution Date**") (unless the Lease Agreement is terminated earlier in accordance with its terms or extended pursuant to the terms of the Purchase Undertaking) in consideration for payment of rental, which will be deposited into the Collection Account for onward payment to the Transaction Account (see "*Cashflows – Periodic Distribution Payments*" below).

Such rental will include an amount equal to any Service Charge Amount (as defined below) incurred by the Servicing Agent (as defined below) in relation to each of the Lease Assets in the immediately preceding rental period (the "**Supplementary Rental**") and the aggregate of all amounts of additional supplementary rental which the lessee has agreed to pay in respect of the relevant rental period in connection with an Additional Service Charge Amount (as defined below) (the "**Additional Supplementary Rental**").

The Lessee shall pay: (a) rental (less any Supplementary Rental and Additional Supplementary Rental) by no later than the business day preceding the relevant payment date; (b) any Supplementary Rental and Additional Supplementary Rental on the first business day of the relevant rental period; and (c) an amount equal to the All Expenses Reserve Amount (as defined below) (the "**Initial Supplementary Rental**") on the lease commencement date.

On the issue date of a New Tranche or the date on which New Lease Assets are substituted as New Assets pursuant to the Sale and Substitution Undertaking, a replacement lease agreement shall be entered into in the manner provided for in the Lease Agreement (a "**Replacement Lease Agreement**"). The Initial Lease Assets (to the extent not otherwise substituted) and the Additional Assets and/or New Lease Assets (as applicable) will then be leased by the Lessee under the Replacement Lease Agreement (the Initial Lease Assets, any Additional Assets and any New Lease Assets together, the "**Lease Assets**").

Servicing Agency Agreement

On the Issue Date, GFH and the Trustee will also enter into a servicing agency agreement (the "**Servicing Agency Agreement**") in respect of the Wakala Portfolio and appoint GFH as its agent (the "**Servicing Agent**"), in consideration for a nominal fee, to provide certain services (the "**Services**") including, but not limited to, the following:

(a) carry out all major maintenance and structural repair, pay all proprietorship taxes and procure insurances on behalf of the Lessor in respect of the Lease Assets;

(b) use reasonable endeavours to ensure that the aggregate value of: (i) the Lease Assets; and (ii) the value of the Securities Interest relating to any Sukuk, is not less than 26 per cent. of the aggregate face amount of the Certificates then outstanding;

(c) use reasonable endeavours to ensure that the ratio of the value of the Wakala Assets to the aggregate value of the Wakala Assets and the outstanding Deferred Sale Price (the "**Tangible Asset Ratio**") shall at all times remain at least 51 per cent; and

(b) and (c) together, the "**Tangibility Requirements**".

The Lessor shall provide the Servicing Agent an advance amount (the "**All Expenses Reserve Amount**") relating to payments and liabilities incurred or paid by the Servicing Agent in undertaking the Services (the "**Service Charge Amount**"), which shall be replenished at the beginning of the next relevant rental period by the Lessor if the Servicing Agent has paid or incurred any related liability.

The Servicing Agent shall agree not to incur or pay any liability in any rental period in respect of the Services which would in aggregate exceed the All Expenses Reserve Amount (any excess being "**Additional Service Charge Amount**") unless (i) a request for such incurrence or payment has been made by the Servicing Agent to the Lessor for an Additional Service Charge Amount and (ii) following such request, the Lessee has agreed to pay to the Lessor an amount of additional supplementary rental equal to such Additional Service Charge Amount on the first business day of the next rental period. If, during any rental period, the Servicing Agent incurs or pays any such excess liability without first seeking the approval of the Lessor then it shall be deemed to have unconditionally agreed to satisfy, donate and pay all such liabilities from its own account and the Lessor shall not be liable for such amounts.

Insurance

The Servicing Agent shall also ensure that the Lease Assets are properly insured to the extent consistent with general industry practice by prudent owners of similar assets, and, accordingly, shall effect such insurances in respect of such Lease Assets (the "**Insurances**"), through brokers and with such reputable insurance companies in good financial standing, including against a Total Loss Event.

The Servicing Agent will undertake to ensure that the insured amount relating to a Total Loss Event will, at all times, be at least equal to the aggregate value of: (i) the Certificates then outstanding; (ii) any Periodic Distribution Amounts which would have accrued during the period beginning on the date on which the Total Loss Event occurred and ending on the 31st day after the occurrence of the Total Loss Event; (iii) an amount equal to the sum of any amounts payable under the Liquidity Facility and any service agency liabilities; and (iv) any other amounts payable by the Trustee under the Transaction Documents, less the aggregate amounts of Deferred Sale Price then outstanding (the "**Full Reinstatement Value**").

The Servicing Agent shall further ensure that, in the event of a Total Loss Event occurring, unless such Lease Assets have been replaced, all proceeds of the Insurances against a Total Loss Event are in an amount equal to the Full Reinstatement Value and are paid directly into the Transaction Account by no later than the 30th day after the occurrence of the Total Loss Event.

However, if a Total Loss Event has occurred and the amount paid into the Transaction Account is less than the Full Restatement Value (the difference between the Full Restatement Value and the amount credited to the Transaction Account, being the "**Total Loss Shortfall Amount**"), then the Servicing Agent shall undertake to pay the Total Loss Shortfall Amount unless it proves beyond any doubt that any Total Loss Shortfall Amount is both (i) not attributable to its negligence; and (ii) not attributable to its failing to comply with the terms of the Service Agency Agreement relating to insurance.

Cashflows

Periodic Distribution Payments

All revenues from the Wakala Portfolio (including all rentals, profits, dividends and other amounts payable in respect of the Wakala Assets and, if applicable, all instalment profit amounts comprising the Deferred Sale Price to be paid in respect of the Commodity Murabaha Investment) (the "**Wakala Portfolio Revenues**") will be recorded by the Servicing Agent in the Collection Account.

On the business day immediately preceding a Periodic Distribution Date (each a "**Wakala Distribution Determination Date**"), the Service Agent shall pay into the Transaction Account from the Collection Account an amount equal to the aggregate of all Periodic Distribution Amounts payable on the relevant

Periodic Distribution Date by the Trustee under the Certificates (the "**Required Amount**") and such Required Amount shall be applied by the Trustee for those purposes.

If the Wakala Portfolio Revenues are greater than the Required Amount, such excess returns shall be credited to a separate account by the Service Agent (such account, the "**Reserve Account**"). If the amount standing to the credit of the Transaction Account on a Wakala Distribution Determination Date is insufficient to fund the Required Amount, the Service Agent shall apply amounts standing to the credit of the Reserve Account towards such shortfall, by paying an amount equal to the same into the Transaction Account.

If, having applied such amounts from the Reserve Account, there remains a shortfall between the amount standing to the credit of the Transaction Account and the Required Amount, the Service Agent may in its sole discretion provide Sharia-compliant funding to the Trustee in an amount equal to the shortfall remaining (if any) on terms that such funding is repayable (i) from Wakala Portfolio Revenues received in respect of a subsequent period; or (ii) on the relevant Dissolution Date (such funding, a "**Liquidity Facility**").

The Service Agent can use the amount standing to the credit of the Reserve Account provided such amounts are returned as and when required in order to meet any shortfall in the amount standing to the credit of the Transaction Account. Upon redemption of the Certificates, the Reserve Amount may be retained by GFH as an incentive fee.

Dissolution Payments

On the Issue Date, GFH will also execute a purchase undertaking (the "**Purchase Undertaking**") (in its capacity as Obligor) as a deed in favour of the Trustee and the Delegate, while the Trustee will execute a sale and substitution undertaking (the "**Sale and Substitution Undertaking**") as a deed in favour of GFH.

Upon the occurrence of a Dissolution Event:

(a) the Trustee will be entitled to exercise the Purchase Undertaking pursuant to which GFH undertakes to purchase all or part (as the case may be) of the relevant Wakala Assets at a price (the "**Exercise Price**") equal to (i) the aggregate face amount of the relevant Certificates then outstanding; plus (ii) all accrued but unpaid periodic distribution amounts (if any) relating to such Certificates; plus (iii) an amount representing any amounts payable by GFH (in any capacity) under the Transaction Documents (including where no Certificate shall remain outstanding an amount equal to any outstanding Additional Service Charge Amounts in respect of which the Lessee has agreed to make a corresponding payment of additional supplementary rental but such payment has not been made in accordance with the relevant Lease Agreement(s)); less all or the corresponding portion (as the case may be) of the aggregate amounts of Deferred Sale Price then outstanding and any amounts standing to the credit of the Transaction Account; and

(b) the aggregate amounts of the Deferred Sale Price then outstanding, if any, shall become immediately due and payable by GFH.

Pursuant to the Sale and Substitution Undertaking, grant GFH the right to:

(a) oblige the Trustee to sell the Wakala Assets to GFH at the Exercise Price (as above) following the occurrence of a Tax Event;

(b) following delivery of any certificates to be cancelled (the "**Cancelled Certificates**") oblige the Trustee to transfer the relevant Wakala Assets to GFH, provided that, amongst other things, the aggregate value of such Wakala Assets will not exceed the aggregate face amount of the Cancelled Certificates less a proportion (the "**Cancellation Proportion**"), being equal to the aggregate face amount of the Cancelled Certificates to the aggregate face amount of the Certificates, of the aggregate amount of Deferred Sale Price (excluding Profit Amounts) then outstanding and following the exercise of such right in relation to cancellation of part only of the Certificates then outstanding, the Tangibility Requirements are met; and

(c) oblige the Trustee to sell certain assets (the "**Substituted Wakala Assets**") in exchange for delivery to the Trustee of certain new assets (the "**New Assets**") on an 'as is' basis provided that, amongst other things, the New Assets are of a value which is equal to or greater than the value of the Substituted Wakala Assets and following the exercise of such right the Tangibility Requirements are met [1].

In the case of (a) above, GFH shall pay the aggregate amounts of Deferred Sale Price then outstanding to the Trustee on the relevant date and in the case of (b) above, the Cancellation Proportion of the aggregate amounts of Deferred Sale Price then outstanding shall be deemed to be cancelled.

The exercise price payable by GFH (acting in its capacity as Obligor) to the Trustee in respect of the Wakala Assets, together with the aggregate amounts of the Deferred Sale Price then outstanding, if any, are intended to fund the distribution amount payable by the Trustee under the Certificates upon dissolution (the "**Dissolution Distribution Amount**").

The Purchase Undertaking and the Sale and Substitution Undertaking will provide that to the extent an amount equal to any Additional Service Charge Amounts to be paid by GFH as part of any Exercise Price and any such equivalent amounts to be paid by the Trustee as Lessor under the Servicing Agency Agreement in respect of which the Lessee has agreed to make a corresponding payment of additional supplementary rental under the Lease Agreements but such payment has not been made shall be set off against one another.

The Trust may be dissolved prior to the Scheduled Dissolution Date for a number of reasons including: (i) the imposition of Taxes; (ii) unless the Lease Assets are replaced by GFH in accordance with the Servicing Agency Agreement, upon the occurrence of a Total Loss Event; or (iii) upon the occurrence of a Dissolution Event.

In the case of (i) and (iii), the relevant Dissolution Distribution Amount will be funded by requiring GFH to purchase the Wakala Assets at the relevant exercise price and pay the aggregate amount of the Deferred Sale Price then outstanding, if any, to the Trustee (pursuant to the terms of the Purchase Undertaking or the Sale and Substitution Undertaking, as the case may be, and the Murabaha Agreement).

[1] The New Assets may comprise (i) real estate related assets located in Bahrain (the "**New Lease Assets**"); and/or (ii) certain (x) shares and/or (y) sukuk certificates which represent a beneficial interest in, inter alia, underlying assets or an asset portfolio and the majority of such underlying assets or asset portfolio is comprised of tangible assets (together, the "**Securities**") (including, but not limited to, the right to receive any profits, dividends or other distributions or payments made in respect of such Securities, the benefit of any appreciation in the value of such Securities and the right to exercise all voting rights attached to such Securities) (the "**Securities Interests**"), provided that the aggregate value of: (i) the New Lease Assets (together with any existing Lease Assets not substituted); (ii) the Securities Interests relating to any Sukuk in the Wakala Portfolio, are not less than 26 per cent. of the aggregate face amount of the Certificates on the relevant substitution date.

The Securities must satisfy certain eligibility criteria, which include, in respect of any shares, that the core business of the relevant company in which the shares are issued must comply with the principles of Sharia and that its total conventional finance debt obligations are less than 33 per cent. of its total assets (in the event that the shares are unlisted) or its average market capitalisation over the past 36 months (in the event that the shares are listed) and, in respect of any sukuk, that they are tradable.

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In the case of (ii) above, on the Total Loss Dissolution Date: (a) the aggregate amounts of Deferred Payment Price then outstanding, if any, will become immediately due and payable; and (b) the Trustee will have the right under the Service Agency Agreement to receive all proceeds of the Insurance relating to the Lease Assets, or to receive the Total Loss Shortfall Amount (as applicable), and such amounts are intended to fund the relevant Dissolution Distribution Amount payable by the Trustee under the Certificates on the Total Loss Dissolution Date.

APPROVAL

The Sharia Supervisory Board is of the view that the structure and mechanism as set out above in relation to the Sukuk Issue are acceptable within the principles of Sharia, subject to satisfactory documentation and proper execution of the same.

Sheikh Nidham Yaqoubi

Sheikh Abdulla Al Manea

Sheikh Fareed Hadi

Sheikh Abdulaziz Al Qassar

TRUSTEE

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