GULF FINANCE HOUSE BSC

CONSOLIDATED
FINANCIAL STATEMENTS

31 DECEMBER 2014

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

GULF FINANCE HOUSE BSC

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014

CONTENTS

	Page
Chairman's report	1-3
Independent auditors' report to the shareholders	4
Consolidated financial statements	
Consolidated statement of financial position	5
Consolidated income statement	6
Consolidated statement of changes in owners' equity	7-8
Consolidated statement of cash flows	9
Consolidated statement of changes in restricted investment accounts	10
Consolidated statement of sources and uses of zakah and charity fund	11
Notes to the consolidated financial statements	12-70

CHAIRMAN'S REPORT
for the year ended 31 December 2014

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

Dear Shareholders,

On behalf of the Board of Directors of GFH, I am pleased to present the Group's financial results for the fiscal year ended 31st December 2014 a year of significant progress, transformation and profitability.

Despite ongoing challenges in the global markets and geo-political turmoil in our region and beyond, we have stayed the course, continuing our financial and operational restructuring as well as the implementation of our new strategy - and the results have paid off.

In 2014 we delivered on our promise to shareholders of putting GFH on the path to greater profitability as demonstrated by the year's financial performance and strong results. For the year, the Group posted a consolidated net profit of US$17 million when compared to a net loss of US$18 million for the previous year. The profit attributable to shareholders for 2014 is US$11 million as compared to a loss of US$18 million for 2013.

Total consolidated income for 2014 is US$160.0 million as compared to US$13.5 million in 2013. Excluding income of US$94.3 million from non-banking operations, this reflected a sharp 387% rise in investment banking income, compared with the previous year. This was the result of a significant increase in placements and recoveries made during the year.

Operating profit before provisions for the year was at US$27.6million compared to a loss of US$14.6 million in 2013. Total provisions for 2014 included US$12.8 million associated with losses from Group's exposure in Leeds United FC and regional real estate and these were set off of by US$ 2.2m of reversal of provisions in industrial business. Operating expenses for the year were US$133.8 million. Excluding costs related to non-banking income, expenses were US$42.0 million compared with US$ 34.6 million in the prior year.

Improvements were also made to the Group's overall financial position. During the year, we took steps to recapitalize our balance sheet, the success of which underscores deep market confidence in GFH, our strategy and prospects. As a result, we currently have a very strong capital adequacy of above 32%, which will help us further our strategy of transforming GFH into a fully fledged financial group and support the acquisition of other operating businesses in 2015.

It is the beginning of a new era where GFH adapts new strategy and transform from an investment bank into a financial group. This transformation began during the year when we announced a new structure, which has seen us embark upon a path to further diversify our activities to include the full spectrum of Asset Management, Wealth Management, Commercial Banking and Real Estate Development. The changes we have made to GFH's brand are a reflection of our change in our strategy, leadership and management of the bank. We work hard to enhance the potential of our current investments and seek out new opportunities for growth of the group and our co-investors. We look forward to conclude a number of acquisitions to enhance the balance sheet, implement our strategy and realize more returns that allow us to make distribution to the shareholders.

Looking at the year, our focus continued on maximizing the performance and prospect for the Group's existing investments, securing profitable exits and undertaking new opportunities to generate income and create long term value for our investors and shareholders.

During 2014, we made progress on each of these fronts. We successfully concluded a number of new strategic transactions.

In the third quarter, we announced the completion of deal that saw the Group acquire a US$27 million diversified US residential portfolio consisting of three multi-family residential properties with nearly 1,300 apartments located in close proximity to expanding commercial and industrial infrastructure and benefiting from supply limitation, increasing tenants demand and potential for solid upside at exit. The investment was fully subscribed by investors looking for exposure to a rebounding US market and the opportunity for diversification and consistent returns.

GFH also invested in the NurolLife residential project currently under construction in Istanbul, Turkey, which is being developed by the leading Turkish developer Nurol Real Estate Investment Trust. The Group partnered with Nurol REIT to offer this opportunity, with an equity investment size of approximately $35 million, to its investors in the GCC. Through the unique structure of this investment, GFH offered investors the chance to participate for either investment purposes whereby they can benefit from potential expected capital appreciation of the residential units or as ultimate owners of the residences.

The Group also signed an agreement with DubaiLand Co. to establish a multi-purpose project in the area of DubaiLand opposite to Arabian Ranches Project. The agreement involves the development, over a five-year period, of a total area of approximately 1,200,000 square feet and will see the establishment of a new standard of luxury residential, commercial and retail space and facilities.

Further the Group, through GFH Capital, its fully owned subsidiary and investment arm, also acquired a 70% stake in Philadelphia Private School. This is a leading provider of primary, elementary and secondary education in Dubai, UAE with a current enrollment of 1,400 students. The opportunity was well received by investors. Subscription was completed by September 2014 and GFH Capital already dispersed the first half yearly dividend in January 2015.

During 2014, the Group also completed the exit of our prime central London residential property, which had been acquired in 2013 for US$25 million by GFH Capital. The investment, which had been fully subscribed due to strong demand for exposure to the prime central London market, delivered a return of 21% return per annum to investors. The Group continues to look at additional investment opportunities in the London real estate market.

Khaleeji Commercial Bank (KHCB), where GFH has a significant investment, also continued to maintain strong performance and build its brand in the market. In line with the Group's new structure and expansion which is to include Commercial Banking, we are looking to further increase our equity share in KHCB, subject to regularity approvals in the periods ahead.

Cemena Holding, a company founded and developed by GFH in 2008 for the purpose of investing in the industrial and building materials sector across the MENA region, also made strides during the year. Key subsidiaries of Cemena, Bahrain based Falcon Cement and Balexco, the first aluminum extrusion production plant in the Gulf region, both produced at high capacity and continued to effectively deliver for the needs of a major share of the local market. Both are undertaking capital expansion plans which will see them having increased volumes and turnover in 2015.

New milestones were also achieved at the Group's real estate development projects. Our investment in the Tunis Bay project witnessed significant progress on several fronts. This included timely advancement on infrastructure work and the signing of new development partners. During the year, the Tunis Bay Project Company agreed a US$70 million deal with a consortium of well-renowned French companies for the development of more than 120 hectares of land in Phase I of the project. The deal is anticipated to

CHAIRMAN'S REPORT *(continued)*
for the year ended 31 December 2014

increase the value of the project and to yield lucrative returns. Two additional MOUs were also signed. The first with a local developer for the development of Phase II of the project, the Marina, and another with three leading US universities, who will work with a local Tunisian university, to establish a new US$103 million American University at the Tunis Financial Harbour.

GFH's Gateway to Morocco project also witnessed positive momentum during the year. The project company reached a rescheduling agreement with financiers with favourable terms that would further support the project including converting part of their debt into equity and encouraging the facilitation of joint development arrangements through the release of land. To further adhere to market changes, the project company has engaged a new concept designer, to undertake the modification of components of the master plan to fit current market requirements in Marrakech, where the project is based, in order to ensure enhancement of future value and returns.

The Mumbai Economic Development Zone (MEDZ) project also reported advancement. It development company signed and registered a joint development agreement for Phase 1 with Wadhwa Group. Site preparation work has begun and infrastructure works have advanced on one parcel of the land. The MEDZ has also renegotiated its agreement with Adani Group to include both the land of Phase II and Phase III of the projected. Accordingly, the commercial terms have now been linked to revenue sharing.

Together our new transactions and the progress made on existing investments helped make 2014 a productive year and one which led to enhanced financial performance for the benefit of the Group, our shareholders and investors. Our strategy is working and we will further its implementation throughout 2015. Going forward, we have an active pipeline of opportunities available to us including those to generate strong, steady streams of income. Our efforts will continue to be concentrated in our core GCC and MENA markets as well as those further afield, like the UK and US, where our track record and reach have continued to growth.

As we look ahead, we would like to acknowledge that the successes of the past year are deeply rooted in the support we continue to receive, year after year, from the markets in which we operate and their institutions, leaders and strong economic policies in place.

In particular, and on behalf of the Board of Directors, I would like to express our deep appreciation to the Rulers and the Government of the Kingdom of Bahrain for their vision and ongoing support of GFH as well to the governments and regulators in each of the other geographies in which we operate. A special thanks is also extended to the Central Bank of Bahrain for their unwavering assistance and guidance. It has been instrumental during this period of significant change and positive development at GFH.

In concluding, I would also like to take this opportunity to convey our gratitude to our shareholders, lenders, co-investors and strategic partners. Their commitment and confidence in GFH have and continue to be invaluable. I would also like to commend the management team and employees of the Group whose hard work and dedication is no better reflected than in the many achievements of 2014.

We have entered 2015 as a stronger and more diversified Group and are confident that our efforts over the past year have positioned us to deliver even greater value and enhanced results for our shareholders and co-investors in the year ahead. We will continue to keep you apprised of our activities and look forward to reporting further progress throughout 2015.

Sincerely,

Ahmed Al Mutawa
Chairman
22nd February 2015

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
GULF FINANCE HOUSE BSC
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Gulf Finance House BSC (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2014, 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 2014, 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 and applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration No. 137
22 February 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2014 US$ 000's

	note	31 December 2014	31 December 2013 (restated- note10)
ASSETS			
Cash and bank balances	5	46,147	21,847
Placements with financial institutions		45,753	-
Investment securities	6	248,418	196,141
Investment properties	7	259,404	259,404
Development properties	8	45,501	-
Assets held-for-sale	9	-	23,824
Equity-accounted investees	10	158,804	209,739
Property, plant and equipment	11	141,301	299
Intangible assets	12	125,176	-
Other assets	13	234,603	172,669
Total assets		**1,305,107**	883,923
LIABILITIES			
Investors' funds	14	14,885	19,166
Placements from financial and other institutions	15	90,145	93,511
Financing liabilities	16	231,124	207,767
Other liabilities	17	101,560	60,408
Total liabilities		**437,714**	380,852
Equity of investment account holders	18	**1,663**	2,155
OWNERS' EQUITY			
Share capital	19	1,253,626	972,281
Treasury shares		(912)	(912)
Capital adjustment account		(475,582)	(229,656)
Statutory reserve		69,251	68,146
Accumulated losses		(165,851)	(310,185)
Fair value reserve		(2,345)	-
Foreign currency translation reserve		(780)	-
Share grant reserve	20	1,129	1,242
Total equity attributable to shareholders of the Bank		**678,536**	500,916
Non-controlling interests		**187,194**	-
Total owners' equity (page 7)		**865,730**	500,916
Total liabilities, equity of investment account holders and owners' equity		**1,305,107**	883,923

The consolidated financial statements consisting of pages 5 to 70 were approved by the Board of Directors on 22 February 2015 and signed on its behalf by:

Ahmed Al Mutawa
Chairman

Mosabah Saif Al Mautairy
Vice Chairman

Hisham Alrayes
Chief Executive Officer

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2014

US$ 000's

	note	2014	2013 (restated- note 10)
Continuing operations			
Income from investment banking services		16,152	1,862
Management and other fees		1,045	7,316
Income from placements with financial institutions	25	286	473
Share of profit / (loss) of equity-accounted investees	10	10,363	(22,207)
Income from investment securities, net	21	(5,795)	1,433
Foreign exchange gain, net		57	1,018
Other income	22	43,600	23,565
Income from investment banking business		**65,708**	13,460
Revenue from industrial business	23 (i)	94,350	-
Total income		**160,058**	13,460
Staff cost	24	11,643	8,597
Investment advisory expenses		4,224	1,575
Finance expense	25	13,032	16,270
Other expenses	26	13,094	8,147
Total expenses of investment banking business		**41,993**	34,589
Cost of sales	23 (ii)	80,333	-
Other operating expenses	23 (iii)	11,505	-
Total expenses of industrial business		**91,838**	-
Total expenses		**133,831**	34,589
Profit / (loss) from continuing operations before impairment allowances		**26,227**	(21,129)
Impairment allowances	27	(10,585)	(3,000)
Profit / (loss) from continuing operations		**15,642**	(24,129)
Profit from assets held-for-sale, net	9	1,392	6,466
Profit / (loss) for the year		**17,034**	(17,663)
Attributable to:			
Shareholders of the Bank		11,059	(17,663)
Non-controlling interests		5,975	-
		17,034	(17,663)
Earnings per share	30		
Basic and diluted earnings per share (US cents)		**0.46**	(0.60)
Earnings per share – continuing operations	30		
Basic and diluted earnings per share (US cents)		**0.43**	(0.82)

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2014 US$ 000's

	Attributable to shareholders of the Bank										
2014	**Share Capital**	**Treasury share**	**Capital adjustment account**	**Statutory reserve**	**Accumulated losses**	**Fair value reserve**	**Foreign currency translation reserve**	**Share grant reserve (note 24)**	**Total**	**Non – controlling interests**	**Total owners' equity**
Balance at 1 January 2014	972,281	(912)	(229,656)	68,146	(310,185)	-	-	1,242	500,916	-	500,916
Profit for the year (page 6)	-	-	-	-	11,059	-	-	-	11,059	5,975	17,034
Fair value changes	-	-	-	-	-	(2,345)	-	-	(2,345)	-	(2,345)
Foreign currency translation differences	-	-	-	-	-	-	(780)	-	(780)	(1,080)	(1,860)
Total recognised income and expense	**-**	**-**	**-**	**-**	**11,059**	**(2,345)**	**(780)**	**-**	**7,934**	**4,895**	**12,829**
Transfer to statutory reserve	-	-	-	1,105	(1,105)	-	-	-	-	-	-
Conversion of Murabaha to capital (note 19)	415,725	-	(245,325)	-	-	-	-	-	170,400	-	170,400
Share issue related expenses	-	-	(601)	-	-	-	-	-	(601)	-	(601)
Capital reduction	(134,380)	-	-	-	134,380	-	-	-	-	-	-
Share grants vesting expense, net of forfeitures (note 24)	-	-	-	-	-	-	-	(113)	(113)	-	(113)
Acquisition of subsidiaries (note 4)	-	-	-	-	-	-	-	-	-	182,299	182,299
Balance at 31 December 2014	**1,253,626**	**(912)**	**(475,582)**	**69,251**	**(165,851)**	**(2,345)**	**(780)**	**1,129**	**678,536**	**187,194**	**865,730**

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2014 *(continued)*

US$ 000's

2013 (restated -note 10)	Share capital	Treasury shares	Capital adjustment account	Share premium	Statutory reserve	Accumulated losses	Share grant reserve (note 24)	Total
Balance at 1 January 2013	595,087	(2,995)	-	13,235	66,356	(291,280)	903	381,306
Loss for the year (page 6)	-	-	-	-	-	(17,663)	-	(17,663)
Total recognised income and expense	-	-	-	-	-	(17,663)	-	(17,663)
Transfer to statutory reserve	-	-	-	-	1,630	(1,630)	-	-
Conversion of Murabaha to capital (notes 16 &19)	377,194	(8,528)	(229,656)	(13,235)	-	-	-	125,775
Purchase of treasury shares	-	(1,192)	-	-	-	-	-	(1,192)
Sale of treasury shares	-	10,997	-	-	-	-	-	10,997
Gain on sale of treasury shares	-	-	-	-	286	-	-	286
Share grants vesting expense, net of forfeitures (note 24)	-	806	-	-	(126)	-	339	1,019
Gain on partial disposal of assets of subsidiary held-for-sale	-	-	-	-	-	388	-	388
Balance at 31 December 2013	972,281	(912)	(229,656)	-	68,146	(310,185)	1,242	500,916

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2014 US$ 000's

	2014	2013
OPERATING ACTIVITIES		
Profit / (loss) for the year	**17,034**	(17,663)
Adjustments for:		
Impairment allowances	10,585	3,000
Income from investment securities	3,687	(1,433)
Gain from assets held-for-sale	(1,392)	(6,466)
Share of profit of equity-accounted investees	(10,363)	22,207
Foreign exchange gain	(57)	(1,018)
Management and other fees	75	-
Finance expenses	7,163	16,270
Other income	(41,963)	(23,565)
Depreciation and amortisation	4,514	1,164
Investment banking income	(16,252)	-
	(26,969)	(7,504)
Changes in:		
Placement with / from financial institutions	(9,146)	(27,052)
Investor's funds	(4,281)	(7,262)
Other assets	8,946	(11,578)
Other liabilities	(82)	(8,463)
Net cash used in operating activities	**(31,532)**	(61,859)
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(11,280)	-
Proceeds from assets held-for-sale	14,559	-
Purchase of investment securities	(122,988)	(30,153)
Dividends received	418	156
Proceeds from sale of investment securities	106,485	3,546
Acquisition of development property	(1,329)	-
Payment for acquisition of properties	(21,977)	-
Net cash flow on acquisition of subsidiaries	7,341	9,776
Dividends received from equity-accounted investees	2,257	-
Advance for acquisition of investment	1,954	(1,954)
Net cash used in investing activities	**(24,560)**	(18,629)
FINANCING ACTIVITIES		
Financing liabilities, net	(33,568)	(20,345)
Finance expense paid	(14,243)	(15,039)
Proceeds from issue of convertible murabaha	170,400	115,775
Proceeds from sale of treasury shares	-	11,283
Dividends paid	(10)	(1,748)
Payment to investment account holders	-	(198)
Net cash generated from financing activities	**122,579**	89,728
Net increase in cash and cash equivalents during the year	**66,487**	9,240
Cash and cash equivalents at 1 January	21,847	5,105
CASH AND CASH EQUIVALENTS at 31 December	**88,334**	14,345
Cash and cash equivalents comprise:		
Cash and balances with banks	42,581	14,345
Placements with financial institutions	45,753	-
	88,334	14,345

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2014

2014	**Balance at 1 January 2014**			**Movements during the year**						**Balance at 31 December 2014**		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ withdrawal / impairment US$ 000's	Revalua- tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	53	-	(1)	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	8.39	780	-	(46)	-	-	-	-	93	7.89	734
			833	**-**	**(47)**	**-**	**-**	**-**	**-**			**786**

2013	Balance at 1 January 2013			Movements during the year						Balance at 31 December 2013		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ withdrawal / impairment US$ 000's	Revalua- tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	53	-	-	-	-	-	-	150	0.35	53
Al Basha'er Fund	93	6.99	650	-	142	-	-	(12)	-	93	8.39	780
Oman Development Company	522.50	3.115	1,628	(1,628)	-	-	-	-	-	-	-	-
			2,331	(1,628)	142	-	-	(12)	-			833

The accompanying notes 1 to 42 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 2014 US$ 000's

	2014	2013
Sources of zakah and charity fund		
Non-Islamic income (note 32)	2	4
Total sources	**2**	4
Uses of zakah and charity fund		
Utilisation of zakah and charity fund	(3)	(7,659)
Total uses	**(3)**	(7,659)
Deficit of uses over sources	**(1)**	(7,655)
Undistributed zakah and charity fund at 1 January	2,772	10,427
Undistributed zakah and charity fund at 31 December (note 17)	**2,771**	2,772
Represented by:		
Zakah payable	2,770	2,772
Charity fund	1	-
	2,771	2,772

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

for the year ended 31 December 2014 US$ 000's

1 REPORTING ENTITY

Gulf Finance House BSC ("the Bank") was incorporated in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 and operates as an Islamic Wholesale Investment Bank under a license granted 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 Global Depository Receipts ('GDR') are listed in the London Stock Exchange. Subsequent to the year end, the Bank initiated process for delisting of GDR.

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

Consolidated financial statements

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

<table>
<tr><th>Investee name</th><th>Country of incorporation</th><th>Parent / Owning Company</th><th>Effective ownership interests</th><th>Activities</th></tr>
<tr><td>GFH Capital Limited</td><td>United Arab Emirates</td><td>Gulf Finance House BSC</td><td>100%</td><td>Shari'a compliant investment management</td></tr>
<tr><td>Cemena Investment Company (CIC)</td><td>Cayman Islands</td><td>Gulf Finance House BSC</td><td>38.89%</td><td>Investment holding company</td></tr>
<tr><td colspan="4">Subsidiaries of CIC</td><td></td></tr>
<tr><td>Cemena Holding Company BSC (c)</td><td>Bahrain</td><td>CIC</td><td>100%</td><td>Holding Company</td></tr>
<tr><td>BCC Building Materials BSC (c)</td><td>Bahrain</td><td rowspan="4">Cemena Holding Company BSC (c)</td><td>100%</td><td>Import, export and sale of building materials</td></tr>
<tr><td>United Arab Cement Company PJSC</td><td>Syria</td><td>90%</td><td>Cement manufacturing</td></tr>
<tr><td>Libya Investment Company</td><td>Libya</td><td>100%</td><td>License for cement operations</td></tr>
<tr><td>Balexco House Limited</td><td>British Virgin Islands</td><td>88.17%</td><td>Investment holding company</td></tr>
<tr><td>Falcon Cement Company BSC (c)</td><td>Bahrain</td><td>BCC Building Materials BSC (c)</td><td>80%</td><td>Manufacturing and packaging of cement and concrete</td></tr>
<tr><td>Bahrain Aluminium Extrusion Company BSC (c) ('Balexco')</td><td>Bahrain</td><td>Balexco House Limited</td><td>44.22%</td><td>Manufacturing of aluminium extrusions and sale of aluminium profiles</td></tr>
<tr><td>Saudi Bahraini Aluminium Company WLL</td><td>Kingdom of Saudi Arabia</td><td>Balexco</td><td>40%</td><td>Trading of aluminium products</td></tr>
</table>

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 issued but not effective

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

FAS 27 – Investments Accounts

FAS 27 Investments accounts was issued in December 2014 replacing FAS 5 – 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 – 'Equity of Investment Account Holders and their Equivalent' is effective for accounting periods on or after 1 January 2015. The adoption of this standard would lead to enhancing certain disclosures and is not expected to have any significant impact on the financial statements of the Group.

(b) Basis of preparation

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

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

(c) Basis of consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation (continued)

- 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 interest**

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

(iv) Special purpose entities

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. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the risks and rewards transferred by the SPE, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE.

Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

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

(v) Loss of control

When the Group 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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

interest retained in the former subsidiary, is measured at fair value when control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for investment securities depending on the level of influence retained.

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

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

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

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

(vii) Transactions eliminated on consolidation and equity accounting

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

(d) Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

2 *SIGNIFICANT* ACCOUNTING POLICIES (continued)

(d) Foreign currency transactions (continued)

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

(iii) Other group companies

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

(iv) Foreign operations

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

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

(e) Offsetting of financing instruments

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

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

(f) Investment securities

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

(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.

2 *SIGNIFICANT* ACCOUNTING POLICIES (continued)

(f) *Investment securities (continued)*

At amortised cost

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

Equity-type instruments

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

At fair value through income statement (FVTIS)

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

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

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

At fair value through equity (FVTE)

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

(ii) Recognition and de-recognition

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

(iii) Measurement

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

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. The fair value gains / (losses) are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment securities (continued)

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) 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.

(h) 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.

(i) Investment property

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Investment property (continued)

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.

(j) 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.

(k) 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 at each financial year end and adjusted prospectively if appropriate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Intangible assets

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

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

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

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.

(m) Inventories

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

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

(n) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Impairment of assets (continued)

Financial assets carried at amortised cost

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

Investments carried at fair value through equity (FVTE)

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

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

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.

(o) Financing liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financing liabilities (continued)

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

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

(p) Financial guarantees

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

(q) Dividends and board remuneration

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

(r) Share capital and reserves

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

Treasury shares

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

Statutory reserve

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

Capital adjustment account

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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.

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

i) Classification

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Assets held-for-sale and discounted operations (continued)

ii) Measurement

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

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

iii) Discontinued operations

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

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

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

(u) Revenue recognition

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

Banking business

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue recognition (continued)

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

(v) *Industrial business*

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

(w) 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.

(x) 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.

(y) Employees benefits

(i) Short-term benefits

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

(ii) Post employment benefits

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Employees benefits (continued)

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

(iii) Share-based employee incentive scheme

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

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

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

(z) 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.

(aa) 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.

(bb) 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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Judgements

(i) Classification of investments

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

(ii) Special purpose entities

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

(iii) Classification as held-for-sale

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

Estimations

- ***Fair value of investments***

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

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

- ***Impairment on investments carried at fair value carried through equity***
  The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group considers a decline in value below cost of 30%, or a decline that persists for more than 6 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, liquidity of the project, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. The Group has exposures to investments and projects that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions are adequate and reflect prevailing conditions and available information. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

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

(iv) Impairment of receivables

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

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

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

for the year ended 31 December 2014 US$ 000's

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

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

For intangible assets, a value in use assessment has been performed to determine the recoverable amount. Value-in-use for intangibles was determined by discounting the future cash flows expected to be generated from continuing operations, comparison to similar instruments for which market observable prices exist and other valuation models.

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

For key assumptions used for the impairment assessment of equity accounted investee and intangible assets, refer note 10 and note 12 respectively.

4 BUSINESS COMBINATION

During the year, the Group obtained management control over 51.82% of voting rights of Cemena Investment Company (CIC), a company incorporated in Cayman Islands. CIC was previously an equity accounted investee where the Group held 38.89% stake. Management control was obtained through assignment of voting rights by certain investors to the Group resulting in the Group obtaining control over operating and financial policies of CIC. Accordingly, the Group has consolidated Cemena Investment Company and its subsidiaries (together "CIC Group") effective 1 January 2014, being the deemed date of exercise of control.

The following investee companies are being consolidated as part of CIC and the Group's effective percentage shareholdings and the nature of activities of the investee companies has been presented below:

<table>
<tr><th>Investee name</th><th>Country of incorporation</th><th>Parent / Owning Company</th><th>Effective ownership interests</th><th>Nature of activities</th></tr>
<tr><td colspan="4">Subsidiaries of CIC</td><td></td></tr>
<tr><td>Cemena Holding Company BSC (c)</td><td>Bahrain</td><td>CIC</td><td>100%</td><td>Holding Company</td></tr>
<tr><td>BCC Building Materials BSC (c)</td><td>Bahrain</td><td rowspan="4">Cemena Holding Company BSC (c)</td><td>100%</td><td>Import, export and sale of building materials</td></tr>
<tr><td>United Arab Cement Company PJSC</td><td>Syria</td><td>90%</td><td rowspan="2">Manufacturing of cement. No commercial operations yet.</td></tr>
<tr><td>Libya Investment Company</td><td>Libya</td><td>100%</td></tr>
<tr><td>Balexco House Limited</td><td>British Virgin Islands</td><td>88.17%</td><td>Holding Company.</td></tr>
<tr><td>Falcon Cement Company BSC (c)</td><td>Bahrain</td><td>BCC Building Materials BSC (c)</td><td>80%</td><td>Manufacturing of cement and concrete reinforcement materials.</td></tr>
<tr><td>Bahrain Aluminium Extrusion Company BSC (c) ('Balexco')</td><td>Bahrain</td><td>Balexco House Limited</td><td>44.22%</td><td>Extrusion and sale of aluminium profiles.</td></tr>
</table>

4 Business combination (continued)

Joint ventures				
Technal Middle East WLL	Bahrain	Balexco	50%	Marketing, distribution, providing technical assistance relating to aluminium and other materials.
Balexco Doha Trading WLL	Qatar	Balexco	44%	Trading in aluminium profiles systems and accessories.

Consideration transferred and non-controlling interests

As there was no consideration transferred in the business combination, the Group had used the acquisition-date fair value of its interest in the CIC Group for the acquisition accounting. The stake held by investors other than the Group along with the non-controlling interests in the subsidiaries of CIC 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

The fair value of assets, liabilities, equity interests have been reported as per requirements of IFRS 3 “Business Combination”.

The fair values of assets and liabilities acquired were as follows:

	US$ 000’s
Property, plant and equipment	136,474
Intangible assets	125,350
Equity-accounted investees	17,263
Statutory deposit	1,036
Total non-current assets	**280,123**
Inventories	23,230
Trade and other receivables	33,685
Cash, bank balances and term deposits	12,296
Total current assets	**69,211**
Total assets	**349,334**
Liabilities	
Bank borrowings	14,709
Payable to a contractor	955
Employees' end of service benefits	686
Total non-current liabilities	**16,350**
Trade and other payables	37,125
Bank borrowings	34,271
Accrued expenses	3,237
Total current liabilities	74,633
Total liabilities	90,983
Total net identifiable assets and liabilities	258,351
Consideration of Group’s interest in CIC	76,052
Non-controlling interests recognised	182,299
Total consideration	**258,351**

for the year ended 31 December 2014 US$ 000's

5 CASH AND BANK BALANCES

	31 December 2014	31 December 2013
Cash on hand	8	21
Bank balances (in current account and deposits)	46,139	21,826
	46,147	21,847
Less: Restricted cash	(2,658)	(7,502)
Deposits (with maturity of more than 3 months)	(908)	-
Cash and cash equivalents as per consolidated statement of cash flows	**42,581**	14,345

6 INVESTMENT SECURITIES

	31 December 2014	31 December 2013
Equity type investments		
At fair value through income statement:		
- Quoted securities	506	972
- Managed funds	9,878	30,824
- Unquoted funds	3,679	3,679
- Unquoted securities	44,875	-
	58,938	35,475
At fair value through equity:		
- Quoted securities (at fair value)	3,060	-
- Managed funds (at fair value)	20,854	
- Unquoted securities (at cost)	165,566	160,666
	189,480	160,666
	248,418	196,141

a) At fair value through income statement

	2014	2013
At 1 January	35,475	6,416
Acquisitions during the year	129,875	30,000
Fair value changes	(588)	634
Disposals during the year, at carrying value	(105,824)	(1,575)
At 31 December	**58,938**	35,475

b) At fair value through equity

	2014	2013
At 1 January	160,666	167,601
Acquisitions during the year	73,568	3,503
Fair value changes	(2,345)	-
Disposals during the year, at carrying value	(32,770)	(9,438)
Provision for impairment during the year	(9,639)	(1,000)
At 31 December	**189,480**	160,666

for the year ended 31 December 2014 US$ 000's

6 INVESTMENT SECURITIES (continued)

Unquoted equity securities classified at fair value through equity are primarily unlisted equities in various real estate and infrastructure development projects in different countries and include private equity investments managed by external investment managers or investments in projects promoted by the Group. Investments carried at fair value through equity of US$ 165,566 thousand (31 December 2013: US$ 160,666 thousand) are carried at cost less impairment in the absence of a reliable measure of fair value. The Group plans to exit these investments principally by means of strategic sell outs, sale of underlying assets or through initial public offerings.

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

Investment property of carrying amount of US$ 203 million (2013: US$ 203 million) is pledged against a Wakala facility (note 16) and any proceeds from the investment property would be first applied towards the repayment of the facility. The remaining investment property of carrying value US$ 56 million (31 December 2013: US$ 56 million) is pledged against other financing liabilities (note 16).

The fair value of the Group's investment property at 31 December 2014 was US$ 265,732 thousand (31 December 2013: US$ 268,198 thousand) based on a valuation carried out by an independent third party external valuer.

8 DEVELOPMENT PROPERTIES

Development properties represent land received as part of a settlement agreement with a master developer in Dubai. The land has been initially recognised at its fair value on the date of the transfer determined based on an independent external valuation.

9 ASSETS HELD-FOR-SALE

	31 December 2014	31 December 2013 (restated - note 10)
Investment in		
- LCHL	-	23,824
	-	23,824

LCHL

In 2013, assets held-for-sale also included the Group's investment in Leeds City Holdings Limited (LCHL), a holding company for a number of trading entities whose activities form the operations of Leeds United Football Club (LUFC) in the United Kingdom. During the year, the Group sold its investment in LCHL and retained a stake of 24.62%. The retained investment in LCHL is classified as "investment securities carried at fair value through income statement". There was no significant gain/ loss on the disposal of the investment.

Investment property

During the year the Bank acquired certain properties in US using a special purpose vehicle (SPV) .The Bank had acquired the SPV with an intention to sell down to investors and had successfully sold down the entire investment to the investors before the year end. The net profit from the SPV, from the date of acquisition to the date of loss of control, has been classified as Profit from assets-held-for-sale in the consolidated income statement.

for the year ended 31 December 2014 US$ 000's

10 EQUITY-ACCOUNTED INVESTEES

Equity-accounted investees represents investments in:

Name	Country of incorporation	% holding	Nature of business
Khaleeji Commercial Bank BSC (KHCB)	Bahrain	46.965%	Islamic retail bank
Technal Middle East WLL	Bahrain	50%	Marketing, distribution, providing technical assistance relating to aluminium and other materials.
Balexco Doha Trading W.L.L.	State of Qatar	44%	Trading in aluminium profiles, systems and accessories

In 2013, the Group was in final stages of negotiations to merge its investment in KHCB with another local bank and accordingly the Group's investment in KHCB amounting to US$ 160,252 was classified as held-for-sale. During the year, the sale did not materialize and the Group has now discontinued its plan for an immediate sale of KHCB. Accordingly the investment has been reclassified to "held-for-use" from its previous classification of "held-for-sale". In line with the requirements of IFRS 5 *Non-Current Assets held-for-sale and Disposal Group*, the Group has restated its prior period financial statements to reflect the continuation of equity accounting for its investment in KHCB as if the asset had never been classified as held-for-sale. This has resulted in restating the previously reported profit, asset-held-for-sale, investment in associate, accumulated losses, earnings per share and related disclosures of the Bank.

The effect of restatement on the 2013 previously reported amounts is given below:

	Previously reported	Adjustments	**Restated**
Assets held-for-sale	184,076	(160,252)	**23,824**
Equity accounted investees	73,417	136,322	**209,739**
Share of profit /(loss) of equity-accounted investees	1,723	(23,930)	**(22,207)**
(Loss) / profit for the year	6,267	(23,930)	**(17,663)**
Basic and diluted earnings per share (US cent)	(0.24)	(0.36)	**(0.60)**
Basic and diluted earnings per share – continuing operations (US cent)	(0.01)	(0.81)	**(0.82)**

The movement in equity-accounted investees is given below:

	2014	2013 (restated)
At 1 January	209,739	231,946
Acquired in a business combination (note 4)	17,263	-
Share of profit / (loss) of equity-accounted investees	10,363	(22,207)
Dividends received	(2,511)	-
Derecognition on acquisition of control (note 4)	(76,050)	-
At 31 December	**158,804**	209,739

The Group's investment in KHCB is pledged against a Murabaha financing facility (note 16).

for the year ended 31 December 2014 US$ 000's

10 EQUITY ACCOUNTED INVESTEES (continued)

Impairment assessment
The investment in KHCB has a carrying value of US$ 140,119 thousand (31 December 2013: US$ 136,322 thousand) and a fair value based on a quoted price of US$ 61,870 thousand (31 December 2013: US$ 66,187 thousand). The management has assessed that the market price per share is not reflective of a fair value due to its low trading volumes and that it does not factor the block premium that may be realised on sale of the associate by the Bank. Accordingly, fair value less cost to sell of KHCB was determined by using a combination of income and market approaches. The income approach was applied by discounting the future cash flows expected to be generated from continuing operations and comparison to similar instruments for which market observable prices exist. The market approach factored the market multiples of active and highly traded comparable banks in the same sector and region. The objective of valuation techniques is to arrive at a fair value determination that reflects the price at the reporting date that would have been determined by market participants acting at arm's length.

Key assumptions used in the calculation of fair value were the following: cash flows were projected based on 3-5 year business plans, after ensuring consistency with historical operating results and forecasted growth rates for mature companies. Terminal growth rates of 3% were determined based on forecast growth rate in 3 years' time. The forecast period is based on the Group's long term perspective with respect to the operations of the investee companies.

Discount rates of approx. 15% were based on a CAPM formula, with the risk-free rate obtained from the yield on 10-year bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally, as well as liquidity and control factors.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonable possible changes in these assumptions are not expected to cause the recoverable amount to decline below the carrying amount.

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

	2014	2013
Total assets	1,614,064	1,806,744
Total liabilities	1,303,337	1,262,755
Total revenues	74,597	107,810
Total net profit / (loss)	15,435	(36,135)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014 US$ 000's

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings and infrastructure on leasehold land	Plant and machinery	Tools and dies	Computers	Furniture and fixtures	Motor vehicles	Capital work-in -progress	2014 Total	2013 Total
Cost:									
At 1 January	-	450	-	8,964	90	-	-	9,504	9,504
Acquired in a business combination (note 4)	4,775	95,723	1,817	20	687	179	33,273	136,474	-
Additions	72	730	768	117	321	784	7,677	10,469	-
Foreign exchange difference	-	-	-	(1)	(1)	(11)	(1,588)	(1,601)	-
At 31 December	**4,847**	**96,903**	**2,585**	**9,100**	**1,097**	**952**	**39,362**	**154,846**	**9,504**
Accumulated depreciation:									
At 1 January	-	390	-	8,815	-	-	-	9,205	8,041
Charge for the year (note 23)	304	3,008	664	76	169	129	-	4,350	1,164
Foreign exchange difference	-	-	-	(1)	(1)	(8)	-	(10)	-
At 31 December	**304**	**3,398**	**664**	**8,890**	**168**	**121**	**-**	**13,545**	9,205
Net book value:									
At 31 December	**4,543**	**93,505**	**1,921**	**210**	**929**	**831**	**39,362**	**141,301**	**299**

Certain of the Group's property, plant and equipment with a carrying value of US$ 82,587 thousand (2013: US$ Nil) are mortgaged towards financing liabilities of industrial business (note 16). Depreciation US$ 3,878 and US$ 327 thousand relating to assets of industrial business has been charged to cost of sales and other operating expense respectively (note 23).

Capital work-in-progress represents the under construction aluminium extrusion and anodising plants yet to be commissioned.

As at 31 December 2014, capital work-in-progress includes borrowing costs on financing liabilities obtained for the construction of plant, amounting to US$ 286 thousand (2013: Nil).

The Group's buildings are constructed and plant and equipment are installed on leasehold land.

for the year ended 31 December 2014 US$ 000's

12 INTANGIBLE ASSETS

	Industrial business		
	Commercial licences	**Customer relationship**	**Total**
Cost			
At 1 January 2014	-	-	-
Acquired in a business combination (note 4)	123,620	1,730	125,350
At 31 December 2014	**123,620**	**1,730**	**125,350**
Accumulated amortisation			
At 1 January 2014	-	-	-
Amortisation for the year (note 23 iii)	-	174	174
At 31 December 2014	**-**	**174**	**-**
Net carrying value	**123,620**	**1,556**	**125,176**
At 31 December 2013	-	-	-

Impairment testing of intangible assets

Commercial licences acquired through business combinations and direct acquisitions have been allocated to three individual cash generating units, for impairment testing as follows:

	31 December 2014	31 December 2013
Cash generating units		
- GCC	23,620	-
- Other Middle East	60,000	-
- North Africa	40,000	-
	123,620	-

The recoverable amounts of the cash generating units (CGU) have been determined based on value in use method for greenfield cement plants in Middle east North Africa region (MENA) and an existing cement plant in Bahrain. The forecasts use cash flow projections based on approved financial budgets covering 5 years, excluding three years construction period of greenfield cement plants, and have been determined on the basis of management's expectation of the businesses, taking into account the prevailing global and MENA region economic conditions in general and the cement industry in particular. The Group also owns commercial licences and mining rights in countries where there is currently political turmoil and unrest.

For impairment analysis, the Group uses the following significant assumptions for the determination of recoverable amount based on value in use method:

	Average growth rate from 1 year to 5 years	Terminal growth rate	Discount rate	Time period to commence construction
Bahrain	7.5%	3.6%	11%	Immediate
Other Middle East	6.0%	2.0%	17%	12-18 months
North Africa	3.0%	1.0%	15%	12-18 months

for the year ended 31 December 2014 US$ 000's

12 INTANGIBLE ASSETS (continued)

Discount rates

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the profit-bearing borrowings, the Group is obliged to service. Industry and country specific risks are incorporated in the calculation of discount rates which are mainly associated with political turmoil and unrest.

Growth rates

Rates are based on published industry research adjusted to reflect the uncertainty in MENA related to political turmoil and unrest.

Time to commence construction

The Group has commenced construction of an additional production line in Bahrain. Given the political turmoil and unrest in MENA, the Group has assumed that it would be able to initiate construction of cement plants in MENA region within 12 to 18 months and this is the period used for impairment testing.

Sensitivity to changes in assumptions

The key assumptions described above may change as political, economic and market conditions changes. The Group estimates that reasonably possible change in these assumption would not cause recoverable amount of either CGU to decline below the carrying amount

13 OTHER ASSETS

	31 December 2014	31 December 2013
Financing to projects*	95,007	101,275
Reimbursement right (note 39)	35,000	35,000
Inventories *(i)*	28,381	-
Trade receivables *(ii)*	36,491	-
Prepayments and other receivables	39,724	36,394
	234,603	172,669

* Financing to projects represents working capital and other funding facilities provided to projects managed by the Group. The financing is expected to be recovered from the operating cash flows of the underlying project assets (refer note 40 (a) for details of impairment assessment).

for the year ended 31 December 2014 US$ 000's

13 OTHER ASSETS (continued)

(i) Inventories

	31 December 2014	31 December 2013
Raw materials	10,454	-
Work-in-process	3,895	-
Finished goods	8,085	-
Accessories, production materials and consumables	5,947	-
	28,381	-

(ii) Trade and Other receivables

	31 December 2014	31 December 2013
Trade receivables, net	34,257	-
Advance to suppliers	1,730	-
Accessories, production materials and consumables	504	-
	36,491	-

Terms and conditions of the above financial assets are as follows:

- Trade receivables are non-profit bearing and are generally on 30-120 day terms;
- For terms and conditions relating to trade receivables - related parties and amounts due from related parties, refer to note 28; and
- Other receivables are non-profit bearing and have terms ranging between one and three months.

For explanations on the Group's credit risk management processes, refer to note 40 (a).

During the year, a net reversal of impairment allowance of US$ 2,280 thousand was made towards trade and other receivables.

14 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.

15 PLACEMENTS FROM FINANCIAL AND OTHER INSTITUTIONS

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

for the year ended 31 December 2014 US$ 000's

16 FINANCING LIABILITIES

	31 December 2014	31 December 2013
Murabaha financing	46,401	59,987
Wakala financing	42,588	47,739
Sukuk liability	85,277	100,041
Financing of industrial business:		
- Short term loans	24,023	-
- Ijarah financing	11,460	-
- Term loans	19,663	-
- Murabaha financing (ii)	1,712	-
	231,124	207,767

Murabaha financing

Murabaha financing comprise medium-term financing from a syndicate of banks to be repaid over 6 years on semi annual basis commencing from August 2014. The revised profit rate on the facility is 6 months LIBOR plus margin (subject to a minimum of 5%). The Murabaha financing facilities are secured by a pledge over the Group's investment in an associate of carrying value of US$ 140 million and investment property of carrying value of US$ 24.6 million.

Wakala financing

Wakala financing is a syndicate facility from a number of financial institutions. Walaka financing is repayable over a period of six years till April 2018 at an agreed profit rate of 8%. The Wakala financing facility is secured by a pledge over the Group's investment property of carrying value of US$ 203 million.

Sukuk liability

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

The sukuk is repayable over a period of 6 years with periodic repayment starting from July 2014, with final instalment in July 2018. The sukuk carry a profit rate of LIBOR plus a margin of 3%, with a minimum profit rate of 5%. The Sukuk Certificates are backed by the Group's investment securities with carrying values of US$ 99.3 million (31 December 2013: US$ 87.56 million) and an investment property of carrying value of US$ 31.5 million (31 December 2013: US$ 31.5 million)

Financing of Industrial Business

Short term loans

These loans were obtained by Balexco to finance the purchase of raw materials and are revolving in nature. The profit rate on these facilities range from 2.8% to 3% and are secured by a pledge over finished goods.

Ijarah financing

Ijarah financing was obtained by Falcon Cement Company BSC (c) for construction of cement plant in the Kingdom of Bahrain. The financing is secured by a mortgage over property, plant and equipment with a carrying value of US$ 59 million and carries a profit rate of higher of BIBOR plus 4.25% or 7.5% per annum with final repayment on 1 February 2017.

for the year ended 31 December 2014 US$ 000's

16 FINANCING LIABILITIES (continued)

Term loans

These facilities were obtained by Balexco for capital expenditure relating to “Extrusion Line”, “Anodising Line” and “Press revamp”. The loan is secured by a mortgage over machinery, equipment of Extrusion Line and Anodising Line with a carrying value of US$ 14,172,414. The loans carries a profit rate of three months LIBOR plus 5.5% and is repayable in 16, 16 and 18 quarterly instalments commencing from 30 September 2011, 31 March 2011 and 31 March 2014 respectively.

Murabaha financing (ii)

The murabaha financing has been obtained by Falcon Cement Company BSC (c) for import of raw materials and repayable at a profit rate of 9% per annum for facility availed up to 30 April 2012 and at the rate of BIBOR plus 4.25% per annum (with minimum floor of 7%) for facility availed after 1 May 2012.

	31 December 2014	31 December 2013
Financing liabilities		
Current portion	76,864	36,725
Non-current portion	154,260	171,042
	231,124	207,767

17 OTHER LIABILITIES

	31 December 2014	31 December 2013
Employee related accruals	846	480
Unclaimed dividends	5,784	5,794
Provision for employees’ leaving indemnities	1,878	758
Zakah and Charity fund (page 11)	2,771	2,772
Provision against financial guarantees (note 39)	35,000	35,000
Accounts payable	50,645	13,925
Accrued expenses and other payables	4,636	1,679
	101,560	60,408

18 EQUITY OF INVESTMENT ACCOUNT HOLDERS

Unrestricted investment accounts comprise Mudarabah deposits accepted by the Bank. The average gross rate of return in respect of unrestricted investment accounts was 0.98% for 2014 (2013: 0.25%). Approximately 0.22% / US$ 15 thousand (2013: 0.22% / US$ 20 thousand) was distributed to investors and the balance was either set aside for provisions and/or retained by the Bank as a Mudarib fee. Unrestricted investment accounts include profit equalisation reserve of US$ 7 thousand (2013: US$ 7 thousand) and investment risks reserve of US$ 3 thousand (2013: US$ 3 thousand). The funds received from equity of investment account holders have been commingled and jointly invested with the Group in bank balances.

for the year ended 31 December 2014 US$ 000's

19 SHARE CAPITAL

	31 December 2014	31 December 2013
Authorised:		
5,660,377,358 shares of US$ 0.265 each (2013: 4,878,048,780 shares of US$ 0.3075 each)	**1,500,000**	1,500,000
Issued and fully paid up:		
4,730,665,467 shares of US$ 0.265 each (2013: 3,161,889,967 shares of US$ 0.3075 each)	**1,253,626**	972,281

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

	2014	2013
At 1 January	972,281	595,087
Conversion of murabaha to share capital	415,725	377,194
Capital reduction account	(134,380)	-
At 31 December	**1,253,626**	972,281

During the year, the paid up capital of the Bank was increased from US$ 972,281 thousand to US$ 1,253,626 thousand as a result of exercise of conversion option by the holders of the convertible murabaha and by reduction of share capital by reducing the share's nominal value from US$ 0.3075 per share to US$ 0.265 per share and adjustment of accumulated losses by US$ 134,380 thousand after approval by the shareholders on 14 April 2014. As per the terms of the convertible murabaha, 1,568,776 thousand shares of par value US$ 0.265 has been issued on conversion. The effective conversion price is below the par value per share and the resulting difference and the related share issue expenses has been adjusted against the capital adjustment account.

At 31 December 2014, the Bank held 5,204,536 (31 December 2013: 5,233,272) 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%	4,463,218,358	12,656	94.35
1% up to less than 5%	267,447,109	3	5.65
	4,730,665,467	**12,659**	**100**

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

(iii) As at 31 December 2014, there were no shareholders who hold more than 5% of the total outstanding shares.

for the year ended 31 December 2014 US$ 000's

20 SHARE GRANT RESERVE

	2014	2013
At 1 January	1,242	903
Vesting expense, net of forfeiture (note 24)	(113)	339
At 31 December	**1,129**	1,242

21 INCOME FROM INVESTMENT SECURITIES

	2014	2013
Dividend income	418	151
(Loss) / profit on disposal of investment securities	(5,625)	648
Fair value changes of investments carried at fair value through income statement	(588)	634
	(5,795)	1,433

22 OTHER INCOME

During the period, the Group recognized a net amount of US$ 38 million on recovery from a previously discontinued project with one of the major developers in Dubai. The settlement was in the form of land and is net of associated liabilities and has been recognized as a recovery of a previously impaired project and included under “other income”.

23 REVENUE AND EXPENSES OF INDUSTRIAL OPERATIONS

i) REVENUE

	2014	2013
Sale of aluminium products	68,417	-
Sale of cement	25,718	-
Income from mudaraba deposits	215	-
	94,350	-

ii) COST OF SALES

	2014	2013
Materials	61,974	-
Consumables	1,659	-
Staff costs	4,311	-
Gas and electricity	4,302	-
Depreciation (note 11)	3,878	-
Repairs and maintenance	1,414	-
Others	2,795	-
	80,333	-

for the year ended 31 December 2014 US$ 000's

23 REVENUE AND EXPENSES OF INDUSTRIAL OPERATIONS (continued)

iii) OTHER OPERATING EXPENSES

	2014	2013
Staff costs	5,346	-
Rent	540	-
Legal and professional fees	1,315	-
Marketing expenses	193	-
Depreciation (note 11)	327	-
Repair and maintenance costs	370	-
Amortisation of intangible assets (note 12)	174	-
Finance expenses	2,093	
Others	1,147	-
	11,505	-

24 STAFF COST

	2014	2013
Salaries and benefits	11,137	8,246
Social insurance expenses	506	351
	11,643	8,597

The Bank operates a share incentive scheme for its employees. The share awards granted under the scheme have an initial lock-in period of 3 years and shall vest rateably over varied vesting periods of up to 10 years as per the terms of the scheme. At 31 December 2014, 2.29 million (31 December 2013: 2.29 million) share awards are outstanding to be exercised at a price of US$ 0.65 per share in future periods on satisfaction of the vesting conditions. A vesting charge amounting to US$ 49 thousand (2013: US$ 16 thousand) was recognised during the year (note 20).

During 2013, the Group issued employee share awards (9,185,391 shares at a share price of US$ 0.125 per share) with vesting conditions over a period of 2 years based on fulfilment of performance and service conditions. During the year, the Group had recognised a charge of US$ 64 thousand (31 December 2013: US $ 323 thousand) towards the new employee share awards. As at 31 December 2014, 2.03 million shares (31 December 2013: 4.09 million shares) were pending vesting under the new employee share awards scheme and during the period 294 thousand shares were forfeited.

During the year, the Group issued employee share awards (2,352,632 shares at a share price of US$ 0.19 per share) with vesting conditions over a period of 3 years based on fulfilment of performance and service conditions. During the period, the Group had recognised a charge of US$ 447 thousand towards the new employee share awards. As at 31 December 2014, 2.35 million shares were pending vesting under the new employee share awards scheme.

for the year ended 31 December 2014 US$ 000's

25 TOTAL FINANCE INCOME AND EXPENSE

	2014	2013
FINANCE INCOME		
Banking business		
Income from placements with financial institutions	286	473
Industrial business		
Income from mudaraba deposits (note 23 (i))	215	
Total finance income	**501**	473
FINANCE EXPENSE		
Banking business		
Placements from financial and other institutions	919	2,858
Financing liabilities	12,098	13,392
Equity of investment account holders (note 18)	15	20
	13,032	16,270
Industrial business		
Finance expense (note 23 (iii))	2,093	-
Total finance expense	**15,125**	16,270
Net finance expense	**(14,624)**	(15,797)

26 OTHER EXPENSES

	2014	2013
Rent	1,661	1,603
Professional and consultancy fee	2,371	763
Legal expenses	4,056	1,110
Depreciation	145	1,164
Other operating expenses	4,861	3,507
	13,094	8,147

27 IMPAIRMENT ALLOWANCES

	2014	2013
Investment securities (note 6)	9,639	1,000
Financing to projects (note 13)	3,206	2,000
Trade and other receivables (note 13)	(2,280)	-
Inventories	20	-
	10,585	3,000

for the year ended 31 December 2014 US$ 000's

28 RELATED PARTY TRANSACTIONS

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

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

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

2014	Associates / Joint venture	Key management personnel	Shareholders / entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Cash and bank balances	20,098	-	-	-	**20,098**
Equity-accounted investees	158,804	-	-	-	**158,804**
Investment securities	21,836	-	14,149	145,433	**181,418**
Other assets	24,992	-	-	97,177	**122,169**
Liabilities					
Investors' funds	-	-	-	7,847	**7,847**
Placements from financial and other institutions	28	-	-	-	**28**
Other liabilities	-	-	-	35,000	**35,000**
Income					
Investment banking income	-	-	-	16,152	**16,152**
Management fees	175	-	-	685	**860**
Share of profit of equity-accounted investees	10,363	-	-	-	**10,363**
Income from investment securities, net	(466)	-	-	250	**(216)**
Other income	-	-	28	3,000	**3,028**
Expenses					
Impairment allowances	2,206	-	-	9,000	**11,206**

for the year ended 31 December 2014 US$ 000's

28 RELATED PARTY TRANSACTIONS (continued)

2013	Associates	Key management personnel	Shareholders / entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Cash and bank balances	16,681	-	-	-	16,681
Equity-accounted investees	209,739	-	-	-	209,739
Investment securities	4,651	-	27,382	105,563	137,596
Assets held-for-sale	23,824	-	-	-	23,824
Other assets	36,380	-	-	80,749	117,129
Liabilities					
Investors' funds	-	-	-	16,400	16,400
Placements from financial and other institutions	29	-	-	-	29
Other liabilities	-	-	5,690	35,000	40,690
Income					
Income from investment banking services	-	-	-	1,862	1,862
Management fees	3,800	-	-	908	4,708
Share of loss of equity-accounted investees	(22,207)	-	-	-	(22,207)
Income from investment securities, net	-	-	(189)	-	(189)
Other income	226	1,000	-	-	1,226
Gain from discontinued operations	-	-	5,690	-	5,690
Expenses					
Impairment allowances	-	-	-	3,000	3,000

Key management personnel

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

Board of Directors do not hold any interests in the Bank's ordinary shares as at 31 December 2014 (2013: Nil).

Details of material contracts involving directors' or entities where they are interested include:

	2014	2013
Directors' participation in convertible murabaha	-	3,985

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

The key management personnel compensation is as follows:

	2014	2013
Board member fees	467	-
Salaries, other short-term benefits and expenses	2,924	2,516
Post-employment benefits	874	635

29 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US$ 2,033,909 thousand (31 December 2013: US$ 2,170,601 thousand). During the year, the Group had charged management fees amounting to US$ 685 thousand (2013: US$ 7,316 thousand) to its assets under management.

30 EARNINGS PER SHARE

Basic earnings per share

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

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

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share. The Bank has two categories of dilutive potential ordinary shares: convertible murabaha notes (note 16) and share awards granted to employees (note 24).

	2014	2013
In thousands of shares		
Weighted average number of ordinary shares	3,586,867	2,624,241
Effect of shares vesting under new employee scheme (note 24)	2,353	4,592
Weighted average number of ordinary shares (diluted)	**3,589,220**	2,628,833

During the year, all the note holders of the convertible murabaha have exercised their rights to convert the notes to equity shares of the Bank. Further, in case of the share awards granted to employees prior to 2013, 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 2014. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above.

31 ZAKAH

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank’s Shari’a Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders for the year ended 31 December 2014 is US$ 285 thousand (2013: US$ 162 thousand) subject to approval of shareholders.

32 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.

for the year ended 31 December 2014 US$ 000's

32 EARNINGS PROHIBITED BY SHARI'A (continued)

The Group receives interest from deposits placed with the Central Bank of Bahrain and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amounts to US$ 2 thousand (2013: US$ 4 thousand).

33 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.

34 SOCIAL RESPONSIBILITY

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

35 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and liabilities and unrecognised commitments on the basis of their expected realisation/ payment and the Group's contractual maturity and amount of cash flows on these instruments may vary significantly from this analysis. For contractual maturity of financial liabilities refer note 40.

31 December 2014	**Up to 3 months**	**3 to 6 months**	**6 months-1 year**	**1 to 3 years**	**Over 3 years**	**No stated maturity**	**Total**
Assets							
Cash and bank balances	46,147	-	-	-	-	-	46,147
Placements with financial institutions	45,753	-	-	-	-	-	45,753
Investment securities	1,600	30,732	18,117	197,969	-	-	248,418
Investment property	-	-	-	-	259,404	-	259,404
Development properties	-	-	-	45,501	-	-	45,501
Equity-accounted-investees	-	-	-	158,804	-	-	158,804
Property, plant and equipment	-	-	-	-	-	141,301	141,301
Intangible assets	-	-	-	-	1,556	123,620	125,176
Other assets	28,953	67,435	26,801	110,588	826	-	234,603
Total assets	**122,453**	**98,167**	**44,918**	**512,862**	**261,786**	**264,921**	**1,305,107**
Financial liabilities							
Investors' funds	14,885	-	-	-	-	-	14,885
Placements from financial and other institutions	4,715	28	-	-	85,402	**-**	90,145
Financing liabilities	24,197	38,949	36,634	131,344	-	-	231,124
Other liabilities	63,962	-	35,000	2,598	-	-	101,560
Total liabilities	**107,759**	**38,977**	**71,634**	**133,942**	**85,402**	**-**	**437,714**
Equity of investment account holders	**1,663**	**-**	**-**	**-**	**-**	**-**	**1,663**
Off-balance sheet items							
Commitments	-	297	4,031	1,975	111,736	**-**	**118,039**
Restricted investment accounts	**-**	**-**	**-**	**-**	**786**	**-**	**786**

for the year ended 31 December 2014 US$ 000's

35 MATURITY PROFILE (continued)

31 December 2013	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	21,847	-	-	-	-	21,847
Investment securities	-	30,824	-	165,317	-	196,141
Investment property	-	-	-	259,404	-	259,404
Assets held-for-sale	-	23,824	-	-	-	23,824
Equity-accounted investees	-	-	-	209,739	-	209,739
Property, plant and equipment	-	-	-	-	299	299
Other assets	48,227	3,008	50,131	68,703	2,600	172,669
Total assets	70,074	57,656	50,131	703,163	2,899	883,923
Financial liabilities						
Investors' funds	19,166	-	-	-	-	19,166
Placements from financial and other institutions	7,696	29	785	85,001	-	93,511
Financing liabilities	3,000	3,375	30,350	136,226	34,816	207,767
Other liabilities	23,978	-	-	36,430	-	60,408
Total liabilities	53,840	3,404	31,135	257,657	34,816	380,852
Equity of Investment account holders	2,155	-	-	-	-	2,155
Off-balance sheet items						
Commitment	-	-	-	-	-	-
Restricted investment accounts	-	-	-	833	-	833

for the year ended 31 December 2014 US$ 000's

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

(a) Industry sector

31 December 2014	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	3,997	42,147	-	-	3	46,147
Placements with financial institutions	5,780	39,973	-	-	-	45,753
Investment securities	-	17,067	177,753	3,679	49,919	248,418
Investment properties	-	-	259,404	-	-	259,404
Development properties	-	-	45,501	-	-	45,501
Equity-accounted investees	18,683	140,121	-	-	-	158,804
Property, plant and equipment	140,711	-	-	-	590	141,301
Intangible assets	125,176	-	-	-	-	125,176
Other assets	66,253	4,367	137,228	-	26,755	234,603
Total assets	**360,600**	**243,675**	**619,886**	**3,679**	**77,267**	**1,305,107**
Liabilities						
Investors' funds	77	15	14,793	-	-	14,885
Placements from financial and other institutions	-	4,764	-	-	85,381	90,145
Financing liabilities	56,858	174,266	-	-	-	231,124
Other liabilities	38,087	-	35,000	-	28,473	101,560
Total liabilities	**95,022**	**179,045**	**49,793**	**-**	**113,854**	**437,714**
Equity of Investment account holders	-	-	-	-	1,663	**1,663**
Off-Balance sheet items						
Commitments	118,039	-	-	-	-	**118,039**
Restricted investment accounts	-	-	-	-	786	**786**

for the year ended 31 December 2014 US$ 000's

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

31 December 2013	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	-	21,844	-	-	3	21,847
Placements with financial institutions	-	-	-	-	-	-
Investment securities	-	38,861	147,554	3,679	6,047	196,141
Investment property	-	-	259,404	-	-	259,404
Assets held-for-sale	-	-	-	-	23,824	23,824
Equity-accounted investees	209,739	-	-	-	-	209,739
Property, plant and equipment	-	-	-	-	299	299
Other assets	297	4,655	128,753	-	38,964	172,669
Total assets	210,036	65,360	535,711	3,679	69,137	883,923
Liabilities						
Investors' funds	160	-	19,006	-	-	19,166
Placements from financial and other institutions	-	7,745	-	-	85,766	93,511
Financing liabilities	-	207,767	-	-	-	207,767
Other liabilities	-	2,983	35,684	-	21,741	60,408
Total liabilities	160	218,495	54,690	-	107,507	380,852
Equity of Investment account holders	-	-	-	-	2,155	2,155
Off-Balance sheet items						
Commitments	-	-	-	-	-	-
Restricted investment accounts	-	-	-	-	833	833

for the year ended 31 December 2014 US$ 000's

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

(b) Geographic region

31 December 2014	GCC countries	Other MENA	Other Asia	UK	Europe (excluding UK)	USA	Total
Assets							
Cash and bank balances	28,594	3	-	705	8,479	8,366	46,147
Placements with financial institutions	45,753	-	-	-	-	-	45,753
Investment securities	101,911	60,133	56,779	18,117	9,878	1,600	248,418
Investment properties	259,404	-	-	-	-	-	259,404
Development properties	45,501	-	-	-	-	-	45,501
Equity-accounted investees	158,804	-	-	-	-	-	158,804
Property, plant and equipment	141,301	-	-	-	-	-	141,301
Intangible assets	40,000	85,176	-	-	-	-	125,176
Other assets	150,114	21,740	8,342	24,992	11,047	18,368	234,603
Total assets	**971,382**	**167,052**	**65,121**	**43,814**	**29,404**	**28,334**	**1,305,107**
Liabilities							
Investors' funds	792	14,093	-	-	-	-	14,885
Placements from financial and other institutions	4,744	85,401	-	-	-	-	90,145
Financing liabilities	183,911	-	-	47,213	-	-	231,124
Other liabilities	89,960	-	-	-	11,600	-	101,560
Total liabilities	**279,407**	**99,494**	**-**	**47,213**	**11,600**	**-**	**437,714**
Equity of investment account holders	1,663	-	-	-	-	-	**1,663**
Off-Balance sheet items							
Commitments	118,039	-	-	-	-	-	**118,039**
Restricted investment accounts	786	-	-	-	-	-	**786**

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

for the year ended 31 December 2014 US$ 000’s

36 Concentration of assets, liabilities and equity of investment account holders (continued)
(b) Geographic region (continued)

31 December 2013	GCC countries	Other MENA	Other Asia	UK	Europe (excluding UK)	USA	Total
Assets							
Cash and bank balances	20,958	3	-	190	-	696	21,847
Placements with financial institutions	-	-	-	-	-	-	-
Investment securities	91,102	46,178	36,572	-	22,289	-	196,141
Investment property	259,404	-	-	-	-	-	259,404
Assets held-for-sale	-	-	-	23,824	-	-	23,824
Equity-accounted investees	209,739	-	-	-	-	-	209,739
Property, plant and equipment	299	-	-	-	-	-	299
Other assets	64,974	30,429	29,099	48,167	-	-	172,669
Total assets	646,476	76,610	65,671	72,181	22,289	696	883,923
Liabilities							
Investors' funds	1,319	17,847	-	-	-	-	19,166
Placements from financial and other institutions	8,509	85,002	-	-	-	-	93,511
Financing liabilities	147,780	-	-	59,987	-	-	207,767
Liabilities related to assets held-for-sale	-	-	-	-	-	-	-
Other liabilities	60,408	-	-	-	-	-	60,408
Total liabilities	218,016	102,849	-	59,987	-	-	380,852
Equity of investment account holders							
Off-Balance sheet items							
Commitments	-	-	-	-	-	-	-
Restricted investment accounts	833	-	-	-	-	-	833

37 OPERATING SEGMENTS

The Group has three distinct operating segments, Development infrastructure, Banking and Industrial business, 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:

- **Development infrastructure:** 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.

- **Banking:** The Banking segment of the Group is focused on private equity, commercial and investment banking domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The commercial banking activities focuses on establish new banks in the MENA region, and exploring external partnerships or acquisitions to extend GFH's capabilities. 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.

- **Industrial business:** This unit represents operations of cement and aluminum extrusion manufacturing business (refer note 4).

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 independt overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 36 (b) to the consolidated financial statements.

for the year ended 31 December 2014 US$ 000's

38 OPERATING SEGMENTS (continued)

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

2014	**Industrial business**		**Development infrastructure**	**Banking**	**Unallocated / Elimination**	**Total**
	Cement	**Aluminium**				
Segment revenue	83,788	10,562	43,813	22,310	977	161,450
Segment expenses	86,196	5,642	27,191	19,670	5,717	144,416
Segment result	(2,408)	4,920	16,622	2,640	(4,740)	17,034
Segment assets	245,899	114,233	624,786	318,801	1,388	1,305,107
Segment liabilities	40,003	54,942	231,822	73,887	37,060	437,714
Other segment information						
Property, plant and equipment	95,436	45,279	-	-	586	141,301
Intangible assets (commercial license and customer relationship)	123,620	1,556	-	-	-	125,176
Inventories	6,169	22,212	-	-	-	28,381
Trade receivables	1,584	34,907	-	-	-	36,491
Financing liabilities	13,171	43,687	-	174,266	-	231,124
Other liabilities	26,832	11,255	37,716	11,600	14,157	101,560
Share of profit of equity-accounted investees	-	3,931	-	6,432	-	10,363
Impairment allowances	(2,447)	188	10,638	2,206	-	10,585
Commitments	116,461	1,578	-	-	-	118,039

for the year ended 31 December 2014 US$ 000's

38 OPERATING SEGMENTS (continued)

Banking segment includes assets, liabilities and results of discontinued operations (refer note 9)

2013	Development infrastructure	Banking	Unallocated	Total
Segment revenue	13,735	5,207	984	19,926
Segment expenses	11,779	16,373	9,437	37,589
Segment result	1,956	(11,166)	(8,453)	(17,663)
Segment assets	535,309	345,522	3,092	883,923
Segment liabilities	249,405	109,520	21,927	380,852
Other material items:				
Finance income	-	473	-	473
Finance expense	1,844	14,426	-	16,270
Share of loss of equity-accounted investees	-	(22,207)	-	(22,207)
Depreciation	-	-	1,164	1,164
Impairment allowances	3,000	-	-	3,000
Equity-accounted investees	-	209,739	-	209,739
Off-balance sheet Commitments	-	-	-	-

38 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 2014 and 31 December 2013, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quotes market prices and internal valuation models for unquoted investments. Other investments are carried at cost in the absence of a reliable measure of fair value.

Other than certain investments carried at cost of US$ 165,556 thousand (31 December 2013: US$ 160,666 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 2014.

Investments amounting to US$ 165,556 thousand (31 December 2013: US$ 160,666 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 2014, the fair value of financing liabilities was estimated at US$ 202,787 thousand (carrying value US$ 231,124 thousand) (31 December 2013: fair value US$ 153,630 thousand (carrying value US$ 207,767 thousand) based on recent transactions for repurchase of liability instruments by the Bank. These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of financing liabilities as these are largely floating rate instruments which were re-priced recently as part of the debt restructuring process.

b) FAIR VALUE HIERARCHY

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014 US$ 000's

39 FINANCIAL INSTRUMENTS (continued)

b) FAIR VALUE HIERARCHY (continued)

31 December 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities carried at fair value through::				
- income statement	9,878	-	49,060	58,938
- equity	23,914	-	-	23,914
	33,792	**-**	**49,060**	**82,852**

31 December 2013	Level 1	Level 2	Level 3	Total
Investment securities carried at fair value through:				
- income statement	30,824	-	4,651	35,475
- equity	-	-	-	-
	30,824	-	4,651	35,475

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

	2014	2013
At 1 January	4,651	4,841
Additions during the year	44,875	-
Total gains or losses		
- In income statement	(466)	(190)
At 31 December	**49,060**	4,651

39 COMMITMENTS AND CONTINGENCIES

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

	31 December 2014	31 December 2013
Capital commitments relating to construction of cement plant	111,736	-
Operating lease commitments		
- Within one year	297	-
- 1 – 5 years	1,378	-
- Over 5 years	1,975	-
Guarantees issued by banks on behalf of the Group	2,653	-

The Group potentially has a commitment under a constructive obligation to extend finance to one of its projects of up to US$ 8 million (31 December 2013: US$ 26.5 million).

39 COMMITMENTS AND CONTINGENCIES (continued)

Also, the Group has issued a financial guarantee of US$ 35 million to a project promoted by the Group. Based on the assessment of the financial position of the project company, the Group has recognized a provision of US$ 35 million (31 December 2013: US$ 35 million) which is included in other liabilities and recognised an equivalent amount of 'reimbursement right' receivable included in 'other assets' (note 13). The Group is currently in discussion with the lenders and in the opinion of the management, as at the reporting date, the guarantee stands expired and it is unlikely that the amounts would need to be funded.

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

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2014 due to the performance of any of its projects.

Litigations, claims and contingencies

The Group is defending a number of claims and litigations in connection with projects promoted by the Bank in the past and with certain transactions. Based on the advice of the Bank's external legal counsel, it is premature to quantify the amount or timing of liability, if any. The external legal counsels have advised that the Bank has strong grounds to successfully defend itself against these claims. Accordingly, no provision for these claims has been made in the consolidated financial statements.

The Bank has filed several cases and counterclaims against counterparties for recoveries which are pending in various courts in the GCC. The Bank is also pursuing several legal cases in courts in the Kingdom of Bahrain against the former chairman of the Bank. The Bank has received favourable judgement against some of them while the outcome of the remaining litigations are contingent on obtaining a favourable outcome or settlement which are wholly not within the control of the Group. Accordingly, no contingent assets are recognised in these consolidated financial statements.

No further disclosures regarding contingent liabilities or recoveries arising from any of such cases are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial and detrimental to the Bank's position.

40 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:

40 FINANCIAL RISK MANAGEMENT (continued)

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

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

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.

40 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

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.

for the year ended 31 December 2014 US$ 000's

40 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

The Group's maximum exposure to risk at 31 December 2014 is as follows:

Exposure to credit risk

31 December 2014	**Bank balances**	**Placement with financial institutions**	**Trade and other receivables**	**Other financial assets**
Neither past due nor impaired - Carrying amount	**46,139**	**45,753**	17,010	77,462
Impaired				
Gross amount	-	-	17,501	441,976
Allowance for impairment	-	-	(254)	(382,473)
Carrying amount – Impaired	**-**	**-**	**17,247**	59,503
Carrying amount	**46,139**	**45,753**	**34,257**	**136,965**

Exposure to credit risk

31 December 2013	Bank balances	Placement with financial institutions	Other financial assets
Neither past due nor impaired - Carrying amount	21,786	-	93,491
Impaired			
Gross amount	-	-	441,976
Allowance for impairment	-	-	(381,473)
Carrying amount – Impaired	-	-	60,503
Carrying amount	21,786		153,994

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014 US$ 000's

40 *FINANCIAL RISK MANAGEMENT (continued)*

a) *Credit risk (continued)*

Impaired receivables

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

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

The movement in the impairment allowances for investment securities and trade and other receivables are given in note 6 and note 13 respectively. The movement in impairment allowance for other financial assets are as given below:

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

2013	Financing receivables	Financing to projects	Receivable from investment banking services	Other receivables	Total
At 1 January 2013	70,150	81,382	153,630	74,311	379,473
Impairment allowance during the year	-	2,000	-	-	2,000
At 31 December 2013	70,150	83,382	153,630	74,311	381,473

Receivables with renegotiated terms

During the year, the Group has renegotiated certain financing receivables and financing to projects due to changes in the financial position of the borrower. The financing receivables were renegotiated for terms and condition similar to original terms. Financing to projects of US$ 56.8 million (31 December 2013: US$ 65.19 million) were renegotiated for an extended period and do not have specified terms of repayment. The Group assesses the recoverability and timing of collection based on underlying stream of cash flows that will be generated by its projects.

40 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Write-off policy

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

Concentration risk

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

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

b) Liquidity risk

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

Management of liquidity risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014 US$ 000's

40 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 35 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows						
31 December 2014	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Financial liabilities							
Investors' funds	14,885	-	-	-	-	14,885	14,885
Placements from financial and other institutions	4,753	-	-	85,401	-	90,154	90,145
Financing liabilities	28,325	11,136	35,160	133,965	52,827	261,413	231,124
Other liabilities	64,222	149	-	37,189	-	101,560	101,560
Total liabilities	**112,185**	**11,285**	**35,160**	**256,555**	**52,827**	**468,012**	**437,714**
Equity of investment account holders	1,663	-	-	-	-	**1,663**	**1,663**
Off-balance sheet							
Commitments	-	297	4,031	1,975	111,736	**118,039**	**118,039**

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 2013	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	19,166	-	-	-	-	19,166	19,166
Placements from financial and other institutions	7,753	-	741	85,001	-	93,495	93,511
Financing liabilities	3,000	4,965	31,411	86,023	114,966	240,365	207,767
Other financial liabilities	23,980	-	-	36,428	-	60,408	60,408
Total financial liabilities	53,899	4,965	32,152	207,452	114,966	413,434	380,852
Equity of investment account holders	2,155	-	-	-	-	2,155	2,155

for the year ended 31 December 2013 US$ 000's

40 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Measures of liquidity

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

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

Liquidity coverage ratio	**2014**	2013
30 days	12.27	1.70
60 days	8.74	1.99
90 days	7.03	2.27

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

	2014	2013
Net stable funding ratio	1.55	1.28

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	
	2014	2013
At 31 December	6.73%	2.39%
Average for the year	3.82%	4.47%
Maximum for the year	6.73%	8.99%
Minimum for the year	1.63%	2.39%

c) Market risks

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

Management of market risks

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

for the year ended 31 December 2014 US$ 000's

40 FINANCIAL RISK MANAGEMENT (continued)

c) Market risks (continued)

Exposure to profit rate risk

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

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

31 December 2014	**Up to 3 months**	**3 to 6 months**	**6 months-1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets						
Placements with financial institutions	45,753	-	-	-	-	45,753
Total assets	**45,753**	**-**	**-**	**-**	**-**	**45,753**
Liabilities						
Investors' funds	14,885	-	-	-	-	14,885
Placements from financial and other institutions	4,715	28	-	85,402	-	90,145
Financing liabilities	24,197	38,949	36,634	131,344	-	231,124
Total liabilities	**43,797**	**38,977**	**36,634**	**216,746**	**-**	**336,154**
Equity of investment account holders	**1,663**	**-**	**-**	**-**	**-**	1,663
Profit rate sensitivity gap	**293**	**(38,977)**	**(36,634)**	**(216,746)**	**-**	**(292,064)**

31 December 2013	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets	-	-	-	-	-	-
Liabilities						
Investors' funds	19,166	-	-	-	-	19,166
Placements from financial and other institutions	7,696	29	785	85,001	-	93,511
Financing liabilities	3,000	3,375	30,350	136,226	34,816	207,767
Total liabilities	29,862	3,404	31,135	221,227	34,816	320,444
Equity of investment account holders	2,155	-	-	-	-	2,155
Profit rate sensitivity gap	(32,017)	(3,404)	(31,135)	(221,227)	(34,816)	(322,599)

for the year ended 31 December 2014 US$ 000's

40 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)	**2014**	2013
At 31 December	±2,920	±3,226
Average for the year	±3,346	±3,390
Maximum for the year	±3,649	±3,646
Minimum for the year	±2,921	±3,226

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:

	2014	2013
Placements with financial institutions	0.28%	-
Placements from financial and other institutions	5.77%	7.65%
Financing liabilities	5.99%	5.78%
Equity of investment account holders	0.21%	0.22%

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:

	2014 US$ '000 Equivalent	2013 US$'000 Equivalent
Sterling Pounds	53,049	71,507
Euro	1,103	963
Jordanian Dinar	2,131	2,031
Other GCC Currencies (*)	3,451	(6,612)

(*) 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014 US$ 000's

40 *FINANCIAL RISK MANAGEMENT (continued)*

c) *Market risks (continued)*

	2014 US$ '000 Equivalent	2013 US$'000 Equivalent
Sterling Pounds	±2,652	±3,575
Euros	±55	±48
Jordanian Dinar	±106	±101

Exposure to other market risks
Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. A 5% change in the underlying value of the managed funds would have an impact on the income statement and equity by US$ 494 thousand (2013: US$ 1,541 thousand). The Group's equity type instruments carried at cost are exposed to risk of changes in equity values. The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 3 (ii). The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

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

41 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.

for the year ended 31 December 2014 US$ 000's

41 CAPITAL MANAGEMENT (continued)

The Group is required to comply with the provisions of the Capital Adequacy Module of the CBB (which is currently based on the Basel II and IFSB framework) in respect of regulatory capital. The Group has adopted the standardised approach to credit risk and market risk and basic indicator approach for operational risk management under the revised framework.

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

	2014	2013
Total risk weighted assets	**2,102,293**	1,934,849
Tier 1 capital	677,692	523,884
Tier 2 capital	-	-
Total regulatory capital base	**677,692**	523,884
Total regulatory capital expressed as a percentage of total risk weighted assets	**32.24%**	27.08%

The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

Future requirements

During the year, CBB issued the final regulations to give effect to the Basel III framework which is effective from 1 January 2015. Basel III introduces capital components like core equity tier I (CET1), and additional tier I (AT1), it also requires maintenance of certain capital buffers. Computation of CET1 is subject to certain regulatory deductions. These deductions would be effective in a phased manner through the transitional arrangements under the revised regulations over the period from 2015 to 2018. The revised regulations prescribe higher risk weight for certain type of exposures and for the significant investments in financial institutions, significant investments in commercial entities and large exposures that exceed materiality thresholds. The Group is currently assessing the full impact of the revised regulations and believes that the current capital position is sufficient to meet the new regulatory capital requirements.

42 COMPARATIVES

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

Except for the effect of reclassification of certain non-current assets for held-for-sale to held-for-use during the year resulting in retrospective restatement of previously reported numbers (refer note 10), no other restatements have been carried out that would affect the previously reported profit for the year or total equity. During the year, the Bank acquired control over certain industrial businesses that are consolidated(refer note 4). Accordingly, current year reported amounts and categories of assets, liabilities, income and expense are not fully comparable with the prior period.