



التمويل العقاري Real Estate Finance

10

A Decade of Prosperity

Annual Report 2016



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His Royal Highness Prince
Khalifa Bin Salman Al Khalifa

[The Prime Minister](#)



His Majesty King
Hamad Bin Isa Al Khalifa

[The King of Kingdom of Bahrain](#)



His Royal Highness Prince
Salman Bin Hamad Al Khalifa

[The Crown Prince and Deputy
Supreme Commander
and First Deputy Prime Minister](#)

Reef Real Estate Finance Co. B.S.C (C)

Kanoo Tower, Office 114, Building 155,
Road 1703, Block 317, Diplomatic Area
P.O.Box 18599, Manama - Kingdom Of Bahrain

Tel: +973 17558080
Fax: +973 17556333

www.reef.bh



Vision

Reef is the premier financing house in the Kingdom of Bahrain, differentiated by its superiority in providing tailor-made financing solutions, quality customer service and respect to strategic partners.

Mission Statement

We:

- Extend financing facilities to customers residing in the GCC for their real estate and other personal investments in the Kingdom of Bahrain;
- Make certain that our products fit and address the needs of individual customers;
- Share risks with our customers by offering Islamic Shar'ia compliance products;
- Provide simple, flexible and reliable processes to make sure best turn-around times;
- Select dependable strategic partners that add value and provide opportunities to our customers;
- Make every effort to provide unmatched customer service by ensuring that our staff are continuously trained and motivated with a smile and pleasure.

Our Values

Reef believes in value rich business. Everything we do and say is inspired by our beliefs and principles - we translate these concepts into development initiatives and programs.

Inspiring Excellence

Our dedication to quality is evident in all we do - from products and services to processes. Our employees are enlightened and empowered to embody excellence and inspire it around them.

Partnership

We believe the greatest and most durable results are achieved through partnership and value sharing across sectors and on all levels.

Innovation and Originality

We are committed to an innovative business approach - whether in designing products and services or responding to opportunities with the flexibility to realize the greatest results.

Accomplishment

Our commitment to accomplishment is based on effective goal implementation. We are driven to be the 'best of breed' - and dedicate ourselves to realizing every goal we set.

Chairman's Report



"The Company recorded the highest level of operating revenue in the past five years as total operating income increased by 81% reaching to 3.6 million Bahraini Dinars"

In the name of Allah, All-Merciful, the Mercy-Giving.
And may peace and prayers be upon our Prophet Muhammed, and on all his family and Companions.

Peace be upon you all and God's mercy and blessings.

Dear valued Shareholders,

On behalf of the Board of Directors, I am pleased to present our annual report of the company for the financial year ended 31st December 2016, asking the almighty to renew the covenant with you while you are living a life packed with health and wellness.

I am pleased to announce that Reef Real Estate Finance Company B.S.C. (Closed) has achieved positive financial results during the year 2016, despite of all economical difficulties in the local and international markets where the Company was not isolated. The most important of these crises was the continuous drop in oil prices since 2014 and it's repercussions on the economies of countries exporting the oil in general and on our countries in particular, in addition to the decision of United Kingdom to exit from the European Union as the most important economic world event in 2016.

In spite of that, the Company recorded the highest level of operating revenue in the past five years as total operating income increased by 81% reaching to 3.6 million Bahraini Dinars, compared to 2 million Bahraini

Dinars in 2015 and that was due to the actual realized profits of nearly 2 million Bahraini Dinars from one of the largest and most important investments of the Company in the United Kingdom and as a result the net profit has increased to double during the year and reached 1.2 million Bahraini Dinars in comparison to 618 thousand Bahraini Dinars recorded last year which was positively reflected on the level of earnings per share that increased from 2.7 Fils per share for the year 2015 to 5.3 Fils per share for the year 2016.

Dear Shareholders, the distinguished members of the Board of Directors have taken all steps to steer the Company to safety through all the variable economical conditions, supported by the insightful and wise prospect of the shareholders. The Company has continued to diversify its income sources by not focusing on a single product. As a result, the sharp drop in the "Ijarah Muntahia Bittamleek" portfolio that has been witnessed few years ago did not affect the financials performance of the Company.

The "Ijarah Muntahia Bittamleek" portfolio continued shrinking reaching to 1.4 million Bahraini Dinars due to the global economic crisis and its impact on the local Real Estate market, and therefore resulting lower demand for Real Estate financing, the aggressive competition from local Retail Banks by providing attractive offers. Total assets reduced further due to the consequences of the United Kingdom decision to exit from the European Union as well as the drop of the Sterling Pound against the US Dollar as total assets declined by 4% reaching to 26.8 million Bahraini Dinars. In spite of that, this decline has not affected the liquidity level of the Company, as cash and bank balances raised to about 7.4 million Bahraini Dinars, which demonstrates the strength and stability of the Company's financial position.

On the contrary, the investment portfolio witnessed a steady and diversified growth at the local and regional level which has not confined to the geographical diversification of investment only, but extended to the diversification in the nature of the investment as well.

We hereby confirm that the Company is always aiming for the best results that will enable it in achieving superior returns to the benefit of the shareholder's in the first place and the Company in order to continue generating revenues and crystallize its methods to the manner commensurate with the course of the economic situation locally and globally.

Based on Company's performance for the year 2016, the Company's Board of Directors has recommended at its meeting held on 2nd March 2017 to propose to the shareholders at their annual meeting to approve the payment of a cash dividends of 1.1 million Bahraini Dinars to the holders of the Company's shares, which is equivalent to 5% of the net issued and paid up capital, after obtaining the required approval from the concerned authorities.

We express our appreciation and gratitude to our valued shareholders for their commitment to this noble value and for their permanent support to the Board of Directors for their respected and recognized competence, experience and wise management that contributed in taking the right decisions. Our thanks are extended also to all official authorities in the Kingdom of Bahrain and in particular the "Central Bank of Bahrain", "Ministry of Industry, Commerce and Tourism", and "Survey and Land Registration Bureau" for their continuous support and wise guidance to the Company since its establishment.

God grants success

Ali Ahmed Al Baghli
Chairman of the Board Of Directors

Board Of Directors



Mr. Ali Ahmed Al Baghli
Chairman
Experience: Over 41 Years

Mr. Ali Al Baghli is holding a wide range of professional expertise in the fields of Law, Legal Consultancies and Business also he held many Governmental and Parliament positions. He holds a Master Degree in Comparative Law from Brunell University, United Kingdom. Mr. Al Baghli was the Minister of Oil during the period from 1992 to 1994 as well as a member of the Kuwaiti Parliament during the period from 1992 to 1996. In addition to Chairmanship in Reef Real Estate Finance Company, Mr. Al Baghli sat on the Chairman position of National International Holding Company till 2013 and he is currently the Chairman of AL- AHLIA Holding Company (K.S.C) closed in Kuwait.



Mr. Saud Kanoo
Vice Chairman
Experience: Over 31 Years

Mr. Saud Kanoo is a pioneer in the real estate investment and development market and the leader of many successful real estate projects. He is the Deputy Chairman of Property Co. YBA Kanoo WLL and the Chairman of Ossis BSC (c), Marsa Project Services Co WLL, Marsa Leisure Co. (Holdings) WLL, Dragon Resort WLL, Jenina Real Estate Holding WLL, Marsa Health & Sports Club Co. WLL, Marsa Hotels Co BSC (c), Chairman - Al Saraya Properties, SAJAN Properties, Chairman - Unicom Graphics WLL and various other Board memberships. Mr. Saud Kanoo holds a B.S in Civil Engineer/Arch. Engineer from Georgia Institute of Technology, Georgia, USA and holder MBA in Business Administration from Mercer University, Atlanta, Georgia, USA.



Mr. Faisal Al Matrook
Board member
Experience: Over 41 Years

Mr. Faisal Al Matrook is the Executive Chairman of Contech Group and Jasaf Building Technology Company in the United Arab Emirates, also Vice Chairman and Head of the Executive Committee at Noor Capital (Abu Dhabi) and Member of the Board of DEPA Group (Dubai), the largest Company in the region with various activities in the field of interiors and hotel fit out & furnishings. In the Kingdom of Bahrain, Mr. Al Matrook is Chairman of the following companies: Al Matrook Group; Kingdom Group of Companies; Amwaj Education Company; Arabian Dredging; Bahrain Mineral Company; Nardin Real Estate Developers; and Dana Company. In addition, he is an Executive Director of Ossis Real Estate (developer of Amwaj Islands in Bahrain), and director of Al Sharif Group, Al Ahlia Shipping Company and Meritas Investments. At Reef, Mr. Al Matrook currently serves as the Chairman of the Executive committee and a member of the Nomination and Remuneration Committee.



Mr. Naser Al Gharibah
Board member
Experience: Over 36 Years

Mr. Naser Al-Gharibah is the Managing Director of Global Bahrain. He received his Bachelor's degree from Mercer University in 1984, Georgia, USA. He has more than 35 years of Professional experience in the financial sector ranging from insurance to investment banking in both of the regional and international markets. Currently Mr. Al Gharibah is the General Manager of Global Investment House - Bahrain.



Mr. Samer Abbouchi
Board member
Experience: Over 12 Years

Mr. Samer Abbouchi holding a diversified working experience in the financial services sector, internal audit organization structuring and restructuring, risk management, investment and assets management. He is a Graduate in Business Administration from the American University of Beirut. Samer is a Certified Internal Auditor, a Chartered Financial Analyst and an MBA graduate from London Business School. In addition to Reef Real Estate Finance Company, Mr. Abbouchi is serving many boards in the State of Kuwait and abroad including FinaCorp Investment Company (Tunisia) (Jordan), National International Holding Company (Kuwait), Global Jordan. His previous Board memberships include: Societe Generale de Banque de Jordan, Jordan Islamic Bank, Buraq Investment Company (Kuwait), Al ekhlas Holding Company (Kuwait), Elite Educational Company (Kuwait), First Jordan Investment Company (Jordan).



Mr. Yaser Hamad Al Jar
Board member
Experience: Over 19 Years

Mr. Yaser Al Jar holds professional experience of around 19 years mainly in the fields of external assurance services, commercial and investment banking, and real estate sector. Mr. Yaser started his career in 1998 with Arthur Andersen, one of the largest international audit firms at that time, as external auditor. Subsequently, Mr. Yaser held a number of key positions as Chief Financial Officer in a number of reputable institutions, namely Inovent B.S.C, Al Khaleej Development Co. (Tameer), Shamil Bank of Bahrain (merged with Ithmaar Bank) and Qatar First Investment Bank.

Yaser holds a B.Sc in Accounting from the University of Bahrain. He holds Certified Islamic Public Accountant "CIPA" and Certified Shari'a Advisor Auditor "CSAA" certificates from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He is an accredited instructor of the Islamic Standards issued by AAOIFI. Recently, Mr. Yaser has been appointed as a member of Technical Advisory and interpretation Committee of AAOIFI.



Mr. Waleed Al Khaja
Board member
Experience: Over 31 Years

Mr. Waleed Alkhaja joined the Pension Fund Commission in Bahrain as Director of Investment in 2005 after 19 years in the Investment Directorate at the Ministry of Finance. In 2008 he became Director of Investment in the Social Insurance Organization (Pension) and in 2010 Executive Director in SIO Asset Management Company. In 2013 he joined his family-owned business. Mr. Alkhaja is the Managing Director of AMAK Property & Development. Mr. Alkhaja served for two terms on the Board of Directors of Seef Properties and Bahrain Tourism Co.BSC, and on the Board of Directors of Batelco Group. Currently he is the Chairman of First Bahrain Real Estate Development Co. KSC. And he also serves on the Board of Directors of Gulf Educational Projects (Applied Science University) and AMAK & Sons. He enjoys a wealth of experience, knowledge and professionalism in the investment business sector. Mr. Alkhaja holds a bachelor degree in Business Administration from North Texas State University.

Management Team



Mr. Hasan Dhaif
Chief Executive Officer
 (From 1 February 2016)
 Experience: Over 21 Years

On February 2016, Mr. Dhaif was appointed as Chief Executive Officer after serving the Company as the Chief Financial Officer & HR for 7 years. He has over 21 years' experience in banking, management, finance and auditing. He is Vice Chairman of Reef Investment UK B.S.C (c) and Vice Chairman of First Reef B.S.C. (c). He is also a Board member of Manazel Qurtoba Fund 2 in the Kingdom of Saudi Arabia. Before joining Reef in April 2008 he worked with a number of reputable local and multinational organizations such as Al Baraka Banking Group, National Bank of Bahrain, Bahrain Commercial Facilities Company, Zain Telecommunication and prior to this he was a member of the Audit team at Arthur Andersen. Mr. Dhaif is a Certified Public Accountant (CPA) and a holder of BSc in Accounting from University of Bahrain.



Mr. Ali Hasan
Business Manager
 Experience: Over 12 Years

Mr. Ali Hasan Joined Reef in 2006, He held various positions and was later appointed as the Business Manager of the company. He also serves as a Board member of First Reef Company. He holds over 12 years of experience in Retail Banking services, Finance, Operations, Information Technology, and Insurance. Before joining Reef Real Estate Finance Company he was working in Bahrain Credit. Mr. Hasan holds a B.Sc in Business Administration from University College of Bahrain.



Mr. Hesham Ahmed
Finance Manager
 Experience: Over 15 Years

Mr. Hesham Ahmed is holding BSc in Accounting from University of Bahrain. He holds over 15 years of experience in Retail Banking, Finance, Operations, Internal Audit and Financial Controls. Before joining Reef Real Estate Finance Company he was working in Ahli United Bank and Bahrain Development Bank. He is also a Board member in Reef Investment UK Company.



Mr. Ali Salem
Head of Operations
 Experience: Over 31 Years

Mr. Ali Salem is holder of Master in Business Administration from University of Hull, UK and Diploma in Business Study from University of Bahrain. He has over 31 years banking experience in Retail Banking, Operations and Credit Cards. Before joining Reef Real Estate Finance Company, Mr. Ali was holding senior positions in Bahraini Saudi Bank, Ithmaar Bank and Arab Financial Services.



Mr. Eyad AlKhunaizi
Compliance Manager and MLRO
 Experience: Over 20 Years

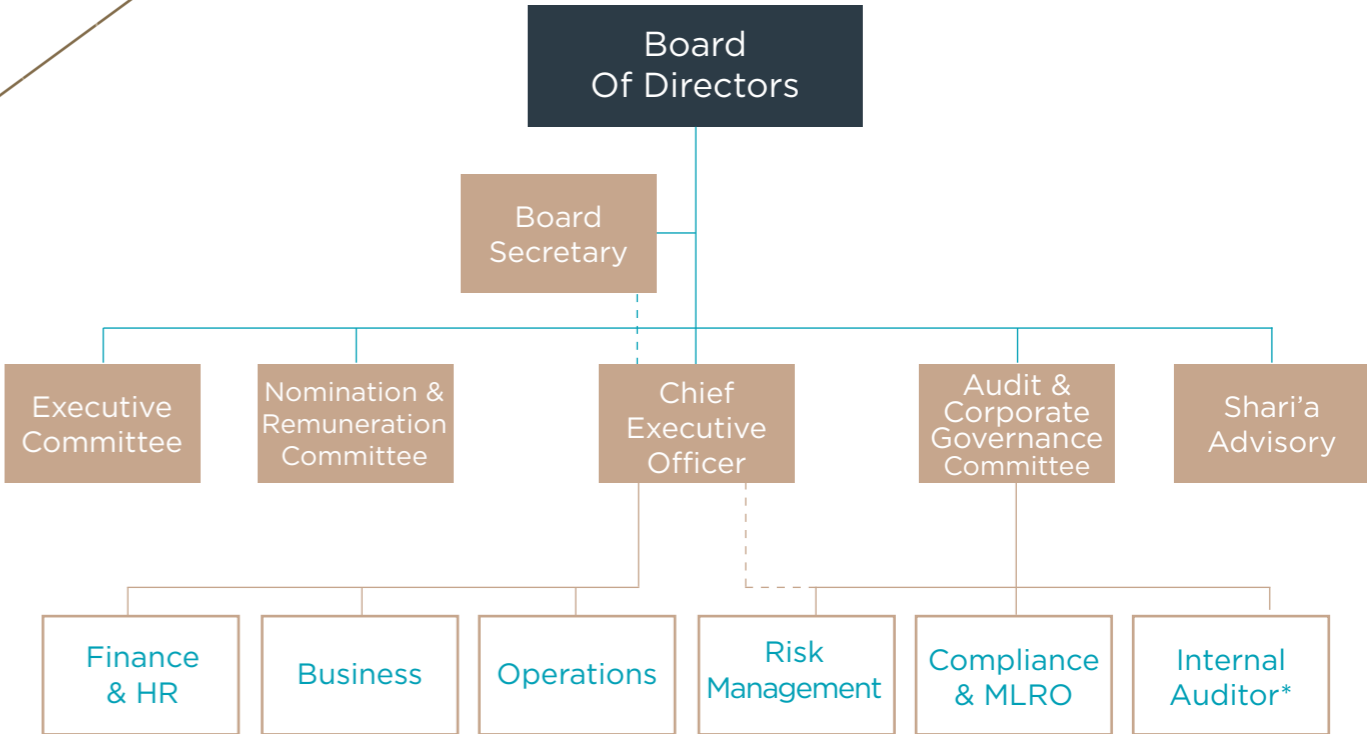
Mr. Eyad AbdulAziz AlKhunaizi holds B.Sc. in accounting from University of Bahrain and has completed various training courses in Compliance and Risk Management. He holds over 20 years of exposure and knowledge in Retail Banking Services, Finance, Operations, Compliance and the Anti money laundering. In Reef, he is responsible for leading the internal processes of formulating and implementation of Reef's policies and procedures and making sure they are communicated and trained upon across the company in line with the Central Bank of Bahrain rules and regulations. Prior to joining Reef Real estate Company, he has worked with well-reputed financial institutions, such as Bahrain Saudi Bank and Ahli United Bank where he handled various posts in connection with Central Bank of Bahrain reporting requirements.

Corporate Social Responsibility

“We embrace and support partnerships of mutual benefits; this has always lead us to better serve our organisation as well as our community”

Reef Real Estate Finance Company adopts a Shar’ia compliant business model, our financing terms are supported by a set of rules, policies and procedures and take into consideration the interest of our shareholders, our customers and other stakeholders.

Organisation Chart



* Grant Thornton - Abdulaal

Corporate Governance Report

Corporate Governance Philosophy

The corporate governance framework is aiming to establish a sound of good corporate governance environment at all the time to meet its strategic objectives of safeguarding and maintaining a steady growth of the shareholders interest. Reef is dedicated to adopt the highest standards of corporate governance. The Company seeks to balance entrepreneurship, compliance and industry best practices, while creating value for all stakeholders. This includes, but is not limited to, conducting the policy and affairs of Reef in compliance with regulatory requirements. It also involves having the right checks and balances in place throughout the organization to ensure that the right things are always done in the right way.

This section is designed in accordance to the “High-level control module” and the “Public Disclosure Module” of the CBB rulebook – Volume 5. The Volume 5 CBB rulebook was designed, tailored, and introduced for the Financing Companies in January 2014, where previously, the Company was implementing the Corporate Governance Law in compliance with the requirements of Volume 2 of the ‘High Level Control Module’ of the CBB Rulebook.



Corporate Governance Report

(Continued)

Governance Framework

Reef Real Estate Finance Company B.S.C. (c) is a Bahraini closed shareholding company operates as an Islamic financing Company and licensed and regulated by the Central Bank of Bahrain. The Company has only one class of ordinary share and the holders of shares have equal voting rights.

Distributions of Shareholders as the closing of 31st December 2016 were as follows:

Name	Nationality	Number of Shares	Share %
Gimbal Holding Co S.P.C.	Bahraini	105,450,354	43.85%
Ossis B.S.C.(c)	Bahraini	24,042,900	10.00%
Inovest B.S.C.	Bahraini	24,042,900	10.00%
H.E. Sh. Sultan Bin Khalifa Al Nahyan	Emirati	13,223,595	5.50%
Treasury Shares	Bahraini	12,021,450	5.00%
Al Dammam Development Company	Saudi	11,600,699	4.82%
Other Shareholders	Multiple	50,047,102	20.83%
Total		240,429,000	100.00%

Distribution of ownership by shares and nationality:

Nationality	No. of Shareholders	No. of Shares	%
Bahraini	58	191,008,232	79.44%
Saudi	28	26,463,435	11.01%
Emirati	7	19,640,140	8.17%
Omani	2	3,196,978	1.33%
Qatari	1	120,215	0.05%
Total	96	240,429,000	100.00%

Distribution of ownership by size of shareholders:

Categories	No. of shareholders	Number of shares	% of total issued shares
Less than 1%	83	28,724,943	11.95%
1% to less than 5%	8	32,922,858	13.69%
5% to less than 10%	2	25,245,045	10.50%
10% and above	3	153,536,154	63.86%
Total	96	240,429,000	100.00%

Corporate Governance Report

(Continued)

Board of Directors

The Articles of Association of Reef stipulate the responsibilities of the Chairman and members of the Board of Directors ('BOD') as well as the guidelines of corporate governance with respect to the distribution of responsibilities between the Board of Directors and executive management. The BOD oversees all the business activities in consultation with the executive management team. The BOD also discusses and agrees Reef's business strategy. Additionally, the BOD is responsible for risk management and the preparation of financial statements and corporate governance issues. The matters which require the approval of the Board include, for example, among other things, the Board approve financing activities for limit above BD 200,000, acquisitions and exit from companies. This is along with the main role of the Board which is to ensure adherence to the values of Reef, including the values set forth in its internal regulations.

When appointed, board members are provided with the necessary detailed information to enable them to effectively perform their main role of overseeing the strategic, operational and financial and compliance affairs as well as corporate governance controls in Reef. The corporate governance framework allows a member of the BOD to seek independent advice when necessary.

With respect to the channels of communication between the BOD and executive management, the board members can contact and request information from the executive management at all times.

Board of Directors are responsible for ensuring that the systems and controls framework in the Company, including the Board structure and organizational structure is appropriate for the Company's business and associated risks. The Board also ensure that collectively there are sufficient resources and expertise to identify, understand and measure the significant risks to which the Company is exposed in its activities. Directors are regularly assessing the systems and controls framework of the Company to ensure that:

- The Company's operations, individually and collectively are measured, monitored and controlled by appropriate, effective and prudent risk management systems commensurate with the scope of the Company's activities;
- The Company's operations are supported by an appropriate control environment;
- The compliance, risk management and financial reporting functions are adequately resourced, independent of business lines and is run by individuals not involved with the day-to-day running of the various business areas.
- The management develops, implements and oversees the effectiveness of comprehensive "Know Your Customer" standards, as well as on-going monitoring of accounts and transactions, in keeping with the requirements of relevant laws, regulations and best practice (with particular regard to anti-money laundering measures).
- The control environment maintains necessary client confidentiality and ensures that the privacy of the Company is not violated, and ensures that clients' rights and assets are properly safeguarded; and
- Where the Board has identified any significant issues related to the Company's adopted governance framework, appropriate and timely action is taken to address any adverse deviation from the requirements stated in the High Level Controls Rulebook of the CBB.

In their strategy review process, Board of Directors:

- Review the Company's business plans and the inherent level of risk in the plans;
- Assess the adequacy of capital to support the business risks of the Company;
- Set performance objectives; and
- Oversee major capital expenditures, divestitures and acquisitions.

Election and Re-election of Directors:

In compliance with the terms stipulated in the Article of Association, Shareholders approved the re-election of the current members of the Board of Directors for a period of three years ending 26th March 2018. Directors are elected by the shareholders at the Annual General Meeting. Candidates for the Board shall be selected by the NRC, and recommended to the Board of Directors and CBB for approval, in accordance with the qualifications approved by the Board taking into consideration the overall composition and diversity of the Board and areas of expertise that new board members might be able to offer.

Board Composition

Reef Board of Directors comprises of a combination of experience including real estate investment and development and provides valuable directives in meeting Company objectives. The Board consists of seven (2015: Seven) non-executive Directors comprising two (2015: Two) independent Director(s).

As for attending Board meeting, all board members must attend at least 75% of all Board meetings within a calendar year and board members will step down if they are unable to attend four consecutive Board meetings without an acceptable explanation. The absence of board members at Board and committee meetings will be noted in the meeting minutes. Board attendance percentage will then be reported during any general assembly meeting when board members stand for re-election. Voting and attendance proxies for Board meetings are prohibited at all times.

Corporate Governance Report

(Continued)

Board membership and committees as of 31st December 2016 is as follows:

Director Name	Nationality	Type of Membership	Position	Committee Membership		
				Nomination & Remuneration	Executive	Audit & Corporate Governance
Mr. Ali Al Baghli	Kuwaiti	Non-independent	Chairman	Chairman		
Mr. Saud Kanoo	Bahraini	Independent	Vice Chairman	Member		Chairman
Mr. Faisal Al Matrook	Bahraini	Non-independent	Member	Member	Chairman	
Mr. Naser Al Gharibah	Kuwaiti	Non-independent	Member		Member	
Mr. Samer Abbouchi	Lebanese	Non-independent	Member		Member	
Mr. Yaser Al Jar	Bahraini	Non-independent	Member			Member
Mr. Waleed Al Khaja	Bahraini	Independent	Member			Member

Board meeting attendance

As per the Board Charter, the Board must meet at least four times a year and board members are required to attend at least 75% of the meetings per calendar year. Details of member attendance during the year ended 31st December 2016 as follows:

Director Name	No of Meetings attended	Dates of Meetings	Attendance %*
Mr. Ali Al Baghli	4	21 st February 2016	100 %
Mr. Saud Kanoo	4		100 %
Mr. Faisal Al Matrook	3	20 th April 2016	75 %
Mr. Naser Al Gharibah	4		100 %
Mr. Samer Abbouchi	4	22 nd September 2016	100 %
Mr. Yaser Al Jar	4		100 %
Mr. Waleed Al Khaja	4	12 th December 2016	100 %

* The percentage has been calculated based on the number of meetings attended by the board members divided by the number of meetings held during the period of membership.

Performance Evaluation

In compliance with the Company Corporate Governance as well as CBB guidelines, Board carried out a formal performance evaluation for all Board of Directors members. The evaluation is aimed to assess Board effectiveness and support in identifying the need for creating an effective Board, strategic foresight, stewardship, performance evaluation, professional development, engage with Management and performance of Individual board members.

Remuneration

The Company adopts a transparent procedure in remunerating Board of Directors and Management. Board of Directors' remuneration takes into consideration the performance of the Company as well as an assessment of

Corporate Governance Report

(Continued)

compliance of individual members with their performance agreement and individual responsibilities. Sharia'a Advisor is paid for the services provided and is not linked to the Company performance. The form and amount of Director compensation is determined by the Board based upon the recommendation of the Nomination and Remuneration Committee ("NRC"). The Company's remuneration policy for Senior Management is to provide competitive remuneration structure to attract and retain highly skilled personnel.

During the year ended 31st December 2016, the aggregate remuneration paid to the Board of Directors was Nil (2015: BHD 35,000).

Board Committees

The BOD has established three subordinate committees and has delegated specific powers to each committee as follows:

1. Nomination & Remuneration Committee

The Nomination & Remuneration Committee is established to comply with the Corporate Governance requirements. It is responsible to identify persons qualified to become members of the Board or Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and other officers of the Company considered appropriate by the Board, with the exception of the appointment of the internal auditor which shall be the responsibility of the Audit & Corporate Governance Committee. The committee can make recommendations to the Board including recommendations of candidates for the board membership to be included by the Board on the agenda for the next AGM meeting besides reviewing the Company's remuneration policies for the Board and senior management which should be approved by the shareholders in the AGM meetings. The committee will make recommendations regarding remuneration policies and amounts for specific persons to the whole Board considering the total remuneration including salaries, fees, expenses and employee benefits as well as evaluate and remunerate board members based on their attendance and performance.

The Committee met twice during the year ended 31st December 2016 which is the minimum requirements.

Director's Name	Position	Dates of Meetings	Number of Meetings Attended
Mr. Ali AlBaghli	Chairman	21 st February 2016	2
Mr. Saud Kanoo	Member	21 st September 2016	2
Mr. Faisal Al Matrook	Member		2

2. Executive Committee

The Executive Committee is delegated with a define scope of duties and authorities with the objective of assisting the Board in to oversee the management of the Company's balance sheet from risk and return prospective and to increase the Company's income. In Addition, the committee is required to act on behalf of the Board on urgent matters when a meeting of the Board is not possible or practical, as well as undertaking other tasks as may be entrusted to it by the Board from time to time. The Committee must meet at least four times a year.

The Committee met five times during the year ended 31st December 2016.

Director's Name	Position	Dates of Meetings	Number of Meetings Attended
Mr. Faisal Al Matrook	Chairman	21 st February 2016	3
Mr. Naser Al Gharibah	Member	20 th April 2016 3 rd July 2016	4
Mr. Samer Abbouchi	Member	20 th September 2016 10 th November 2016	5

3. Audit & Corporate Governance Committee

Audit & Corporate Governance Committee is in-charge of the internal and external audit, as well as compliance, anti-money laundering and Corporate Governance. The Committee must meet at least four times a year.

The primary aim of the Committee is to assist the Board of Directors in fulfilling its responsibilities to the shareholders and other stakeholders in relation to accounting reporting practices and the quality and integrity of the financial reports of the Company as well as ensuring that a sound system of internal controls has been maintained to mitigate financing risks.

Corporate Governance Report

(Continued)

The Committee met five times during the year ended 31st December 2016.

Director's Name	Position	Dates of Meetings	Number of Meetings attended
Mr. Saud Kanoo	Chairman	27 th January 2016	4
Mr. Yaser Al Jar*	Member	17 th April 2016 4 th August 2016	4
Mr. Waleed Al Khaja	Member	21 st September 2016 10 th November 2016	5

* Mr. Yaser Al jar Joined Reef Board on 2nd February 2016, after the first ACGC Meeting .

The AGM approved reappointing M/S BDO to conduct the review and audit of the Company's consolidated financial statements for the year ended 31st December 2016. Total fees agreed with the external auditors were BHD 10,500. The Company engaged M/S Grant Thornton - Abdulaal to conduct the internal audit functions. Total fees paid to the internal auditors during 2016 was BD 3,000.

Ethics and Conflicts of Interest

As per Board of Directors Charter, all Directors and employees will act ethically at all times and adhere to the Company's Code of Conduct. Where a potential conflict of interest arises for a Director, the Director shall promptly inform the Board for deliberation and resolution.

In addition, conflict of interest would arise where any member of Senior Management, Officer or employee, has a personal interest - financial or otherwise, in a client, counterparty, borrower, supplier, or other person or company dealing with the Company. Company staffs is expected to manage his/her personal and business affairs so as to avoid situations that might lead to a conflict, or even the appearance of a conflict, between the staff's self-interest and his/her duty to the Company, its clients and its shareholders. All Staff and Directors are expected to behave professionally such that they do not:

1. Enter into competition with the Company
2. Demand/accept substantial gifts from the Company for himself or his associates.
3. Misuse the Company's assets
4. Use Reef privileged information to take advantage of business opportunities to which the Company is entitled for himself or his associates.

In any such situation, the person concerned must absent himself/herself from any discussions or decision making that involves a subject where they are incapable of providing objective advice, or which involves a subject or (proposed) transaction, where a conflict of interest exists. Any staff member who has a conflict of interest shall inform the CEO immediately of the same and disclose all materials facts in the case of a contract or transaction involving him or her. The CEO and Directors must inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to other organizations as they arise. It is reiterated that they should refrain from being involved in any decisions or transactions concerning the conflicting interests.

Transactions with Related Parties

Details of related parties' transactions are presented in note 18 in the financial statements.

Confidentiality

The Company adopts privacy and confidentiality for protecting sensitive information of all matters, including customer information. Conformity with these principles is applicable to its Directors, Senior Management, Officers and all employees of the Company. Maintaining the confidentiality of the Company's information is a must to continue employment with Reef. The Company's client's confidential information is treated as "private and confidential" and to be used the purposes obtained. Access to client's confidential information is restricted to the concerned employees of the Company only. Company's information is considered as "private and confidential" unless it is been clearly confirmed it is not. Access to confidential information is not given to persons outside the Company, unless it is mandated by the regulator or by the applicable laws. The Company's financial information and data, including but not limited to, contracts, client lists, policies and procedures, management reports, marketing strategies, and

Corporate Governance Report

(Continued)

other information should be treated as private and confidential and should not be disclosed, discussed or made available to anyone outside the Company. The Company's employees are bound by their contracts of employment to continue to observe this level of confidentiality regarding the Company's information. The Company's information in hard copy or soft copy formats, considered assets of the Company and may not be retained for use nor removed from the Company at the time employment ceases.

Review of internal control and processes

Internal control is a process affected by the Board of Directors, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the Company. The Board of Directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on an ongoing basis; however, each individual within an organization must participate in the process.

The main objectives of the internal control process can be categorized as follows:

- Efficiency and effectiveness of activities (performance objectives);
- Reliability, completeness and timeliness of financial and management information (information objectives); and
- Compliance with applicable laws and regulations (compliance objectives).

Also, the internal control system of the Company consists of the following elements:

- Management oversight and the control culture;
- Risk recognition and assessment;
- Control activities and segregation of duties;
- Information and communication; and
- Monitoring activities and correcting deficiencies.

Induction and Training of Directors

The Company makes sure that all its members have the knowledge, ability and experience to perform the functions required of a director. Hence, an awareness program is conducted for the new and existing board members.

Penalties

During the year ended 31st December 2016, the Company was subject to a financial penalty by the CBB amounting BHD 50/- due to missing an error in the Benefit report which is generated automatically.

Managerial Structure

The Group has established two managerial committees and has delegated specific powers to each committee as follows:

Management Committee: Management committee consists of all departments Heads and is responsible for the timely follow up of the companies strategies, business targets and regular problem solving. This committee also performs the work of credit and risk function as and when necessary.

The Management Committee membership during the year 2016 is as follows:

Member's Name	Designations
Mr. Hasan Dhaif	Chief Executive Officer
Mr. Ali Salem	Head of Operations
Mr. Ali Hasan	Business Manager
Mr. Eyad Al Khunaizi	Compliance Manager & MLRO
Mr. Hisham Ahmed	Finance Manager

Remedial Committee: Remedial committee consists of a minimum of three members from the Department Heads. The committee members reporting all the matters to CEO. Committee is responsible for meeting the company's remedial targets and reports, make recommendations on changes in existing remedial strategies or policies and review, discuss and provide guidance on monthly remedial reports.

SHARIA'A SUPERVISORY ADVISOR REPORT

For the period from 1st January 2016 to 31st December 2016



Praise be to Allah, prayer and peace upon our master Muhammad the Imam of the Prophets and Messengers and his family and companions and allies.

It has been submitted to the Company's Sharia'a Supervisory Advisor the investment and financing operations as well as the activities done by the Company. The Sharia'a Supervisory Advisor as well reviewed the audited financial statements for the period from 1st January 2016 to 31st December 2016.

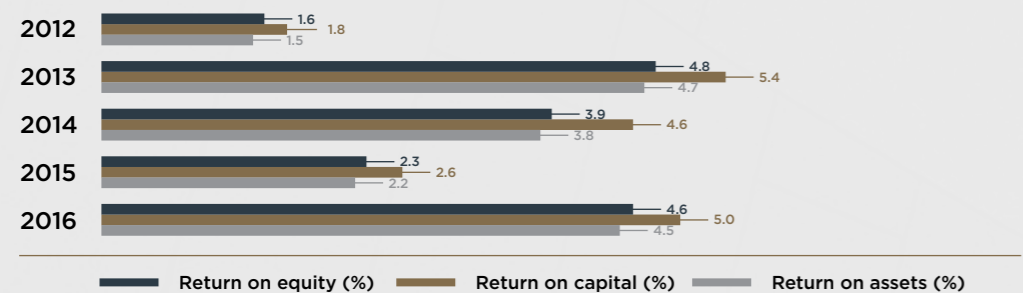
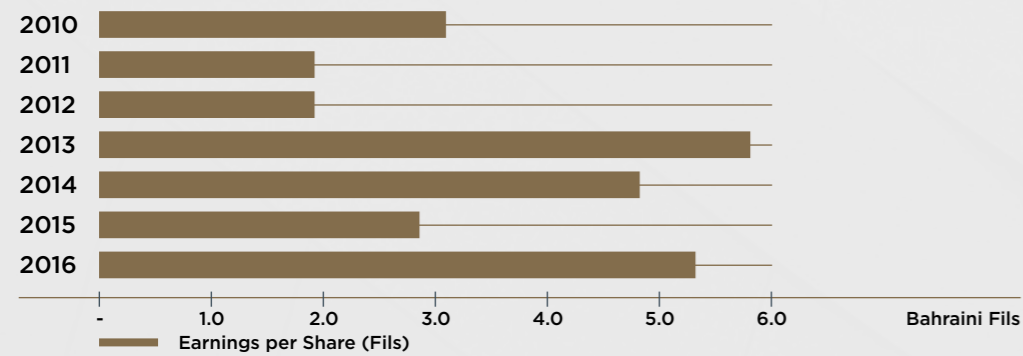
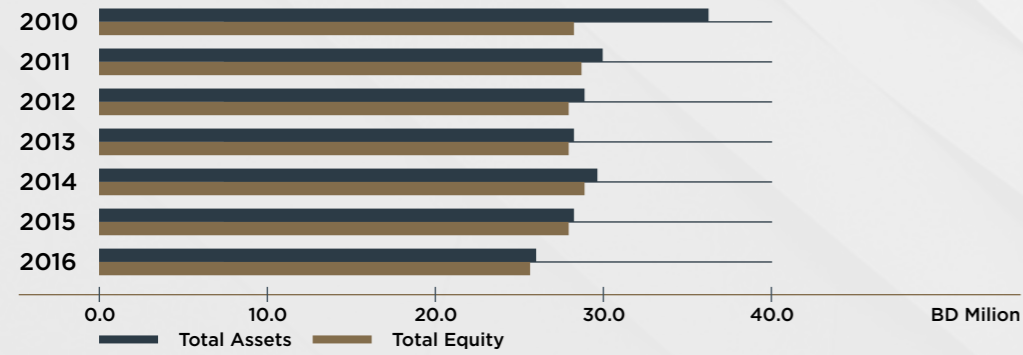
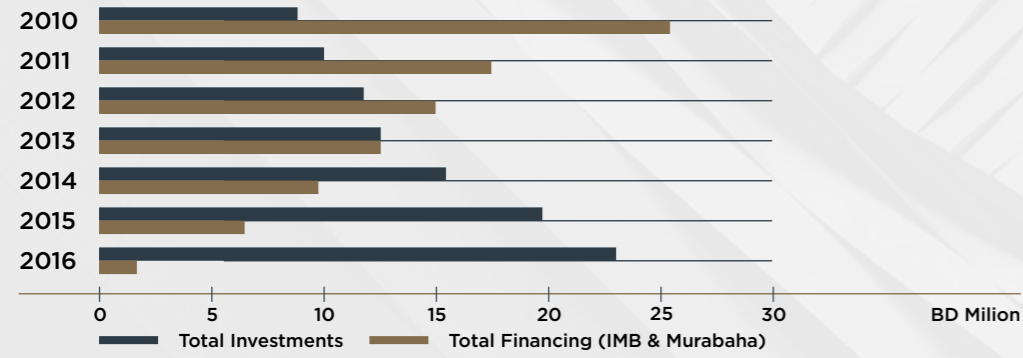
The review was commissioned to issue an opinion on whether the Company had followed the principles and provisions of the Islamic Sharia'a and fatwas issued by the Sharia'a Advisor of the Company. Where the responsibility lies with the Company to ensure that its operations are in compliance with the issued Sharia'a legitimate, our responsibility is limited to express an independent opinion on the Company's operations done during the current year, and therefore decides the following:

1. The Company's contracts, transactions and operations for the year ended 31st December 2016 are in compliance with the provisions and principles of Islamic Sharia'a.
2. The calculation of the Company's profits and the losses charged to its investment operations are in compliance with the provisions and principles of the Islamic Sharia'a.
3. The realized earnings from sources that are not compatible with the principles and provisions of Shari'a have been donated for charitable purposes.
4. The Zakah has been calculated in accordance with the Sharia'a requirements.

And Allaah is the Source of Successes.

Shaikh Dr. Osama Mohammed Bahar
Shari'a Supervisory Advisor

Financial Highlights



The Consolidated Financial Statements For The Year Ended 31 December 2016



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Independent auditor's report to the shareholders of Reef Real Estate Finance Co. B.S.C. (c)

Consolidated statement of financial position as at 31 December 2016
(Expressed in Bahraini Dinars)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Reef Real Estate Finance Co. B.S.C. (c) ("the Company") and its subsidiaries (collectively referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of income, the consolidated statement of changes in Owners' equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

The management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the 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 advisor of the Company. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Islamic Financial Institution. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and the consolidated results of its operations, the consolidated changes in Owners' equity and its consolidated cash flows for the year then ended in accordance with the 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 advisor of the Company.

Report on other legal and regulatory requirements

As required by the Bahrain Commercial Companies Law, Decree Number 21 of 2001 and the Central Bank of Bahrain (CBB) Rule Book Volume 5, in respect of the Company, we report that: the Company has maintained proper accounting records and the financial statements are in agreement therewith; the financial information contained in the chairman's statement is consistent with the consolidated financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 5 and applicable provision of Volume 2) and CBB directives, or the terms of the Company's license, Memorandum and Articles of Association having occurred during the year that might have had a material adverse effect on the business of the Company or on its consolidated financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

BDO

Manama, Kingdom of Bahrain
27 February 2017



	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	4	7,430,437	5,272,724
Investment securities	5	14,635,962	12,228,591
Murabaha financing	6	-	4,439,397
Ijarah Muntahia Bittamleek	7	1,447,308	2,275,349
Properties-under-development	8	414,480	412,180
Investment in real estate	9	2,593,468	2,597,572
Receivables and prepayments	10	248,454	687,128
Property and equipment	11	15,244	36,357
Total assets		26,785,353	27,949,298
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Other liabilities	12	476,278	575,859
Owners' Equity			
Share capital	13	24,042,900	24,042,900
Treasury shares	13	(1,202,145)	(1,202,145)
Statutory reserve	14(i)	1,332,524	1,211,983
Properties fair value reserve	14(ii)	989,463	989,463
Foreign currency translation reserve	14(iii)	(1,127,635)	-
Charity reserve		-	97
Retained earnings		2,273,968	2,331,141
		26,309,075	27,373,439
Total liabilities and Owners' equity		26,785,353	27,949,298

These consolidated financial statements and notes from 1 to 23, set out on pages 25 to 53, were approved and authorised for issue by the Board of Directors on 27 February 2017 and signed on their behalf by:


Ali Ahmed Al Baghli
Chairman


Saud Kanoo
Vice Chairman

Consolidated statement of income for the year ended 31 December 2016
(Expressed in Bahraini Dinars)

	Notes	31 December 2016	31 December 2015
Income			
Gross Ijarah income		655,736	955,316
Less: Depreciation on Ijarah Muntahia Bittamleek	7	(343,523)	(429,115)
		312,213	526,201
Profit from Mudaraba investments		37,875	76,186
Profit from Murabaha financing		344,501	611,936
Fees from financing activities		4,402	19,969
Net rental income from investment in real estate	9	69,394	106,368
Profit from investment securities	16	433,510	267,289
Net gain on sale of investment in real estate		119,286	132,519
Gain on sale on investment securities	5	2,015,120	-
Net gain on sale of property under development		-	108,606
Allowance no longer required for Ijarah Muntahia Bittamleek rental receivables, Murabaha financing and other receivables	20(vi)	231,101	116,292
Net gain on sale of property and equipment		-	40
		3,567,402	1,965,406
Expenses			
Staff costs		378,121	492,471
General and administrative expenses		301,360	293,897
Depreciation of property and equipment	11	23,841	31,884
Depreciation on investment in real estate	9	4,444	6,474
Investment fees and charges		3,567	7,229
Net unrealised fair value losses on revaluation of investment securities	5	1,044,016	153,299
Net foreign exchange losses		601,219	351,621
Allowances and provisions	20(vi)	5,428	10,240
		2,361,996	1,347,115
Net profit for the year		1,205,406	618,291
Basic and diluted earnings per share	17	Fils 5.3	Fils 2.7

These consolidated financial statements and notes from 1 to 23, set out on pages 25 to 53, were approved and authorised for issue by the Board of Directors on 27 February 2017 and signed on their behalf by:

Consolidated statement of changes in Owners' equity for the year ended 31 December 2016
(Expressed in Bahraini Dinars)

	Notes	Share capital	Treasury shares	Statutory reserve	Properties fair value reserve	Charity reserve	Foreign currency translation reserve	Retained earnings	Total
At 31 December 2014		24,042,900	-	1,150,154	1,078,825	2,294	-	2,288,601	28,562,774
Treasury shares	13	-	(1,202,145)	-	-	-	-	-	(1,202,145)
Dividend paid for the year 2014	15	-	-	-	-	-	-	(513,922)	(513,922)
Charity reserve movement		-	-	-	-	(2,197)	-	-	(2,197)
Net movement in properties fair value reserve on the sale of investment in real estate		-	-	-	(89,362)	-	-	-	(89,362)
Net profit for the year		-	-	-	-	-	-	618,291	618,291
Transferred to statutory reserve	14(i)	-	-	61,829	-	-	-	(61,829)	-
At 31 December 2015		24,042,900	(1,202,145)	1,211,983	989,463	97	-	2,331,141	27,373,439
Dividend paid for the year 2015	15	-	-	-	-	-	-	(1,142,038)	(1,142,038)
Charity reserve movement		-	-	-	-	(97)	-	-	(97)
Foreign currency translation loss		-	-	-	-	-	(1,127,635)	-	(1,127,635)
Net profit for the year		-	-	-	-	-	-	1,205,406	1,205,406
Transferred to statutory reserve	14(i)	-	-	120,541	-	-	-	(120,541)	-
At 31 December 2016		24,042,900	(1,202,145)	1,332,524	989,463	-	(1,127,635)	2,273,968	26,309,075


Ali Ahmed Al Baghli
Chairman


Saud Kanoo
Vice Chairman

	Notes	31 December 2016	31 December 2015
Operating activities			
Net profit for the year		1,205,406	618,291
Adjustments for:			
Depreciation on property and equipment	11	23,841	31,884
Depreciation on Ijarah Muntahia Bittamleek	7	343,523	429,115
Depreciation on investment in real estate	9	4,444	6,474
Net gain on sale of property and equipment		-	(40)
Net gain on sale of investment in real estate		(119,286)	(132,519)
Gain on sale of investment securities		(2,015,120)	-
Net unrealised fair value losses on revaluation of investment in securities	5	1,044,016	153,299
Foreign exchange losses on translation of investment in securities	5	1,455,855	40,767
Net gain on the sale of property under development		-	(108,606)
Changes in operating assets and liabilities:			
Receivables and prepayments		438,674	1,679,897
Other liabilities		(99,581)	74,644
Net cash provided by operating activities		2,281,772	2,793,206
Investing activities			
Net movement in Murabaha financing		4,439,397	1,537,541
Additions in investment securities	5	(6,674,354)	(6,421,218)
Net movement in properties-under-development	8	(2,300)	(59,635)
Purchase of property and equipment	11	(3,155)	(1,439)
Addition in investment in real estate	9	(100,768)	-
Net movement in the foreign currency translation reserve		(1,127,635)	-
Net movement in Ijarah Muntahia Bittamleek		484,518	940,608
Proceeds from sale of investment securities		3,782,232	-
Proceeds from sale of properties-under-development		-	1,285,981
Proceeds from sale of investment in real estate		219,714	654,000
Proceeds from sale of property and equipment		427	40
Net cash provided by/(used in) investing activities		1,018,076	(2,064,122)
Financing activities			
Purchase of treasury shares	13	-	(1,202,145)
Charity reserve movement		(97)	(2,197)
Dividend paid	15	(1,142,038)	(513,922)
Net cash used in financing activities		(1,142,135)	(1,718,264)
Net increase/(decrease) in cash and cash equivalents		2,157,713	(989,180)
Cash and cash equivalents, beginning of the year		5,272,724	6,261,904
Cash and cash equivalents, end of the year	4	7,430,437	5,272,724

1) Organisation and principal activities

Reef Real Estate Finance Co. B.S.C. (c) ("the Company") and its subsidiaries (collectively referred as "the Group"). The Company is a closed Bahraini shareholding company and operates as an Islamic financing company under license number 58073 granted by the Ministry of Industry Commerce and Central Bank of Bahrain ("CBB") license number FC/001 obtained on 3 May 2005. The Company commenced commercial operations on 10 September 2005.

The principal activities of the Group include:

- granting short and long-term financing facilities to consumers to finance the purchase and construction of real estate;
- providing leasing facilities with an option to buy;
- investing in real estate, industrial, agricultural and other economic sectors and dealing in shares of established companies; and
- buying and selling of properties, developing residential and commercial land, building residential and commercial units with the intent of their subsequent sale or lease.

The Group's activities are regulated by the CBB and supervised by a Shari'a Supervisory Advisor whose role has been defined by the Board of Directors.

The registered office of the Company is in the Kingdom of Bahrain.

The structure of the Group is as follows:

Subsidiaries

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2016	Effective ownership interest 2015
First Reef B.S.C. (c)	Kingdom of Bahrain	Real estate activities with own or leased property	99.9%	99.9%
Reef Investment UK B.S.C. (c)	Kingdom of Bahrain	Trust, funds and similar financial entities - Special Purpose Vehicle (SPV)	99.9%	99.9%

2) Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, modified by the valuation of investment in real estate and investment in securities which are measured at their fair values. The consolidated financial statements of Group have been prepared on a going concern basis as at 31 December 2016.

(a) Statement of Compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Advisor of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain, Financial Institutions Law and the CBB Rule Book (Volume 5 and applicable provision of Volume 2) and CBB directives, regulations and associated resolutions, rules and procedures of the Company's memorandum and articles of association in accordance with the requirements of AAOIFI. For matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ('the IFRS') issued by International Accounting Standards Board.

(b) Shari'a rules and principles

The Group has appointed a Shari'a Supervisory Advisor in accordance with the terms of its Articles of Association. The Shari'a Supervisory Advisor reviews the Group's compliance with general Shari'a principles and issued fatwas, rulings and guidelines on specific matters. The 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.

2) Basis of preparation (continued)

The Group is committed to avoid recognising any income generated from non-Islamic sources. Any earnings prohibited by Shari'a are set aside for charitable purposes or otherwise dealt with in accordance with the directions of the Shari'a Supervisory Advisor.

(c) Functional and presentation currency

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), being the functional currency of the Group's operations.

(d) Basis of consolidation

The consolidated financial statements incorporate financial statements of the Company and its subsidiaries from the date that control effectively commenced until the date that control effectively ceased. Control is achieved when the Company has the power to govern the financial and operational policies of an entity so as to obtain benefits from its activities. All intergroup balances, transactions and unrealised profits and losses are eliminated in full on consolidation.

(e) Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect 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.

Impairment

The Group assesses at each consolidated statement of financial position date whether there is objective evidence that a specific asset or a group of assets may be impaired. An asset or a group of assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event(s) have an impact on the estimated future cash flows of the asset or the group of the assets that can be reliably estimated.

Fair valuation of investments

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of the consolidated financial statements. The valuation of such investments is based on the fair value as explained in policy note. Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Valuation of investment in real estate

The Group obtains valuations performed by external independent property valuers in order to determine the fair value of its investment properties. These valuations are based upon assumptions including future rental income, anticipated maintenance costs and the appropriate discount rate. The independent property valuers also make reference to market evidence of transaction prices for similar properties.

Classification of investments

In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. 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.

Going concern

The management of the Group reviews the financial position on a periodical basis and assesses the requirement of any additional funding to meet the working capital requirements and estimated funds required to meet the liabilities as and when they become due. In addition, the shareholders of the Group ensure that they provide adequate financial support to fund the requirements of the Group to ensure the going concern status of the Group.

Legal proceedings

The Group reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its consolidated financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been

2) Basis of preparation (continued)

brought, the progress of the case (including the progress after the date of the consolidated financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

3) Significant accounting policies

A summary of the significant accounting policies adopted in the preparation of these consolidated financial statements is set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and bank balances and short-term deposits with original maturities of less than 90 days.

Investment in securities

Investment in securities comprises of both equity-type investments and debt-type investments.

(i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments. Debt-type instruments are investments that have terms that provide fixed or determinable payments of profits and capital. 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.

Equity-type investments: Investments in equity type instruments are classified in the following categories 1) at fair value through income statement ('FVTIS') or 2) at fair value through equity ('FVTE'), consistent with its investment strategy.

Equity-type investments classified and measured at FVTIS include investments designated at FVTIS and are managed and evaluated internally for performance on a fair value basis. This category currently includes an investment in private equity.

On initial recognition, the Group makes an irrevocable election to designate certain equity instruments that are not designated at FVTIS to be classified as investments at fair value through equity. These include investments in certain unquoted equity securities and private equity.

Debt-type Instruments: Investments in debt-type instruments are classified at fair value through consolidated income statement ('FVTIS').

Debt-type investments classified and measured at FVTIS include investments designated at FVTIS. The Debt-type instruments at FVTIS include investments in medium to long-term (quoted) sukuk.

(ii) Recognition and de-recognition

Investment securities are recognised at the date, when the Group contracts to purchase or sell the asset or 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

All investments securities are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. 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 income statement in the period in which they arise. Gains and losses arising from a

3) Significant accounting policies (continued)

change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in Owner's equity and presented in a separate fair value reserve within equity. 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 consolidated income statement. Foreign exchange translation gains and losses arising out of (FVTE) are included in a reserve in the foreign currency translation reserve under Owners' equity.

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 other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

Murabaha financing

The Group finances these transactions through buying the commodity which represents the object of the Murabaha contract and then resells this commodity to the Murabaha (beneficiary) at a profit. The sale price (cost plus profit margin) is repaid in instalments by the Murabaha over the agreed period. The transactions are secured at times by the object of the Murabaha contract (in case of real estate finance) and other times by a total collateral package securing the facilities given to the Murabaha.

Murabaha financing is stated at cost less allowance for doubtful receivables.

Profit in respect of Group share in Murabaha financing shall be recognised on proportionate basis over the period of credit.

Ijarah Muntahia Bittamleek

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are stated at historical cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis over the period of the lease term (except for land, which is deemed to have an indefinite life).

The Group assesses at each financial position date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying value of the asset and the estimated recoverable amount as per contractual terms. Impairment losses, if any, are recognised in the consolidated statement of income.

Properties-under-development

Properties-under-development represents properties held for sale in the ordinary course of business or in the process of construction and development for future sale. Properties-under-development are valued at cost less impairment if any and include expenditure incurred in the normal course of developing and constructing the property, such as materials, labour and directly attributable overheads.

Properties-under-development are derecognised when they have either been disposed-off or when the property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on derecognition of a properties-under-development are recognised in the consolidated statement of income in the year of derecognition.

Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. The Group's investments in real estate are classified as held-for-use in accordance with FAS 26 - "Investment In Real Estate". Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period's unrealised gains shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income.

3) Significant accounting policies (continued)

When the property is disposed-off the cumulative gains previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

Receivables and prepayments

Receivables and prepayments are carried at their anticipated realisable values. An allowance is made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off during the year in which they are identified.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use.

Depreciation is calculated on the straight-line method to write-off the cost of property and equipment to their estimated residual values over their expected economic useful lives as follows:

Leasehold improvements	5 years
Furniture and fixtures	5 years
Office equipment	5 years
Computer hardware and software	2-3 years
Motor vehicles	3 years

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining net profit.

Repairs and renewals are charged to the consolidated statement of income when the expenditure is incurred.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amounts, the property and equipment are written-down to their recoverable amounts.

Islamic financing

Islamic financing liabilities comprise Murabaha and Wakalah financing and are stated at amortised cost.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

Employee benefits

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.

Post-employment benefits

Employee benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognised as they accrue to the employees. The Group contributes to the pension scheme for Bahraini nationals administered by the Social Insurance Organisation in the Kingdom of Bahrain. This is a defined contribution pension plan and the Group's contributions are charged to the consolidated statement of income in the year to which they relate. In respect of this plan, the Group has a legal obligation to pay the contributions as they fall due and no obligation exists to pay the future benefits.

The expatriate employees of the Group are paid leaving indemnity in accordance with the provisions of the Bahrain Labour Law. The Group accrues for its liability in this respect on an annual basis.

3) Significant accounting policies (continued)

Impairment of assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar asset;
- For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

Derecognition of assets and liabilities

Assets

An asset (or, where applicable a part of a asset or part of a group of similar assets) is derecognised when:

- the right to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Liabilities

A liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting

Assets and liabilities are only offsetted and the net amount reported in the consolidated statement of financial position when there is a legal or religious enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition

a) Income from Ijarah Muntahia Bittamleek

Revenue from assets acquired for Ijarah Muntahia Bittamleek (leasing) contracts are recognised proportionately over the terms of the lease.

b) Income from Mudaraba contracts

Income from Mudaraba contracts is recognised to the extent profits are declared by the Mudarib.

c) Profit on Murabaha and other financings

Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received.

d) Fees and commissions

Fees and commissions (including financing services) are recognised when earned.

d) Other income

Other income is accounted for on an accrual basis.

Dividends

Dividends to owners are recognised as liabilities in the year in which they are declared.

3) Significant accounting policies (continued)

Foreign exchange transactions

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions.

4) Cash and cash equivalents

	31 December 2016	31 December 2015
Current account balances with banks*	2,138,825	574,526
Mudaraba investments**	5,291,112	4,697,698
Cash on hand	500	500
	7,430,437	5,272,724

* The current account balances with banks are non-profit bearing.

** Mudaraba investments represent amounts placed with financial institutions, which have maturity periods up to 90 days, and earn market rates of profit receivable on maturity.

5) Investment securities

	31 December 2016	31 December 2015
Opening balance	12,228,591	6,001,439
Additions	6,674,354	6,421,218
Disposals	(1,767,112)	-
Foreign exchange losses on translation of investment securities through profit or loss	(328,220)	-
Foreign exchange losses on translation of investment securities through equity	(1,127,635)	(40,767)
Unrealised fair value losses for the year	(1,044,016)	(153,299)
	14,635,962	12,228,591

	31 December 2016	31 December 2015
Investment in equity-type instruments – Unquoted		
Equity investments	-	335,432
Private equity	10,154,891	7,363,309
Investment in debt-type instruments- Quoted	4,481,071	4,529,850
	14,635,962	12,228,591

5) Investment securities (continued)

Investment – securities-wise analysis:

		31 December 2016	31 December 2015
Equity type instruments carried at fair value through consolidated statement of income			
Amwaj Property Limited		-	335,432
Manazel Qurtoba 2 fund	(a)	1,008,713	1,008,713
Jenina Real Estate Development Co. Ltd	(b)	1,508,053	1,508,053
National Air Traffic Services Project (NATS)	(c)	465,067	559,053
SICO Kingdom Equity Fund	(d)	212,063	207,300
Difaaf Development Limited	(e)	1,003,706	2,003,706
Equity type instruments carried at fair value through equity			
APL PH1 Limited	(f)	1,727,392	2,076,484
APL 2B Limited	(g)	2,834,695	-
Jersey SPV - 3M Bracknell	(h)	1,395,202	-
		10,154,891	7,698,741
Debt-type instruments carried at fair value through consolidated statement of income			
CBB sukuk	(i)	4,481,071	4,529,850
		14,635,962	12,228,591

- a. During the year 2013, the Group has invested BD1,008,713 in acquiring shares in Manazel Qurtoba 2 fund, floated by MEFIC Capital in Kingdom of Saudi Arabia. The main objective of this fund is to develop a property in Northern Riyadh, Kingdom of Saudi Arabia.
- b. During the year 2014, the Group has invested BD1,508,053 in Sky palaces project, Business Bay Dubai through an SPV "Jenina Real Estate Development Co. Ltd".
- c. During the year 2015, the Group has invested GBP 1,000,000 in GIH-NATS project in United Kingdom. The main objective of fund is capital appreciation and rental yield from NATS (National Air Traffic Services Project).
- d. During the year 2015, the Group has invested BD250,000 in SICO for capital appreciation through investing in equity securities listed in the Saudi Exchange market and the GCC. The Group has fair valued the investment at 31 December 2016 and recorded net gain of BD4,763(2015: net loss of BD42,684) in the consolidated statement of income.
- e. During the year 2015, the Group has invested BD2,003,706 in Difaaf Development Limited project, Bahrain through Venture Capital Bank. The objective of the Company is to develop a property in Reef Islands, Kingdom of Bahrain. The Group has fair valued the investment at 31 December 2016 and recorded net loss of BD1,000,000 in the consolidated statement of income.
- f. During the year 2015, the Group has invested BD2,076,484 in acquiring the shares in APL PH1 Limited. The objective of the Company is to develop a property in the United Kingdom.
- g. During the year 2016, the Group has invested BD3,389,978 in acquiring the shares in APL 2B Limited. The objective of the Company is to develop a property in United Kingdom.
- h. During the year 2016, the Group has invested GBP3,000,000 in Jersey Fin Co. ("SPV") - 3M Bracknell project, United Kingdom. The main objective of fund is capital appreciation and rental yield.

5) Investment securities (continued)

- i. During 2015, the Group has invested BD1,500,000 in acquiring units Government Islamic Leasing Sukuk-Issue 22 (GILS22.SUK) due in 2025. Further, the Group also have investment in "CBB international Sukuk" floated by the Central Bank of Bahrain amounted to BD2,913,571 (2015: BD2,962,350). These units are listed. The Group has fair valued the Sukuks at 31 December 2016 and recorded net loss of BD48,779(2015: BD110,615) in the consolidated statement of income.

During the year, an investment in Amwaj Property Limited amounting to BD335,432 has been liquidated and settled. The fair value of the shares amounted to BD2,461,368 (net of expenses), resulted in a gain of BD2,015,120.

Unquoted equity securities at fair value through consolidated statement of income comprise investments in closed companies, companies managed by external investment managers or represent investments in projects. The management calculates fair values of these investments using various sources of information including investment managers' reports and audited financial statements, wherever available.

Although all of these investments have shown improvement in fair values due to various reasons such as expected project completion timeline and exits strategy, market liquidity, lock-in periods, and availability of ready buyer the management has considered cost to be the best proximity of the fair value for certain investments. Management will continue reassessing the fair values of these unquoted investments at each reporting date.

Investment securities are denominated in the following currencies:

Currency	31 December 2016	31 December 2015
Great Britain Pound	6,422,356	2,970,969
United States Dollar	4,129,340	5,173,356
Saudi Riyal	1,008,713	1,008,713
Arab Emirates Dirham	1,508,053	1,508,053
Bahraini Dinars	1,567,500	1,567,500
	14,635,962	12,228,591

6) Murabaha financing

		31 December 2016	31 December 2015
Amwaj Property Limited (APL)	(a)	-	2,459,334
Amwaj Property Limited (APL) - Mezzanine 2	(b)	-	1,185,640
Omniyat Properties Six Limited	(c)	-	1,028,075
General provision for the year		-	(233,652)
		-	4,439,397

The movement in general provision is as follows:

	31 December 2016	31 December 2015
Opening balance	233,652	-
Transferred (to)/from Ijarah Muntahia Bittamleek	(108,652)	233,652
Provision written-back	(125,000)	-
Closing balance	-	233,652

- During the year, the Amwaj Property Limited (APL) has fully repaid the facility with profit amounting to BD2,459,334 and BD190,597 respectively.
- During the year, the Amwaj Property Limited (APL) has fully repaid the facility and the profit up to 8 June 2016 amounting to BD1,173,247 and BD83,122 respectively.
- During the year, the Omniyat Properties has repaid the facility with profit amounting to BD1,028,075 and BD70,782 respectively.

7) Ijarah Muntahia Bittamleek

	Lands	Buildings	Total
Cost			
At 31 December 2014	420,974	9,284,744	9,705,718
Additions*	-	37,439	37,439
Reclassifications during the year	763,453	(763,453)	-
Payment received/disposals	(566,217)	(1,378,369)	(1,944,586)
At 31 December 2015	618,210	7,180,361	7,798,571
Additions*	-	6,930	6,930
Payment received/disposals	(210,643)	(510,487)	(721,130)
At December 2016	407,567	6,676,804	7,084,371
Depreciation			
At 31 December 2014	-	(5,622,374)	(5,622,374)
Charged for the year	-	(429,115)	(429,115)
Disposals	-	647,887	647,887
At 31 December 2015	-	(5,403,602)	(5,403,602)
Charged for the year	-	(343,523)	(343,523)
Disposals	-	338,334	338,334
At 31 December 2016	-	(5,408,791)	(5,408,791)
General provision**			
At 31 December 2015	-	119,620	119,620
General provision transferred from Murabaha financing	-	108,652	108,652
At 31 December 2016	-	228,272	228,272
Net book value			
At 31 December 2016	407,567	1,039,741	1,447,308
At 31 December 2015	618,210	1,657,139	2,275,349

* Additions relate to rescheduling of financing deals. During 2016, one financing deal was rescheduled (2015: one financing deal was rescheduled).

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are leased under contracts that conclude with the transfer of the legal title (ownership) in the leased asset to the lessee at the end of the lease period for a token consideration.

The Ijarah Muntahia Bittamleek contracts outstanding at 31 December 2016 have lease terms of up to 17 years.

** General provision represents the 14% of total Ijarah Muntahia Bittamleek portfolio.

8) Properties-under-development

	31 December 2016	31 December 2015
Opening balance	412,180	1,529,920
Additions	2,300	59,635
Disposals	-	(1,177,375)
Closing balance	414,480	412,180

Properties-under-development represent "Blue Diamond" in Shakhoora. During the year, the Group capital expenditure amounted to BD2,301 (2015: BD59,635) in developing a three storey building at Shakhoora, Bahrain.

An independent valuation at 31 December 2016 concludes that the fair value of three storey building "Blue Diamond" at Shakhoora amounting to BD515,690 (2015: BD485,290). As per the policy of the Group, the properties-under-development is recorded at cost less impairment, hence the uplift in the fair value has not been accounted for.

9) Investment in real estate

	Investment properties for capital appreciation	Investment properties for periodical consideration	Total
Cost/Revalued			
As at 31 December 2014	376,208	2,859,642	3,235,850
Disposals	(376,208)	(236,906)	(613,114)
As at 31 December 2015	-	2,622,736	2,622,736
Additions	100,428	340	100,768
Disposals	(100,428)	-	(100,428)
As at 31 December 2016	-	2,623,076	2,623,076
Depreciation			
As at 31 December 2014	-	20,961	20,961
Charge for the year	-	6,474	6,474
On disposals	-	(2,271)	(2,271)
As at 31 December 2015	-	25,164	25,164
Charge for the year	-	4,444	4,444
As at 31 December 2016	-	29,608	29,608
Net book value			
At 31 December 2016	-	2,593,468	2,593,468
At 31 December 2015	-	2,597,572	2,597,572

9) Investment in real estate (continued)

Included in investment properties for periodical consideration is the net book value of furniture and fixtures of BD1,601 (2015: BD5,705) which is depreciated over their useful lives.

During the year, the net earned including accrued periodical consideration on investment in real estate amounted to BD69,394 (2015: BD106,368).

	31 December 2016	31 December 2015
Rental income	139,542	141,285
Maintenance and electricity expenses	(70,148)	(34,917)
	69,394	106,368

During the year, the Group has made a profit on sale of investment properties amounted to BD119,286 (2015: BD132,519).

During December 2016, the Group obtained an open market valuation of its investment in real estate from an independent real estate valuers, which has estimated the total average fair value of the properties at BD2,729,500 resulting in an unrealised average fair value gain amounting to BD136,032 (2015: BD97,928). However, on a conservative basis, the management of the Group has taken a decision not to include the current year's unrealised fair value gain in the consolidated statement of changes in Owners' equity.

10) Receivables and prepayments

	31 December 2016	31 December 2015
Ijarah Muntahia Bittamleek rental receivables	338,880	346,162
Allowance for doubtful Ijarah Muntahia Bittamleek rental receivables	(262,041)	(262,041)
Other receivables	67,290	201,523
Allowance for other receivables	(9,055)	(109,728)
Prepayments	26,685	27,633
Accrued profit on investment securities	78,554	71,897
Accrued profit on Murabaha financing	-	400,122
Accrued profit on Mudaraba investments	8,141	11,560
	248,454	687,128

11) Property and equipment

	Leasehold improvements	Furniture and fixtures	Office equipment	Computer hardware and software	Motor vehicles	Total
Cost						
At 31 December 2014	168,013	47,190	49,522	165,223	59,380	489,328
Additions	-	-	189	1,250	-	1,439
Disposals	-	-	(3,790)	-	-	(3,790)
At 31 December 2015	168,013	47,190	45,921	166,473	59,380	486,977
Additions	-	-	1,085	2,070	-	3,155
Disposals	-	-	(189)	(395)	-	(584)
At 31 December 2016	168,013	47,190	46,817	168,148	59,380	489,548
Accumulated depreciation						
At 31 December 2014	154,014	47,190	45,982	152,738	22,602	422,526
Charge for the year	3,117	-	810	10,957	17,000	31,884
On disposals	-	-	(3,790)	-	-	(3,790)
At 31 December 2015	157,131	47,190	43,002	163,695	39,602	450,620
Charge for the year	3,117	-	912	2,812	17,000	23,841
On disposals	-	-	(25)	(132)	-	(157)
At 31 December 2016	160,248	47,190	43,889	166,375	56,602	474,304
Net book value						
At 31 December 2016	7,765	-	2,928	1,773	2,778	15,244
At 31 December 2015	10,882	-	2,919	2,778	19,778	36,357

The Group operates from premises leased at a monthly rental of BD2,628 (2015: BD2,628) per month.

12) Other liabilities

	31 December 2016	31 December 2015
Ijarah Muntahia Bittamleek payables	345,814	438,881
Accrued and other payables	130,464	136,978
	476,278	575,859

13) Share capital

	31 December 2016	31 December 2015
Authorised		
400,000,000 (2015: 400,000,000) ordinary shares of 100 Fils each	40,000,000	40,000,000
Issued and fully paid-up		
240,429,000 (2015: 240,429,000) ordinary shares of 100 Fils each	24,042,900	24,042,900

Treasury Shares:

The Group had decided in the Annual General Meeting held on 24 April 2014 to purchase back 12,021,450 shares of 100 Fils each, amounting to BD1,202,145, which represents 5% of the share capital. The Group had obtained the approval from the Ministry of Industry and Commerce on 28 May 2014 and from the Central Bank of Bahrain on 2 July 2014.

The Company has only one class of equity shares and the holders of the shares have equal voting rights.

The names and nationalities of the major shareholders or those who hold interest of 5% or more and the number of shares at 31 December 2016 and 2015 are as follows:

	Nationality	Number of shares	Percentage of shareholding interest
Gimbal Holding Co. S.P.C.	Bahraini	105,450,354	43.85%
Inoest B.S.C.	Bahraini	24,042,900	10%
Ossis B.S.C.(c)	Bahraini	24,042,900	10%
H.E. Sheikh Sultan Bin Khalifa Al Nahyan	Emirati	13,223,595	5.5%
		166,759,749	69.35%

Details of the Directors' interests in the Company's shares as at 31 December 2016 and 31 December 2015 are as follows:

Name of the directors	2016 Number of shares	2015 Number of shares
Saud Kanoo	2,404,290	2,404,290
Faisal Al Matrook	2,404,290	2,404,290
	4,808,580	4,808,580

14) Reserves

(i) Statutory reserve

Under the provisions of the Bahrain Commercial Companies Law, Decree No 21 of 2001 an amount equivalent to 10% of the Group's net profit before appropriations is required to be transferred to a non-distributable reserve account until such time as a minimum of 50% of the issued share capital is set aside. During the year, an amount of BD120,541 has been transferred to the statutory reserve (2015: BD61,829).

(ii) Properties fair value reserve

The revaluation reserve represents the net surplus arising on revaluation of investment in real estate (Note 9). This reserve is not available for distribution.

(iii) Foreign currency translation reserve

Foreign currency translation reserve represents currency translation on investment securities. During the year, the exchange loss amounting to BD1,127,635 (2015: BDNil) has been transferred to the Foreign currency translation reserve.

15) Dividends

Declared and paid

A dividend of BD1,142,038 representing 5% of the total issued and fully paid-up share capital (net of treasury shares) of the Company for the year ended 31 December 2015 (2015: BD513,922 for the year ended 31 December 2014) was approved by the shareholders in the Annual General Meeting of the shareholders held on 21 April 2016, declared and subsequently paid in 2016.

Proposed by the Board of Directors

The Board of Directors of the Company have proposed a cash dividend of BD 1,142,038 (2015: BD1,142,038 at 5% of the total issued and fully paid-up share capital) at 5% of the total issued and fully paid-up share capital (net of treasury shares) of the Company for the year ended 31 December 2016. The proposed dividend only becomes payable once it has been approved by the shareholders in the Annual General Meeting and, accordingly, the proposed dividend has not been accounted for in these financial statements.

16) Profit from investment securities

	31 December 2016	31 December 2015
Dividend from equity-type instruments	178,516	14,975
Profit from debt-type instruments	254,994	252,314
	433,510	267,289

17) Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the owners by the weighted average number of ordinary shares issued during the year.

	31 December 2016	31 December 2015
Net profit attributable to the owners	BD1,205,406	BD618,291
Weighted average number of ordinary shares	228,407,550	228,407,550
Basic and diluted earnings per share	Fils 5.3	Fils 2.7

The earnings per share have been computed on the basis of net profit for the year divided by the number of shares outstanding for the year net of 12,021,450 treasury shares. There is no difference between the basic and diluted earnings per share. The Company does not have any potentially dilute ordinary shares, hence the dilute earnings per share and basic earnings per share are identical.

18) Related party transactions and balances

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 consist of the shareholders and directors and their close family members, and businesses under their control. The Group's transactions with related parties are on arm's length business and authorised by the management.

A summary of the transaction and amounts due from related parties is as follows:

Related party relationship	Transaction type	For the year ended Transaction amount		Amounts due from related parties	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
Owner's and immediate family members	Ijarah Muntahia Bittamleek	-	182,540	-	10,491
Directors	Directors remuneration	-	35,000	-	-
Subsidiary	Expenditures	4,382	64,458	-	-
Directors	Board member fees and allowances	25,950	22,225	-	-
Key management personnel *	Salaries and other short-term benefits	144,996	260,870	-	-
Directors	Premises leased	31,539	31,539	-	-

* Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

19) Maturity profile

Maturity profile of assets and liabilities is as follows:

	At 31 December 2016				
	Carrying amount	Up to 6 months	6-12 months	1-5 years	5 years and above
Assets					
Cash and cash equivalents	7,430,437	7,430,437	-	-	-
Investment securities	14,635,962	-	-	14,635,962	-
Ijarah Muntahia Bittamleek	1,447,308	12,691	38,972	606,965	788,680
Properties-under-development	414,480	-	-	414,480	-
Investment in real estate	2,593,468	-	-	2,593,468	-
Receivables and prepayments	248,454	107,119	83,100	58,235	-
Property and equipment	15,244	1,222	1,876	12,146	-
Total assets	26,785,353	7,551,469	123,948	18,321,256	788,680
Equity and liabilities					
Share capital	24,042,900	-	-	-	24,042,900
Treasury shares	(1,202,145)	-	-	-	(1,202,145)
Statutory reserve	1,332,524	-	-	-	1,332,524
Property fair value reserve	989,463	-	-	989,463	-
Foreign currency revaluation reserve	(1,127,635)	-	-	(1,127,635)	-
Retained earnings	2,273,968	-	-	-	2,273,968
Other liabilities	476,278	3,209	79,395	393,674	-
Total equity and liabilities	26,785,353	3,209	79,395	255,502	26,447,247

	At 31 December 2015				
	Carrying Amount	Up to 6 months	6-12 months	1-5 years	5 years and above
Assets					
Cash and cash equivalents	5,272,724	5,272,724	-	-	-
Investment securities	12,228,591	-	-	12,228,591	-
Murabaha financing	4,439,397	1,028,075	1,185,640	2,225,682	-
Ijarah Muntahia Bittamleek	2,275,349	1,333	24,045	862,092	1,387,879
Properties-under-development	412,180	-	-	412,180	-
Investment in real estate	2,597,572	-	-	-	2,597,572
Receivables and prepayments	687,128	487,096	107,236	92,796	-
Property and equipment	36,357	1,130	645	34,582	-
Total assets	27,949,298	6,790,358	1,317,566	15,855,923	3,985,451
Equity and liabilities					
Share capital	24,042,900	-	-	-	24,042,900
Treasury shares	(1,202,145)	-	-	-	(1,202,145)
Statutory reserve	1,211,983	-	-	-	1,211,983
Property fair value reserve	989,463	-	-	-	989,463
Charity reserve	97	-	97	-	-
Retained earnings	2,331,141	-	-	-	2,331,141
Other liabilities	575,859	11,052	119,393	363,061	82,353
Total equity and liabilities	27,949,298	11,052	119,490	363,061	27,455,695

20) Risk management

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. These risks and the processes to mitigate these risks have not significantly changed from the previous year.

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

- Credit risk
- Currency rate risk
- Profit rate risk
- Liquidity risk
- Fair value risk
- Operational risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial losses. Cash is placed with national and multinational banks with good credit ratings. The Group's credit risk arises mainly from the Mudaraba investments, Murahaba financing, receivables of future Ijarah rentals and Musharaka financing and other receivables.

Mudaraba investments are placed with highly reputed and credit worthy financial institutions. In case of Ijarah rentals and Musharaka financing, the Group has well defined policies for managing credit risk to ensure that risks are accurately assessed, properly approved and regularly monitored. Formal credit limits are applied at counterparty and single obligor level. Overall exposures are also evaluated to ensure a broad diversification of risk by setting concentration limits by geographical regions and industrial sectors.

i. Credit risk exposure relating to financial position assets are as follows:

	2016 Gross credit exposure	2016 Average credit exposure
Cash and cash equivalents	7,430,437	6,351,581
Investment securities	14,635,962	13,432,277
Murabaha financing	-	2,219,699
Ijarah Muntahia Bittamleek	1,447,308	1,861,329
Properties-under-development	414,480	413,330
Investment in real estate	2,593,468	2,595,520
Receivables and prepayments	248,454	467,791
Property and equipment	15,244	25,801
Total balance sheet credit exposure	26,785,353	27,367,328

Average gross credit has been calculated based on the average of balances outstanding during the year ended 31 December 2016.

20) Risk management (continued)

ii. Geographical distribution of credit exposure

	31 December 2016			
	Bahrain	Other GCC countries	Europe	Total
Financial position items				
Cash and cash equivalents	7,430,437	-	-	7,430,437
Investment securities	5,484,778	2,728,828	6,422,356	14,635,962
Ijarah Muntahia Bittamleek	1,447,308	-	-	1,447,308
Property under development	414,480	-	-	414,480
Investment in real estate	2,593,468	-	-	2,593,468
Receivables and prepayments	226,441	-	22,013	248,454
Property and equipment	15,244	-	-	15,244
Total financial position items	17,612,156	2,728,828	6,444,369	26,785,353

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

iii. Industrial distribution of credit exposure

	31 December 2016			
	Banks and financial institutions	Real estate	Others	Total
Financial position items				
Cash and cash equivalents	7,430,437	-	-	7,430,437
Investment securities	4,481,071	9,942,829	212,062	14,635,962
Ijarah Muntahia Bittamleek	-	1,447,308	-	1,447,308
Property under development	-	414,480	-	414,480
Investment in real estate	-	2,593,468	-	2,593,468
Receivables and prepayments	64,682	99,849	83,923	248,454
Property and equipment	-	-	15,244	15,244
Total financial position items	11,976,190	14,497,934	311,229	26,785,353

iv. Maturity breakdown of credit exposures

	With in	1-5	5-10	10-20	Total
	1 year	Years	years	years	
Financial position items					
Cash and cash equivalents	7,430,437	-	-	-	7,430,437
Investment securities	-	14,635,962	-	-	14,635,962
Ijarah Muntahia Bittamleek	51,663	606,965	757,259	31,421	1,447,308
Properties-under-development	-	414,480	-	-	414,480
Investment in real estate	-	2,593,468	-	-	2,593,468
Receivables and prepayments	190,219	58,235	-	-	248,454
Property and equipment	3,098	12,146	-	-	15,244
Total financial position items	7,675,417	18,321,256	757,259	31,421	26,785,353

20) Risk management (continued)

v. Related party balances under credit exposure

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 consist of the owners and directors and their close family members, and businesses under their control. The Group's transactions with related parties on arm's length basis and are authorised by the management.

A summary of the Company's significant transactions with related party is as follows:

Related party relationship	Transaction type	Year ended 31 December 2016
Directors	Premises leased	31,539
Subsidiary	Expenditure incurred	4,382
Directors	Board member fees and allowances	25,950
Key management personnel	Salaries and other short-term benefits	144,996

vi. Past due and impaired financings and related provisions for impairment

Analysis by industry Specific provision	Gross exposure	Impairment provisions	Net exposure
Personal	427,220	271,096	156,124
Ageing analysis Specific provision	Gross exposure	Impairment provisions	Net exposure
Over 3 months up to 1 year	9,055	9,055	-
Over 1 year up to 3 years	418,165	262,041	156,124
Analysis by industry General provision			Impairment provisions
Real estate			228,272

20) Risk management (continued)

vii. Past due and impaired financings and related provisions for impairment (continued)

	Specific	General	2016 Total
Movement in impairment provisions			
Opening balance	371,769	353,272	725,041
Charge for the year	5,428	-	5,428
Allowances no longer required for Ijarah Muntahia Bittamleek rental receivables	(106,101)	(125,000)	(231,101)
Closing balance	271,096	228,272	499,368
	Specific	General	2015 Total
Movement in impairment provisions			
Opening balance	676,566	438,272	1,114,838
Charge for the year	10,240	-	10,240
Written-off	(283,745)	-	(283,745)
Allowances no longer required for Ijarah Muntahia Bittamleek rental receivables	(31,292)	(85,000)	(116,292)
Closing balance	371,769	353,272	725,041

viii. Past due and impaired financings by geographical areas

Analysis by geography Specific provision	Gross exposure	Impairment provisions	Net exposure
Bahrain	427,220	271,096	156,124

Analysis by geography General provision	Impairment provision
Bahrain	228,272

Details of credit facilities outstanding that they have been restructured during the year:

Analysis industry	Original value	Restructured finance
Personal	93,750	6,930

Material legal contingencies

There was no material pending legal contingencies.

20) Risk management (continued)

Currency rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's foreign currency transactions are predominantly in GCC currencies, United States Dollars (USD) and British Pounds (GBP) of which Group's significant transactions are in United States Dollars (USD) and other GCC currencies. The Bahraini Dinars is effectively pegged to the United States Dollar and other GCC currencies and therefore management considers the currency rate risk as minimal. The Group limits their currency rate risk by entering in the forward contract mainly to mitigate the currency exposure in GBP investments. The Group limits their currency rate risk by proactively monitoring the key factors that affect the foreign currency fluctuations.

Foreign exchange sensitivity analysis is as follows:

Currency	Change	Impact on profit	Change	Impact on profit
Sterling Pound	+/-5%	+/-449,797	+/-3%	+/-269,878

Profit rate risk arises due to different timing of re-pricing of the Group's assets and liabilities. The Group's profit rate sensitive assets are mainly Murabaha receivables and assets acquired for leasing. The Group's exposure to profit rate risk is considered to be limited due to the short-term nature of Murabaha receivables and fixed profit rate and the terms of lease payments for assets acquired for leasing are such that they can be re-priced periodically.

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. (Refer Note 19 for maturity profile).

The Group's management rigorously monitors liquidity requirements on a regular basis to help ensure that sufficient funds are available, including unutilised credit facilities with banks, to meet its liabilities as they fall due.

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

21) Fair value hierarchy

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Fair values of quoted securities/Sukuk are derived from quoted market prices in active markets, if available. For unquoted securities/Sukuk, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

21) Fair value hierarchy (continued)

The following table shows an analysis of financial instruments and long dated financial assets and liabilities recorded at fair value by level of the fair value hierarchy at 31 December 2016 and 31 December 2015:

Investments designated at fair value through statement of income	Level 1	Level 2	Level 3	Total
For the year ended 31 December 2016				
Quoted Securities				
Sukuk	2,913,571	-	1,567,500	4,481,071
Unquoted Securities				
Equity	-	-	-	-
Private equities	-	212,063	9,942,828	10,154,891
	2,913,571	212,063	11,510,328	14,635,962
For the year ended 31 December 2015				
Quoted Securities				
Sukuk	2,962,350	-	1,567,500	4,529,850
Unquoted Securities				
Equity	-	-	335,432	335,432
Private equities	-	207,300	7,156,009	7,363,309
	2,962,350	207,300	9,058,941	12,228,591

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2016 and 2015 there were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3.

22) Commitments

a) Capital commitments

Commitments on capital work-in-progress at the end of the year were as follows:

	31 December 2016	31 December 2015
Capital expenditure on property under development	14,200	15,950

22) Commitments (continued)

b) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2016	31 December 2015
Not later than 1 year	31,536	10,513
Later than 1 year but not later than 5 years	10,512	-
	42,048	10,513

23) Subsequent events

There were no events subsequent to 31 December 2016 and occurring before the date of signing of the consolidated financial statements that would have a significant impact on these consolidated financial statements.