



التمويل العقاري Real Estate Finance

We Are Ready

Annual Report 2017



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 & Deputy
Supreme Commander &
First Deputy Prime Minister

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Vision, Mission and Values

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

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.



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



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,

I am delighted to present to you the annual report for the financial year ended 31 December 2017, wishing the Almighty to receive your satisfaction and approval.

I would also like to announce that your company Reef Real Estate Finance Company BSC (c) has continued to achieve positive financial results with net profit for the fiscal year ended 2017 amounting to 1.3 million Bahraini Dinars, representing the highest net profit achieved since 2009.

The increase in net profit was not the only positive indicator of 2017, as the total assets of the Company has increased by more than 1 million Bahraini Dinars during the year reaching to 28 million Bahraini Dinars compared to 27 million Bahraini Dinars in 2016. Total shareholders' equity increased to approximately 27 million Bahraini Dinars, and the Earning Per Share has increased to 5.9 fils.

In addition to the Company's continuous efforts to attain best results and maximizing shareholders return in the face of tough global financial market, the Board of Directors continued their efforts to maintain a positive level of operating income which has exceeded 2.2 million Bahraini Dinars and we continued to shrink operational cost to exceptional levels that were never witnessed before.



Dear Shareholders,

In the keenness of the Board of Directors on implementing the outcome of the previous Extraordinary general assembly meeting converting to de-license as a financing Company and continue to operate as an investment Company. We hereby inform you that the Board is sparing no effort in implementing the decision, taking into consideration the requirements of the Central Bank of Bahrain "Volume 5" which stipulates that the Company must liquidate its entire mortgage portfolio in order to de-license. Thus, the Company has sold and transferred the financing portfolio to Al Baraka Islamic Bank, Bahrain, which is an achievement in itself considering the difficult economic circumstances. This would be the first transaction of its kind in the Kingdom of Bahrain.

Therefore, the Company in the process of completing all the requirements of the Central Bank of Bahrain and the legal procedures to change the activity of the company with the Ministry of Industry, Trade and Tourism.

Based on the Company's performance for the year 2017, the Company's Board of Directors has proposed at its meeting held on 15th February 2018, cash dividends of 1.1 million Bahraini Dinars, which is equivalent to 5% of the net issued and paid up capital, subject to the necessary approvals from the concerned authorities.

I would also like to inform you that the current term of the Board is nearing completion and that a new Board will be elected during the Annual General Meeting of 2018. I would also like to express my sincere thanks and gratitude for the trust you have extended to the Board over the past years, which has not failed to provide all the expertise and continuous efforts to achieve the Company's strategic and financial objectives, wishing the new Board all the best and success.

I would like to extend on behalf of the respected shareholders our sincere thanks and appreciation to all board members for their outstanding services and efforts over the past three years, wishing them every success.

Finally, I would like to express our sincere thanks to the shareholders for their continued support and guidance since the establishment of the company to this day. Our thanks are also extended to all official authorities in the Kingdom of Bahrain and in particular the Central Bank of Bahrain, Ministry of Industry, Trade and Tourism, and Survey and Land Registration Bureau.

God grants success

Ali Ahmed Al Baghli

Chairman of the Board of Directors

Board of Directors



Mr. Ali Ahmed Al Baghli

Chairman
Experience: Over 42 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 32 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 Membe
Experience: Over 42 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 37 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.

CFA, MBA, Senior Vice President special situations – Asset Management at Global Investment House, Abdul Hamid is a seasoned investment professional with comprehensive knowledge and experience in the GCC and wider MENA region. He brings over 15 years of experience in asset management, investment banking, restructuring and exit strategies development. He played an active role in Global's USD 1.7bn debt restructuring and successfully transformed the principle investments division into an Asset Management business pillar. Abdul Hamid heads the Special Situations Asset Management department which currently manages a portfolio of special situation assets worth USD450mn and entails proactive management of the underlying positions; focusing on creating and enhancing the value and ensuring an orderly asset disposition. Over the past 36 months Abdul Hamid led the disposals of assets worth ~USD 350mn at an implied exit multiple over targeted asset value of around 1.5x. Abdul Hamid is a board member of a number of regional and international companies in the real estate, insurance, food, industrial, and financial services sectors. During his career, he led or co-led a number of investment banking transactions worth USD700mn covering valuations, financial advisory, mergers & acquisitions, capital raising, bond issuance, financial restructuring and listing mandates. He started his career in the asset management field where he was a member of a fund management team managing two equity mutual funds.



Mr. Abdul Hamid Mihrez

Board Member
Experience: Over 15 Years

Mr. Yaser Al Jar holds professional experience of around 20 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. Mr. Yaser has been appointed as a member of Technical Advisory and interpretation Committee of AAOIFI.



Mr. Yaser Al Jar

Board Member
Experience of 20 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.



Mr. Waleed Al Khaja

Board Member
Experience: Over 32 Years

Management Team



Mr. Hasan Dhaif

Chief Executive Officer
Experience: Over 22 Years

Mr. Hasan Dhaif has over 22 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. Hesham Ahmed

Finance Manager
Experience: Over 16 Years

Mr. Hesham Ahmed is holding BSc in Accounting from University of Bahrain. He holds over 16 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.

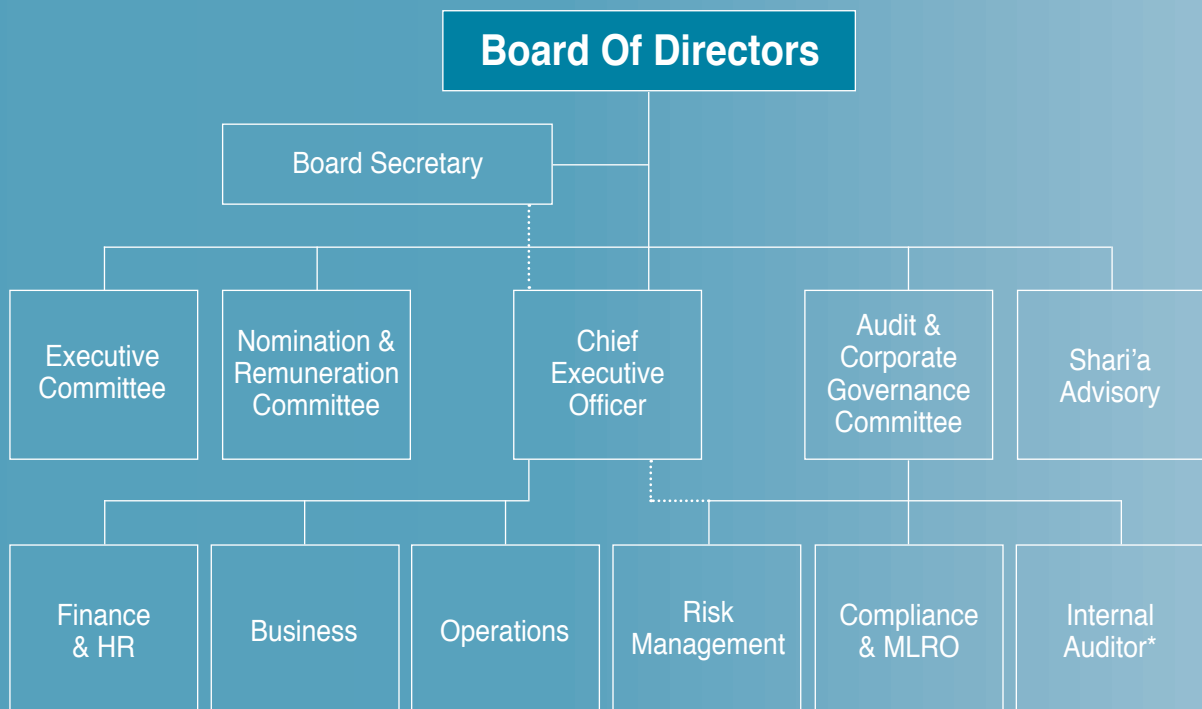


Mr. Ali Hasan

Business Manager
Experience: Over 13 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 13 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.

Organisation Chart



* Grant Thornton - Abdulaal

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, ourm customers and other stakeholders.

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.

The shareholders of the Company have decided in their last Extraordinary General Meeting held on 18 May 2017 to de-license its financing activities under Central Bank of Bahrain regulations. In order to facilitate the de-regulating process, the Company had to either run off the Ijara book or sell it off. The Board has decided to opt for the latter and identified a local bank who has agreed to take over majority of the Ijara book of the Company (agreement dated 24 September 2017), whereas relatively smaller remaining portfolio will be settled with the counterparties themselves. This sale agreement does not impact the book value of the recorded Ijara assets. The Central Bank of Bahrain has appointed an expert to ensure that the Company is not carrying out any regulated financing services.

Brief about Shareholders

Distributions of Shareholders as the closing of 31st December 2017 were as follows:

Name	Nationality	Number of Shares	Share %
Gimbal Holding Co S.P.C	Bahraini	105,450,354	43.859%
Ossis B.S.C.(c)	Bahraini	24,042,900	10.000%
Inovest B.S.C.	Bahraini	24,042,900	10.000%
H.E. Sh. Sultan Bin Khalifa Al Nahyan	Emirati	13,223,595	5.500%
Treasury Shares	Bahraini	12,021,450	5.000%
Al Dammam Development Company S.S.C (c)	Saudi	11,600,699	4.825%
Other Shareholders	Multiple	50,047,102	20.816%
Total		240,429,000	100.000%

Distribution of ownership by shares and nationality:

Nationality	No. of Shareholders	No. of Shares	%
Bahraini	58	191,404,576	79.610%
Saudi	28	26,463,435	11.007%
Emirati	6	19,243,796	8.004%
Omani	2	3,196,978	1.330%
Qatari	1	120,215	0.050%
Total	95	240,429,000	100.000%

Distribution of ownership by size of shareholders:

Categories	No. of shareholders	Number of shares	% of total issued shares
Less than 1%	82	27,932,255	11.618%
1% to less than 5%	8	33,715,546	14.023%
5% to less than 10%	2	25,245,045	10.500%
10% and above	3	153,536,154	63.859%
Total	95	240,429,000	100.000%

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 and investment activities for amounts more than 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 ensures 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.

Corporate Governance Report

(Continued)

Election and Re-election of Directors:

In accordance with the terms set out in the Memorandum of Association, the shareholders approved the election of the current members of the Board of Directors for a period of three years ending on March 26, 2018. A new election process will be held for the independent Board members through the AGM of the General Assembly to be held during the first months of 2018. The candidates for the Board are selected by the Nominations and Remuneration Committee and recommended to the Board of Directors and the Central Bank of Bahrain in order to obtain their approval in accordance with the qualifications specified by the Board, the present composition of the Board and the diversity of its members will be distinguished in terms of the expertise that will be presented or added by the new members of the Board.

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 (2016: Seven) non-executive Directors comprising two (2016: 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.

Board membership and Committees as of 31st December 2017 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. Abdul Hamid Mihrez**	Lebanese	Non-independent	Member		Member	
Mr. Yaser Al Jar	Bahraini	Non-independent	Member			Member
Mr. Waleed Al Khaja	Bahraini	Independent	Member			Member
Mr. Samer Abbouchi*	Lebanese	Non-independent	Member		Member	

*Resigned from Reef Board on May 2017.

**Joined Reef Board on November 2017.

Corporate Governance Report

(Continued)

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 2017 as follows:

Director Name	No of Meetings attended	Dates of Meetings	Attendance %*
Mr. Ali Al Baghli	4		100%
Mr. Saud Kanoo	3		75%
Mr. Faisal Al Matrook	3	2 nd March 2017	75%
Mr. Naser Al Gharibah	3	17 th May 2017	75%
Mr. Abdul Hamid Mihrez***	2	2 nd November 2017	100%
Mr. Yaser Al Jar	3	14 th December 2017	75%
Mr. Waleed Al Khaja	3		75%
Mr. Samer Abbouchi**	2		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.

**Resigned from Reef Board on May 2017.

***Joined Reef Board on November 2017.

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 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 2017, the aggregate remuneration paid to the Board of Directors was BD 35,000 (2016: BD Nil).

Corporate Governance Report

(Continued)

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 and in compliance with Article 188 of Bahrain Commercial Companies Law. 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 2017 which is the minimum requirements:

Director's Name	Position	Dates of Meetings	Number of Meetings Attended
Mr. Ali Al Baghli	Chairman	2 nd March 2017	2
Mr. Saud Kanoo	Member	2 nd November 2017	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 recommending to the Board of Directors the strategy, business plans and budget and evaluating the financial and business performance. 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 three times during the year ended 31st December 2017:

Director's Name	Position	Dates of Meetings	Number of Meetings Attended
Mr. Faisal Al Matrook	Chairman	1 st March 2017	3
Mr. Naser Al Gharibah	Member	17 th May 2017	3
Mr. Abdul Hamid Mihrez**	Member	1 st November 2017	1
Mr. Samer Abbouchi*	Member		2

*Resigned from the Executive Committee on May 2017.

**Joined the Executive Committee on November 2017.

Corporate Governance Report

(Continued)

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.

The Committee met four times during the year ended 31st December 2017:

Director's Name	Position	Dates of Meetings	Number of Meetings Attended
Mr. Saud Kanoo	Chairman	8 th February 2017 8 th May 2017	4
Mr. Yaser Al Jar	Member	1 st November 2017	4
Mr. Waleed Al Khaja	Member	14 th December 2017	3

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 2017. Total fees agreed with the external auditors were BD 10,500.

The Company engaged M/S Grant Thornton Abdulaal to conduct the internal audit functions. Total fee paid to the internal auditors during 2017 was BD 6,000.

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.

Corporate Governance Report

(Continued)

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 for 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 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 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

Corporate Governance Report

(Continued)

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 2017, the Company was not subject to any financial penalties by the CBB.

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 Company's 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 2017 is as follows:

Member's Name	Designations
Mr. Hasan Dhaif	Chief Executive Officer
Mr. Hesham Ahmed	Finance Manager
Mr. Ali Hasan	Business Manager
Mr. Eyad Al Khunaizi*	Compliance Manager & MLRO

*Resigned on 10th August 2017.

Remedial Committee: Remedial Committee consists of a minimum of three members from the Department Heads. The Committee members reporting all the matters to CEO. The 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 advisory report

For the period from 1st January 2017 to 31st December 2017



Shaikh Dr. Osama Mohammed Bahar

Sharia'a Supervisory Advisory

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.

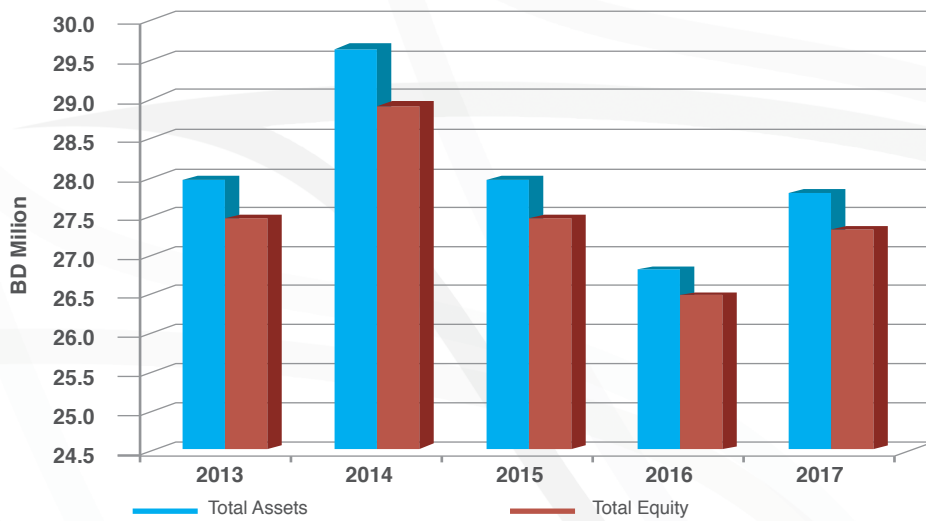
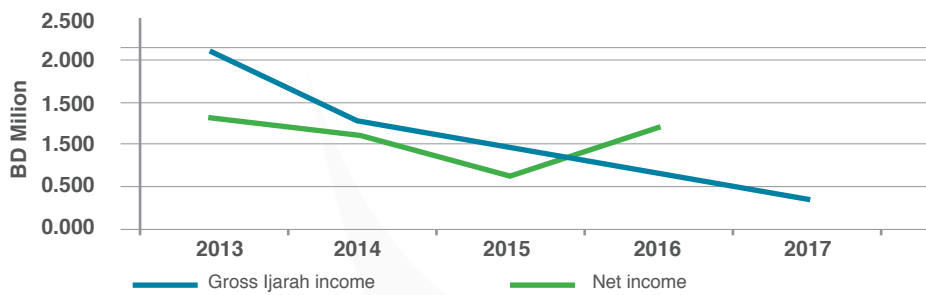
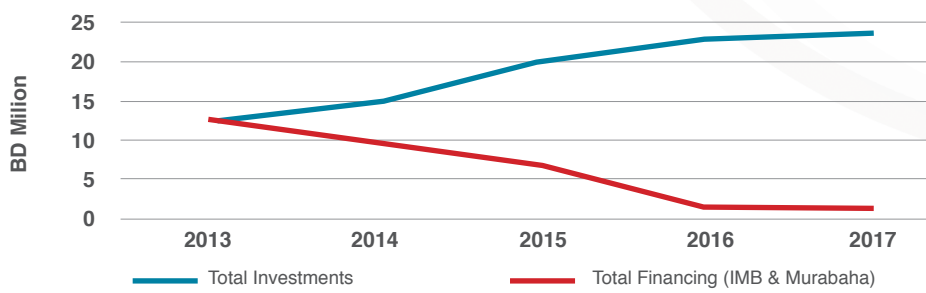
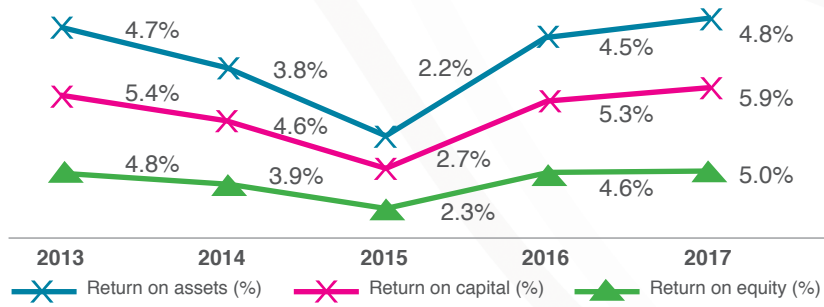
It has been submitted to the Company's Sharia'a Supervisory Advisor the investment and financing operations as well as the activities done by the Company. The Sharia'a Supervisory Advisor as well reviewed the audited financial statements for the period from 1st January 2017 to 31st December 2017.

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 2017 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.

Financial Highlights



The Consolidated Financial Statements

for the year ended 31 December 2017

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Independent auditor's report to the shareholders of

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

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Reef Real Estate Finance Co. B.S.C. (c) ("the Company") and its subsidiaries (collectively referred as "the Group") as of 31 December 2017 and the related consolidated statements of income, changes in Owners' equity and cash flows and a summary of significant accounting policies and other explanatory information for the financial period then ended.

Responsibilities of Board of Directors and auditors

These consolidated financial statements and the Group's undertaking to operate in accordance with Shari'a Rules and Principles are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis for opinion

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated statement financial position of the Group as of 31 December 2017, the results of its operations, its cash flows and its changes in Owners' equity for the year then ended in accordance with the Shari'a Rules and Principles and in accordance with the Financial Accounting Standards issued by AAOIFI.

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
15 February 2018



Consolidated statement of financial position as at 31 December 2017

(Expressed in Bahraini Dinars)

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and bank balances	4	7,788,532	7,430,437
Investment securities	5	16,107,392	14,635,962
Ijarah Muntahia Bittamleek	6	1,107,349	1,447,308
Properties-under-development	7	444,628	414,480
Investment in real estate	8	2,132,662	2,593,468
Receivables and prepayments	9	212,784	248,454
Property and equipment	10	8,240	15,244
Total assets		27,801,587	26,785,353
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Murabaha financing	11	507,178	-
Other liabilities	12	372,468	476,278
		879,646	476,278
Owners' Equity			
Share capital	13	24,042,900	24,042,900
Treasury shares	13	(1,202,145)	(1,202,145)
Statutory reserve	14(i)	1,466,427	1,332,524
Properties fair value reserve	14(ii)	813,840	989,463
Foreign currency translation reserve	14(iii)	(438,135)	(1,127,635)
Investment fair value reserve		(98,001)	-
Retained earnings		2,337,055	2,273,968
		26,921,941	26,309,075
Total liabilities and Owners' equity		27,801,587	26,785,353

These consolidated financial statements and notes from 1 to 23, set out on pages 26 to 57, were approved and authorised for issue by the Board of Directors on 15 February 2018 and signed on their behalf by:



Ali Ahmed Al Baghli

Chairman



Saud A. Aziz Kanoo

Vice Chairman

Consolidated statement of income for the year ended 31 December 2017
(Expressed in Bahraini Dinars)

	Notes	31 December 2017	31 December 2016
Income			
Gross Ijarah income		361,208	655,736
Less: Depreciation on Ijarah Muntahia Bittamleek	6	<u>(207,831)</u>	<u>(343,523)</u>
		153,377	312,213
Profit from Mudaraba investments		120,076	37,875
Profit from Murabaha financing		-	344,501
Fees from financing activities		4,162	4,402
Net rental income from investment in real estate	8	74,865	69,394
Profit from investment securities	16	535,747	433,510
Net gain on sale of investment in real estate	8	102,453	119,286
Net gain on sale on investment securities		994,148	2,015,120
Recovery of provision of Ijarah Muntahia Bittamleek rental receivables		48,080	-
Allowance no longer required for Ijarah Muntahia Bittamleek rental receivables, Murabaha financing and other receivables		-	231,101
Foreign exchange gain/(loss)		<u>171,691</u>	<u>(601,219)</u>
		<u>2,204,599</u>	<u>2,966,183</u>
Expenses			
Staff costs		233,669	378,121
General and administrative expenses		246,235	301,360
Depreciation of property and equipment	10	8,404	23,841
Depreciation on investment in real estate	8	855	4,444
Finance costs		845	-
Investment fees and charges		4,904	3,567
Net unrealised fair value losses on fair valuation of investment securities	5	370,659	1,044,016
Allowances and provisions	20(vi)	<u>-</u>	<u>5,428</u>
		<u>865,571</u>	<u>1,760,777</u>
Net profit for the year		<u>1,339,028</u>	<u>1,205,406</u>
Basic and diluted earnings per share	17	<u>Fils 5.9</u>	<u>Fils 5.3</u>

These consolidated financial statements and notes from 1 to 23, set out on pages 26 to 57, were approved and authorised for issue by the Board of Directors on 15 February 2018 and signed on their behalf by:



Ali Ahmed Al Baghli
Chairman



Saud A. Aziz Kanoo
Vice Chairman

Consolidated statement of changes in Owners' equity for the year ended 31 December 2017
(Expressed in Bahraini Dinars)

	Notes	Share capital	Treasury shares	Statutory reserve	Properties fair value reserve
At 31 December 2015		24,042,900	(1,202,145)	1,211,983	989,463
Dividend paid for the year 2015	15	-	-	-	-
Charity reserve movement		-	-	-	-
Foreign currency translation loss	5	-	-	-	-
Net profit for the year		-	-	-	-
Transferred to statutory reserve	14(i)	-	-	120,541	-
At 31 December 2016		24,042,900	(1,202,145)	1,332,524	989,463
Dividend paid for the year 2016	15	-	-	-	-
Net movement in properties fair value reserve on the sale of investment in real estate		-	-	-	(175,623)
Net unrealised fair value losses on revaluation of investment securities	5	-	-	-	-
Foreign currency translation gain	5	-	-	-	-
Net profit for the year		-	-	-	-
Transferred to statutory reserve	14(i)	-	-	133,903	-
At 31 December 2017		24,042,900	(1,202,145)	1,466,427	813,840

Consolidated statement of changes in Owners' equity for the year ended 31 December 2017
(Expressed in Bahraini Dinars)

Charity reserve	Foreign currency translation reserve	Investment fair value reserve	Retained earnings	Total
97	-	-	2,331,141	27,373,439
-	-	-	(1,142,038)	(1,142,038)
(97)	-	-	-	(97)
-	(1,127,635)	-	-	(1,127,635)
-	-	-	1,205,406	1,205,406
-	-	-	(120,541)	-
-	(1,127,635)	-	2,273,968	26,309,075
-	-	-	(1,142,038)	(1,142,038)
-	-	-	-	(175,623)
-	-	(98,001)	-	(98,001)
-	689,500	-	-	689,500
-	-	-	1,339,028	1,339,028
-	-	-	(133,903)	-
-	(438,135)	(98,001)	2,337,055	26,921,941

Consolidated statement of cash flows for the year ended 31 December 2017
(Expressed in Bahraini Dinars)

	Notes	31 December 2017	31 December 2016
Operating activities			
Net profit for the year		1,339,028	1,205,406
Adjustments for:			
Depreciation on property and equipment	10	8,404	23,841
Depreciation on Ijarah Muntahia Bittamleek	6	207,831	343,523
Depreciation on investment in real estate	8	855	4,444
Net gain on sale of investment in real estate		(102,453)	(119,286)
Gain on sale of investment securities		(994,148)	(2,015,120)
Net unrealised fair value losses on revaluation of investment in securities	5	370,659	1,044,016
Foreign exchange (gain)/loss on translation of investment in securities		(729,676)	1,455,855
Changes in operating assets and liabilities:			
Receivables and prepayments		35,670	438,674
Other liabilities		(103,810)	(99,581)
Net cash provided by operating activities		32,360	2,281,772
Investing activities			
Net movement in Murabaha financing		-	4,439,397
Net movement in Mudaraba investments above ninety days		(3,030,314)	-
Additions in investment securities	5	(2,426,183)	(6,674,354)
Additions in properties-under-development	7	(30,148)	(2,300)
Purchase of property and equipment	10	(1,400)	(3,155)
Addition in investment in real estate	8	-	(100,768)
Net movement in the foreign currency translation reserve		689,500	(1,127,635)
Net movement in Ijarah Muntahia Bittamleek		132,128	484,518
Proceeds from sale of investment securities		2,209,917	3,782,232
Proceeds from sale of investment in real estate		386,781	219,714
Proceeds from sale of property and equipment		-	427
Net cash (used in)/provided by investing activities		(2,069,719)	1,018,076
Financing activities			
Murabaha financing		507,178	-
Charity reserve movement		-	(97)
Dividend paid	15	(1,142,038)	(1,142,038)
Net cash used in financing activities		(634,860)	(1,142,135)
Net (decrease)/increase in cash and cash equivalents		(2,672,219)	2,157,713
Cash and cash equivalents, beginning of the year		7,430,437	5,272,724
Cash and cash equivalents, end of the year	4	4,758,218	7,430,437

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 shareholders of the Company have decided in their last Extraordinary General Meeting held on 18 May 2017 to de-license its financing activities under Central Bank of Bahrain regulations. In order to facilitate the de-regulating process, the Company had to either run off the Ijara book or sell it off. The board has decided to opt for the latter and identified a local bank who has agreed to take over majority of the Ijara book of the Company (agreement dated 24 September 2017), whereas a relatively smaller remaining portfolio will be settled with the counterparties themselves. This sale agreement does not impact the book value of the recorded Ijara assets. The Central Bank of Bahrain has appointed an expert to ensure that the Company is not carrying out any regulated financing services.

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 2017	Effective ownership interest 2016
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 2017.

(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.

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.

2) Basis of preparation (continued)

(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.

2) Basis of preparation (continued)

(e) Critical accounting estimates and judgements (continued)

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 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.

3) Significant accounting policies (continued)

Investment in securities (continued)

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 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.

3) Significant accounting policies (continued)

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. 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.

3) Significant accounting policies (continued)

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.

3) Significant accounting policies (continued)

Employee benefits (continued)

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.

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:

- (a) 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;
- (b) 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;
- (c) 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.

3) Significant accounting policies (continued)

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.

e) 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.

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 bank balances

	<u>31 December 2017</u>	<u>31 December 2016</u>
Current account balances with banks*	2,706,419	2,138,825
Mudaraba investments with maturity period of less than three months	2,051,299	5,291,112
Cash on hand	500	500
Cash and cash equivalents	4,758,218	7,430,437
Mudaraba investments with maturity period of more than three months	3,030,314	-
	<u>7,788,532</u>	<u>7,430,437</u>

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

** Mudaraba investments represent amounts placed with financial institutions earn market rates of profit receivable on maturity.

5) Investment securities

	<u>31 December 2017</u>	<u>31 December 2016</u>
Opening balance	14,635,962	12,228,591
Additions	2,426,183	6,674,354
Disposals	(1,215,769)	(1,767,112)
Foreign exchange gains/(losses) on translation of investment securities through profit or loss	40,176	(328,220)
Foreign exchange gains/(losses) on translation of investment securities through equity	689,500	(1,127,635)
Net unrealised fair value loss for the year through equity	(98,001)	-
Net unrealised fair value losses for the year through profit or loss	(370,659)	(1,044,016)
	<u>16,107,392</u>	<u>14,635,962</u>
	<u>31 December 2017</u>	<u>31 December 2016</u>
Investment in equity-type instruments – Unquoted		
Private equity	11,708,236	10,154,891
Investment in debt-type instruments- Quoted	4,399,156	4,481,071
	<u>16,107,392</u>	<u>14,635,962</u>

5) Investment securities (continued)

Investment – securities-wise analysis:

		31 December 2017	31 December 2016
Equity type instruments carried at fair value through consolidated statement of income			
Manazel Qurtoba 2 fund	(a)	708,713	1,008,713
Jenina Real Estate Development Co. Ltd	(b)	1,508,053	1,508,053
Global Greenridge Fareham Limited (NATS)	(c)	516,499	465,067
SICO Kingdom Equity Fund	(d)	-	212,063
Difaaf Development Limited	(e)	-	1,003,706
Equity type instruments carried at fair value through equity			
APL PH1 Limited	(f)	1,834,757	1,727,392
APL 2B Limited	(g)	3,018,813	2,834,695
Global Greenridge Bracknell Limited (3M)	(h)	1,552,473	1,395,202
Global Greenridge Finco Limited (Manchester) (Stockport & Bury)	(i)	1,550,048	-
Global Greenridge 201 FINCO Limited (B&Q)	(j)	1,018,880	-
		11,708,236	10,154,891
Debt-type instruments carried at fair value through consolidated statement of income			
CBB sukuk	(k)	4,399,156	4,481,071
		16,107,392	14,635,962

- (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. The Group has fair valued the investment during the year and recorded an unrealised fair value loss of BD300,000 in the consolidated statement of income.
- (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". The Group has fair valued the investment during the year and concluded that the fair value is not significantly different from the carrying value.
- (c) During the year 2015, the Group has invested GBP1,000,000 in GIH-NATS in United Kingdom. The main objective of fund is capital appreciation and rental yield. The Group has fair valued the investment during the year and recorded an unrealised fair value gain of BD7,063 in the consolidated statement of income.
- (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. During the year 2017, the Group has redeemed the investment in SICO.
- (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 sold their shares through Venture Capital Bank during the year 2017 which has resulted in a realised gain of BD1,000,000 in the statement of income.
- (f) During the year 2015, the Group has invested GBP3,714,286 in acquiring the shares in APL PH1 Limited. The objective of the Company is to develop a property in the United Kingdom. The Group has fair valued the investment during the year and recorded an unrealised fair value loss of BD57,500 in the consolidated statement of changes in Owners' equity.

5) Investment securities (continued)

- (g) During the year 2016, the Group has invested GBP6,095,237 in acquiring the shares in APL 2B Limited. The objective of the Company is to develop a property in United Kingdom. The Group has fair valued the investment during the year and recorded a unrealised fair value loss of BD86,422 in the consolidated statement of changes in Owners' equity.
- (h) During the year 2016, the Group has invested GBP3,000,000 in Jersey Fin Co. ("SPV") - 3M Bracknell, United Kingdom. The main objective of fund is capital appreciation and rental yield. The Group has fair valued the investment during the year and recorded a unrealised fair value gain of BD24,174 in the consolidated statement of changes in Owners' equity.
- (i) During the year 2017, the Group has invested GBP3,000,000 in acquiring shares in Global Greenridge Finco Limited (Manchester) (Stockport & Bury), United Kingdom. The main objective of fund is capital appreciation and rental yield. The Group has fair valued the investment during the year and recorded a unrealised fair value gain of BD21,747 in the consolidated statement of changes in Owners' equity.
- (j) During the year 2017, the Group has invested GBP2,000,000 in acquiring shares in Global Greenridge 201 FINCO Limited (B&Q), United Kingdom. The main objective of fund is capital appreciation and rental yield. The Group has fair valued the investment during the year and concluded that the fair value is not significantly different from the carrying value.
- (k) 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 BD2,831,656 (2015: BD2,913,571). These units are listed. The Group has fair valued the Sukuks at 31 December 2017 and recorded net loss of BD77,722 (2016: BD48,779) in the consolidated statement of income.

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.

Investment securities are denominated in the following currencies:

<u>Currency</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
Great Britain Pound	9,491,470	6,422,356
United States Dollar	2,831,656	4,129,340
Saudi Riyal	708,713	1,008,713
Arab Emirates Dirham	1,508,053	1,508,053
Bahraini Dinars	1,567,500	1,567,500
	<u>16,107,392</u>	<u>14,635,962</u>

6) Ijarah Muntahia Bittamleek

	<u>Lands</u>	<u>Buildings</u>	<u>Total</u>
Cost			
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
Additions*	-	258,443	258,443
Transferred to receivables and prepayments	(219,200)	-	(219,200)
Payment received/disposals	(21,610)	(467,994)	(489,604)
At December 2017	166,757	6,467,253	6,634,010
Depreciation			
At 31 December 2015	-	(5,403,602)	(5,403,602)
Charged for the year	-	(343,523)	(343,523)
On disposals	-	338,334	338,334
At 31 December 2016	-	(5,408,791)	(5,408,791)
Charged for the year	-	(207,831)	(207,831)
On disposals	-	162,110	162,110
At 31 December 2017	-	(5,454,512)	(5,454,512)
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
Provision transferred to receivables and prepayments	-	(156,123)	(156,123)
At 31 December 2017	-	72,149	72,149
Net book value			
At 31 December 2017	166,757	940,592	1,107,349
At 31 December 2016	407,567	1,039,741	1,447,308

* Additions relate to rescheduling of financing deals. During 2017, the Group has entered in to two new financing deals, two financing deal was rescheduled (2016: one financing deal was rescheduled) and four deals were early settled.

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.

** General provision represents the 6.12% of total Ijarah Muntahia Bittamleek portfolio as at 31 December 2017.

7) Properties-under-development

	31 December 2017	31 December 2016
Opening balance	414,480	412,180
Additions during the year	30,148	2,300
Closing balance	444,628	414,480

Properties-under-development represent "Blue Diamond" in Shakhoora. During the year, the Group capital expenditure amounted to BD30,148 (2016: BD2,300) in developing a three storey building at Shakhoora, Bahrain.

An independent valuation at 31 December 2017 concludes that the fair value of three storey building "Blue Diamond" at Shakhoora amounting to BD502,579 (2016: BD515,690). 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.

8) Investment in real estate

	Investment properties for capital appreciation	Investment properties for periodical consideration	Total
Cost/Revaluation			
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
Disposals	-	(464,204)	(464,204)
As at 31 December 2017	-	2,158,872	2,158,872
Depreciation			
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
Charge for the year	-	855	855
On disposals	-	(4,253)	(4,253)
As at 31 December 2017	-	26,210	26,210
Net book value			
At 31 December 2017	-	2,132,662	2,132,662
At 31 December 2016	-	2,593,468	2,593,468

8) Investment in real estate (continued)

Included in investment properties for periodical consideration is the net book value of furniture and fixtures of BD651 (2016: BD1,601) which is depreciated over their useful lives.

During the year, the net earned including accrued periodical consideration on investment in real estate amounted to BD74,865 (2016:BD69,394).

	<u>31 December 2017</u>	<u>31 December 2016</u>
Rental income	109,882	139,542
Maintenance and electricity expenses	(35,017)	(70,148)
	<u>74,865</u>	<u>69,394</u>

During the year, the Group has made a profit on sale of investment properties amounted to BD102,453 (2016: BD119,286).

As at 31 December 2017, the Group obtained an open market valuation of its investment in real estate from an independent real estate valuers, who has estimated the total average fair value of the properties at BD2,170,000 resulting in an unrealised average fair value gain amounting to BD37,338 (2016: BD136,032). 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.

9) Receivables and prepayments

	<u>31 December 2017</u>	<u>31 December 2016</u>
Ijarah Muntahia Bittamleek rental receivables	53,682	338,880
Allowance for doubtful Ijarah Muntahia Bittamleek rental receivables	-	(262,041)
Other receivables	21,027	67,290
Allowance for other receivables	(9,055)	(9,055)
Prepayments	22,577	26,685
Accrued profit on investment securities	99,117	78,554
Accrued profit on Mudaraba investments	25,436	8,141
	<u>212,784</u>	<u>248,454</u>

10) Property and equipment

	Leasehold improvements	Furniture and fixtures	Office equipment	Computer hardware and software	Motor vehicles	Total
Cost						
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
Additions	-	-	-	1,400	-	1,400
Disposals	-	-	-	(580)	-	(580)
At 31 December 2017	168,013	47,190	46,817	168,968	59,380	490,368
Accumulated depreciation						
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
Charge for the year	3,117	-	974	1,535	2,778	8,404
On disposals	-	-	-	(580)	-	(580)
At 31 December 2017	163,365	47,190	44,863	167,330	59,380	482,128
Net book value						
At 31 December 2017	4,648	-	1,954	1,638	-	8,240
At 31 December 2016	7,765	-	2,928	1,773	2,778	15,244

The Group operates from premises leased at a monthly rental of BD2,628 (2016: BD2,628) per month.

11) Murabaha financing

The murabaha financing obtained for the purpose of investment in Global Greenridge 201 FINCO Limited (B&Q) and is repayable as a bullet payment after the maturity period. The murabaha financing will be matured on December 2020 and bears three months LIBOR plus 1.9%.

12) Other liabilities

	31 December 2017	31 December 2016
Ijarah Muntahia Bittamleek payables	199,547	345,814
Accrued and other payables	172,921	130,464
	<u>372,468</u>	<u>476,278</u>

13) Share capital

	31 December 2017	31 December 2016
Authorised		
400,000,000 (2016: 400,000,000) ordinary shares of 100 Fils each	40,000,000	40,000,000
Issued and fully paid-up		
240,429,000 (2016: 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 2017 and 2016 are as follows:

	Nationality	Number of shares	Percentage of shareholding interest
Gimbal Holding Co. S.P.C.	Bahraini	105,450,354	43.85%
Inovest 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 2017 and 31 December 2016 are as follows:

Name of the Directors	2017 Number of shares	2016 Number of shares
Saud Kanoo	2,404,290	2,404,290
Faisal Al Matrook	2,800,634	2,404,290
	5,204,924	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 BD133,903 has been transferred to the statutory reserve (2016: BD120,541).

(ii) Properties fair value reserve

The revaluation reserve represents the net surplus arising on revaluation of investment in real estate (Note 8). 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 gain amounting to BD689,500 (2016: BD1,127,635) 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 2016 (2016: BD1,142,038 for the year ended 31 December 2015) was approved by the shareholders in the Annual General Meeting of the shareholders held on 18 May 2017, declared and subsequently paid in 2017.

Proposed by the Board of Directors subject to MOIC & CBB approvals

The Board of Directors of the Company have proposed a cash dividend of BD1,142,038 at 5% of the total issued and fully paid-up share capital (2016: BD1,142,038 at 5% of the total issued and fully paid-up share capital) of the Company for the year ended 31 December 2017. 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 2017	31 December 2016
Dividend from equity-type instruments	280,511	178,516
Profit from debt-type instruments	255,236	254,994
	<u>535,747</u>	<u>433,510</u>

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 2017	31 December 2016
Net profit attributable to the owners	BD1,339,028	BD1,205,406
Weighted average number of ordinary shares	228,407,550	228,407,550
Basic and diluted earnings per share	Fils 5.9	Fils 5.3

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, directors and key management personnel 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 2017	31 December 2016	31 December 2017	31 December 2016
Directors	Directors Remuneration	35,000	-	-	-
Directors	Board member fees and allowances	21,750	25,950	-	-
Key management personnel *	Salaries and other short-term benefits	85,760	144,996	-	-
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 2017				
	Carrying amount	Up to 6 months	6 -12 months	1-5 years	5 years and above
Assets					
Cash and bank balances	7,788,532	4,758,218	3,030,314	-	-
Investment securities	16,107,392	-	3,348,153	11,191,739	1,567,500
Ijarah Muntahia Bittamleek	1,107,349	1,107,349	-	-	-
Properties-under-development	444,628	-	444,628	-	-
Investment in real estate	2,132,662	-	-	2,132,662	-
Receivables and prepayments	212,784	97,581	92,626	22,576	-
Property and equipment	8,240	-	131	8,109	-
Total assets	27,801,587	5,963,148	6,915,852	13,355,086	1,567,500
Liabilities					
Murabaha financing	507,178	-	-	507,178	-
Other liabilities	372,468	252,373	23,661	96,434	-
Total liabilities	879,646	252,373	23,661	603,612	-

	At 31 December 2016				
	Carrying amount	Up to 6 months	6-12 months	1-5 years	5 years and above
Assets					
Cash and bank balances	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
Liabilities					
Other liabilities	476,278	3,209	79,395	393,674	-
Total liabilities	476,278	3,209	79,395	393,674	-

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:

	2017	2017
	Gross credit exposure	Average credit exposure
Cash and bank balances	7,788,532	7,609,485
Investment securities	16,107,392	15,371,677
Ijarah Muntahia Bittamleek	1,107,349	1,277,329
Properties-under-development	444,628	429,554
Investment in real estate	2,132,662	2,363,065
Receivables and prepayments	212,784	230,619
Property and equipment	8,240	11,742
Total balance sheet credit exposure	27,801,587	27,293,471

Average gross credit has been calculated based on the average of balances outstanding during the year ended 31 December 2017.

20) Risk management (continued)

ii. Geographical distribution of credit exposure

	31 December 2017			
	Bahrain	Other GCC countries	Europe	Total
Balance sheet items				
Cash and bank balances	7,788,532	-	-	7,788,532
Investment securities	4,399,156	3,235,646	8,472,590	16,107,392
Ijarah Muntahia Bittamleek	1,107,349	-	-	1,107,349
Property under development	444,628	-	-	444,628
Investment in real estate	2,132,662	-	-	2,132,662
Receivables and prepayments	170,207	-	42,577	212,784
Property and equipment	8,240	-	-	8,240
Total balance sheet items	16,050,774	3,235,646	8,515,167	27,801,587

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 2017			
	Banks and financial institutions	Real estate	Others	Total
Balance sheet items				
Cash and bank balances	7,788,532	-	-	7,788,532
Investment securities	4,399,156	11,708,236	-	16,107,392
Ijarah Muntahia Bittamleek	-	1,107,349	-	1,107,349
Property under development	-	444,628	-	444,628
Investment in real estate	-	2,132,662	-	2,132,662
Receivables and prepayments	81,976	96,259	34,549	212,784
Property and equipment	-	-	8,240	8,240
Total balance sheet items	12,269,664	15,489,134	42,789	27,801,587

iv. Maturity breakdown of credit exposures

	With in 1 year	1- 5 Years	5- 10 Years	10- 20 years	Total
Balance sheet items					
Cash and bank balances	7,788,532	-	-	-	7,788,532
Investment securities	3,348,153	12,759,239	-	-	16,107,392
Ijarah Muntahia Bittamleek	1,107,349	-	-	-	1,107,349
Properties-under-development	444,628	-	-	-	444,628
Investment in real estate	-	2,132,662	-	-	2,132,662
Receivables and prepayments	212,784	-	-	-	212,784
Property and equipment	131	8,109	-	-	8,240
Total balance sheet items	12,901,577	14,900,010	-	-	27,801,587

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:

<u>Related party relationship</u>	<u>Transaction type</u>	<u>Year ended 31 December 2017</u>
Directors	Premises leased	31,539
Directors	Board member fees and allowances	21,750
Key management personnel	Salaries and other short-term benefits	85,760

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

<u>Analysis by industry Specific provision</u>	<u>Gross exposure</u>	<u>Impairment provisions</u>	<u>Net exposure</u>
Individual	9,055	9,055	-

<u>Ageing analysis Specific provision</u>	<u>Gross exposure</u>	<u>Impairment provisions</u>	<u>Net exposure</u>
Over 3 months up to 1 year	9,055	9,055	-

<u>Analysis by industry General provision</u>	<u>Impairment provisions</u>
Real estate	72,149

20) Risk management (continued)

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

	<u>Specific</u>	<u>General</u>	<u>2017 Total</u>
Movement in impairment provisions			
Opening balance	271,096	228,272	499,368
Transferred to receivable	156,123	(156,123)	-
Written off during the year	(418,164)	-	(418,164)
Closing balance	9,055	72,149	81,204
	<u>Specific</u>	<u>General</u>	<u>2016 Total</u>
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

vii. Past due and impaired financings by geographical areas

	<u>Gross exposure</u>	<u>Impairment provisions</u>	<u>Net exposure</u>
Analysis by geography			
<u>Specific provision</u>			
Bahrain	9,055	9,055	-

	<u>Impairment provision</u>
Analysis by geography	
<u>General provision</u>	
Bahrain	72,149

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

	<u>Original value</u>	<u>Restructured finance</u>
Analysis industry		
Individual	193,000	88,836

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:

<u>Currency</u>	<u>Change</u>	<u>Impact on profit</u>	<u>Change</u>	<u>Impact on profit</u>
Sterling Pound	+/-5%	+/-528,626	+/-3%	+/-317,176

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 Mudaraba assets and liabilities are Murabaha financing. The Mudaraba investment bear fixed rate of profit and Murabaha financing bears three months LIBOR plus 1.9%. The hypothetical effect of 100 basis points profit rate increase or decrease on profits would be approximately BD5,072.

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 recorded at fair value by level of the fair value hierarchy at 31 December 2017 and 31 December 2016:

Investments designated at fair value through statement of income	Level 1	Level 2	Level 3	Total
<i>For the year ended 31 December 2017</i>				
Quoted Securities				
Sukuk	2,831,656	-	1,567,500	4,399,156
Unquoted Securities				
Private equities	-	-	11,708,236	11,708,236
	<u>2,831,656</u>	<u>-</u>	<u>13,275,736</u>	<u>16,107,392</u>
<i>For the year ended 31 December 2016</i>				
Quoted Securities				
Sukuk	2,913,571	-	1,567,500	4,481,071
Unquoted Securities				
Private equities	-	212,063	9,942,828	10,154,891
	<u>2,913,571</u>	<u>212,063</u>	<u>11,510,328</u>	<u>14,635,962</u>

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2017 and 2016, 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:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Capital expenditure on property under development	30,148	14,200

b) Operating lease commitments

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

	<u>31 December 2017</u>	<u>31 December 2016</u>
Not later than 1 year	31,536	31,536
Later than 1 year but not later than 5 years	10,512	10,512
	<u>42,048</u>	<u>42,048</u>

23) Subsequent events

There were no events subsequent to 31 December 2017 and occurring before the date of signing of the consolidated financial statements that would have a significant impact on these consolidated financial statements.