Reef Holding Co. B.S.C. (c)
(Formerly known as Reef Real Estate Finance Co. B.S.C. (c))

Consolidated financial statements for the year ended 31 December 2019

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Commercial registration no.	58073 obtained on 10 September 2005	
Board of Directors	Mr Ali Al Baghli	- Chairman
	Mr Saud Kanoo	- Vice-Chairman
	Mr Faisal Al Matrook	
	Mr Nasser Al Gharibah	
	Mr Abdulhamid Mehriz	
	Mr Yaser Al Jar	
	Mr Waleed Al Khaja	
Chief Executive Officer	Mr Hasan Dhaif	
Executive Committee	Mr Faisal Al Matrook	- Chairman
	Mr Nasser Al Ghariba	
	Mr Abdulhamid Mehriz	
Nomination and Remuneration Committee	Mr Ali Al Baghli	- Chairman
	Mr Saud Kanoo	
	Mr Faisal Al Matrook	
Audit and Corporate Governance Committee	Mr Saud Kanoo	- Chairman
	Mr Yaser Al Jar	
	Mr Waleed Al Khaja	
Sharia'a Supervisory Advisor	Shaikh Dr. Osama Bahar	
Registered office	Kanoo Tower Flat 114, Building 155 Road 1703, Block 317 PO Box 18599 Diplomatic Area, Manama Kingdom of Bahrain	
Bankers	Ithmaar Bank Kuwait Finance House Al Salam Bank Bahrain Islamic Bank Al Baraka Islamic Bank Ahli United Bank	
Auditors	BDO 17th Floor Diplomat Commercial Office Tower PO Box 787 Manama Kingdom of Bahrain	

In the Name of Allah, the most beneficent, the most merciful. Prayers and pace upon the last Apostle and Messenger, Prophet Muhammed (Pease upon him) and his family and companies.

Dear Respected Shareholders,

The Directors of Reef Holding Co. B.S.C. (c) have the pleasure in submitting their report to the Shareholders accompanied by the consolidated financial statements of the Company for the year ended 31st December 2019.

With a great pleasure to announce that your Company continued its positive performance in such difficult and challenging market conditions. Reef posted a net profit of BD 374 Thousand for the year which was 6.6% below the report bottom-line on the previous year (2018: BD 400 Thousand), taking into consideration two capital reduction with a total of BD 12.486 million. This result can be attributed to steady performance of the investment portfolio, improved operational cost efficiency and the recovery of some of investments provision. As a result, the total assets of the Company decreased by 14% to BD 14.9 Million at 31st December 2019.

With the capital reduction, minimizing operational cost, and a new strategy, the Board of Directors is confident that the Company is well positioned to achieve strategic success. This will be achieved irrespective of the world economy continued to face extraordinary volatile market conditions that are witnessed in 2019 and expected to continue in 2020 and will affect the financial markets and global economic policy uncertainty in the few years, the Company is equipped to navigate the challenges towards its goal.

Reef recorded a Return on Capital of 3.2%, as well as a Return on Assets of 2.5%, both of which are above the reported indicators of 2018. In light of these results, Reef Holding Board of Directors recommending to the Annual General Assembly a capital reduction of 5% of paid up capital subject to the approval of Shareholders and the Ministry of Industry and Commerce and Tourism.

The Directors take this opportunity to express their appreciation to the leadership led by His Majesty King Hamad bin Isa Al Khalifa, HRH the Prime Minister Prince Khalifa bin Salman Al Khalifa and HRH the Crown Prince, Deputy Supreme Commander and First Deputy Premier Salman bin Hamad Al Khalifa, the Ministry of Industry, Commerce and Tourism, Shareholders and employees of the Company for their support since the establishment of the Company. We look forward to sharing a productive and successful 2020 with you.

And here, I wish to extend my sincere thanks and personal appreciation to the distinguished shareholders for their patience, confidence and support to the Company, hoping that, with Allah's willing, we keep meeting their expectation and exceed them in the future.

Ali Ahmed Al Bagheli

Chairman

Sheikh Dr. Osama Mohamed Bahar
Sharia'a Advisor

فضيلة الشيخ الدكتور / أسامة محمد بحر
المستشار الشرعي

Shari'a Supervisory Advisory Report

Reef Holding Co. BSC (c)

For the period from 1st January 2019 to 31st December 2019

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 Shari'a Supervisory Advisor the investment operations as well as the activities done by the Company. The Shari'a Supervisory Advisor as well reviewed the audited financial statements for the period from 1st January 2019 to 31st December 2019.

The review was commissioned to issue an opinion on whether the Company had followed the principles and provisions of the Islamic Shari'a and fatwas issued by the Shari'a Advisor of the Company. Where the responsibility lies with the Company to ensure that its operations are in compliance with the issued Shari'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 2019 are in compliance with the provisions and principles of Islamic Shari'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 Shari'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 Shari'a requirements.

And Allah is the Source of Successes.

18.2.2020

Shaikh Dr. Osama Mohammed Bahar
Shari'a Supervisory Advisory

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Kingdom of Bahrain

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

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Reef Holding Co. B.S.C. (c) ("the Company") and its subsidiaries (collectively referred as "the Group") as of 31 December 2019 and the related consolidated statements of income, the consolidated changes in Owners' equity and the consolidated 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 2019, 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

(A) As required by the Bahrain Commercial Companies Law with respect to the Company, we report that:

(1) we have obtained all the information we considered necessary for the purpose of our audit;
(2) the Company has maintained proper books of account and the financial statements are in agreement therewith; and
(3) the financial information disclosed in Chairman's report is consistent with the books of accounts of the Company.

(B) As required by the Ministry of Industry, Commerce and Tourism in its letter dated 30 January 2020 in respect of the requirements of Article 8 of Section 2 of Chapter 1 of the Corporate Governance Code, we report that:

(1) the Company has appointed a corporate governance officer; and
(2) the Company has Board approved written guidance and procedures for corporate governance.

In addition, we report that, nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the Bahrain Commercial Companies Law, Decree Number 21 of 2001, or its Memorandum and Articles of Association, which would materially affect its activities, or its financial position as at 31 December 2019.

BDO

BDO Public Accountants

Manama, Kingdom of Bahrain
5 March 2020

Reef Holding Co. B.S.C. (c)
(Formerly known as Reef Real Estate Finance Co. B.S.C. (c))
Consolidated statement of financial position as at 31 December 2019
(Expressed in Bahraini Dinars)

	Notes	31 December 2019	31 December 2018
ASSETS			
Cash and bank balances	4	537,823	2,421,949
Investment securities	5	11,629,392	12,253,137
Investment in real estate	6	2,244,324	2,536,311
Receivables and prepayments	7	498,111	163,012
Property and equipment	8	844	3,168
Total assets		14,910,494	17,377,577
LIABILITIES AND OWNERS'EQUITY			
Liabilities			
Murabaha financing	9	507,178	507,178
Other liabilities	10	94,093	1,285,646
		601,271	1,792,824
Owners' Equity			
Share capital	11	11,556,679	12,840,755
Statutory reserve	12(i)	1,543,890	1,506,486
Properties fair value reserve	12(ii)	434,346	724,196
Foreign currency translation reserve	12(iii)	(701,216)	(944,235)
Investment fair value reserve		(416,664)	(98,001)
Retained earnings		1,892,188	1,555,552
		14,309,223	15,584,753
Total liabilities and Owners' equity		14,910,494	17,377,577

The audited consolidated financial statements were approved, authorised for issue by the Board of Directors and signed on their behalf by:

Ali Ahmed Al Baghli
Chairman

Saud A.Aziz Kanoo
Vice Chairman

Reef Holding Co. B.S.C. (c)
(Formerly known as Reef Real Estate Finance Co. B.S.C. (c))
Consolidated statement of income for the year ended 31 December 2019
(Expressed in Bahraini Dinars)

	Notes	31 December 2019	31 December 2018
Income			
Gross Ijarah income		-	80,657
Less: Depreciation on Ijarah Muntahia Bittamleek		-	(34,460)
		-	46,197
Profit from Mudaraba investments		12,354	179,804
Net rental income from investment in real estate	6	92,742	64,643
Profit from investment securities	14	386,661	609,272
Net gain on sale of investment in real estate		-	36,904
Net gain on sale of investment securities		98,920	3,432
Other income		13,463	-
Liabilities no longer payable written-off		80,653	-
Recovery of provision of ijarah Muntahia Bittamleek rental receivables		-	151,301
Allowance no longer required for Ijarah Muntahia Bittamleek rental receivables		-	72,649
		684,793	1,164,202
Expenses			
Staff costs		132,816	272,163
General and administrative expenses		147,266	256,684
Depreciation of property and equipment	8	2,734	5,262
Depreciation on investment in real estate	6	2,916	1,405
Finance costs		22,975	20,744
Investment fees and charges		1,290	4,622
Net foreign exchange losses		756	125,480
Net unrealised fair value losses on fair valuation of investment securities	5	-	77,248
		310,753	763,608
Net profit for the year		374,040	400,594
Basic and diluted earnings per share	15	Fils3.24	Fils 3.12

The audited consolidated financial statements were approved, authorised for issue by the Board of Directors 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 2019
(Expressed in Bahraini Dinars)

	Notes	Share Capital	Treasury shares	Statutory reserve	Properties fair value reserve	Foreign currency translation reserve	Investment fair value reserve	Retained earnings	Total
At 31 December 2017		24,042,900	(1,202,145)	1,466,427	813,840	(438,135)	(98,001)	2,337,055	26,921,941
Dividend paid for the year 2017	13	-	-	-	-		-	(1,142,038)	(1,142,038)
Reduction of share capital	11	(11,202,145)	1,202,145	-	-	-	-	-	(10,000,000)
Net movement in properties fair value reserve on the sale of investment in real estate		-	-	-	(72,448)	-	-	-	(72,448)
Net unrealised fair value losses on revaluation of investment in real estate		-	-	-	(17,196)	-	-	-	(17,196)
Foreign currency translation loss on investment securities	5	-	-	-	-	(506,100)	-	-	(506,100)
Net profit for the year		-	-	-	-	-	-	400,594	400,594
Transferred to statutory reserve	12(i)	-	-	40,059	-	-	-	(40,059)	-
At 31 December 2018		12,840,755	-	1,506,486	724,196	(944,235)	(98,001)	1,555,552	15,584,753
Reduction of share capital	11	(1,284,076)	-	-	-	-	-	-	(1,284,076)
Net movement in properties fair value reserve on the sale of investment in real estate	6	-	-	-	(289,850)	-	-	-	(289,850)
Net unrealised fair value losses on revaluation of investment in securities	5	-	-	-	-	-	(318,663)	-	(318,663)
Foreign currency translation loss on investment securities	5	-	-	-	-	243,019	-	-	243,019
Net profit for the year		-	-	-	-	-	-	374,040	374,040
Transferred to statutory reserve	12(i)	-	-	37,404	-	-	-	(37,404)	-
At 31 December 2019		11,556,679	-	1,543,890	434,346	(701,216)	(416,664)	1,892,188	14,309,223

Reef Holding Co. B.S.C. (c)
(Formerly known as Reef Real Estate Finance Co. B.S.C. (c))
Consolidated statement of cash flows for the year ended 31 December 2019
(Expressed in Bahraini Dinars)

	Notes	31 December 2019	31 December 2018
Operating activities			
Net profit for the year		374,040	400,594
Adjustments for:			
Depreciation on property and equipment	8	2,734	5,262
Depreciation on investment in real estate	6	2,916	1,405
Depreciation on Ijarah Muntahia Bittamleek		-	34,460
Net loss on sale of investment in real estate		-	35,544
Gain on sale of investment securities		(98,920)	(3,432)
Net unrealised fair value losses on revaluation of investment in securities	5	-	77,248
Foreign exchange (gain)/loss on translation of investment in securities		(243,019)	493,565
Changes in operating assets and liabilities:			
Receivables and prepayments		(335,099)	49,771
Other liabilities		(1,191,553)	913,178
Net cash (used in)/provided by operating activities		(1,488,901)	2,007,595
Investing activities			
Net movement in Mudaraba investments above ninety days		-	2,030,314
Net movement in the foreign currency translation reserve		243,019	(506,100)
Net movement in Ijarah Muntahia Bittamleek		-	1,072,889
Purchase of property and equipment	8	(410)	(190)
Addition in investment in real estate	6	(779)	(158,476)
Additions in investment securities		(9,500)	-
Proceeds from sale of investment securities		656,521	3,206,532
Proceeds from sale of investment in real estate		-	154,500
Net movement in the investment properties fair value reserve		-	(72,448)
Net cash provided by investing activities		888,851	5,727,021
Financing activities			
Amount paid to shareholders on reduction of share capital		(1,284,076)	(8,928,847)
Dividend paid		-	(1,142,038)
Net cash used in financing activities		(1,284,076)	(10,070,885)
Net decrease in cash and cash equivalents		(1,884,126)	(2,336,269)
Cash and cash equivalents, beginning of the year		2,421,949	4,758,218
Cash and cash equivalents, end of the year	4	537,823	2,421,949

1 Organisation and principal activities

Reef Holding Co. B.S.C. (c) (formerly known as 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 was operating as an Islamic financing company under license number 58073 granted by the Ministry of Industry Commerce and Tourism obtained on 3 May 2005. The Company commenced commercial operations on 10 September 2005.

The Company has cancelled its license with Central Bank of Bahrain ("CBB") license number FC/001 as on 25 September 2018. On 7 August 2018, the Company applied to Ministry of Industry and Commerce and Tourism to change the name of the Company and principal activities and the request was approved on 25 October 2018. The Company's name has been changed to Reef Holding B.S.C. (c) as on 25 October 2018. The Company has received a letter from CBB on 27 September 2018 stating that the Company's licenses has been cancelled and its record has been removed from the CBB's register according to CBB's resolution No. 50 of 2018 issued on 25 September 2018.

The principal activities of the Company after de-licensing are of a holding company.

These consolidated financial statements, set out on pages 7 to 34, were approved and authorised for issue by the Board of Directors on 5 March 2020.

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 2019	Effective ownership Interest 2018
First Reef B.S.C. (c)*	Kingdom of Bahrain	Real estate activities with own or leased property	-	99.9%
Reef Investment UK B.S.C. (c)	Kingdom of Bahrain	Trust, funs and similar financial entities - Special Purpose Vehicle (SPV)	99.9%	99.9%

* During the year, the Group has liquidated the Company.

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 2019.

Standards, amendments and interpretations issued but not yet effective in 2019

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial year ended 31 December 2019. They have not been adopted in preparing the financial statements for the year ended 31 December 2019 and are expected to affect the entity in the period of initial application. In all cases, the Group intends to apply these standards from the effective date as indicated in the table below:

Standard or interpretation	Title	Effective for annual periods beginning on or after
FAS 30	Impairment, credit losses and onerous commitments	1 January 2020

The standard will be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

FAS 30 - Impairment, credit losses and onerous commitments

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

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses each of these categories of assets:

1. Credit Losses approach;
2. Net Realisable Value approach; and
3. Impairment approach.

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

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

b) Inventories (subject to net realizable value approach)
c) Other financing and investment assets and exposures subject to risks other than credit risk (subject to impairment approach), excluding inventories.

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

2 Basis of preparation (continued)

Standards, amendments and interpretations issued but not yet effective in 2019

Expected Credit Losses

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

i. Determining criteria for significant increase in Credit Risk (SICR);
ii. Choosing appropriate models and assumptions for measurement of ECL;
iii. Establishing the number and relative weightings of forward-looking scenarios for each type of product/ market and the associated ECL; and
iv. Establishing benchmark of similar financial assets for the purposes of measuring ECL.

The Group has performed the assessment of FAS 30 at 31 December 2019 and concluded no significant impact on the consolidated financial statements.

(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, 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 FVTE. 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)

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

	31 December 2019	31 December 2018
Current account balances with banks*	187,323	1,421,449
Mudaraba investments with maturity period of less than three months**	350,000	-
Cash on hand	500	500
Cash and cash equivalents	537,823	1,421,949
Mudaraba investments with maturity period of more than three months	-	1,000,000
	537,823	2,421,949

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

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

5 Investment securities

	31 December 2019	31 December 2018
Opening balance	12,253,137	16,107,392
Additions	9,500	-
Disposals	(557,600)	(3,283,442)
Foreign exchange gains on translation of investment securities through profit or loss	-	12,535
Foreign exchange gains/(losses) on translation of investment securities through equity	243,019	(506,100)
Net unrealised fair value losses through equity	(318,663)	-
Net unrealised fair value losses through profit or loss	-	(77,248)
	11,629,392	12,253,137

	31 December 2019	31 December 2018
Investment in equity-type instruments - Unquoted *Private equity*	10,061,892	10,685,637
Investment in debt-type instruments- Quoted	1,567,500	1,567,500
	11,629,392	12,253,137

5 Investment securities (continued)

Investment - securities-wise analysis:

		31 December 2019	31 December 2018
Equity type instruments carried at fair value through consolidated statement of income			
Manazel Qurtoba 2 fund	(a)	535,603	708,713
Jenina Real Estate Development Co. Ltd	(b)	1,885,777	1,508,053
Equity type instruments carried at fair value through equity			
APL PH1 Limited	(c)	737,956	1,731,295
APL 2B Limited	(d)	2,892,680	2,848,581
Global Greenridge Bracknell Limited (3M)	(e)	1,506,592	1,464,929
Global Greenridge Finco Limited (Manchester) (Stockport & Bury)	(f)	1,500,014	1,462,641
Global Greenridge 201 FINCO Limited (B&Q)	(g)	1,003,270	961,425
		10,061,892	10,685,637
Debt-type instruments carried at fair value through consolidated statement of income			
Government or CBB sukuk	(h)	1,567,500	1,567,500
		11,629,392	12,253,137

(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. During the year the Company has disposed-off partial investment in Manazel Quroba 2 fund amounting to BD173,110. The Group has fair valued the investment during the year and concluded that the fair value is not significantly different from the carrying value.

(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 recorded unrealised fair value gain amounting BD377,724.

(c) 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 unrealised fair value loss amounting to BD1,043,713 and unrealised foreign exchange gain amounting to BD50,376.

(d) 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 unrealised fair value loss amounting to BD38,786 and unrealised foreign exchange gain amounting to BD82,885.

(e) 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 unrealised fair value loss amounting to BD962 and unrealised foreign exchange gain amounting to BD42,625.

5 Investment securities (continued)

(f) During the year 2018, 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 Company has disposed of its partial investment in Stockport and bury amounting to BD384,490 (GBP784,091). Further, after the disposal the percentage of the holding which is 34.09%, remains the same. The Group has fair valued the investment during the year and recorded unrealized fair value gain amounting to BD382,704 and unrealised foreign exchange gain amounting to BD39,158.

(g) During the year 2018, 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 recorded unrealised fair value gain amounting to BD4,370 and unrealised foreign exchange gain amounting to BD27,975.

(h) During 2015, the Group has invested BD1,500,000 in acquiring units Government Islamic Leasing Sukuk-Issue 22 (GILS22.SUK) due in 2025. These units are listed. The Group has fair valued the Sukuks at 31 December 2019 is same.

Unquoted equity securities at fair value 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:

Currency	31 December 2019	31 December 2018
Great Britain Pound	7,640,512	8,468,871
Saudi Riyal	535,603	708,713
Arab Emirates Dirham	1,885,777	1,508,053
Bahraini Dinars	1,567,500	1,567,500
	11,629,392	12,253,137

6 Investment in real estate

	Investment properties for periodical consideration	Total
Cost/Revaluation		
As at 31 December 2017	2,158,872	2,158,872
Additions	158,476	158,476
Unrealised fair value loss	(17,196)	(17,196)
Transferred from properties-under-development	453,818	453,818
Disposals	(190,044)	(190,044)
As at 31 December 2018	2,563,926	2,563,926
Additions	779	778
Unrealised fair value loss	(289,850)	(289,850)
As at 31 December 2019	2,274,855	2,274,855
Depreciation		
As at 31 December 2017	26,210	26,210
Charge for the year	1,405	1,405
As at 31 December 2018	27,615	27,615
Charge for the year	2,916	2,916
As at 31 December 2019	30,531	30,531
Net book value		
At 31 December 2019	2,244,324	2,244,324
At 31 December 2018	2,536,311	2,536,311

During the year, the net rental income earned including accrued periodical consideration on investment in real estate amounted to BD92,742 (2018: BD64,643).

	31 December 2019	31 December 2018
Rental income	126,025	105,775
Maintenance and electricity expenses	(33,283)	(41,132)
	92,742	64,643

As at 31 December 2019, the Group obtained an open market valuation of its investment in real estate (Hamad Town Villa) from an independent real estate valuers, who has estimated the fair value of the properties at BD213,443 resulting in an unrealised fair value gain amounting to BD62,142. However, on a conservative basis, the management of the Group has taken a decision not to include the unrealised fair value gain in the consolidated statement of changes in Owners' equity.

7 Receivables and prepayments

	31 December 2019	31 December 2018
Other receivables	312,603	2,093
Prepayments	4,544	8,760
Accrued profit on investment securities	180,760	130,494
Accrued profit on mudaraba investments	204	21,665
	498,111	163,012

8 Property and equipment

	Leasehold improvements	Furniture and fixtures	Office equipment	Computer Hardware And Software	Motor Vehicles	Total
Cost						
At 31 December 2017	168,013	47,190	46,817	168,968	59,380	490,368
Additions	-	-	-	190	-	190
At 31 December 2018	168,013	47,190	46,817	169,158	59,380	490,558
Additions	-	-	410	-	-	410
Disposal	-	(10,463)	-	(8,243)	-	(18,706)
At 31 December 2019	168,013	36,727	47,227	160,915	59,380	472,262
Accumulated depreciation						
At 31 December 2016	163,365	47,190	44,863	167,330	59,380	482,128
Charge for the year	3,117	-	974	1,171	-	5,262
At 31 December 2018	166,482	47,190	45,837	168,501	59,380	487,390
Charge for the year	1,531	-	736	467	-	2,734
On disposal	-	(10,463)	-	(8,243)	-	(18,706)
At 31 December 2019	168,013	36,727	46,573	160,725	59,380	471,418
Net book value						
At 31 December 2019	-	-	654	190	-	844
At 31 December 2018	1,531	-	980	657	-	3,168

9 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 maurabaha financing will be matured on December 2020 and bears three months LIBOR plus 2.4% (2018: LIBOR plus 1.9%).

10 Other liabilities

	31 December 2019	31 December 2018
Capital reduction payable to shareholders	22,138	1,071,053
Unclaimed dividend	9,257	9,256
Accrued and other payables	62,698	205,337
	94,093	1,285,646

11 Share capital

	31 December 2019	31 December 2018
Authorised		
400,000,000 (2018: 400,000,000) ordinary shares of 100 Fils each	40,000,000	40,000,000
Issued and fully paid-up		
115,566,795 (2018: 128,407,550) ordinary shares of 100 Fils each	11,556,679	12,840,755

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

During 2019, the Group had decided in the extra general meeting held on 29 May 2019 to reduce the share capital from BD12,840,755 to BD11,556,680. However, as at 31 December 2019, the Company is in the process of amending the Memorandum and Articles of Association of the Company and completing the related legal formalities for the change in shareholding with the Notarisation Directorate - Ministry of Justice and Islamic Affairs.

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 2019 are as follows:

	Nationality	Number of shares	Percentage of shareholding interest
Gimbal Holding Co. S.P.C.	Bahraini	53,354,451	46.168%
Inovest B.S.C.	Bahraini	12,164,926	10.526%
Ossis B.S.C.(c)	Bahraini	12,164,926	10.526%
H.E. Sheikh Sultan Bin Khalifa Al Nahyan	Emirati	6,690,710	5.789%
Al Dammam Development Co.Ltd.	Bahraini	5,869,577	5.079%
		90,244,590	78.089%

11 Share capital (continued)

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 2018 are as follows:

	Nationality	Number of shares	Percentage of shareholding interest
Gimbal Holding Co. S.P.C.	Bahraini	59,282,724	46.168%
Inovest B.S.C.	Bahraini	13,516,584	10.526%
Ossis B.S.C.(c)	Bahraini	13,516,584	10.526%
H.E. Sheikh Sultan Bin Khalifa Al Nahyan	Emirati	7,434,122	5.789%
Al Dammam Development Co.Ltd.	Bahraini	6,521,752	5.079%
		100,271,766	78.088%

Details of the Directors' interests in the Company's shares as at 31 December 2019 and 31 December 2018 are as follows:

Name of the directors	2019 Number of shares	2018 Number of shares
Saud Kanoo	1,216,493	1,351,659
Faisal Al Matrook	1,417,030	1,574,478
	2,633,523	2,926,137

12 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 BD37,404 has been transferred to the statutory reserve (2018: BD40,059).

(ii) Properties fair value reserve

The revaluation reserve represents the net surplus arising on revaluation of investment in real estate (Note 6). 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 BD243,019 (2018: loss of BD506,100 has been transferred to the foreign currency translation reserve).

13 Dividends

The Board of Directors of the Company have not proposed a cash dividend for the year ended 31 December 2018 and 2019.

14 Profit from investment securities

	31 December 2019	31 December 2018
Dividend from equity-type instruments	304,161	373,358
Profit from debt-type instruments	82,500	235,914
	386,661	609,272

15 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 2019	31 December 2018
Net profit attributable to the owners	BD374,040	BD400,594
Weighted average number of ordinary shares	115,566,795	128,407,550
Basic and diluted earnings per share	Fils3.24	Fils3.12

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 2019 and for 2018. 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.

16 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 basis 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 31 December 2019	31 December 2018
Directors	Directors remuneration *	36,000	70,000
Directors	Board member fees and allowances	22,500	18,350
Key management personnel **	Salaries and other short-term benefits	71,000	87,113
Directors	Premises leased	16,154	31,539

* The Board of Directors have proposed a directors' remuneration amounting to BD33,663 (2019: BD36,000, for the year ended 31 December 2018) for the year ended 31 December 2019. This is subject to the approval of the shareholders in the Annual General Meeting. These consolidated financial statements do not reflect the proposed directors' remuneration.

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

17 Maturity profile

Maturity profile of assets and liabilities is as follows:

	At 31 December 2019				
	Carrying Amount	Up to 6 months	6-12 months	1-5 years	5 years and above
Assets					
Cash and bank balances	537,823	537,823	-	-	-
Investment securities	11,629,392	-	535,603	11,093,789	-
Investment in real estate	2,244,324	-	-	2,244,324	-
Receivables and prepayments	498,111	372,244	83,716	42,151	-
Property and equipment	844	-	-	844	-
Total assets	14,910,494	910,067	619,319	13,381,108	-
Liabilities					
Murabaha financing	507,178	-	-	507,178	-
Other liabilities	94,093	65,586	-	-	29,317
Total liabilities	601,271	65,586	-	507,178	29,317

	At 31 December 2018				
	Carrying amount	Up to 6 months	6-12 months	1-5 years	5 years and above
Assets					
Cash and bank balances	2,421,949	2,421,949	-	-	-
Investment securities	12,253,137	-	-	10,685,637	1,567,500
Investment in real estate	2,536,311	-	-	2,536,311	-
Receivables and prepayments	162,012	81,648	31,519	48,845	-
Property and equipment	3,168	-	-	3,168	-
Total assets	17,376,577	2,503,597	31,519	13,273,961	1,567,500
Liabilities					
Murabaha financing	507,178	-	-	507,178	-
Other liabilities	1,286,396	1,229,026	-	-	57,370
Total liabilities	1,793,574	1,229,026	-	507,178	57,370

18 Financial assets and liabilities and risk management

Financial assets and liabilities carried on the statement of financial position include cash and bank balances, investment in securities, Ijarah Muntahia Bittamleek, receivables and prepayments, murabaha financing and other liabilities. The specific recognition methods adopted are disclosed in the individual policy statements associated with each item.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made to the objectives, policies and processes during the years ended 31 December 2019 and 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt murabaha financing and other liabilities less cash and bank balances.

	31 December 2019	31 December 2018
Murabaha financing	507,178	507,178
Other liabilities	94,093	1,289,456
Less: cash and cash equivalents	(537,823)	(2,421,949)
Net surplus	63,448	(625,315)
Total capital	14,309,223	15,584,753
Total capital and net debt	14,372,671	14,959,438
Net gearing ratio	0.44%	-

The Group has a net surplus position at 31 December 2018, therefore gearing ratio has been not calculated.

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 a financial loss. Cash is placed with national and multinational banks with good credit ratings. The Group's credit risk arises mainly from the Mudaraba investments and receivables of profits on investment securities.

Mudaraba investments are placed with highly reputed and credit worthy financial institutions. In case of receivables of profit on investment securities, the Group has well defined policies for managing credit risk to ensure that risks are accurately assessed, properly approved and regularly monitored. Overall exposures are also evaluated to ensure a broad diversification of risk by setting concentration limits by geographical regions and industrial sectors.

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.

18 Financial assets and liabilities and risk management (continued)

Currency rate risk (continued)

Foreign exchange sensitivity analysis is as follows:

Currency	Change	Impact on profit	Change	Impact on profit
Sterling Pound	+/-5%	+/- 363,848	+/-3%	+/- 218,309

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 2.4%. 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.

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.

18 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 2019 and 31 December 2018:

Investments designated at fair value through statement of income	**Level 1**	**Level 2**	**Level 3**	**Total**
For the year ended 31 December 2019				
Quoted Securities				
Sukuk	-	-	1,567,500	1,567,500
Unquoted Securities				
Private equities	-	10,061,892	-	10,061,892
	-	10,061,892	1,567,500	11,629,392
For the year ended 31 December 2018				
Quoted Securities Sukuk	-	-	1,567,500	1,567,500
Unquoted Securities Private equities	-	9,177,584	1,508,053	10,685,637
	-	9,177,584	3,075,553	12,253,137

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2019, there were transfer of BD1,885,777 between from level 3 to level 2.

19 Commitments

Operating lease commitments

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

	31 December 2019	31 December 2018
Not later than 1 year	13,358	13,358
Later than 1 year but not later than 5 years	-	13,358
	13,358	26,716

20 Subsequent events

There were no events subsequent to 31 December 2019 and occurring before the date of signing of the consolidated financial statements that would have a significant impact on these consolidated financial statements.