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 2020

Index

Commercial registration no.	58073 obtained on 10 September 2005	
Board of Directors	Mr Ali Al Baghli Mr Saud Kanoo Mr Faisal Al Matrook Mr Nasser Al Gharibah Mr Abdulhamid Mehriz Mr Yaser Al Jar Mr Waleed Al Khaja	- Chairman - Vice-Chairman
Chief Executive Officer	Mr Hasan Dhaif	
Executive Committee	Mr Faisal Al Matrook Mr Nasser Al Ghariba Mr Abdulhamid Mehriz	- Chairman
Nomination and Remuneration Committee	Mr Ali Al Baghli Mr Saud Kanoo Mr Faisal Al Matrook	- Chairman
Audit and Corporate Governance Committee	Mr Saud Kanoo Mr Yaser Al Jar Mr Waleed Al Khaja	- Chairman
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	

ريف·reef
القابضة Holding

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,

On behalf of the distinguished Members of the Board of Directors, please allow me to extend our thanks and appreciation to you for your continuous trust and supporting us in Reef Holding Company and it is my pleasure to present the annual financial report for the fiscal year ended on 31st December 2020 in which I am pleased to inform you of the positive result of the Company for the year 2020.

During the last year, the world witnessed one of the biggest and unprecedented challenges which is the Corona Pandemic, as the Coronavirus spread globally as well as the beloved Kingdom. To reduce the impact of the pandemic and avoid the spread of the disease and deaths cases among a large group of the population, many countries have implemented closures for wide commercial and social sectors, - which was the first time in history ever - that led to a significant slowdown in the world's economies. As a result of these procedures, unemployment increased, and the global growth rate declined in 2020 in most countries. GCC markets were not away from the pandemic and economic pressures. This caused the continuation of regional and global economic fluctuations and their reflection on investor confidence in global economic policies.

Through fifteen years of our operations, we witnessed together many challenges and economic fluctuations and passed them together by the Grace of Allah through adopting a balanced strategy, preserving the Company's assets, and managing risks with wisdom and professionalism. Although no one expected this pandemic, our Company responded very well to it. We have reduced the capital by 52% (equivalent to BD 12,486,221) dispatched in two tranches. We have also reduced the operational cost to a record level to absorb the unpredictable economic fluctuations.

Last year, Reef focused on the performance of its existing assets by maintaining them profitable and generating enough liquidity for operations. The performance of our investments was good in-general, and the Company has achieved satisfactory income from its real estate and fixed income portfolios.

Financial Results for the year 2020 reflect the strategy of Reef Company to manage risks and this was perceivable in the financial statements of the Company. Net profit for the year from BD 374 thousand in 2019 to BD 363 thousand in 2020. On the same hand, total income decreased from BD 685 thousand to BD 600 thousand. Accordingly, earnings per share slightly drooped from 3.24 fils in 2019 to 3.14 fils in 2020. On the other hand, the total assets of the Company increased by 6% to BD 15,818 million from BD 14,910 million in 2019 and total Shareholders' equity increased by 6% as well, reaching BD 15,207 million at the end of the year compared to BD 14,309 million at the same period of last year. Another noticeable

P.O. Box 18599, Manama, Kingdom of Bahrain - Tel: (+973) 17 558 080. Fax: (+973) 17 556 333

ريف·reef
القابضة Holding

financial highlight is the 24% decrease in the total operating cost for the year from BD 311 thousand to BD 237 thousand in 2020.

In view of the good operating performance of the Company and due to increase in liquidity that exceeds the operational requirement for the future requirements, the Board of Directors will recommend to Shareholders in their Extraordinary General Assembly meeting that will be held on 29th April 2021, the third reduction in the issued and paid-up capital by 10% equivalent to BD 1,155,668 by cancelling 11,556,679 shares subject to the approval of the Shareholders as well as the Ministry of Industry, Commerce and Tourism. With the third capital reduction, the Company will reduce its issued and paid-up capital by 57% or equivalent to BD 13,641,889 over three years being BD 24,042,900 in 2018 to BD 10,401,011 in 2021. As a result of directing the liquidity to reduce paid up capital, the Board of Directors will not propose the distribution of cash dividends this year.

We look forward with an optimism view that this pandemic will come to end from all countries especially our beloved Kingdom which we fully trust in the ability of its esteemed Government to restore the economic situation as it has always been and better than that, Inshallah.

Finally, we extend our sincere thanks and appreciation to His Majesty King Hamad bin Isa Al Khalifa, King of the Kingdom of Bahrain as well as to His Royal Highness Prince Salman bin Hamad Al Khalifa, The Crown Prince, Deputy Supreme Commander and Prime Minister of the Kingdom of Bahrain for their leadership of the reform program and their support to the financial sector in the Kingdom.

A special thanks also to the official authorities in the Kingdom of Bahrain headed by the Ministry of Industry, Commerce and Tourism as well as the Survey and Land Registration Bureau for their support. A special thanks are also extended to the external auditor M/S BDO, the internal auditor M/S GT and the Sharia Advisor who have supported and continue to support the Company's during this critical period. Thanks are also extended to my colleagues Members of the Board of Directors and the Executive Management for the efforts they extend for the good of our Company.

Ali Ahmed Al Baghli

Chairman

الشيخ الدكتور أسامة محمد بحر
مستشار شرعي
Sh. Dr. Osama Bahar
Shari'a Advisor

ص.ب: ٢٠٩، المنامة، مملكة البحرين
هاتف: +٩٧٣ ٣٣٠٣٣٠١٣ / +٩٧٣ ٣٩٦٧٠٨٠٦
P.O.Box: 209, Manama, Kingdom of Bahrain
Mobile: +973 33033013 / +973 39670806
e-mail: bahar1212@hotmail.com

Sharia'a Supervisory Advisory Report (Reef Holding Co. BSC)

For the period from 1st January 2020 to 31st December 202

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 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 2020 to 31st December 2020.

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 2020 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.

And Allaah is the Source of Successes

Shaikh Dr. Osama Mohammed Bahar
Sharia'a Supervisory Advisory

BDO

Tel : +973 1753 0077
Fax: +973 1791 9091
www.bdo.bh

17th Floor
Diplomat Commercial Office Tower
PO Box 787
Manama
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 audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Reef Holding Company B.S.C. (c) ("the Company") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the related consolidated statements of income, consolidated statement changes in owners' equity, consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and the consolidated results of the operations, changes in owners' equity, its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions "AAOIFI".

Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Group's consolidated financial statements

Other information consists of the information included in the Board of Directors' report and the Shari'a Supervisory Board's report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of the Group's Board of Directors.

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with AAOIFI and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Tel : +973 1753 0077
Fax: +973 1791 9091
www.bdo.bh

17th Floor
Diplomat Commercial Office Tower
PO Box 787
Manama
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 audit of the consolidated financial statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with AAOIFI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with AAOIFI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Tel : +973 1753 0077
Fax: +973 1791 9091
www.bdo.bh

17th Floor
Diplomat Commercial Office Tower
PO Box 787
Manama
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 audit of the consolidated financial statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 or its Memorandum and Articles of Association, which would materially affect its activities, or its financial position as at 31 December 2020.

BDO

Manama, Kingdom of Bahrain
8 March 2021

ساموسون كاتوفاتيل
رقم القيد ٢٣٩
BDO
Public Accountants
Reg. No. 239
Samson Kattuvattil

See Auditor's Report dated 08/03/21
Signed by BDO, CR No. 10201-04
Partner: Samson Kattuvattil
Reg. No. 239
Signature:

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 2020
(Expressed in Bahraini Dinars)

	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and bank balances	4	1,155,944	537,823
Investment securities	5	12,153,939	11,629,392
Investment in real estate	6	1,995,432	2,244,324
Receivables and prepayments	7	512,993	498,111
Property and equipment	8	-	844
Total assets		15,818,308	14,910,494
LIABILITIES AND OWNERS'EQUITY			
Liabilities			
Murabaha financing	9	507,178	507,178
Other liabilities	10	103,931	94,093
		611,109	601,271
Owners' Equity			
Share capital	11	11,556,679	11,556,679
Statutory reserve	12(i)	1,580,194	1,543,890
Properties fair value reserve	12(ii)	339,133	434,346
Foreign currency translation reserve	12(iii)	(414,749)	(701,216)
Investment fair value reserve		(72,979)	(416,664)
Retained earnings		2,218,921	1,892,188
		15,207,199	14,309,223
Total liabilities and Owners' equity		15,818,308	14,910,494

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

See Auditor's Report dated 08/03/21
Signed by BDO, CR No. 10201-04
Partner: Samson Kattuvattil
Reg. No. 239
Signature:

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 2020
(Expressed in Bahraini Dinars)

	Notes	31 December 2020	31 December 2019
Income			
Profit from Mudaraba investments		16,740	12,354
Net rental income from investment in real estate	6	94,706	92,742
Profit from investment securities	14	405,720	386,661
Net gain on sale of investment in real estate		26,699	-
Net gain on sale of investment securities		56,402	98,920
Other income		-	13,463
Liabilities no longer payable written-off		-	80,653
		600,267	684,793
Expenses			
Staff costs		96,558	132,816
General and administrative expenses		111,204	147,266
Depreciation of property and equipment	8	844	2,734
Depreciation on investment in real estate	6	2,966	2,916
Finance costs		19,541	22,975
Investment fees and charges		-	1,290
Net foreign exchange (gain)/losses		(7,383)	756
Net unrealised fair value losses on fair valuation of investment securities	5	13,500	-
		237,230	310,753
Net profit for the year		363,037	374,040
Basic and diluted earnings per share	15	Fils3.14	Fils3.24

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 changes in Owners' equity for the year ended 31 December 2020
(Expressed in Bahraini Dinars)

	Notes	Share capital	Statutory reserve	Properties fair value reserve	Foreign currency translation reserve	Investment fair value reserve	Retained earnings	Total
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 loss 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
Net movement in properties fair value reserve on the sale of investment in real estate	6	-	-	(95,213)	-	-	-	(95,213)
Net unrealised fair value gain on revaluation of investment in securities	5	-	-	-	-	343,685	-	343,685
Foreign currency translation gain on investment securities	5	-	-	-	286,467	-	-	286,467
Net profit for the year		-	-	-	-	-	363,037	363,037
Transferred to statutory reserve	12(i)	-	36,304	-	-	-	(36,304)	-
At 31 December 2020		11,556,679	1,580,194	339,133	(414,749)	(72,979)	2,218,921	15,207,199

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 2020
(Expressed in Bahraini Dinars)

	Notes	31 December 2020	31 December 2019
Operating activities			
Net profit for the year		363,037	374,040
Adjustments for:			
Depreciation on property and equipment	8	844	2,734
Depreciation on investment in real estate	6	2,966	2,916
Gain on sale of investment in real estate		(26,699)	-
Gain on sale of investment securities		(56,402)	(98,920)
Net unrealised fair value losses on revaluation of investment in securities	5	13,500	-
Foreign exchange gain on translation of investment in securities		(286,467)	(243,019)
Changes in operating assets and liabilities:			
Receivables and prepayments		(14,882)	(335,099)
Other liabilities		9,838	(1,191,553)
Net cash provided by / (used in) operating activities		5,735	(1,488,901)
Investing activities			
Net movement in Mudaraba investments above ninety days		(600,000)	-
Net movement in the foreign currency translation reserve		286,467	243,019
Net movement in Ijarah Muntahia Bittamleek		-	-
Purchase of property and equipment	8	-	(410)
Addition in investment in real estate	6	(588)	(779)
Additions in investment securities		-	(9,500)
Proceeds from sale of investment securities		148,507	656,521
Proceeds from sale of investment in real estate		178,000	-
Net cash provided by investing activities		12,386	888,851
Financing activities			
Amount paid to shareholders on reduction of share capital		-	(1,284,076)
Net cash used in financing activities		-	(1,284,076)
Net increase / (decrease) in cash and cash equivalents		18,121	(1,884,126)
Cash and cash equivalents, beginning of the year		537,823	2,421,949
Cash and cash equivalents, end of the year	4	555,944	537,823

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 subsidiary (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 2019. On 7 August 2019, 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 2019. The Company's name has been changed to Reef Holding B.S.C. (c) as on 25 October 2019. The Company has received a letter from CBB on 27 September 2019 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 2019 issued on 25 September 2019.

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

These consolidated financial statements, set out on pages 9 to 38, were approved and authorised for issue by the Board of Directors on 8 March 2021.

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 2020	Effective ownership Interest 2019
First Reef B.S.C. (c)*	Kingdom of Bahrain	Real estate activities with own or leased property	-	-
Reef Investment UK B.S.C. (c)	Kingdom of Bahrain	Trust, funds and similar financial entities - Special Purpose Vehicle (SPV) Real estate activities with own or leased property Selling and buying of shares and securities for Company's account	99.9%	99.9%

* During the year 2019, 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 2020.

Standards, amendments and interpretations effective and adopted in 2020

The following new standard, amendment to existing standard or interpretation to published standard is mandatory for the first time for the financial year beginning 1 January 2020 and has been adopted in the preparation of these consolidated financial statements:

Standard or interpretation	Title	Effective for annual periods beginning on or after
FAS 30	Impairment, credit losses and onerous commitments	1 January 2020
FAS 33	Investments in sukuk, shares and similar instruments	1 January 2020

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 effective and adopted in 2020 (continued)

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 1 January 2020 and concluded no significant impact on the consolidated financial statements.

FAS 33 "Investments in Sukuk, Shares and Similar Instruments"

FAS 33 "Investments in Sukuk, Shares and Similar Instruments" was issued on 31 December 2018. FAS 33 (which supersedes earlier FAS 25) sets out the improved principles for classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institutions (IFIs / the institutions), in line with Sharia principles. It defines the key types of instruments of Sharia compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held. The standard will be effective from the financial periods beginning on or after 1 January 2020 with earlier adoption been permitted.

For the purposes of this standard, each investment is to be categorized as investment in:

a. equity-type instruments;
b. debt-type instruments, including:
   i. monetary debt-type instruments; and
   ii. non-monetary debt-type instruments; and
c. other investment instruments.

A Group shall classify investments subject to this standard as subsequently measured at either of:
(i) amortised cost;
(ii) fair value through equity or
(iii) fair value through income statement, on the basis of both:

a. the Group's business model for managing the investments; and
b. the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

2 Basis of preparation (continued)

Standards, amendments and interpretations effective and adopted in 2020 (continued)

FAS 33 "Investments in Sukuk, Shares and Similar Instruments" (continued)

However, the Group may make an irrevocable election to designate a particular investment, at initial recognition, being:

a. an equity-type instrument that would otherwise be measured at fair value through income statement-to present subsequent changes in fair value in equity; and

b. a non-monetary debt-type instrument or other investment instrument, as measured at fair value through income statement if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or correlated liabilities or quasi-equity or recognizing the gains and losses on them on different bases. This shall, however, be subject to the Shari'ah requirements with regard to the attribution of, and distribution of such gains to the respective stakeholders.

Amortised cost

An investment shall be measured at amortised cost if both of the following conditions are met:

a. the investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the instrument; and

b. the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

Fair value through equity

An investment shall be measured at fair value through equity if both of the following conditions are met:

a. the investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment; and

b. the investment represents a non-monetary debt-type instrument or other investment instrument having reasonably determinable effective yield.

Fair value through income statement

An investment shall be measured at fair value through income statement unless it is measured at amortised cost or at fair value through equity or if irrevocable classification choices at initial recognition are applied.

The realized gains or losses resulting from the sale or maturity of any investment shall be measured as the difference between the carrying amount and the net proceeds from the sale or at maturity of each investment. The resulting gains or loss together with the balance of the "investments fair value reserve" account for investments designated at fair value through equity shall be recognized in the income statement for the current reporting period.

Dividends and other return (cash or in-kind) on equity-type instruments shall be recognized in the income statement.

The Group has performed the assessment of FAS 33 at 31 December 2020 and concluded no significant impact on the consolidated financial statements.

2 Basis of preparation (continued)

Standards, amendments and interpretations issued but not yet effective in 2020

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial year ended 31 December 2020. They have not been adopted in preparing the consolidated financial statements for the year ended 31 December 2020 and will or may have an effect on the entity's future consolidated financial statements. In all cases, the entity intends to apply these standards from application date as indicated in the table below:

Standard or interpretation	Title	Effective for annual periods beginning on or after
FAS 31	Investment agency (Al-Wakala Bi Al-Istithmar)	1 January 2020
FAS 34	Financial reporting for sukuk-holders	1 January 2020
FAS 36	First time adoption of AAOIFI financial accounting standards	1 January 2020
FAS 32	Ijarah	1 January 2021
FAS 35	Risk reserves	1 January 2021
FAS 38	Wa'ad, khiyar and tahawwut	1 January 2022

Early adoption of amendments or standards in 2020

The Group did not early-adopt any new or amended standards in 2020. There would have been no change in the operational results of the Group for the year ended 31 December 2020 had the Group early adopted any of the above standards applicable to the Group.

(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.

2 Basis of preparation (continued)

(d) Basis of consolidation

The consolidated financial statements incorporate financial statements of the Company and its subsidiary 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 to obtain benefits from its activities. All intergroup balances, transactions and unrealised profits and losses are eliminated in full on consolidation.

(e) Critical accounting estimates and judgements

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

Impairment

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

Fair valuation of investments

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

Valuation of investment in real estate

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

2 Basis of preparation (continued)

(e) Critical accounting estimates and judgements (continued)

Going concern

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

Legal proceedings

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

Impairment on investment securities

The Group determines that investment securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment and is assessed for each investment separately.

Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment. In making a judgment of impairment, the Group evaluates among other factors, evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

Impairment of short-term investments

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.

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.

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.

3 Significant accounting policies (continued)

Investment in securities (continued)

(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.

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.

3 Significant accounting policies (continued)

Receivables and prepayments

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

Property and equipment

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

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

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

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

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

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

Islamic financing

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

Provisions

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

Employee benefits

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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 an asset or part of a group of similar assets) is derecognised when:

- the right to receive cash flows from the asset has 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 Mudaraba contracts

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

b) Profit on investment securities and other income

Profit on investment securities and other income is accounted for on an accrual basis.

c) Fees and commissions

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

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 2020	31 December 2019
Current account balances with banks*	155,444	187,323
Mudaraba investments with maturity period of less than three months**	400,000	350,000
Cash on hand	500	500
Cash and cash equivalents	555,944	537,823
Mudaraba investments with maturity period of more than three months	600,000	-
	1,155,944	537,823

* 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 2020	31 December 2019
Opening balance	11,629,392	12,253,136
Additions	-	9,500
Disposals	(92,105)	(557,600)
Foreign exchange gains on translation of investment securities through equity	286,467	243,019
Net unrealised fair value gain / (losses) through equity	343,685	(318,663)
Net realised fair value losses through profit or loss	(13,500)	-
	12,153,939	11,629,392

	31 December 2020	31 December 2019
Investment in equity-type instruments - Unquoted		
Private equity	10,599,939	10,061,892
Investment in debt-type instruments- Quoted	1,554,000	1,567,500
	12,153,939	11,629,392

5 Investment securities (continued)

Investment - securities-wise analysis:

		31 December 2020	31 December 2019
Equity type instruments carried at fair value through consolidated statement of income			
Manazel Qurtoba 2 fund	(a)	443,498	535,603
Jenina Real Estate Development Co. Ltd	(b)	2,273,757	1,885,777
Equity type instruments carried at fair value through equity			
APL PH1 Limited	(c)	1,113,264	737,956
APL 2B Limited	(d)	3,023,981	2,892,680
Global Greenridge Bracknell Limited (3M)	(e)	1,562,757	1,506,592
Global Greenridge Finco Limited (Manchester) (Stockport & Bury)	(f)	1,143,731	1,500,014
Global Greenridge 201 FINCO Limited (B&Q)	(g)	1,038,951	1,003,270
		10,599,939	10,061,892
Debt-type instruments carried at fair value through consolidated statement of income			
Government or CBB sukuk	(h)	1,554,000	1,567,500
		12,153,939	11,629,392

(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 disposed-off partial investment in Manazel Quroba 2 fund amounting to BD173,110 and BD92,105 in the year 2019 and 2020 respectively. 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 BD387,980.

(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 gain amounting to BD347,639 and unrealised foreign exchange gain amounting to BD27,668.

(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 gain amounting to BD22,846 and unrealised foreign exchange gain amounting to BD108,455.

(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 BD322 and unrealised foreign exchange gain amounting to BD56,487.

5 Investment securities (continued)

(f) 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 Company has disposed of its partial investment in Stockport and bury amounting to BD384,490 (GBP784,091) in the year 2019. 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 loss amounting to BD412,523 and unrealised foreign exchange gain amounting to BD56,240.

(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 loss amounting to BD1,935 and unrealised foreign exchange gain amounting to BD37,616.

(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 during the year and recorded unrealized fair value loss amounting to BD13,500.

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 2020	31 December 2019
Great Britain Pound	7,882,684	7,640,512
Saudi Riyal	443,498	535,603
Arab Emirates Dirham	2,273,757	1,885,777
Bahraini Dinars	1,554,000	1,567,500
	12,153,939	11,629,392

6 Investment in real estate

	Investment properties for periodical consideration	Total
Cost/Revaluation		
As at 31 December 2018	2,563,926	2,563,926
Additions	779	779
Unrealised fair value loss	(289,850)	(289,850)
As at 31 December 2019	2,274,855	2,274,855
Additions	588	588
Unrealised fair value loss	(95,213)	(95,213)
Disposals	(151,301)	(151,301)
As at 31 December 2020	2,028,929	2,028,929
Depreciation		
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
Charge for the year	2,966	2,966
As at 31 December 2020	33,497	33,497
Net book value		
At 31 December 2020	1,995,432	1,995,432
At 31 December 2019	2,244,324	2,244,324

During the year, the net rental income earned including accrued periodical consideration on investment in real estate amounted to BD94,706 (2019: BD92,742).

	31 December 2020	31 December 2019
Rental income	128,107	126,025
Maintenance and electricity expenses	(33,401)	(33,283)
	94,706	92,742

7 Receivables and prepayments

	31 December 2020	31 December 2019
Other receivables	281,776	312,603
Prepayments	-	4,544
Accrued profit on investment securities	221,420	180,760
Accrued profit on mudaraba investments	9,797	204
	512,993	498,111

8 Property and equipment

	Leasehold improvements	Furniture and fixtures	Office equipment	Computer hardware and software	Motor vehicles	Total
Cost						
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 and 2020	168,013	36,727	47,227	160,915	59,380	472,262
Accumulated depreciation						
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
Charge for the year	-	-	654	190	-	844
At 31 December 2020	168,013	36,727	47,227	160,915	59,380	472,262
Net book value						
At 31 December 2020	-	-	-	-	-	-
At 31 December 2019	-	-	654	190	-	844

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 2021 and bears three months LIBOR plus 2.4% (2019: LIBOR plus 2.4%).

	31 December 2020	31 December 2019
Murabaha financing	507,178	507,178

10 Other liabilities

	31 December 2020	31 December 2019
Capital reduction payable to shareholders	22,138	22,138
Unclaimed dividend	9,257	9,257
Accrued and other payables	72,536	62,698
	103,931	94,093

11 Share capital

	31 December 2020	31 December 2019
Authorised		
400,000,000 (2019: 400,000,000) ordinary shares of 100 Fils each	40,000,000	40,000,000
Issued and fully paid-up		
115,566,795 (2019: 115,566,795) ordinary shares of 100 Fils each	11,556,679	11,556,679

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 BD11,556,679. In 2020, the Company has amended the Memorandum and Articles of Association of the Company and completed 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 2020 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.	Saudi	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 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.	Saudi	5,869,577	5.079%
		90,244,590	78.089%

Details of the Directors' interests in the Company's shares as at 31 December 2020 and 31 December 2019 are as follows:

Name of the directors	2020 Number of shares	2019 Number of shares
Saud Kanoo	1,216,493	1,216,493
Faisal Al Matrook	1,417,030	1,417,030
	2,633,523	2,633,523

12 Reserves

(i) Statutory reserve

Under the provisions of the Bahrain Commercial Companies Law, 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 BD36,304 has been transferred to the statutory reserve (2019: BD37,404).

(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 BD286,467 (2019: BD243,019) 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 2019 and 2020.

14 Profit from investment securities

	31 December 2020	31 December 2019
Dividend from equity-type instruments	323,220	304,161
Profit from debt-type instruments	82,500	82,500
	405,720	386,661

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 2020	31 December 2019
Net profit attributable to the owners	BD363,037	BD374,040
Weighted average number of ordinary shares	115,566,795	115,566,795
Basic and diluted earnings per share	Fils3.14	Fils3.24

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 2020 and for 2019. 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:

		For the year ended Transaction amount	
Related party relationship	Transaction type	31 December 2020	31 December 2019
Directors	Directors remuneration *	33,663	36,000
Directors	Board member fees and allowances	8,300	22,500
Key management personnel **	Salaries and other short-term benefits	59,500	71,000
Directors	Premises leased	16,404	16,154

* The Board of Directors have proposed a directors' remuneration amounting to BD32,673 (2020: BD33,663 for the year ended 31 December 2019) for the year ended 31 December 2020. 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 2020				
	Carrying amount	Up to 6 months	6-12 months	1-5 Years	5 years and above
Assets					
Cash and bank balances	1,155,944	1,155,944	-	-	-
Investment securities	12,153,939	-	443,498	11,710,441	-
Investment in real estate	1,995,432	-	-	1,995,432	-
Receivables and prepayments	512,993	231,217	281,776	-	-
Property and equipment	-	-	-	-	-
Total assets	15,818,308	1,387,161	725,274	13,705,873	-
Liabilities					
Murabaha financing	507,178	-	507,178	-	-
Other liabilities	103,931	72,536	-	-	31,395
Total liabilities	611,109	72,536	507,178	-	31,395

	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

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, 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 2020 and 2019.

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 2020	31 December 2019
Murabaha financing	507,178	507,178
Other liabilities	103,931	94,093
Less: cash and cash equivalents	(1,155,944)	(537,823)
Net surplus	(544,835)	63,448
Total capital	15,207,199	14,309,223
Total capital and net debt	14,662,364	14,372,671
Net gearing ratio	-	0.44%

The Group has a net surplus position at 31 December 2020, 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%	+/- 378,246	+/-3%	+/- 226,947

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 17 for maturity profile).

The Group's management rigorously monitors liquidity requirements on a regular basis to help ensure that enough 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 2020 and 31 December 2019:

Investments designated at fair value through statement of income	**Level 1**	**Level 2**	**Level 3**	**Total**
For the year ended 31 December 2020				
Quoted Securities				
Sukuk	-	-	1,554,000	1,554,000
Unquoted Securities				
Private equities	-	10,599,939	-	10,599,939
	-	10,599,939	1,554,000	12,153,939
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

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2020, there were no 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 2020	31 December 2019
Not later than 1 year	-	13,358
Later than 1 year but not later than 5 years	-	-
	-	13,358

20 Significant events and transactions

The World Health Organisation declared coronavirus and COVID-19 a global health emergency on 30 January 2020. The significant events and transactions that have occurred since 31 December 2019 relate to the effects of the global pandemic on the Group's consolidated financial statements for the year ended 31 December 2020 and are summarised as follows.

(a) Government grants

Group applied for various government support programs introduced in response to the global pandemic.

Included in profit or loss is BD20,303 of government grants obtained relating to supporting the payroll of Group's employees. The Group has elected to present this government grant by reducing the related expense. The Group had to commit to spending the assistance on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The Group does not have any unfulfilled obligations relating to this program.

(b) Commitments and contingent liabilities

The Group has assessed the impact of any operational disruptions, including any contractual challenges and changes in business or commercial relationships among the Group, customers and suppliers, with a view of potential increase in contingent liabilities and commitments and no issue were noted.

(c) Going concern

The Group has performed an assessment of whether it is a going concern in the light of current economic conditions and all available information about future risks and uncertainties. The projections have been prepared covering the Group's future performance, capital and liquidity. The impact of COVID-19 may contribute to evolve, but at the present time the projections show that the Group has ample resources to continue to operational existence and its going concern positions remain largely unaffected and unchanged. As a result, these consolidated financial statements have been appropriately prepared on a going concern basis.

21 Subsequent events

There were no events subsequent to 31 December 2020 and occurring before the date of signing of the consolidated financial statements that would have a significant impact on these consolidated financial statements.