

Inovent B.S.C.

**SHARI'A SUPERVISORY BOARD REPORT,
REPORT OF THE BOARD OF DIRECTORS,
INDEPENDENT AUDITORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2017

Commercial registration number

49848 obtained on 18 June 2002

Former (Dec-15 to Aug-17)	Interim (Oct-17 to Dec-17)	Current (Feb 2018 onwards)	Designation
---------------------------	----------------------------	----------------------------	-------------

Board of Directors

Khaled Saoud Al Sanousi Fareed Soud Al-Fozan Bashar Naser Al-Tuwaijri Bader Khalifa Al Adsani Yousif Al Rasheed Al Bader Mohammed Ebraheem Alnughaimish Othman Al Quraishi	Dr.Abdulla Mohammed Al Humaidi Shilash Haif Al Hajraf Bashar Naser Al Tuwaijri Ayman Ahmed Sheet Fahad Ghazi Al Abduljaleel	Dr.Omar Salem Al Mutawa Bashar Naser Al Tuwaijri Meshari Fuad Al Fozan Khaled Abdulaziz Al Ghanem Meshal Yousef Al Zayed Yaqoub Yousef Bandar Abdulrahman Hesham Al Neseif	- Chairman - Vice-Chairman - Director - Director - Director - Director - Director
--	---	--	---

Sharia'a Supervisory Board

Sheikh Dr. Khalid Shuja'a Al-Otaibi Sheikh Dawoud Salman Bin Essa Sheikh Dr. Murad Bou Dala	Sheikh Dr. Khalid Shuja'a Al-Otaibi Sheikh Dawoud Salman Bin Essa Sheikh Dr. Murad Bou Dala	Sheikh Dr. Khalid Shuja'a Al-Otaibi Sheikh Dawoud Salman Bin Essa Sheikh Dr. Murad Bou Dala	- Chairman - Vice-Chairman - Member
---	---	---	---

Corporate Governance Committee members

Fareed Soud Al-Fozan Yousif Al Rasheed Al Bader Khaled Saoud Al Sanousi Mohammed Ebraheem Alnughaimish Sheikh Dawoud Salman Bin Essa	Dr.Abdulla Mohammed Al Humaidi Shilash Haif Al Hajraf Fahad Ghazi Al Abduljaleel Sheikh Dawoud Salman Bin Essa	Bashar Naser Al Tuwaijri Abdulrahman Hesham Al Neseif Meshari Fuad Al Fozan Sheikh Dawoud Salman Bin Essa	- Chairman - Vice-Chairman - Member - Member - Member
--	---	--	---

Nomination and Remuneration

Khaled Saoud Al Sanousi Fareed Soud Al-Fozan Yousif Al Rasheed Al Bader Mohammed Ebraheem Alnughaimish	Dr.Abdulla Mohammed Al Humaidi Shilash Haif Al Hajraf Fahad Ghazi Al Abduljaleel	Dr.Omar Salem Al Mutawa Meshal Yousef Al Zayed Meshari Fuad Al Fozan	- Chairman - Vice-Chairman - Member - Member
---	--	--	---

Audit and Risk Committee members*

	Fahad Ghazi Al Abduljaleel Ayman Ahmed Sheet Shilash Haif Al Hajraf	Khaled Abdulaziz Al Ghanem Abdulrahman Hesham Al Neseif Yaqoub Yousef Bandar	- Chairman - Vice-Chairman - Member
--	---	--	---

Audit Committee members*

Bader Khalifa Al Adsani Bashar Naser Al-Tuwaijri Othman Al Quraishi			- Chairman - Vice-Chairman - Member
---	--	--	---

Risk Committee members*

Othman Al Quraishi Bader Khalifa Al Adsani Bashar Naser Al-Tuwaijri			- Chairman - Vice-Chairman - Member
---	--	--	---

* The Audit Committee and Risk Committee was merged together to form 'Audit and Risk Committee' by the Interim Board.

Executive Committee members

	Dr.Abdulla Mohammed Al Humaidi Shilash Haif Al Hajraf Ayman Ahmed Sheet		- Chairman - Vice-Chairman - Member
--	---	--	---

Chief Executive Officer

Murad Al Ramadan	Murad Al Ramadan	Murad Al Ramadan	CEO
------------------	------------------	------------------	-----

Board Secretary

Riyadh Mahmood Mulla	Riyadh Mahmood Mulla	Riyadh Mahmood Mulla	Board Secretary
----------------------	----------------------	----------------------	-----------------

Inovent B.S.C.

Administration and contact details as at 31 December 2017

Registered office

19th floor, East Tower
Bahrain Financial Harbour
P.O. Box 18334
Manama
Kingdom of Bahrain
Telephone no. +973 1715 5777

Bankers

Bahrain Islamic Bank B.S.C.
Ithmaar Bank B.S.C.
Kuwait Finance House (Bahrain) B.S.C. (c)
Kuwait Finance House (Kuwait) K.S.C.P.
Boubyan Bank (Kuwait)
Khaleeji Commercial Bank B.S.C.
Al Baraka Islamic Bank B.S.C. (c)
Al Salam Bank, Bahrain B.S.C.

Auditor

Ernst & Young (EY)
P.O. Box 140
10th Floor,
Bahrain World Trade Center
Manama, Kingdom of Bahrain

Registrars

Karvy Computershare W.L.L.
Al Zamil Tower, Manama Centre
P.O. Box 514
Manama
Kingdom of Bahrain

Kuwait Clearing Company S.A.K.
P.O. Box 22077
Safat 13081
State of Kuwait

In the name of Allah, The Beneficent, The Merciful

**Sharia Supervisory Board Report on the activities of INOVEST Company B.S.C
For the Financial Year Ended on 31 December 2017**

All praise is due to Allah , Lord of the worlds, Prayers and Peace are upon the last messenger, our prophet Mohammed, his family and companions.

To the Shareholders of INOVEST B.S.C “the Company”,
Acting as Sharia Supervisory Board “SSB” pursuant to the appointment resolution passed by the General Assembly of the Company and SSB meeting on Tuesday dated 27th February 2018 in State of Kuwait, we are required to provide the following report:

The SSB has reviewed the Company’s principles, contracts related transactions, and applications submitted by the Company’s management For the Financial Year Ended on 31 December 2017, and based on the Sharia auditor presentation of the Company’s activities for the abovementioned period, and comparing it with the fatwa and rulings issued.

The Company’s management is responsible for ensuring that the Company conducts its business in accordance with the Islamic Shari’a Rules and principles. It is our responsibility to form an independent opinion, based on our review of the Company’s operations and to report to you.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company has not violated Islamic Shari rules and principles.

In our opinion:

The contracts and transactions concluded by the Company during the Financial Year Ended on 31 December 2017 that we have reviewed are in compliance with the Islamic Shari’a Rules and Principles.

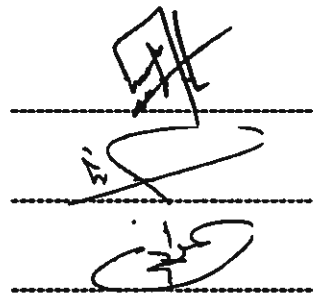
Also, the SSB has approved the financial statements and concluded that it’s prepared in an acceptable form from Islamic Sharia view. The respective report has been prepared based on the information provided by the Company.

Prayers and Peace are upon the last messenger, our prophet Mohammed, his family and companions.

Shaikh Dr. Khalid Shuja'a Al-Otaibi
Chairman

Shaikh Dawoud Salman Bin Essa
Vice-Chairman

Shaikh Dr. Murad Bou Daia
Member

Three handwritten signatures are positioned on three horizontal dashed lines. The top signature is a square stamp with a signature inside. The middle signature is a cursive signature. The bottom signature is another cursive signature.

INOVEST.

Chairman's Statement For the year ended, 31st December 2017

In the name of Allah, Most Gracious, Most Merciful

On behalf of myself and the newly assembled members of the Board of Directors, I am pleased to present the Group annual report for the financial year ending on the 31st of December 2017.

As an incoming Board of Directors, we believe we have the objectivity and impartiality to see INOVEST for what it truly represents, and the word that comes to mind is without a doubt, opportunity. INOVEST is today faced with a necessary change, one that may require a good deal of adaptation, especially in the face of the new economic, financial and regulatory environments in which we function. In this regard, INOVEST has proven that when faced with change it has the fluidity to adapt, but the strength to remain grounded by its solid foundation. It has a vision to guide it, and a dedicated team equipped to serve it. In this there is opportunity.

Company Performance

Two years ago, INOVEST launched a three-year strategic plan to help guide the evolution, growth and development of the company. This journey remains incomplete. Great progress has been made on several strategic initiatives, including a successful corporate turnaround and return to profitability over 2016 and 2017. These critical objectives were successfully achieved as a result of the effective management of operating expenses, successful investment exits, improving performance of existing investments, and a reduction in financing costs. A key focus of our term will be to ensure that we meet and exceed the remaining objectives of that initial three-year plan, as well as to ensure that this closing strategic year will prepare INOVEST for another strategic era of development.

It is worth noting that for the most part 2017 was in fact a highly profitable year, and one that sustained the positive developments ascertained in 2016. The Group's quarter-on-quarter profitability and positive performance was an illustration of the soundness of its business strategy and the Group's commitment to the implementation of that strategy. To that end, the financial ratios for the first three quarters of the year reflected a strong position and steady growth. The results of 2017 were unfortunately affected during the last quarter of the year by a significant provision taken against a case related to an investment entity in Kuwait. The relation and transactions with this particular investment entity and INOVEST were made under the previous Board of Directors. To that end, we have dealt with this issue with all our effort to firstly ensure a prudent close of the matter within the forthcoming year, but more so to ensure such situations do not reoccur. This is in safeguarding and further shareholder values and rights in adherence to the highest levels of professional standards.

Future Outlook

It is our intention to ensure a successful close to INOVEST's three-year strategic plan and engage in the development of a new one for 2019 and beyond.

Going forward, we are inspired to build on the opportunity INOVEST represents, and to demonstrate the unity in our vision and in our work as a Group. Now more than ever we aim to reaffirm the strength of INOVEST's foundations and to improve upon its shortcomings. We will ensure the improvement of the Group's governance structure such that it meets the expectations of key stakeholders and serves as a basis to achieve the company's strategic objectives. We shall spare no effort to extend and deepen INOVEST's mandate of successful returns to its

INOVEST.

shareholders, as well as its vision of discovering potential and delivering value; this we have no doubt will power us for long term and sustainable growth.

For the coming year, our focus will include building on the company's existing and very successful portfolio of companies and projects. We believe that Tamcon, our construction company, will continue to deliver returns from new and current contracts. Additionally, we see BIW taking a forward position in supporting national economic development. Furthermore, we intend to consider a well assessed pipeline of opportunities that are well balanced in their risk and reward potential.

In closing

I am honoured to be incoming Chairman at INOVEST, and I look forward to working with my colleagues on the Board, the company executives and staff to serve our shareholders' best interests.

To that end, and on behalf of the incoming Board of Directors, I would like to extend my utmost thanks to our shareholders, for their consistent support and belief in the company and its executive management. I would also like to extend my appreciation to our stakeholders; investors, partners, and without a doubt our executive management and dedicated staff members whose commitment and dedication to the company are central to its success.

We pray to Almighty Allah to support us in achieving continued success. Amen.

On behalf of the Board of Directors,



Dr. Omar AlMutawa
Chairman



Ernst & Young
P.O. Box 140
10th Floor, East Tower
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
ey.com/mena
C.R. No. 6700 / 29977

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INOVEST B.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Inovert B.S.C. (the "Company") and its subsidiaries (together the "Group"), as of 31 December 2017, and the related consolidated statements of income, cash flows, changes in owners' equity and sources and uses of charity fund for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2017, the results of its operations, its cash flows, changes in owners' equity and sources and uses of charity fund for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INOVEST B.S.C.
(continued)**

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain ("CBB") Rule Book (Volume 4), we report that:

- a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

Except for what has been reported in note 1 and 2 to the consolidated financial statements, we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 4 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association during the year ended 31 December 2017 that might have had a material adverse effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Group has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

Ernst & Young

Partner's registration no: 115
28 February 2018
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 US\$ '000	2016 US\$ '000
ASSETS			
Cash and bank balances	7	21,740	40,066
Accounts receivable	8	45,383	38,237
Investments	9	18,487	18,983
Investment in a joint venture and associates	10	85,938	91,629
Investments in real estate	11	76,823	50,810
Property, plant and equipment	12	12,965	16,090
Other assets	13	4,018	7,040
TOTAL ASSETS		265,354	262,855
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities and accounts payable	14	102,256	108,323
Financing from a bank	15	12,927	16,408
Total liabilities		115,183	124,731
Equity			
Share capital	16	114,604	114,604
Less: Treasury shares	16	(1,239)	(651)
		113,365	113,953
Reserves	17	1,999	1,413
Retained earnings		7,036	9,118
Equity attributable to Parent's shareholders		122,400	124,484
Non-controlling interest		27,771	13,640
Total owners' equity		150,171	138,124
TOTAL LIABILITIES AND OWNERS' EQUITY		265,354	262,855



Dr. Omar Salem Al Mutawa
Chairman



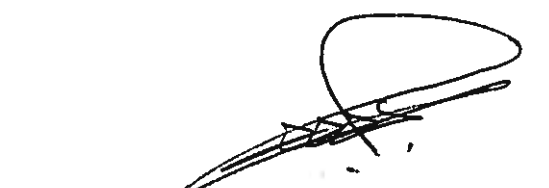
Murad Al Ramadan
Chief Executive Officer

Inovest B.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Note	2017 US\$ '000	2016 US\$ '000
OPERATING INCOME			
Net income from construction contracts	18	11,714	7,651
Income from investment in real estate	19	3,981	3,500
Income from investments	20	4,593	1,491
Fee for management and other services	21	672	1,838
Net share of income / (loss) from investment in a joint venture and associates	10	1,165	(301)
Other income	22	1,083	1,791
TOTAL OPERATING INCOME		23,208	15,970
OPERATING EXPENSES			
Staff costs	23	5,098	4,702
General and administrative expenses	24	3,228	2,632
Financing costs		897	723
Property related expenses		1,086	156
Depreciation	12	730	312
TOTAL OPERATING EXPENSES		11,039	8,525
NET OPERATING PROFIT		12,169	7,445
(Provision) / recoveries from impaired receivables	25	(6,117)	2,640
PROFIT FOR THE YEAR		6,052	10,085
Attributable to :			
Equity Shareholders of the Parent		5,855	10,105
Non-controlling Interest		197	(20)
BASIC AND DILUTED EARNINGS			
PER SHARE (US cents)	27	2.06	3.55



 Dr. Omar Salem Al Mutawa
 Chairman



 Murad Al Ramadan
 Chief Executive Officer

Inovest B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2017

	Share capital US\$ '000	Treasury shares US\$ '000	Share premium US\$ '000	Reserves			Retained earnings US\$ '000	Total US\$ '000	Non controlling interest US\$ '000	Total owners' equity US\$ '000
				Statutory reserve US\$ '000	Share option reserve US\$ '000					
At 1 January 2017	114,604	(651)	-	1,371	42	9,118	124,484	13,640	138,124	
Reversal of appropriation to charity funds	-	-	-	-	-	626	626	-	626	
Dividend paid (note 26)	-	-	-	-	-	(7,977)	(7,977)	-	(7,977)	
Purchase of treasury shares	-	(588)	-	-	-	-	(588)	-	(588)	
Acquisition of a subsidiary (note 6)	-	-	-	-	-	-	-	13,934	13,934	
Profit for the year	-	-	-	-	-	5,855	5,855	197	6,052	
Transfer to statutory reserve	-	-	-	586	-	(586)	-	-	-	
At 31 December 2017	114,604	(1,239)	-	1,957	42	7,036	122,400	27,771	150,171	
At 1 January 2016	114,604	(651)	30,760	21,473	42	(51,873)	114,355	17,568	131,923	
Acquisition of non-controlling interest	-	-	-	-	-	-	-	(3,884)	(3,884)	
Gain on acquisition of non-controlling interest	-	-	-	-	-	24	24	(24)	-	
Transfer to reserves *	-	-	(30,760)	(21,113)	-	51,873	-	-	-	
Profit for the year	-	-	-	-	-	10,105	10,105	(20)	10,085	
Transfer to statutory reserve	-	-	-	1,011	-	(1,011)	-	-	-	
At 31 December 2016	114,604	(651)	-	1,371	42	9,118	124,484	13,640	138,124	

* During 2016, based on the approval from Ministry of Industry and Commerce (MOIC) via letter dated 5 April 2016, the Group has set-off its accumulated losses of US\$ 52 million against its share premium and statutory reserves.

The attached notes 1 to 34 form part of these consolidated financial statements.

Inovest B.S.C.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY FUND

For the year ended 31 December 2017

	2017 US\$ '000	2016 US\$ '000
Sources of charity funds		
Undistributed charity funds at the beginning of the year	626	626
Reversal of appropriation to charity funds	(626)	-
Undistributed charity funds at 31 December	-	626

The attached notes 1 to 34 form part of these consolidated financial statements.

Inovest B.S.C.
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 US\$ '000	2016 US\$ '000
OPERATING ACTIVITIES			
Net profit for the year		6,052	10,085
Adjustments for:			
Depreciation	12	2,135	1,734
Provision / (recoveries) from impaired receivables	25	6,117	(2,640)
Net share of (income) / loss from investment in joint a venture and associates	10	(1,165)	301
Gain on bargain purchase - associate	10	(3,393)	(10)
Gain on bargain purchase - subsidiary	6	(129)	-
Realised gain on sale of investment in real estate	19	(1,256)	(1,403)
Realised gain on sale of non-current asset held for sale	20	-	(871)
Realised loss on sale of investments	20	-	3
Unrealised fair value loss on investment in real estate	11	749	-
		<u>9,110</u>	<u>7,199</u>
Net changes in operating assets and liabilities:			
Short-term deposits (with an original maturity of more than 90 days)		7,249	1,372
Accounts receivable		(12,776)	4,253
Other liabilities and accounts payable		(7,076)	(12,177)
Receivable from investment in real estate lease right receivables		-	(93)
Other assets		3,022	5,026
		<u>(471)</u>	<u>5,580</u>
Net cash (used in) / from operating activities			
INVESTING ACTIVITIES			
Proceeds from sale of investment		-	263
Purchase of investments		-	(496)
Acquisition of a subsidiary net of cash acquired	6	4,217	-
Acquisition of further shares of subsidiary		-	(3,884)
Additions in investment in real estate	11	(7,175)	(3,154)
Proceeds from sale of investment in real estate - net	11	10,448	8,657
Purchase of investment in a joint venture and associates	10	(7,040)	(228)
Sale of non-current asset held for sale		-	7,693
Purchase of property, plant and equipment	12	(1,060)	(5,966)
In kind settlement of dividend		1,976	-
Proceeds from sale of property, plant and equipment		74	-
		<u>1,440</u>	<u>2,885</u>
Net cash from investing activities			
FINANCING ACTIVITIES			
Net movement in financing from a bank	15	(3,481)	(7,457)
Dividend paid	26	(7,977)	-
Purchase of treasury shares		(588)	-
		<u>(12,046)</u>	<u>(7,457)</u>
Net cash used in financing activities			
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		(11,077)	1,008
Cash and cash equivalents at the beginning of the year		32,617	31,609
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7	<u>21,540</u>	<u>32,617</u>
Non cash transactions comprise:			
Investment in real estate acquired against accounts receivable		5,199	-
Transfer from investment to investment in a joint venture and associates	10	748	-
Transfer from investment in a joint venture and associates to a subsidiary	10	17,785	-
Transfer from investment in real estate to accounts receivable		-	9,153
Non cash settlement of accounts receivable to property, plant and equipment		-	3,621

The attached notes 1 to 34 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

1 CORPORATE INFORMATION AND ACTIVITIES

a) Incorporation

Inovest B.S.C. (the "Company") is a public shareholding company incorporated in the Kingdom of Bahrain on 18 June 2002 and operates under Commercial Registration (CR) number 48848. The Company commenced operations on 1 October 2002. Under the terms of its Memorandum and Articles of Association, the duration of the Company is 50 years, renewable for further similar periods unless terminated earlier by law or as stated in the Memorandum and Articles of Association. The address of the Company's registered office is 19th floor, East Tower, Bahrain Financial Harbour, Manama, Kingdom of Bahrain.

The Company is listed on the Bahrain Bourse and cross-listed on the Kuwait Stock Exchange.

The Company operates under an Investment Business Firm License – Category 1 (Islamic Principles) issued by the Central Bank of Bahrain ("CBB"), to operate under the Islamic Shari'a principles, and is supervised and regulated by the CBB.

b) Activities

The principal activities of the Company together with its subsidiaries (the "Group") include:

- Engaging directly in all types of investments, including direct investment and securities, and various types of investment funds;
- Establishing and managing various investment funds;
- Dealing in financial instruments in the local, regional and international markets;
- Providing information and studies related to different types of investments for others;
- Providing financial services and investment consultations to others;
- Establishing joint ventures with real estate, industrial and services companies inside or outside the Kingdom of Bahrain;
- Engaging in contracting activities;
- Engaging in the management of commercial and industrial centers and residential buildings, property leasing, development and their maintenance; and
- Having interest in or participating in any way with companies and other entities engaged in similar activities that may work and co-operate to achieve the Group's objectives inside and outside the Kingdom of Bahrain, and also merge its activities with the above mentioned entities and/or buy or join with them.

Although the Company has an Investment Business Firm License – Category 1 (Islamic Principles) issued by the CBB in September 2008, it continues to hold real estate assets and related revenues and costs in its consolidated financial statements. These assets existed prior to obtaining the license from the CBB. The Company has transferred its entire real estate assets and the related revenues and costs to its fully owned subsidiary, Al Khaleej Development Co. B.S.C.(c), which primarily carries out real estate and construction related activities. Since Al Khaleej Development Co. B.S.C.(c) is fully owned by the Company, the real estate assets and revenues and costs continue to appear in the consolidated financial statements of the Group for the year ended 31 December 2016. The respective notes in these consolidated financial statements reflect the Group's transactions arising from holding of real estate assets and their corresponding liabilities and revenues and costs arising therefrom.

The number of staff employed by the Group as at 31 December 2017 was 768 employee (31 December 2016: 1,076 employee).

The consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the Board of Directors dated 28 February 2018.

As at 31 December 2017

2 REGULATORY NON-COMPLIANCES

On 14 September 2017, based on an Ordinary General Meeting, an interim Board of Directors was elected as a result of changes in the shareholding of the Company. The interim Directors were approved by the Central Bank of Bahrain via letter dated 4 October 2017. Based on the approval of the interim Executive Committee (4th and 16th October 2017) and subsequent approval of majority of the interim Board of Directors and objection of one member (3rd December 2017), these elected interim resigning directors of the Company entered into a related party transaction breaching a number of regulatory requirements and transferred US\$ 16.5 million (KD 3 million on 5 October 2017 and KD 2 million on 18 October 2017) to one of a related party company "the counterparty". The instance came to CBB's attention based on their inspection in November 2017 and a formal letter dated 4 December 2017 was issued by the CBB to the interim Chairman of the Board of Directors to forfeit the transaction and return the entire amount within one month. Further, instructing via a letter dated 12 December 2017 to restructure the Company's Board of Directors as they are no longer deemed to be independent. Consequently, the interim Chairman and three members of the interim Board of Directors resigned "the interim resigning Directors" and till date the Company recovered only US\$ 1 million (KD 180 thousand and KD 120 thousand on 16 and 17 January 2018 respectively). Despite several communications thereafter from the CBB, the counterparty failed to return the cash to the Company and assessing the uncertainty surrounding the transaction a provision of US\$ 15.5 million (note 8) representing the remaining balance has been recognised within the consolidated statement of income of the Group.

As a result of the above the Company breached a number of regulatory requirements relating to the Central Bank of Bahrain Rule Book Volume 4, Volume 6 and the Bahrain Commercial Companies Law as detailed below:

Bahrain Commercial Companies Law (BCCL)

The Company breached Article 189 (i) of the BCCL as the interim resigning Directors of the Company had direct personal interest in the business and contracts concluded on behalf of the Company. Article 189 (i) of the BCCL requires that the company's board members or managers shall have no direct or indirect personal interest in the business and contracts concluded on behalf of the company unless allowed by the general assembly. Any contract or business concluded in contravention of this provision shall be null and void.

Further, the Company also breached Article 189 (ii) of the BCCL as the interim resigning Directors of the Company, had failed to disclose their direct personal interest and they did not abstain from voting in the matter presented to the Board relating to investment with Al Fouz Investment Company. Article 189 (ii) of the BCCL requires that member of the board shall notify the board of his direct or indirect personal interest in the matters presented to the board. Such member shall not participate in deliberations or voting on these issues and his declaration shall be recorded in the minutes of the meeting.

CBB Rule Book Volume 6 - High Level Controls Module

The Company breached Rule HC-B.3.10 of the High Level Controls Module of CBB Rulebook Volume 6 as the interim resigning Directors of the Company were not independent according to the CBB rules. Rule HC-B.3.10 of the High Level Controls Module of CBB Rulebook Volume 6 defines the "Independent Director" as a non-executive director of the Company who, or whose family shareholders either separately or together with him or each other, does not have any material pecuniary relationships or transactions with the Company and in particular who, during the one year preceding the time in question met all the following conditions:

- (a) Was not an employee of the company;
- (b) Did not:
 - (i) Make to, or receive from the Company, payments of more than 31,000 BD or equivalent (not counting director's remuneration);
 - (ii) Own more than a 10% share or other ownership interest, directly or indirectly, in an entity that made to or received from the Company, payments of more than such amount; and
 - (iii) Act as a general partner, manager, director or officer of a partnership or company that made to or received from the Company, payments of more than such amount.
- (c) Did not own directly or indirectly (including for this purpose ownership by any family member or related person) 5% or more of the shares of any type or class of the Company;

As at 31 December 2017

2 REGULATORY NON-COMPLIANCES (continued)

CBB Rule Book Volume 6 - High Level Controls Module (continued)

- (d) Was not engaged directly or indirectly as an auditor or professional advisor for the Company: and
- (e) Was not an associate of a Director or a member of senior management of the Company.

The Company breached Rule HC-2.4.1 of the High Level Controls Module of CBB Rulebook Volume 6 as the interim resigning Directors of the Company, have failed to inform the Board in writing of conflicts of interest as it arise and they did not abstain to vote on the transaction. Rule HC-2.4.1 of the High Level Controls Module of CBB Rulebook Volume 6 requires that each director and officer must inform the entire board in writing of conflicts of interest immediately as they arise. Board members must abstain from voting on the matter in accordance with the relevant provisions of the Commercial Companies Law. This disclosure must include all material facts in the case of a contract or transaction involving the director or officer. The directors and officers must understand that any approval of a conflict transaction is effective only if all material facts are known to the authorising persons and the conflicted person did not participate in the decision and that such information must be disclosed in the annual report.

The Company breached Rule HC-2.4.3 of the High Level Controls Module of CBB Rulebook Volume 6 as the interim resigning Directors of the Company approved and executed a conflicting transaction with Al Fouz Investment Company without taking approval from shareholders of the Company. Rule HC-2.4.3 of the High Level Controls Module of CBB Rulebook Volume 6 requires that any conflict transaction or contract that could be considered material should be tabled at a shareholders meeting for approval.

The Company breached Rule HC-3.2.1 of the High Level Controls Module of CBB Rulebook Volume 6 as all the three directors in the Audit Committee were not independent including the Chairman of the Committee. Rule HC-3.2.1 of the High Level Controls Module of CBB Rulebook Volume 6 requires that the Board must establish an audit committee of at least three directors, of which the majority must be independent including the Chairman.

The Company breached Rule HC-4.2.2 of the High Level Controls Module of CBB Rulebook Volume 6 as all the three directors in the Nominating Committee were neither non-executive, nor independent including the Chairman of the Committee. Rule HC-4.2.2 of the High Level Controls Module of CBB Rulebook Volume 6 requires that the committee must include only independent directors or, alternatively, only non-executive directors of whom a majority must be independent directors and the chairman must be an independent director. This is consistent with international best practice and it recognises that the Nominating Committee must exercise judgment free from personal career conflicts of interest.

CBB Rule Book Volume 4 - High Level Controls Module

The Company breached Rule HC-1.2.1 of the High Level Controls Module of CBB Rulebook Volume 4 as the interim resigning Directors of the Company have not acted according to their fiduciary duty towards the shareholders by making related party transactions which are not complying with CBB regulations. Rule HC-1.2.1 of the High Level Controls Module of CBB Rulebook Volume 4 requires that all directors must understand that the Board should serve the interest of the shareholders and the Board have fiduciary duty of care and loyalty to the Company.

The Company breached Rule HC-1.2.2 (h) (i) (j) of the High Level Controls Module of CBB Rulebook Volume 4 as the interim resigning Directors of the Company have failed to manage conflict of interest and assuring equitable treatment of shareholders including minority shareholders. Rule HC-1.2.2 of the High Level Controls Module of CBB Rulebook Volume 4 requires that all directors must (h) monitor conflict of interest and prevent abusive related party transactions (i) assure equitable treatment of shareholders including minority shareholders and (j) setting out clearly and reviewing on a regular basis who has authority to enter the Company into contractual obligation.

The Company breached Rule HC-2.2.1 of the High Level Controls Module of CBB Rulebook Volume 4 as the interim resigning Directors of the Company have failed to act with honesty and integrity. Rule HC-2.2.1 of the High Level Controls Module of CBB Rulebook Volume 4 requires that all directors must act with honesty, integrity, due skill and care and in the best interest of the Company, its shareholders and clients.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

2 REGULATORY NON-COMPLIANCES (continued)

CBB Rule Book Volume 4 - High Level Controls Module (continued)

The Company breached Rule HC-2.2.10 of the High Level Controls Module of CBB Rulebook Volume 4 as the interim resigning Directors of the Company being approved persons by CBB, have failed to disclose their personal interest in the above transaction. The interim resigning Directors had control in the counterparty which has established their personal interest in the transaction. Rule HC-2.2.10 of the High Level Controls Module of CBB Rulebook Volume 4 requires that approved persons should be considered to have a 'personal interest' in a transaction if: (a) he himself; (b) a member of his family (i.e. spouse, father, mother, sons, daughters, brothers or sisters); or (c) another company of which he is a director or controller, is a party to the transaction or has a material financial interest in the transaction.

The Company breached Rule HC-2.3.3 of the High Level Controls Module of CBB Rulebook Volume 4 as the interim resigning Directors of the Company being approved persons by CBB, have failed to arrange their personal and business affairs to avoid conflict of interest with the Company. Rule HC-2.3.3 of the High Level Controls Module of CBB Rulebook Volume 4 requires that each approved person must make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with the company.

The Company breached Rule HC-2.3.4 of the High Level Controls Module of CBB Rulebook Volume 4 as the interim resigning Directors of the Company being approved persons by CBB, have failed to absent themselves from decision making that involved potential conflict of interest in a transaction. Rule HC-2.3.4 of the High Level Controls Module of CBB Rulebook Volume 4 requires that Board members must absent themselves from any discussion or decision making that involves a subject where they are incapable of providing objective advice, or which involves a subject, transaction or proposed transaction where there is a potential conflict of interest.

The Company breached Rule HC-2.4.1 of the High Level Controls Module of CBB Rulebook Volume 4 as the interim resigning Directors of the Company being approved persons by CBB, have failed to inform the Board of conflicts of interest as it arise and they did not abstain to vote on the transaction. Rule HC-2.4.1 of the High Level Controls Module of CBB Rulebook Volume 4 requires that each approved person must inform the Board about conflicts of interest as they arise. Board members must abstain from voting on the matter in accordance with the relevant provisions of Company Law. This disclosure must include all material facts in case of a contract or transaction involving the approved persons.

CBB Rule Book Volume 4 - Capital Adequacy Module

The Company breached Rule CA-1.2.9 (b) of the Capital Adequacy Module of CBB Rulebook Volume 4 as the interim resigning Directors of the Company approved a related party exposure without notifying CBB, which is exceeding 25% of its Regulatory Capital. Rule CA-1.2.9 (b) of the Capital Adequacy Module of CBB Rulebook Volume 4 requires that the Company must notify CBB if: any single probable contingency, financial commitment or large exposure exceeds 25% of its Regulatory Capital.

The Company breached Rule CA-1.2.9A of the Capital Adequacy Module of CBB Rulebook Volume 4 as the Company failed to submit a plan to reduce the large exposure to below 25% of the regulatory capital within 30 days of the event occurring. Rule CA-1.2.9A of the Capital Adequacy Module of CBB Rulebook Volume 4 requires that the Company must submit to the CBB, within 30 calendar days of the event occurring, a plan demonstrating how it will: (a) Raise its regulatory capital to bring it to a level in excess of its regulatory capital requirement; or (b) Reduce the single contingency, financial commitment or large exposure to below 25% of the regulatory capital.

CBB Rule Book Volume 4 - Risk Management Module

The Company breached Rule RM-2.1.6 of the Risk Management Module of CBB Rulebook Volume 4 as the Company have failed to monitor and notify to CBB the counter party exposure exceeding 25% of regulatory capital. Rule RM-2.1.6 of the Risk Management Module of CBB Rulebook Volume 4 requires that the Company must monitor its exposures and must notify the CBB if its total exposure to an individual counterparty exceeds 25% of aggregate counterparty exposures and/or 25% of the Company's regulatory capital.

As a result of regulatory non-compliances, CBB imposed financial penalties amounting to US\$ 93 thousand during the year (note 24.1).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

3 BASIS OF PREPARATION

3.1 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 Board of the Group, the Bahrain Commercial Companies Law, the CBB, Financial Institutions Law, the CBB Rule Book (Volume 4 and applicable provisions of Volume 6), CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse and the terms 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 ("IFRS") issued by International Accounting Standards Board ("IASB").

The Group also prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the purpose of filing with Kuwait Stock Exchange and Capital Market Authorities of Kuwait.

3.2 Accounting convention

The consolidated financial statements have been prepared on a historical cost basis, except for investment in a joint venture and associates which are equity accounted, equity-type instruments at fair value through equity and investment in real estate that have been measured at fair value. The consolidated financial statements are presented in United States Dollars ("US Dollars") being the reporting currency of the Group. All values are rounded to the nearest US Dollar thousands unless otherwise indicated. However the functional currency of the Group is Bahraini Dinars (BD).

3.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses are eliminated in full on consolidation.

Subsidiary is fully consolidated from the date control is transferred to the Company and continue to be consolidated until the date that control ceases. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in a subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Sale of participations to non-controlling interests result in a gain or loss that is recognised in the consolidated statement of income. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

3 BASIS OF PREPARATION (continued)**3.3 Basis of consolidation (continued)**

The following are the principal subsidiaries of the Company, which are consolidated in these consolidated financial statements:

<i>Name of the subsidiary</i>	<i>Ownership 2017</i>	<i>Ownership 2016</i>	<i>Country of incorporation</i>	<i>Year of incorporation</i>	<i>Activity</i>
Held directly by the Company					
Al Khaleej Development Co. B.S.C. (c)*	99.98%	99.98%	Kingdom of Bahrain	2009	Purchase, sale, management and development of properties
Tameer for Private Management W.L.L.*	99.00%	99.00%	Kingdom of Bahrain	2004	Holds the Group's shares on behalf of its employees in respect of the employees' share option plan

The following are the subsidiaries held indirectly through Al Khaleej Development Co. B.S.C. (c):

Held indirectly by the Company					
Bahrain Investment Wharf B.S.C. (c) *	99.00%	99.00%	Kingdom of Bahrain	2006	Development, maintenance, leasing and management of commercial and industrial centers, residential buildings and property
Circo Total Facility Management Co. W.L.L. *	99.00%	99.00%	Kingdom of Bahrain	2005	Management and maintenance of properties
Tamcon Contracting Co. B.S.C. (c) *	99.00%	99.00%	Kingdom of Bahrain	2007	Contracting activities
Dannat Resort Development Company Limited	67.57%	67.57%	Cayman Islands	2008	Managing and Development of Real Estate Projects
Tamcon Trading S.P.C.	100.00%	100.00%	Kingdom of Bahrain	2009	Import, export, sale of electronic & electrical equipment, appliances, its spare parts and sale of building materials.
Eresco Tamcon JV B.S.C. (c)**	100.00%	100.00%	Kingdom of Bahrain	2014	Construction and maintenance of villas.
Panora Interiors S.P.C.	100.00%	100.00%	Kingdom of Bahrain	2015	Carpentry and joinery works.
BIW Labour Accommodation Co W.L.L. (note 6)	56.67%	-	Kingdom of Bahrain	2007	Buying, selling and management of properties.

* The consolidated financial statements of the subsidiaries have been consolidated as though the Company owns 100% of these subsidiaries, as the other shareholders hold their shares on behalf of and for the beneficial interest of the Group.

As at 31 December 2017

3 BASIS OF PREPARATION (continued)

3.3 Basis of consolidation (continued)

**** ERESKO Tamcon JV B.S.C (c)**

During 2014 Tamcon Contracting Co. B.S.C. (c) ("Tamcon") entered into a joint venture agreement with Enma Real Estate Company ("ERESCO") incorporating a new company namely ERESKO Tamcon JV B.S.C (c). As per the terms of the arrangement the paid-up share capital of the joint venture is BD 250,000 consisting of 250,000 shares of BD 1 each , out of which 125,000 shares i.e. 50% are held by ERESKO and 125,000 shares are held by Tamcon i.e. 50% as per the registration details. However, the entire share capital was paid by Tamcon. Further, the joint venture partners subsequently amended the terms of the arrangement via an agreement and the key responsibilities assigned to Tamcon are as follows:

- 1 Providing financing to the Project including providing guarantees and required insurance as deemed appropriate;
- 2 Providing technical and administrative management for the Project;
- 3 Liable for payment of salaries and benefits including compensating them for anything relating to their rights;
- 4 Sub-contracting and coordinating with sub-contractors, including monitoring and taking corrective actions with respect to their progress relating to sub-contracted activities;
- 5 Completing all activities related to the Project with all relevant Government authorities and private sector;
- 6 Liable to pay for insurance, taxes and fines imposed by any party relating to the project;
- 7 Provide all required guarantees for the Project;
- 8 Performance of all activities and is responsible for all the obligations relating to the Project from all aspects including facilitating and elimination of any issues through out the Project and provide anything necessary from the date of contracting until the date of completion and hand over, without any problems to the owners of the Project;
- 9 ERESKO has the right to end the agreement at its own will and discretion solely without any condition / restriction / legal requirements and without the need to obtain any legal approval;
- 10 Obligated to provide the agreement to any parties financing the Project;
- 11 Agrees to pay 1.5% of the contract value to ERESKO and the payment is to be made upon receipt of any installment relating to the Project. Further, the percentage will also be applied to any increase in the contract value which is in compensation for ERESKO's expertise and contributions through their representatives; and
- 12 Relieves ERESKO from any obligations related to the Project and ERESKO does not guarantee neither support any obligation with respect to the Project contract.

Subsequently an agreement was also signed on 11 November 2015 between Tamcon Contracting and ERESKO, which states that the later will not have any right in the share of assets and profits of ERESKO Tamcon JV B.S.C. (c).

Considering the key terms of the above arrangement and despite the legal form, ERESKO Tamcon JV B.S.C. (c) is deemed to be fully controlled by Tamcon and is therefore consolidated as a 100% owned subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

3 BASIS OF PREPARATION (continued)

3.4 New standard issued but not yet effective

The standard issued but not yet effective, up to the date of issuance of the Group's financial statements is disclosed below. The Group intends to adopt this standard, when it becomes effective.

FAS 30 - Impairment, Credit Losses and Onerous Contracts (FAS 30)

FAS 30 was issued in November 2017. The requirements relating to impairment and credit losses of FAS 30 represent a significant change from FAS 11 "Provisions and Reserves". The standard is effective from the financial periods beginning on or after 1 January 2020, where early adoption is permitted. The Group has not early adopted the standard and is in the process of making an assessment of the impact of impairment requirements of FAS 30 on accumulated retained earnings.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year as none of the 2017 changes in AAOIFI financial accounting standards (FAS) had any impact on the financial statements of the Group.

a. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash in hand, bank balances and short term deposits with an original maturity of three months or less.

b. Accounts receivable

Accounts receivables are financial assets with fixed or determinable payment that are not quoted in active market. After initial measurement, such financial assets are subsequently measured at amortised cost, less impairment. The loss arising from impairment are recognised in the consolidated statement of income as provision for impairment for receivables.

c. Investments

Investments comprise equity-type instruments at fair value through equity, investment in real estate, properties under development and investment in a joint venture and associates.

Equity-type instruments at fair value through equity

This includes all equity-type instruments that are not fair valued through consolidated statement of income. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised in owners' equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity is recognised in consolidated statement of income.

Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as 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, investment in real estate are re-measured at fair value and changes in fair value (only gains) are recognised through the consolidated statement of owners' equity.

Losses arising from changes in the fair values of investment in real estate are recognised in the consolidated statement of income. When the property is disposed of, the gains or losses arising on disposal is taken to the consolidated statement of income.

Investment in a joint venture and associates

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Investments (continued)

Under the equity method, investment in a joint venture and associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the joint venture and associates. The consolidated statement of income reflects the Group's share of the results of operations of the joint venture and associates. Where there has been a change recognised directly in the equity of the joint venture and associates, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture and associates are eliminated to the extent of the interest in the joint venture and associates.

The reporting dates of the joint venture and associates and the Group are identical and the joint venture's and associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the Group's investment in joint venture and associates. The Group determines at each reporting date whether there is any objective evidence that investment in a joint venture or associates is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the joint venture and associates and its carrying value and recognises the impairment in the consolidated statement of income.

d. Fair values

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the consolidated statement of financial position date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- (iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

e. Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Depreciation on premises and equipment is provided on a straight-line basis over the following estimated useful lives:

Building on leasehold land	25 years
Machinery, equipment, furniture and fixtures	3-5 years
Computer hardware and software	3 years
Motor vehicles	3 years

f. Other liabilities and accounts payable

Trade and other payables are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Financing from a bank

Financing from a bank is recognised initially at the proceeds received, net of transaction cost incurred. Subsequently, these are carried at amortised cost.

h. Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from the equity of the parent and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in the equity of the parent. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

i. Derecognition of financial assets and financial liabilities

(i) Financial assets

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

- the rights to receive cash flows from the asset have expired;
- 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; and
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

j. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and reliably measurable. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

k. Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective profit rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment for financial assets.

l. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

m. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Income from properties

Rental income arising from operating leases on investment in real estate is accounted for on a straight-line basis over the lease terms and is included under revenue in the consolidated statement of income due to its operating nature.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Revenue recognition (continued)

(ii) Fee from management and other services

Fee from management and other services and project management fees are recognised based on the stage of completion of the service at the consolidated statement of financial position date by reference to the contractual terms agreed between the parties.

(iii) Income from investments

Income from investments is recognised when earned.

(iv) Income from construction contracts

Contract income is recognised under the percentage of completion method.

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised by reference to the stage of physical completion of the contract. Contract income and costs are recognised as income and expenses in the consolidated statement of income in the accounting year in which the work is performed. The contract income is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of income, expenses and profit which can be attributed to the proportion of work completed. Profits expected to be realised on construction contracts are based on estimates of total income and cost at completion.

When the outcome of a construction contract cannot be estimated reliably, the contract income is recognised to the extent of contract costs incurred up to the year end where it is probable those costs will be recoverable. Contract costs are recognised when incurred. The excess of progress billings over contract costs is classified under trade and other payables as due to customers for construction contracts.

Losses on contracts are assessed on an individual contract basis and if estimates of cost to complete the construction contracts indicate losses, provision is made for the full losses anticipated in the period in which they are first identified.

The aggregate of the costs incurred and the profit or loss recognised on each contract is compared against the progress billings up to the year end. Where the sum of the costs incurred and recognised profit or loss exceeds the progress billings, the balance is shown under trade and other receivables as due from customers for construction contracts. Where the progress billings exceed the sum of costs incurred and recognised profit or loss, the balance is shown under trade and other payables as due to customers for construction contracts.

n. Shari'a supervisory board

The Group's business activities are subject to the supervision of a Shari'a supervisory board who are appointed by the general assembly.

o. Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for various social welfare activities.

p. Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing on the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated into United States Dollars at functional currency rates of exchange prevailing at the statement of financial position date. Any gains or losses are recognised in the consolidated statement of income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Employees' end of service benefits

Bahraini employees are covered by the Social Insurance Organisation scheme which comprises a defined contribution scheme to which the Group contributes a monthly sum based on a fixed percentage of the salary. The contribution is recognised as an expense in the consolidated statement of income.

The Group provides end of service benefits to its non-Bahraini employees. Entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits which comprise a defined benefit scheme are accrued over the period of employment based on the notional amount payable if all employees had left at the statement of financial position date.

r. Impairment of financial assets

An assessment is made at each financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income.

In the case of equity-type instruments at fair value through equity, impairment is reflected directly as write down of the financial asset. Impairment losses on equity-type instruments at fair value through equity are not reversed through the consolidated statement of income, while any subsequent increase in their fair value are recognised directly in owners' equity.

s. Events after the statement of financial position date

The consolidated financial statements are adjusted to reflect events that occurred between the statement of financial position date and the date the consolidated financial statements are authorised for issue, provided they give evidence of conditions that existed as of the statement of financial position date. Events that are indicative of conditions that arose after the statement of financial position date are disclosed, but do not result in an adjustment to the consolidated financial statements.

t. Zakah

Individual shareholders are responsible for payment of Zakah.

5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Classification of investments

Management decides on acquisition of an investment, whether it should be classified as equity-type instrument at fair value through the consolidated statement of income, equity-type instruments at fair value through equity or debt-type instrument at amortised cost.

As at 31 December 2017

5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Estimates and assumptions

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 consolidated financial statements.

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.

Special purpose entities

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

Impairment and uncollectibility of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the value to it of anticipated future cash flows, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value.

Liquidity

The Group manages its liquidity through consideration of the maturity profile of its assets and liabilities which is set out in the liquidity risk disclosures in note 32 to the consolidated financial statements. This requires judgement when determining the maturity of assets and liabilities with no specific maturities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

6 ACQUISITION OF A SUBSIDIARY*Acquisition of BIW Labour Accommodation Co W.L.L.*

During July 2017, the Group increased its effective equity stake in one of its associates (BIW Labour Accommodation Co W.L.L.) to 56.67%, resulting in de-recognition of its investment in associate and acquisition of investment in a subsidiary (BIW Labour Accommodation Co W.L.L.) giving the Group controlling stake as per the new shareholding.

The Group has elected to measure the non-controlling interest in the acquiree at their proportionate share of the acquiree's identifiable net assets.

Identifiable net assets

The fair value of the identifiable assets and liabilities of BIW Labour Accommodation Co W.L.L. as at the date of acquisition were:

	1 July 2017 Fair value recognised on acquisition US\$ '000
Assets	
Investment properties	28,779
Accounts receivables and other assets	487
Cash and cash equivalents	4,525
	<u>33,791</u>
Liability	
Accounts payables	(1,635)
	<u>32,156</u>
Total identifiable net assets at fair value	<u>32,156</u>
Non-controlling interest measured at share of net assets (43.33%)	(13,934)
Gain on bargain purchase	(129)
	<u>18,093</u>
Purchase consideration	<u>18,093</u>
Total consideration comprised of :	
Investment in associate derecognised (note 10)	17,785
Cash consideration	308
	<u>18,093</u>

7 CASH AND BANK BALANCES

	2017 US\$ '000	2016 US\$ '000
Short-term deposits (with an original maturity of 90 days or less)	4,244	21,049
Current account balances with banks (note 7.1)	17,249	11,526
Cash in hand	47	42
	<u>21,540</u>	<u>32,617</u>
Total cash and cash equivalents	<u>21,540</u>	<u>32,617</u>
Short-term deposits (with an original maturity of more than 90 days)	200	7,449
	<u>21,740</u>	<u>40,066</u>
Total cash and bank balances	<u>21,740</u>	<u>40,066</u>

Note 7.1

Current account balances with banks include US\$ 7.63 million (31 December 2016: US\$ 7.96 million) balance with a bank relating to one of the subsidiary of the Group, which has received an advance from a client to start work on construction contract. The current account balances with banks are non-profit bearing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

8 ACCOUNTS RECEIVABLE

	2017	2016
	US\$ '000	US\$ '000
Amounts due from related parties (note 28)	33,089	20,484
Trade receivables	30,547	30,061
Other receivables	11,233	11,536
Rent receivable	996	521
	<u>75,865</u>	<u>62,602</u>
Less: provision for impaired receivables	<u>(30,482)</u>	<u>(24,365)</u>
	<u><u>45,383</u></u>	<u><u>38,237</u></u>

Amounts due from related parties are unsecured, bear no profit, have no fixed repayment terms and are authorised by the Group's management.

The movement in the Group's provision for impaired receivables is as follows:

	2017	2016
	US\$ '000	US\$ '000
At 1 January	24,365	27,023
Charge during the year (note 2)	15,534	13
Write back during the year	(9,417)	(2,653)
Write off during the year	-	(18)
At 31 December	<u><u>30,482</u></u>	<u><u>24,365</u></u>

9 INVESTMENTS

	2017	2016
	US\$ '000	US\$ '000
Equity-type instruments at fair value through equity - Unquoted		
Real estate related	23,273	23,769
Others	3,642	6,892
	<u>26,915</u>	<u>30,661</u>
Less: Provision for impairment	<u>(8,428)</u>	<u>(11,678)</u>
At 31 December	<u><u>18,487</u></u>	<u><u>18,983</u></u>

Equity-type investments at fair value through equity include investments in unlisted companies whose shares are not traded on active markets. The investments are primarily in closely-held companies located in the Gulf Co-operation Council ("GCC"). The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for accruing at a reliable fair value.

None of the investments are secured as collateral against the financing facilities obtained during 2017 and 2016.

The movement in provision for impairment on investments is as follows:

	2017	2016
	US\$ '000	US\$ '000
At 1 January	11,678	11,678
Write off	(3,250)	-
At 31 December	<u><u>8,428</u></u>	<u><u>11,678</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

10 INVESTMENT IN A JOINT VENTURE AND ASSOCIATES

	2017 US\$ '000	2016 US\$ '000
At 1 January	91,629	91,692
Acquisitions during the year	6,788	238
Gain on bargain purchase	3,393	-
Net share of income / (loss)	1,165	(301)
Transfer from investments	748	-
Transfer to a subsidiary (note 6)	(17,785)	-
At 31 December	85,938	91,629

The Group maintains a provision for impairment of US\$ 13.4 million (31 December 2016: US\$ 13.4 million) against its investment in a joint venture and associates.

The Group has an investment in the following joint venture:

Name	Principal activities	Ownership	
		2017	2016
First Gulf Real Estate Company WLL <i>(Investment acquired as a result of consolidation of Dannat Resort Development Company Ltd)</i>	Purchase of land and construct buildings thereon for investments through sale or lease, manage and maintain real estates	55.56%	55.56%

Name	Country of Incorporation	Carrying value	
		2017 US\$ '000	2016 US\$ '000
First Gulf Real Estate Company WLL	Kingdom of Saudi Arabia	41,932	41,984

Summarised financial information of joint venture

Summarised financial information of the joint venture based on the management accounts, is presented below:

	2017 US\$ '000	2016 US\$ '000
Total assets	76,140	76,136
Total liabilities	662	565
Total revenues	-	-
Total net loss	(93)	(51)

The joint venture had no contingent liabilities or capital commitments as at 31 December 2017 and 2016.

The principal associates of the Group are:

Name of associate	Principal activities	Ownership	
		2017	2016
Durrat Marina Investment Company Ltd.	Development and sale of commercial and residential properties	27.39%	25.78%
BIW Labour Accommodation W.L.L. (note 6)	Development and maintenance of labour	-	27.08%
Takhzeen Warehousing and Storage Company B.S.C. (c)	Management and maintenance of warehouses	37.24%	37.24%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

10 INVESTMENT IN A JOINT VENTURE AND ASSOCIATES (continued)

Name of associate	Country of Incorporation	Carrying Value	
		2017 US\$ '000	2016 US\$ '000
Boyot Al Mohandseen Contracting Company	Development of real estate in Dhahran, Kingdom of Saudi Arabia	23.17%	23.17%
Durrat Marina Investment Company Ltd.	Cayman Islands	35,065	32,672
BIW Labour Accommodation W.L.L.	Kingdom of Bahrain	-	8,283
Takhzeen Warehousing and Storage Company B.S.C. (c)	Kingdom of Bahrain	5,298	5,048
Boyot Al Mohandseen Contracting Company	Kingdom of Saudi Arabia	3,643	3,642
		44,006	49,645

Summarised financial information of associates, based on the management accounts, are presented below:

	2017 US\$ '000	2016 US\$ '000
Summarised financial information of associates		
Total assets	167,505	204,739
Total liabilities	9,086	17,699
Total revenues	6,223	814
Total net income / (loss)	4,675	(1,319)

The associates had no contingent liabilities or capital commitments as at 31 December 2017 and 2016.

11 INVESTMENTS IN REAL ESTATE

	2017 US\$ '000	2016 US\$ '000
At 1 January	50,810	64,063
Acquisition of a subsidiary (note 6)	28,779	-
In-kind settlement of receivables	5,199	-
In-kind settlement of dividend (note 12.1)	1,976	-
Gain on sale of investment in real estate	1,256	1,403
Purchases during the year	-	3,154
Unrealised fair value loss on investment in real estate (note 19)	(749)	-
Disposals during the year	(10,448)	(17,810)
At 31 December	76,823	50,810

Investments in real estate are stated at fair value which has been determined based on valuations performed by accredited independent property valuers. The valuations undertaken were based on open market values, which represent the prices at which the properties could be exchanged between knowledgeable willing buyers and knowledgeable willing sellers in an arm's length transaction.

Investments in real estate based on valuations performed by external property valuers amounted to US\$ 80.30 million (31 December 2016: US\$ 54.73). However, due to illiquid nature of the real estate market and slowdown within the economic environment, the management believes the current carrying value of investments in real estate amounting to US\$ 76.82 million (31 December 2016: US\$ 50.81 million) approximates its fair value.

Investments in real estate stated at a carrying amount of US\$ 24.12 million (31 December 2016: US\$ 25.18 million) are secured as collateral against the financing facilities obtained (note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

12 PROPERTY, PLANT AND EQUIPMENT

	<i>Buildings on leasehold land US\$ '000</i>	<i>Machinery, equipment and fixtures US\$ '000</i>	<i>Computer hardware and software US\$ '000</i>	<i>Motor vehicles US\$ '000</i>	<i>Capital work-in- progress US\$ '000</i>	<i>Total US\$ '000</i>
Cost						
At 1 January 2017	7,905	9,657	1,458	2,235	4,177	25,432
Transfers	4,177	-	-	-	(4,177)	-
Additions	18	901	49	94	-	1,060
In kind settlement of dividend (note 12.1)	(1,978)	-	-	-	-	(1,978)
Disposals	-	(69)	(28)	(66)	-	(161)
At 31 December 2017	10,122	10,489	1,481	2,263	-	24,365
Accumulated depreciation						
At 1 January 2017	1,112	5,683	1,267	1,280	-	9,342
Charge	400	1,367	97	271	-	2,135
Disposals	-	(49)	(25)	(13)	-	(87)
At 31 December 2017	1,512	7,001	1,339	1,538	-	11,390
Net book amount:						
At 31 December 2017	8,610	3,488	142	725	-	12,965
At 31 December 2016	6,793	3,974	191	955	4,177	16,090

Note 12.1

During November 2017, one of the fully owned subsidiary of the Group, announced and paid in kind dividend amounting to US\$ 1,976 thousand.

Depreciation on property, plant and equipment charged to the consolidated statement of income is as follows:

	2017 US\$ '000	2016 US\$ '000
Depreciation charged to contract costs (note 18)	1,405	1,422
Depreciation charged to expenses	730	312
	2,135	1,734

13 OTHER ASSETS

	2017 US\$ '000	2016 US\$ '000
Advances to contractors	3,552	6,249
Prepayments	466	791
	4,018	7,040

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

14 OTHER LIABILITIES AND ACCOUNTS PAYABLE

	2017 US\$ '000	2016 US\$ '000
Lease rent payables (note 14.1)	50,105	50,105
Accruals and other payables	26,178	15,501
Advance from a client for construction contract	9,439	23,456
Case compensation and other contingencies (note 14.2)	8,739	8,739
Retentions payable	4,187	3,068
Trade payables	3,578	7,308
Amounts due to related parties (note 14.3)	30	146
	<u>102,256</u>	<u>108,323</u>

Note 14.1

The Group entered into a long term lease contract with the Ministry of Industry and Commerce ("MOIC") in December 2005, effective from May 2006, for a period of 50 years.

In accordance with the terms of the agreement with the MOIC, from the date of signing the agreement, no lease rent is payable for the first two years of the lease period, from 2006 to 2007. Lease rent payable, for the lease period (from 2008-2025), was deferred due to the cost incurred by the Group on the reclamation of the leasehold land. Thereafter, the Group is required to pay lease rental over thirty years (from 2026 to 2056).

Note 14.2

During 2015, a case was filed by one of the investor against one of the project company and the Company with respect to its investment within the project company. On 10 June 2015, the Bahrain Chamber for Dispute Resolution (BCDR) issued its judgment, compelling the project company and the Company to pay an amount of US\$ 701 thousand including interest of 4% p.a. of US\$ 26 thousand from the date of the claim until full settlement plus US\$ 8 thousand lawyer fees and other suitable expenses.

The company has a history of legal claims filed against it. Due to such claims history the management has made an assessment of potential future claims against the company and accordingly made an additional provision of US\$ 8,030 thousand for such future contingencies.

Note 14.3

Amounts due to related parties are unsecured, bear no profit, have no fixed repayment terms and are authorised by the Group's management.

15 FINANCING FROM A BANK

	2017 US\$ '000	2016 US\$ '000
Commodity murabaha financing	<u>12,927</u>	<u>16,408</u>

The Group has obtained the financing from banks to fund the acquisition of investments, purchase of properties and to meet working capital requirements. The outstanding liability bears market rate of profit and are repayable in accordance with the repayment terms agreed with the respective bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

16 SHARE CAPITAL

	2017 US\$ '000	2016 US\$ '000
Authorised		
375,000,000 (31 December 2016: 375,000,000) ordinary shares of US\$0.40 each	150,000	150,000
Issued and fully paid-up		
Opening balance		
286,511,225 (31 December 2016: 286,511,225) ordinary shares of US\$0.40 each	114,604	114,604
Treasury shares		
Less: 3,500,000 (31 December 2016: 1,627,825) treasury shares	(1,239)	(651)
Closing balance		
283,011,225 (31 December 2016: 284,883,400) ordinary shares	113,365	113,953

Additional information on shareholding pattern

Names and nationalities of the major shareholders and the number of shares they hold, without considering the treasury shares, are disclosed below (where their shareholding amounts to more than 5% or more of outstanding shares):

At 31 December 2017

<i>Name</i>	<i>Incorporation</i>	<i>Number of shares</i>	<i>% holding</i>
Asaad Abdulaziz Abdulla Alsanad	Kuwait	70,550,155	24.62%
Gulf Investment House	Kuwait	38,981,591	13.61%
Mechanism General Trading Company	Kuwait	24,950,000	8.71%
Dubai Islamic Bank	United Arab Emirates	19,748,883	6.89%
Others	Various	132,280,596	46.17%
		286,511,225	100%

At 31 December 2016

<i>Name</i>	<i>Incorporation</i>	<i>Number of shares</i>	<i>% holding</i>
Gulf Investment House	Kuwait	38,981,591	13.61%
Asaad Abdulaziz Abdulla Alsanad	Kuwait	20,969,996	7.32%
Dubai Islamic Bank	United Arab Emirates	19,748,883	6.89%
Romac Real Estate Co.	Kuwait	14,370,000	5.02%
Others	Various	192,440,755	67.17%
		286,511,225	100%

The Company has only one class of equity shares and the holders of these shares have equal voting rights. Further, all the shares issued are fully paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

16 SHARE CAPITAL (continued)

Additional information on shareholding pattern (continued)

Distribution schedule of shares, setting out the number and percentage of holders is disclosed below:

At 31 December 2017

Categories:	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	80,750,187	740	28.18%
1% up to less than 5%	51,530,409	10	17.99%
5% up to less than 10%	44,698,883	2	15.60%
10% up to less than 50%	109,531,746	2	38.23%
	286,511,225	754	100%

At 31 December 2016

Categories:	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	76,879,397	680	26.83%
1% up to less than 5%	115,561,358	19	40.33%
5% up to less than 10%	55,088,879	3	19.23%
10% up to less than 50%	38,981,591	1	13.61%
	286,511,225	703	100%

At 31 December 2017, the Company did not have elected Board of Directors (note 2) thus no share was held by the Board of directors out of the total issued and fully paid-up share capital of the Company (31 December 2016: 0.41%).

	Number of shares
31 December 2016	
Fareed Soud Al-Fozan	962,650
Yousif Al Rasheed Al Bader	103,500
Bader Khalifa Al Adsani	100,000
	1,166,150

17 SHARE PREMIUM AND RESERVES

a. Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Company's articles of association, 10% of the net profit for the year is required to be transferred to a statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 50% of paid up share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain. Transfer to the statutory reserve of US\$ 586 thousand has been made for the year ended 31 December 2017 (31 December 2016: US\$ 1,011 thousand).

b. Share option reserve

This represents the difference between the grant price and fair value of the Company's share options issued to the Group's employees in accordance with the Employee Share Option Plan ("ESOP") Scheme.

c. Treasury shares

This represents weighted average cost of own shares held in treasury and under the employee incentive scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

17 SHARE PREMIUM AND RESERVES (continued)**d. Share premium**

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue costs, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law.

18 NET INCOME FROM CONSTRUCTION CONTRACTS

	2017 US\$ '000	2016 US\$ '000
Contract income	84,374	79,185
Contract costs	(72,660)	(71,534)
	<u>11,714</u>	<u>7,651</u>

The contract costs include depreciation amounting to US\$ 1,405 thousand (31 December 2016: US\$ 1,422 thousand) (note 12).

19 INCOME FROM INVESTMENT IN REAL ESTATE

	2017 US\$ '000	2016 US\$ '000
Rental income	3,474	1,566
Realised gains on sale of investment in real estate	1,256	1,403
Reversal of unearned income	-	531
Unrealised fair value losses on investment in real estate (note 11)	(749)	-
	<u>3,981</u>	<u>3,500</u>

20 INCOME FROM INVESTMENTS

	2017 US\$ '000	2016 US\$ '000
Gain on bargain purchase - associate	3,393	10
Realised gain / (loss) on sale of an investment	500	(3)
Dividend income	319	613
Fair value gain on transfer of investment to investment in a joint venture and associates	252	-
Gain on bargain purchase - subsidiary (note 6)	129	-
Realised gain on sale of non-current asset held for sale	-	871
	<u>4,593</u>	<u>1,491</u>

21 FEE FOR MANAGEMENT AND OTHER SERVICES

	2017 US\$ '000	2016 US\$ '000
Property and facility management income	545	1,695
Financial advisory service charges	127	143
	<u>672</u>	<u>1,838</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

22 OTHER INCOME

	2017	2016
	US\$ '000	US\$ '000
Profit on short-term deposits	629	450
Electricity and water services	238	844
Reversal of accrued expense for case compensation	-	142
Others	216	355
	1,083	1,791

23 STAFF COSTS

	2017	2016
	US\$ '000	US\$ '000
Salaries and benefits	4,420	3,747
Other staff expenses	678	955
	5,098	4,702

24 GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
	US\$ '000	US\$ '000
Legal and professional fees	751	868
Rent, rates and taxes	687	695
Board member expenses	571	389
Advertising and marketing	284	141
Foreign exchange loss	266	-
Travelling and transportation	199	133
IT related expenses	148	181
Financial penalties (note 24.1)	93	-
Other expenses	229	225
	3,228	2,632

Note 24.1

During 2017, the Company violated Article 52 of the CBB Law, Resolution No. 27 of 2015, and the General Requirements Module of the CBB Rulebook Volume 4 as the Company failed to obtain CBB's prior written approval on the changes to controller. The Company also violated Article 163 of CBB Law and Rule EN-5.3.1 of the Enforcement Module of CBB Rulebook Volume 4 as the Company provided misleading information to the CBB with regards to the holdings of company's controller. Therefore CBB imposed financial penalty of US\$ 27 thousand for breaching these rules.

CBB imposed financial penalty of US\$ 13 thousand for purchasing treasury shares on 2 July 2017 which is well beyond the 90 days approved validity period ended on 23 June 2017 thus breaching the TMA-1.16 of the Takeovers, Mergers and acquisitions of Volume 6 of the CBB Rulebook.

Further, CBB also imposed a financial penalty of US\$ 53 thousand for breaching BCCL and CBB Rules mentioned in note 2 of this financial statements for dealing with a related party company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

25 (PROVISION) / RECOVERIES FROM IMPAIRED RECEIVABLES

During 2017, the Group booked a provision against one of its related party receivables amounting US\$ 15,534 thousand (note 2) (31 December 2016: 13 thousand).

During 2017, the Group collected US\$ 6,154 thousand (31 December 2016: 2,653 thousand) representing final settlement against outstanding account receivables due from one of its related parties and, hence, the respective provision amount has been reversed.

The Group reversed an amount of US\$ 3,263 thousand (31 December 2016: nil) as a result of settlements in respect of outstanding account receivables due from third parties.

26 DIVIDEND PAID

Following the shareholders' approval at the Annual General Meeting held on 5 March 2017, cash dividend of US\$ 2.80 cents per share totalling US\$ 7,977 thousand was paid for the year ended 31 December 2016 (31 December 2015: nil).

27 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

	2017	2016
	US\$ '000	US\$ '000
Income attributable to the equity shareholders of the parent for the year	5,855	10,105
Weighted average number of shares outstanding at the beginning and end of the year	284,535	284,883
Earnings per share - US\$ cents	2.06	3.55

The Company does not have any potentially dilutive ordinary shares, hence the diluted earnings per share and basic earnings per share are identical.

28 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, key management personnel, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Group and Shari'a Supervisory Board members and external auditors.

Terms and conditions of transactions with related parties

The Group enters into transactions, arrangements and agreements with its related parties in the ordinary course of business at terms and conditions approved by the Board of Directors. The transactions and balances arose from the ordinary course of business of the Group except for what is disclosed in note 2 to the consolidated financial statements. Outstanding balances at the year end are unsecured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

28 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

The related party balances included in the consolidated financial statements are as follows:

	31 December 2017		31 December 2016	
	Key		Key	
	management personnel/ Board members/ external auditors	Associates and joint venture	management personnel/ Board members/ external auditors	Associates and joint venture
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Accounts receivable - gross	9,488	23,601	33,089	4,234
Provision	(8,764)	(17,899)	(26,463)	(2,225)
Accounts receivable - net	724	5,902	6,626	2,009
Other liabilities and accounts payable	1	1	30	-
				3,342
				146
				20,484
				(17,142)

* The amount mainly comprise of one-off related party transaction and the respective provision as disclosed in note 2 of the consolidated financial statements.

The related party transactions included in the consolidated financial statements are as follows:

	31 December 2017		31 December 2016	
	Key		Key	
	management personnel/ Board members/ external auditors	Associates and joint venture	management personnel/ Board members/ external auditors	Associates and joint venture
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Income				
Fees for management and other services	32	109	141	210
Net income / (loss) from construction contracts	-	564	564	(509)
Net share of income / (loss) from investment in a joint venture and associates	1,165	-	1,165	-
Other income	-	25	25	-
	1,197	698	1,895	(299)
Expenses				
Staff costs	-	1,627	1,627	-
General and administrative expenses	9	618	698	48
	9	2,245	2,325	48
Recoveries / (provision) for impaired receivables (note 25)	6,154	(15,534)	(9,380)	(12)
				2,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

28 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Compensation of the key management personnel is as follows:

	2017 US\$ '000	2016 US\$ '000
Salaries and other benefits	<u>1,627</u>	<u>1,425</u>

29 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business segments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. For management purposes, the Group is organised into four major business segments.

The accounting policies of the segments are the same as those applied in the preparation of the Group's consolidated financial statements as set out in note 3 to the consolidated financial statements. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment information is disclosed as follows:

	31 December 2017					
	<i>Investment and related services US\$ '000</i>	<i>Construction Contracts US\$ '000</i>	<i>Development and sale of Industrial plots US\$ '000</i>	<i>Property and facility management services US\$ '000</i>	<i>Eliminations US\$ '000</i>	<i>Total US\$ '000</i>
Net revenues from external customers	1,816	11,714	2,741	96	-	16,367
Inter-segment transactions	-	-	-	96	(96)	-
Income from investments	3,137	-	3,432	-	(1,976)	4,593
Net share of profit / (loss) from investment in a joint venture and associates (note 10)	675	-	575	-	(85)	1,165
Other income	143	44	878	27	(9)	1,083
Total revenue	<u>5,771</u>	<u>11,758</u>	<u>7,626</u>	<u>219</u>	<u>(2,166)</u>	<u>23,208</u>
Segment (loss) / profit	<u>(13,162)</u>	<u>7,985</u>	<u>13,133</u>	<u>96</u>	<u>(2,000)</u>	<u>6,052</u>
Segment assets	<u>280,609</u>	<u>67,324</u>	<u>91,694</u>	<u>3,555</u>	<u>(177,828)</u>	<u>265,354</u>
Segment liabilities	<u>63,821</u>	<u>34,173</u>	<u>56,834</u>	<u>2,027</u>	<u>(41,672)</u>	<u>115,183</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

29 SEGMENTAL INFORMATION (continued)

	31 December 2016					
	<i>Investment and related services</i> US\$ '000	<i>Construction Contracts</i> US\$ '000	<i>Development and sale of industrial plots</i> US\$ '000	<i>Property and facility management services</i> US\$ '000	<i>Eliminations</i> US\$ '000	<i>Total</i> US\$ '000
Net revenues from external customers	2,119	7,651	2,943	276	-	12,989
Income from investments	1,491	-	-	-	-	1,491
Net share of (loss) / income from investment in a joint venture and associates (note 10)	(518)	-	217	-	-	(301)
Other income	566	111	1,096	18	-	1,791
Total revenue	3,658	7,762	4,256	294	-	15,970
Segment (loss) / profit	(1,919)	5,467	6,422	115	-	10,085
Segment assets	246,248	71,288	60,973	1,466	(117,118)	262,855
Segment liabilities	49,498	40,774	55,193	34	(20,768)	124,731

30 CONTINGENCIES AND COMMITMENTS

Credit-related commitments include commitments to extend guarantees and acceptances which are designed to meet the requirements of the Group's customers. Guarantees and acceptances commit the Group to make payments to third parties on behalf of customers in certain circumstances.

The Group has the following credit related commitments:

	2017 US\$ '000	2016 US\$ '000
Guarantees	23,200	27,578

The Group has the following operating lease commitments:

	2017 US\$ '000	2016 US\$ '000
Future minimum lease payments:		
Within one year	464	482
After one year but not more than five years	563	933
Total	1,027	1,415

31 FIDUCIARY ASSETS

The assets managed on behalf of customers, to which the Group does not have any legal title are not included in the consolidated statement of financial position. At 31 December 2017, the carrying value of such assets is US\$ 144 million (31 December 2016: US\$ 166 million).

As at 31 December 2017

32 RISK MANAGEMENT

Risk is defined as the combination of severity and frequency of potential loss over a given time horizon and is inherent in the Group's activities. Risk can be expressed in the dimensions of potential severity of loss (magnitude of impact) and potential loss frequency (likelihood of occurrence). Risk management is the process by which the Group identifies key risks, sets consistent understandable risk measures, chooses which risks to reduce, which to increase and by what means, and establishes procedures to monitor the resulting risk position. Risk management is the discipline at the core of every financial institution and encompasses all the activities that affect its risk profile. It involves identification, measurement, monitoring and controlling risks to ensure that optimum value is created for the shareholders through an optimum return on equity by an appropriate trade-off between risk and return.

Effective risk management is the cornerstone of capital structure. The vision of risk management is to address all aspects of risk which the Group may be exposed to. The Group's risk function is independent of lines of business and the Head of Risk and Compliance is appointed by the Board Risk Committee, who then report to the Board of Directors. The key role of the risk management function is defining, identifying and reducing risks, and being independent and objective.

The Group has exposure to risks, which include credit, market, liquidity, reputation, compliance and operational risks. Market risk includes currency, equity price and profit rate risk. Taking risk is core to the financial business. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Group's financial performance.

Risk governance

The Board of Directors of the Group has overall responsibility for the oversight of the risk management framework and reviewing its risk management policies and procedures. The risks both at portfolio and transactional levels are managed and controlled through the Board Risk Committee.

a) Credit risk

Credit risk is defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with the agreed terms. The goal of credit risk management is to maximize the Group's risk-adjusted rate of return by maintaining credit exposures within acceptable parameters. The Group has well-defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all the Group's activities.

i) *Maximum exposure to credit risk without taking account of any collateral and other credit enhancements*

The Group's maximum exposure to on-balance sheet credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure, is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract.

The table shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements, but after impairment provisions, where applicable.

	Gross maximum exposure 2017 US\$ '000	Gross maximum exposure 2016 US\$ '000
Accounts receivable	45,383	38,237
Commitments and contingent liabilities	23,200	27,578
Total	68,583	65,815

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

32 RISK MANAGEMENT (continued)

a) Credit risk (continued)

ii) *Aging of past due but not impaired facilities*

The following table summarises the aging of past due but not impaired assets as of:

	31 December 2017				
	Up to 6 months	6-12 Months	1-3 Years	3 Years and above	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Accounts receivable	18,397	4,225	7,925	-	30,547

	31 December 2016				
	Up to 6 months	6-12 Months	1-3 Years	3 Years and above	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Accounts receivable	19,534	6,763	3,764	-	30,061

Accounts receivables amounting to US\$ 32.37 million (31 December 2016: US\$ 27.28 million) have been classified as individually impaired.

iii) *Concentration risk*

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

The Group's exposure analysed on geographic regions and industry sectors is as follows:

	31 December 2017			31 December 2016		
	Assets	Liabilities	Contingent liabilities	Assets	Liabilities	Contingent liabilities
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Geographic region:						
Kingdom of Bahrain	165,554	105,750	23,200	201,648	124,731	27,578
Other GCC countries	99,800	9,433	-	61,207	-	-
	265,354	115,183	23,200	262,855	124,731	27,578

	31 December 2017			31 December 2016		
	Assets	Liabilities	Contingent liabilities	Assets	Liabilities	Contingent liabilities
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Industry sector:						
Real estate	182,338	69,559	23,200	150,742	30,932	27,578
Non real estate	83,016	45,624	-	112,113	93,799	-
	265,354	115,183	23,200	262,855	124,731	27,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

32 RISK MANAGEMENT (continued)

b) Market risk

Market risk arises from fluctuations in profit rates, foreign exchange rates and equity prices. Market risk is the risk that changes in market risk factors, such as currency risk, profit rates and equity prices will effect the Group's income or the value of its holding of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

i) Profit rate risk

Profit risk is the risk that the Group's profitability or fair value of its financial instruments will be adversely affected by the changes in profit rates. The Group's assets and liabilities are not considered by management to be sensitive to profit rate risk.

ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group views the Bahraini Dinars as its functional currency and United States Dollar as its reporting currency. As at 31 December 2017 and 2016, the Group had net foreign currency exposure in respect of Bahraini Dinars, Saudi Riyals, Kuwaiti Dinars and United Arab Emirates Dirhams. Except for Kuwaiti Dinars, the currencies are pegged to the United States Dollar and thus are considered not to represent significant currency risk. The Group's net exposure to Kuwaiti Dinars is considered minimal.

iii) Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. As the Group has no quoted equity investments, the Group is not exposed to this risk. The Group has unquoted investments carried at cost less provision for impairment where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated statement of income will be impacted, or when a third party transaction in the investment gives a reliable indication of fair value which will be reflected in owners' equity.

c) Liquidity risk

Liquidity risk is the potential inability of the Group to meet cash flows of its maturing obligations to a counterparty. Liquidity risk management seeks to ensure that the Group has the ability, under varying scenarios, to fund increases in assets and meet maturing obligations as they arise. Management of the Group is responsible for its liquidity management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

32 RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2017 based on expected periods to cash conversion from the consolidated statement of financial position date:

	<i>Up to 1 Month US\$ '000</i>	<i>1 to 3 months US\$ '000</i>	<i>3 to 6 months US\$ '000</i>	<i>6 months to 1 year US\$ '000</i>	<i>1 to 5 years US\$ '000</i>	<i>5 to 10 years US\$ '000</i>	<i>Over 10 years US\$ '000</i>	<i>No fixed maturity US\$ '000</i>	<i>Total US\$ '000</i>
ASSETS									
Cash and bank balances	20,479	1,061	-	200	-	-	-	-	21,740
Accounts receivable	16,164	7,630	11,185	1,396	9,008	-	-	-	45,383
Investments	-	-	-	-	18,487	-	-	-	18,487
Investment in a joint venture and associates	-	-	-	-	85,938	-	-	-	85,938
Investments in real estate	-	-	-	-	76,823	-	-	-	76,823
Property, plant and equipment	-	-	-	-	-	-	-	12,965	12,965
Other assets	1,356	1,058	1,119	345	140	-	-	-	4,018
Total assets	37,999	9,749	12,304	1,941	190,396	-	-	12,965	265,354
LIABILITIES									
Other liabilities and accounts payable	10,077	8,123	8,881	5,678	14,821	4,535	50,106	35	102,256
Financing from a bank	-	911	920	1,882	9,214	-	-	-	12,927
Total liabilities	10,077	9,034	9,801	7,560	24,035	4,535	50,106	35	115,183
Net liquidity gap	27,922	715	2,503	(5,619)	166,361	(4,535)	(50,106)	12,930	150,171
Cumulative liquidity gap	27,922	28,637	31,140	25,521	191,882	187,347	137,241	150,171	
Contingencies and commitments	-	-	-	-	23,200	-	-	-	23,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

32 RISK MANAGEMENT (continued)**c) Liquidity risk (continued)**

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2016 based on expected periods to cash conversion from the consolidated statement of financial position date:

	<i>Up to 1 Month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 5 years</i>	<i>5 to 10 years</i>	<i>Over 10 years</i>	<i>No fixed maturity</i>	<i>Total</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
ASSETS									
Cash and bank balances	13,287	20,401	6,309	69	-	-	-	-	40,066
Accounts receivable	16,131	9,827	1,840	1,406	9,033	-	-	-	38,237
Investments	-	-	-	-	18,983	-	-	-	18,983
Investment in a joint venture and associates	-	-	-	-	91,629	-	-	-	91,629
Investments in real estate	-	-	-	-	50,810	-	-	-	50,810
Property, plant and equipment	-	-	-	-	-	-	-	16,090	16,090
Other assets	1,294	1,892	1,018	1,573	1,263	-	-	-	7,040
Total assets	30,712	32,120	9,167	3,048	171,718	-	-	16,090	262,855
LIABILITIES									
Other liabilities and accounts payable	10,415	4,922	5,248	9,353	28,280	-	50,105	-	108,323
Financing from a bank	-	868	875	1,809	12,856	-	-	-	16,408
Total liabilities	10,415	5,790	6,123	11,162	41,136	-	50,105	-	124,731
Net liquidity gap	20,297	26,330	3,044	(8,114)	130,582	-	(50,105)	16,090	138,124
Cumulative liquidity gap	20,297	46,627	49,671	41,557	172,139	172,139	122,034	138,124	
Contingencies and commitments	-	-	-	-	27,578	-	-	-	27,578

d) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

e) Other risks*Regulatory risk*

Regulatory risk is defined as the risk of non-compliance with regulatory and legal requirements in the Kingdom of Bahrain and the State of Kuwait. The Group's Compliance Department is currently responsible for ensuring all regulations are adhered to.

Legal risk

Legal risk is defined as the risk of unexpected losses from transactions and contracts not being enforceable under applicable laws or from unsound documentation. The Group deals with several external law firms to support it in managing the legal risk.

Reputation risk

Reputation risk is defined as the risk that negative perception regarding the Group's business practices or internal controls, whether true or not, will cause a decline in the Group's investor base and lead to costly litigations which could have an adverse impact on the liquidity of the Group. The Board of Directors examines the issues that are considered to have reputation repercussions for the Group and issues directives to address these.

33 SOCIAL RESPONSIBILITY

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

34 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect net income, total assets, total liabilities or owners' equity of the Group as previously reported.