

• INOVEST.

Annual Report 2018

Inovest B.S.C

Commercial registration number
48848 obtained on 18 June 2002

Registered office

Bahrain Financial Harbor, East Tower, 19th Floor
P. O. Box. 18334
Manama, Kingdom of Bahrain
Tel: +973 17 155 777
Fax: +973 17 155 888
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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.

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

Auditors

Ernst & Young (EY)
P.O. Box 140
11th Floor,
Bahrain World Trade Center
Manama, Kingdom of Bahrain



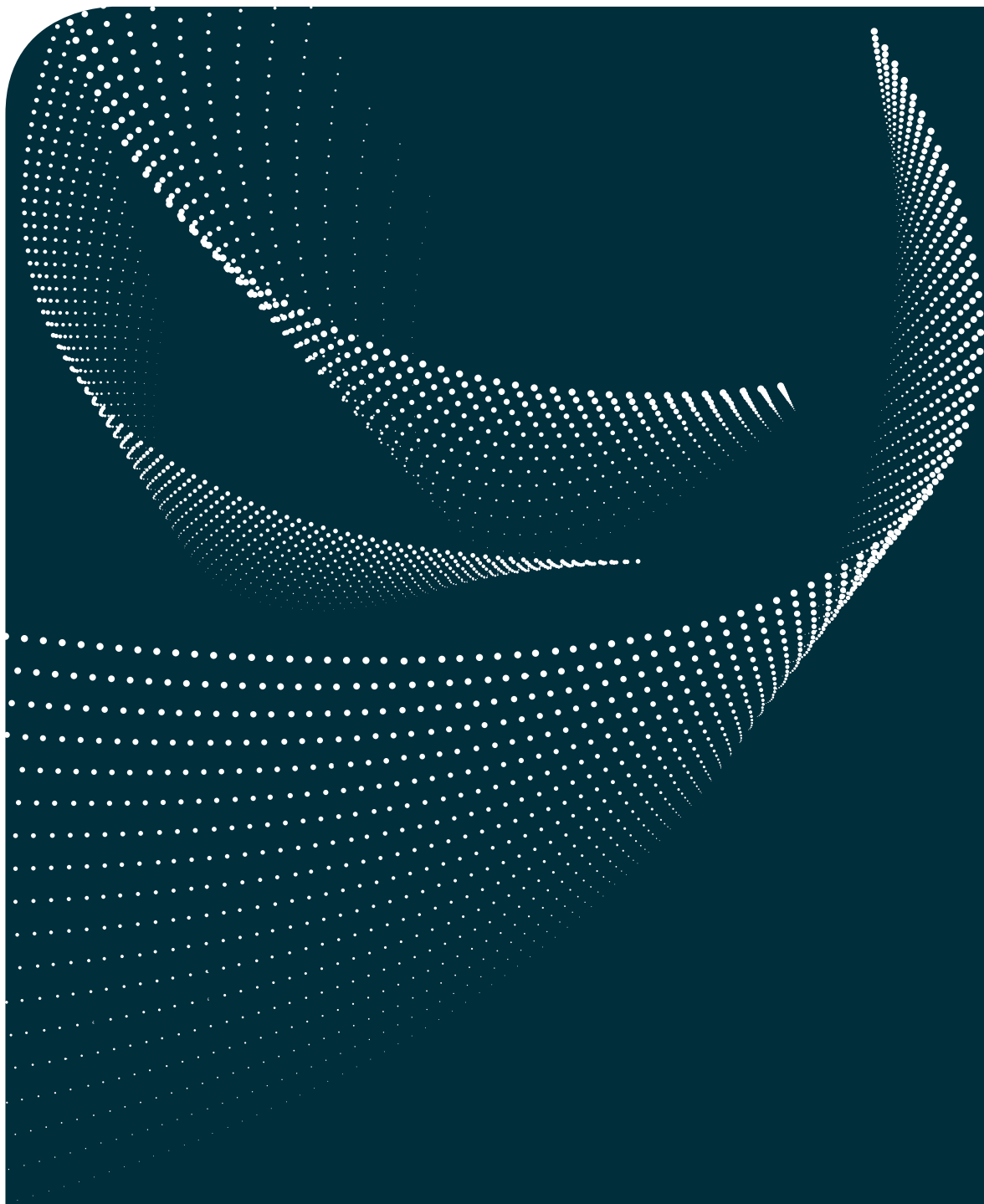
His Royal Highness Prince
Khalifa bin Salman Al Khalifa
The Prime Minister of the
Kingdom of Bahrain



His Majesty
King Hamed bin Isa Al Khalifa
King of the Kingdom of Bahrain



His Royal Highness Prince
Salman bin Hamed Al Khalifa
The Crown Prince and Deputy
Supreme Commander of the
Kingdom of Bahrain



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Board of Directors



Dr. Omar Salem Al Mutawa
Chairman



Mr. Bashar Naser Al Tuwaijri
Vice Chairman



Mr. Meshari Fuad Al Fozan
Board Member



Khaled Abdulaziz Al Ghanem
Board Member



Mr. Meshal Yousef Al Zayed
Board Member



Mr. Abdulrahman Hesham Al Neseef
Board Member



Mr. Yaqoub Yousef Bandar
Board Member

Shariah Supervisory Board



**Sheikh Dr. Khalid Shuja'a
Al-Otaibi**
Chairman



**Sheikh Dr. Dawoud
Salman Bin Essa**
Executive Member



Sheikh Dr. Murad Bou Daia
Member



Board of Directors' Report

In the name of Allah, Most Gracious, Most Merciful.

On behalf of myself and the 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 2018.

Company Performance

INOVEST closed its books, with the Grace of God, on the 2018 fiscal year having reported a consolidated net profit attributable to parent shareholders of US\$14.01 million, representing a 139% increase as compared to US\$5.86 million for last year. The Group also reported that Earnings Per Share attributable to the equity shareholders of the parent company as at December 31st 2018 amounted to US cents 4.95 as compared to US cents 2.06 in 2017. The Net Operating Profit increased by 3%, reaching US\$12.52 million at year end 2018, up from US\$ 12.17 million in 2017.

The Group's fiscal indicators, show that Equity Attributable to Parent Shareholders, increased by 12% to stand at US\$136.53 million at the end of the of December 31st, 2018 in comparison to US\$122.40 million at 2017 year-end. Further, INOVEST reported consolidated total assets of US\$266.97 million, representing an increase of 1% in comparison to US\$265.35 million as of 2017 year-end. On the liquidity front, INOVEST improved its position, with cash and bank balances representing 14% of the total consolidated assets and the cash and bank balances rising to reach US\$36.38 million, a 67% increase from US\$21.74 million as of 31 December 2017.

As a clear reflection of our positive results for the year, INOVEST recorded a Return on Equity of 10.3%, as well as a Return on Assets of 5.3%, both of which are encouraging indicators in light of the general challenges being faced in regional markets. In light of these results, the INOVEST Board of Directors recommended, in its last session held on February 14th, 2019, to the Annual General Assembly a cash dividend distribution of 5% of paid up capital subject to the approval of Central Bank of Bahrain and the Ministry of Industry and Commerce and Tourism.

INOVEST'S solid financial performance for the year ended December 31st 2018 is a clear testament to the validity of the directives and strategic initiatives that were laid forth for the year. Their successful implementation which ensured the continuity of our three-year return to profitability also speaks to the professionalism, investment caliber, and strategic administrative capabilities within the INOVEST team.

Future Outlook

Today, considering how far we have come, we take even greater responsibility for furthering INOVEST's success in a sustainable manner that ensures steady shareholder returns in the years to come. We look onto a new strategic era having approved a new three plan (2019 - 2021) that earmarks targets such adding to the Group's existing real estate investment presence, through investment and sector diversification, with plans to enter into the fields of education, healthcare, and industry as well as to explore investment opportunities in value added service provisions within the aforementioned fields. INOVEST's strategy seeks to engage a new level of growth and sustained development and performance with the aim of strengthening its financial and market position. At its core, will be a solid backbone of value delivering investments, supported by the expertise and knowledge required to create

Dr. Omar Al Mutawa

Board Chairman



investment platforms that deliver upon our Group objectives of diversification and liquidity enhancement. Key to this, is continuous improvement of our existing investment portfolio, but more so focusing efforts on new direct investments and strategic collaborations into well assessed and calculated opportunities within value added sectors that deliver long term growth and value to our shareholders.

In developing the Group's strategy, the team was keenly aware of the economic and geopolitical challenges that mark the investment industry, not only for INOVEST, but for our counterparts as well. Accordingly, the practicality of the strategy was weighed against sectoral experiences, and newly identified areas for business growth and development. The team at INOVEST will, and is, diligently sourcing and exploring high growth potential prospects that we believe will fulfill investor confidence in our capabilities to deliver solid performance and sustained results.

In closing

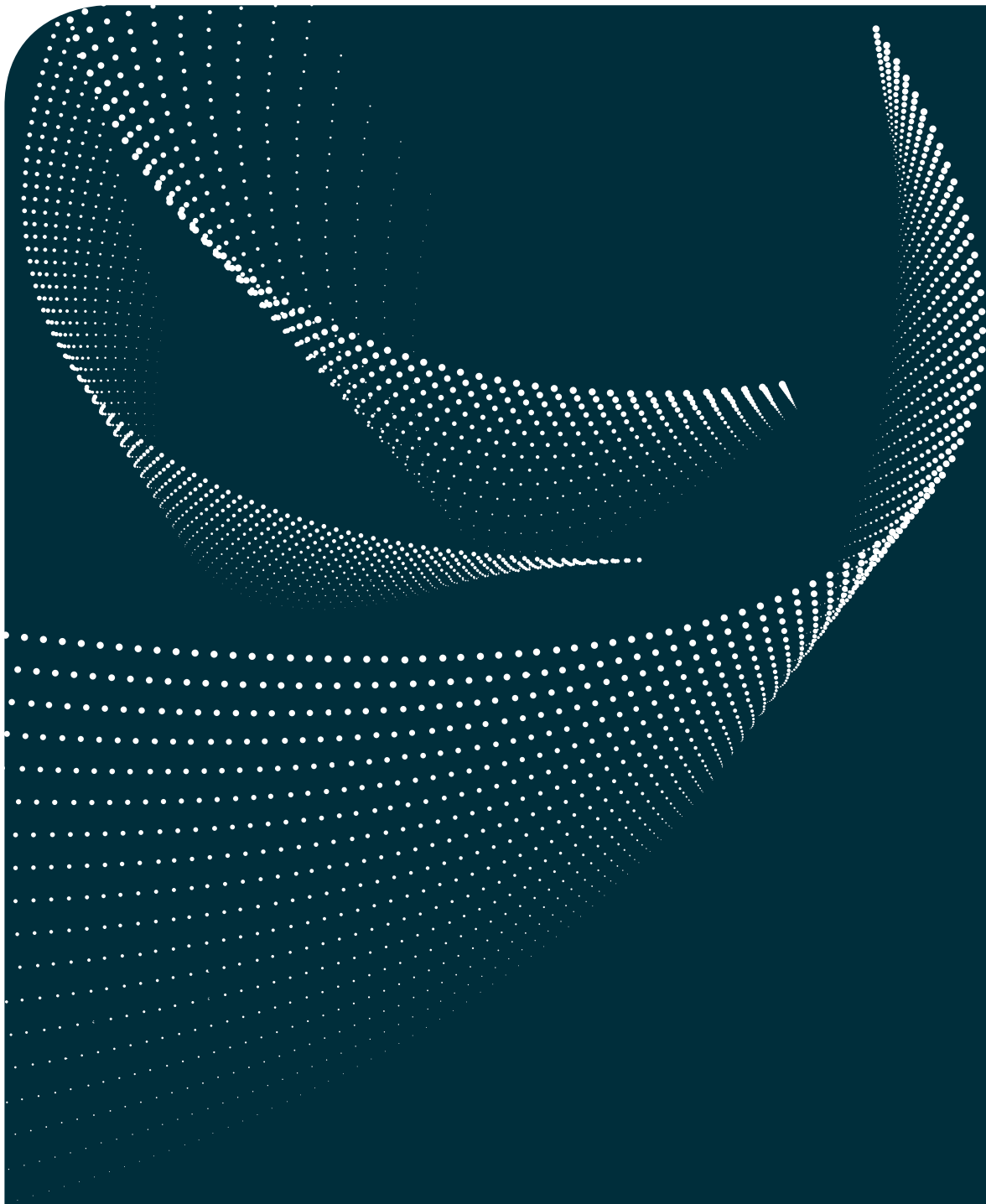
In my capacity as Chairman of INOVEST, and on behalf of my colleagues the members of the Board of Directors, I would like to extend our sincere thanks and appreciation to our shareholders, for their consistent support and confidence in the Group. I would also like to extend my thanks to executive team and staff members within the Group for their truly valuable contributions; as well as to investors, partners, and other stakeholders for their belief and dedication, and in particular to the Central Bank of Bahrain and Ministry of Industry, Commerce, and Tourism for their continued support. We pray to Almighty Allah to protect the Kingdom of Bahrain under the wise leadership of His Majesty King Hamad bin Isa Al Khalifa.

Lastly, we pray to Almighty Allah to guide and support us and pave our way to achieving continued success.

On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to be 'Omar Al Mutawa'.

Dr. Omar Al Mutawa
Board Chairman



Corporate Governance Report

1. Corporate Governance Structure

The Company is governed by the Commercial Companies Law promulgated by Legislative Decree No. 21 of 2001 ("Companies Law"), Corporate Governance Code of the Kingdom of Bahrain ("Governance Code"), the High-Level Controls Module of Volume 4 and 6 of the CBB Rulebook, and the Bahrain Bourse Law of 1987, generally referred to as "Regulations"

The Company undertakes its responsibility towards its shareholders by adopting the highest standards of corporate governance. The Company believes that the sound implementation of corporate governance enhances shareholder value, and provides adequate guidelines to the Board of Directors, its committees and Executive Management, in order for them to perform their duties in a manner that best serves the Company and its shareholders. The Company seeks to achieve the highest level of transparency, accountability and efficient management through the adoption and pursuit of strategies, objectives and policies that ensure the fulfillment of its organizational and ethical responsibilities.

2. Board of Directors

The Board of Directors consists of seven Board Members, five independent, and two executive members.

The Board of Directors was elected in the Ordinary General Assembly held on 12 February 2018 for three years, and a new Board of Directors will be elected in the 2021 Ordinary General Assembly.

2.1 Election Process

The Nomination and Remuneration Committee formed by the Board of Directors reviews the skills and qualifications that the prospective members of the Board of Directors must possess. The General Assembly elects the new candidate after obtaining majority votes in the ballot held for such purpose. Responsibilities are distributed across the Board of Directors in accordance with the Company's Articles of Association and the Commercial Companies Law. Membership of the Board of Directors may be nullified in case, inter alia, the member commits a crime, breaches trust or is declared bankrupt.

2.2 Board's Function

The Chairman of the Board of Directors oversees the activities of Executive Management and evaluates its performance regularly, in addition to his other responsibilities, that include chairing Board meetings, monitoring the performance of the CEO, and communication with shareholders. The Board of Directors has formed certain committees with specific powers for the sake of guiding the management team, supervising the running of operations and taking decisions in the Company. The Board of Directors supervises the Company's management directly & through its various committees.

The Board of Directors has specified and segregated responsibilities between the Board and the Executive Management. The Board oversees all the activities of the Company and approves the same. It is responsible for Risk Management, the preparation of financial statements and corporate governance. The other issues that require approval of the Board include, inter alia, approval of financial statements, acquisitions and exits. The Board also ensures observance of the basic values of the Company, as prescribed in the internal policies of the Company.

All Company policies are being reviewed and approved on annual basis. In coordination with the Internal Audit Unit, the Risk Management Unit follows-up the validation and implementation of the policies and procedures under the supervision of the relevant committees. The Board of Directors is also responsible for approving Related Party transactions, subject to the schedule of Authorities adopted by the Company. The Board of Directors is also responsible for preparing the consolidated financial statements of the Company.

The members of the Board may communicate with the Company's Executive Management at all times. The CEO, in cooperation with the management team, shall monitor the Company's performance with regard to specific and (approved) objectives and shall conduct the Company's daily affairs pursuant to the policies, objectives, strategies and guidelines adopted and approved by the Board of Directors from time to time.

The Board of Directors consists of seven members, and their experience is mix of highly professional and specialized experience in their field of specialization and in the Real Estate Investment field.

INOVEST has a written appointment agreement with each member of the Board of Directors, which recites the members of Board of Director's power, and duties and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.

3. Members of the Board of Directors and their other memberships

The following tables show the names and the date of the first membership of the Board of Directors:

Member	Term of Appointment	Date of First Appointment	Date of the end of current Term	Type of Membership	Position	Notes
Omar Salem Al Mutawa	Three Years	12 February 2018	Q1-2021	Independent	Chairman	-
Bashar Naser Al Tuwaijri		29 March 2011		Executive	Vice Chairman	Continuous Membership
Mishari Fuad Al Fozan		12 February 2018		Independent	Member	-
Khaled Abdulaziz Al Ghanem		12 February 2018		Independent	Member	-
Mishal Yuusef Al Zayed		12 February 2018		Independent	Member	-
Yaqoub Yousef Bander		12 February 2018		Executive	Member	-
Abdulrahman Hesham Al Neseif		12 February 2018		Independent	Member	-

4. Director Ownership of Shares

None of the share of the company was owned by Board member as at 31st Dec 2018.

5. Distribution of Shareholding

5.1 Distribution of Shares per Nationality

As of 31 December, 2018, the Company's register show that there were 707 shareholders who own in total 286,511,225 shares. Following is the distribution of shares in the Company per nationality:

Nationality	Number of Shares	Ownership %
Bahraini	22,043,954	7.69%
Others	264,467,271	92.31%
Total	286,511,225	100.00%

5.2 Shareholders Who Own 5% or more of Company's Shares

The following schedule shows number and names of shareholders who own 5% of Company's shares or more as of 31 December 2018:

Shareholders	Number of Shares	State	Ownership %
Gulf Investment House (GIH)	38,981,591	Kuwait	13.606%
Mechanism General Trading Company	24,950,000	Kuwait	8.708%
Dubai Islamic Bank	19,748,883	United Arab Emirates	6.893%

5.3 Distribution of Share Ownership per Quantity/Size

The following schedule shows the distribution of share ownership as of 31 December 2018 as per shareholding size:

Categories:	Number of shares	Number of Shareholders	Ownership %
Less than 1%	80,283,100	688	28.02%
up to less than 5% 1%	122,547,651	16	42.77%
up to less than 10% 5%	44,698,883	2	15.60%
up to less than 20% 10%	38,981,591	1	13.61%
Total	286,511,225	707	100.00%

5.4 Ownership by Government

None of the share of the company was owned by the Government as at 31st Dec 2018.

6. Board of Directors Committees

The Board of Directors formed three committees having specific assignments and powers:

Corporate Governance Committee Members	Position	Responsibilities	Type of Membership
Mishari Fuad Al Fozan	Chairman	Corporate Governance	Independent
Abdulrahman Hesham Al Neseif	Vice Chairman		Independent
Bashar Naser Al Tuwajiri	Member		Executive
Dawoud Salman Bin Essa	Member		Independent

Audit & Risk Committee Members	Position	Responsibilities	Type of Membership
Khaled Abdulaziz Al Ghanem	Chairman	Internal Audit External Audit	Independent
Abdulrahman Hesham Al Neseif	Vice Chairman	Compliance	Independent
Yaqoub Yousef Bander	Member	Anti-Money Laundering Risk Management	Executive

Nomination & Remuneration Committee Members	Position	Responsibilities	Type of Membership
Omar Salem Al Mutawa	Chairman	Human Resource Compensation & Benefits Management Issues	Independent
Mishari Fuad Al Fozan	Vice Chairman		Independent
Mishal Yuusef Al Zayed	Member		Independent

Meetings of the Board of Directors shall be held in accordance with the regulations at least once every quarter and whenever necessary, in addition to the meetings of the Committees of the Board. During 2018, the Board of Directors met six times and the Annual General Meeting of the Company was held on 29 March 2018.

In addition, the Audit & Risk Committee met six times, the Nomination and Remuneration Committee met four times, and the Corporate Governance Committee met one time.

The Board of Directors and the committees formed by it receive periodical reports from Executive Management on all aspects of the Company's activities. The Board also receives periodical reports from the Internal Audit Department, Risk and Compliance Department, and Finance Department.

Audit Committee

INOVEST's Board formed an Audit committee of three members, including two independent members and one executive member. The Audit Committee has relevant financial ability and experience, which Include:

The ability to read and understand corporate financial statements including a company's balance sheet, income statement and cash flow statement and changes in shareholders' equity.

An understanding of the accounting principles which are applicable to the company's financial statements, experience in evaluating financial statements that have a level of accounting complexity comparable to that which can be expected in the company's business, an understanding of internal controls and procedures for financial reporting, and an understanding of the audit committee's functions and importance.

The Audit Committee Meets at least 4 time a year. The Committee has a formal written charter.

Nomination and Remuneration Committee:

INOVEST's Board formed a Nomination and Remuneration Committee of three independent members.

The Nomination and Remuneration Committee shall meet at least 4 times a year. The Committee has a formal written charter.

Corporate Governance Committee:

INOVEST's Board formed a Corporate Governance Committee of four members, including three independent members and one executive member.

The Corporate Governance Committee shall meet at least 4 times a year, The Committee has a formal written charter.

Here are the names of the members of the Board of Directors and denominated position and other position they hold:

Dr. Omar Salem Al Mutawa
Chairman
Independent

Dr. Omar Salem Al Mutawa received his bachelor's degree in accounting in 1996 from Kuwait University, and furthered his educational journey with an MBA from the Maastricht Business School in 2005, and a PhD in 2015 from Brunel University in the UK. Dr. Al Mutawa undertook an intensive leadership training program from Cornell University - Harvard Business School.

Dr. Al Mutawa currently holds the post of Executive Manager of National Industries Company. Before this, from 2007-2017 Dr. Al Mutawa served as Deputy CEO of First Investment Company and is currently a Board Member in each of Vision Holding Group and National Industries Group, as well as a Member of the Board and Board of Trustees of Kingdom University in the Kingdom of Bahrain.

Dr. Al Mutawa brings to the table over 20 years of experience in the fields of finance and investment accrued from extensive experience at Kuwait Finance House and Gulf Investment House. This experience is enhanced through his position as Chairman of Al Oula Real Estate Development, and as Vice Chairman and Managing Director of First Education Company. Dr. Al Mutawa has distinguished experience in organizational structure and behavior, leadership, operations and administrative management, as well as in structuring and promoting investment products. Moreover, Dr. Al Mutawa is a specialist in the research of administration and human resources. He has published several articles on the topic and attended numerous international conferences in this field.

Bashar Naser Al Tuwajiri
Vice Chairman
Executive

Mr. Bashar Al Tuwajiri holds a bachelor's degree in Banking and Finance from the University of Kuwait (1996). Mr. Al Tuwajiri joined Gulf Investment House (GIH) in 2004, rising through management ranks to currently hold the position of Chief Executive Officer.

Mr. Bashar Al Tuwajiri currently serves as Vice Chairman of the Amar Finance and Leasing Co. in Kuwait, and Chairman of the Afkar Holding in Kuwait.

Between 1996 and 2003, Mr. Al Tuwajiri held several positions at the National Bank of Kuwait (NBK) before being appointed Corporate Credit Manager. He also holds a certification as a Credit Manager from the Institute of Banking Studies in Kuwait.

Abdulrahman Hesham Al Neseef
Member
Independent

Mr. Abdulrahman Al Neseef obtained a bachelor's degree in Electrical Engineering in 1998 from Kuwait University. In 2006, he joined MENA Real Estate Company in Kuwait, where he held several managerial positions and responsibilities until being appointed CEO. Mr. Al Neseef ultimately left MENA Real Estate Company in 2016.

Mr. Al Neseef currently serves as Chairman of Tamcon Contracting Company in the Kingdom of Bahrain, as well as General Manager of Al Neseef United Contracting Company and Chairman of Solutions Co. for Financial and Accounting Consultancy.

From 1998 to 2006 Mr. Abdulrahman Al Neseef held several positions in several private sector institutions, including International Investor Company and Osoul Investment Company.

Mishal Yusef Al Zayed
Member
Independent

Mr. Mishal Al Zayed holds a bachelor's degree in Business Administration, received in 1998 from the University of Tennessee in the United States of America. In 1999 - 2001, Mr. Al Zayed was a member of the Kuwait Finance House in the field of Credit, moving from there to join Gulf Investment House until 2016 as Director of Marketing.

From 2006 to 2012 Mr. Mishal Al Zayed was a member of the Board of Directors of Arkan Kuwait Real Estate Company and was also Assistant to the Vice President at First Investment Company.

From 2013 to date, Mr. Meshal Al Zayed holds the position of Chief Executive Officer of Althouq International for General Trade and Contracting.

Mishari Fuad Al Fozan
Member
Independent

Mr. Mishari Al Fozan holds a bachelor's degree in Business Administration from Kuwait University attained 2004. In 2005, he joined the First Investment Company (Kuwait) within the field of Credit Management. By 2006, Mr. Al Fozan joined the Gulf Group for Electrical and Mechanical Works in Kuwait as Human Resources Manager, rising in the ranks until his current position as a Member of the Board of Directors in the Group.

Mr. Al Fozan is currently the CEO of Gulf Group for Mechanical and Electrical Works in Saudi Arabia and is Chairman of Takhzeen Self Storage Company in Bahrain.

Mr. Al Fozan has maintained his academic credentials, undertaking certifications such a Master's in Project Management, as well as a certificate for modern management, comprehensive training on feasibility studies, and in corporate governance, and strategic studies.

Khaled Abdulaziz Al Ghanem
Member
Independent

Mr. Khaled Al Ghanem holds a bachelor's degree in Accounting, received in 1998 from Kuwait University. He started his career in the financial and investment sector where he held several managerial positions in a number of investment and asset and wealth management companies. He also gained solid ground experience through his work with Ernst & Young.

Mr. Al Ghanem has served as a Board Member for several organizations, including Munshaat Real Estate Projects Co., Kuwaiti Manager Holding Co. (KMC Holding), and Athman Financial Advisory Company.

From 2012-2015, Mr. Al Ghanem joined Mawared Holding in Kuwait as Deputy Chief Executive Officer. Today, Mr. Al Ghanem is dedicated to the management and operations of his personal businesses.

Yaqoub Yousef Bander
Member
Executive

Mr. Yaqoub Bandar holds a Master of Business Administration from the Gulf University for Science and Technology (2011) and holds a bachelor's degree in Finance from Kuwait University (2003). In 2005, he joined Gulf Investment House in Kuwait, where he held several managerial positions and responsibilities, rising in the ranks to become Assistant to the CEO.

Mr. Bandar currently serves as the Vice Chairman of Kuwait Light Food Company, as well as a member of the Board of Directors of Majan Development Company in Oman, and a Board Member of Afkar Holding Company in Kuwait. Mr. Bandar previously served as a member of the Board of Directors of Arkan Al-Kuwait Real Estate Company in Kuwait.

From 2004 to 2005 Mr. Bandar served as an Investment Supervisor at KFH. Mr. Bandar is also an International Certified Valuation Specialist.

7. Dates of Board of Directors Meetings and its Committees

Board of Directors: Six meetings were held during 2018:

Board Member	Meeting Date						Attendance %
	14 February 2018	28 February 2018	29 April 2018	5 August 2018	1 November 2018	23 December 2018	
Omar Salem Al Mutawa	✓	✓	✓	✓	✓	✓	100%
Bashar Naser Al Tuwaijri	✓	✓	✓	✗	✓	✓	83%
Abdulrahman Hesham Al Neseif	✓	✓	✓	✓	✓	✓	100%
Mishal Yuusef Al Zayed	✓	✓	✓	✓	✓	✓	83%
Mishari Fuad Al Fozan	✓	✗	✓	✗	✓	✓	83%
Khaled Abdulaziz Al Ghanem	✓	✓	✓	✓	✓	✓	100%
Yaqoub Yousef Bander	✗	✓	✓	✗	✓	✗	50%*

* The minimum percentage attendance required by the Central Bank of Bahrain is 75%

Nomination and Remuneration Committee: Four meetings were held during 2018:

Board Member	Meeting Date				Attendance %
	28 February 2018	29 April 2018	5 August 2018	23 December 2018	
Omar Salem Al Mutawa	✓	✓	✓	✓	100%
Mishari Fuad Al Fozan	✓	✓	✗	✓	75%
Mishal Yuusef Al Zayed	✗	✓	✓	✓	75%

Corporate Governance Committee: Four meetings were held during 2018:

Board Member	Meeting Date				Attendance %
	28 February 2018	2 August 2018	31 October 2018	23 December 2018	
Mishari Fuad Al Fozan	✓	✓	✓	✓	100%
Abdulrahman Hesham Al Neseef	✓	✓	✓	✓	100%
Bashar Naser Al Tuwajjri	✓	✓	✓	✓	100%
Dawoud Salman Bin Essa	✓	✓	✓	✓	100%

Audit & Risk Committee: six meetings were held during 2018:

Board Member	Meeting Date						Attendance %
	20 February 2018	28 February 2018	26 April 2018	12 July 2018	5 August 2018	1 November 2018	
Khaled Abdulaziz Al Ghanem	✓	✓	✓	✓	✓	✓	100%
Abdulrahman Hesham Al Neseef	✓	✓	✓	✓	✓	✓	100%
Yaqoub Yousef Bander	✓	✓	✓	✓	✗	✓	83%

8. Code of Ethics

The Board of Directors has adopted a code of ethics applying to all the staff. This code defines how to deal with cases involving conflicts of interest. It obliges all the members of the Board of Directors, Executive Management, and all employees to follow the highest professional measures and care while performing their duties.

All Board members and employees act ethically at all times and adhere to the Company's Code of Conduct.

Where a potential conflict of interest arises for a Board member, the Board member promptly informs the Board of Directors for deliberation and resolution.

Each Board member at INOVEST understands that under INOVEST's rules and regulations he/she is personally accountable to the company and its shareholders if he/she violates the code of ethics and legal duty of loyalty to the company.

Every effort should be made by Board members to ensure that there is no conflict of interest between their personal and business affairs and the interests of the company and its clients and shareholders.

9. Induction and Training of Directors

INOVEST makes sure that all its Board's members have the knowledge, ability and experience to perform the functions required of a Board member. Hence, an awareness program is conducted for the new and existing Board members.

10. Performance Evaluation

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

The Board conducts an annual evaluation of its performance and the performance of each committee and each individual director.

11. Remuneration

Board of Directors' remuneration takes into consideration the Company performance as well as an assessment of compliance of individual members with their performance agreement and individual responsibilities. The AGM determines the Board of Directors' remuneration, and it is subject to the provisions of the Commercial Companies Law and to any decisions issued by the Minister of Industry, Commerce and Tourism, as well as the regulations of the Central Bank of Bahrain.

INOVEST's Board of Directors establish a Remuneration Committee to review and adopt the remuneration policies, and to monitor the remuneration system and ensure its proper implementation and management, and to make recommendations concerning the remuneration of the Board of Directors in the General Assembly meeting. The total Board remuneration was US\$171,202 in 2018.

12. Compliance with Regulatory Authorities Requirements

Being an Islamic Financial Institution, the Company observes a Policy of compliance at all times with the rules and regulations of regulatory authorities. It is Company Policy to disclose all events of non-compliance whenever they occur. Compliance has been improved through ongoing enhancement of the governance framework, the bedding-in of the comprehensive Corporate Governance Guide, in accordance with the Corporate Governance Code and CBB Rulebook HC Module, as prescribed in the Central Bank of Bahrain Rule Book. The Corporate Governance Guide includes a code of ethics for the Board and all committees under it. It also includes a Conflicts of Interest Policy, procedures for the reporting of offences, basic guiding principles for corporate governance, Board members' appointment agreement, Board members' performance evaluation Policy, and an External Advisors policy.

The Company continues to review and develop its corporate governance framework, in accordance with the changing requirements of regulatory authorities, and in compliance with global corporate governance best practice. In the interest of maintaining the highest standards of Corporate Governance at the company, and for its shareholders, the company is committed to keeping the members of the Board of Directors apprised of industry best practice, and to addressing any of their queries with regard to sound Corporate Governance. The Company, through the Board of Directors and its committees, aims to meet the highest standards of corporate governance, in the interest of its shareholders

13. Sharia Supervisory Board

The Sharia Supervisory Board consists of three members who monitor compliance by the Company with the general principles and rules of Islamic Sharia, Fatwas, resolutions and guidelines issued for such purpose. The Board's reviews include examining and reviewing the evidences related to the documents and the procedures followed by the Company to ensure that all its activities and business transactions are in compliance with the principles and rules of Islamic Sharia. Following are the names of members of the Sharia Supervisory Board with a summarized profile of each.

Shaikh Dr. Mourad Bou Daia

Shaikh Dr. Bou Daia holds several esteemed positions; as a doctorate in Islamic Jurisprudence, he is also a researcher and interpreter of the laws of jurisprudence in Kuwait, as well as teacher working in collaboration with Kuwait University's College of Sharia. Shaikh Dr. Bou Daia is a member of several shariah committees in Qatar, and in a number of committees dedicated to the knowledge and supervision of shariah laws at the Ministry of Social Welfare in Kuwait. He is an active participant in several conferences on the knowledge and interpretation of Shariah laws, in Kuwait and abroad. Shaikh Dr. Bou Daia is a published author of several research studies related to the principles of shariah law. He serves as an advisor in Taiba Financial Sharia Consultation.

Shaikh Dr. Dawoud Salman bin Essa

Shaikh Dr. Bin Essa holds a Bachelors degree in Shariah sciences, and is well on his way to receiving a master's degree in Islamic Economic Studies. Shaikh Bin Essa has long standing experience (since 2005) working in the fields of audit and shariah compliance within several Shariah compliant financial institutions within Kuwait. He is one of the founders of the Kuwaiti based shariah consulting company, and has been positioned as a member of the Shariah Compliance Authority in Kuwait, and is an active participant in numerous conferences and seminars on Islamic jurisprudence and specifically in shariah compliance. He serves as the General Manager of Taiba Financial Sharia Consultation.

Shaikh Dr. Khaled Shoja'a Al-Otaibi

Shaikh Dr. Al-Otaibi holds a doctorate in Islamic Jurisprudence and its originating principles. He is a member of the Faculty of Shariah and Islamic Studies - Jurisprudence Department, and an assistant professor at the Faculty of Basic Education. His background includes memberships in numerous committees including: member in the Shariah Board of Kuwaiti House of Zakat, member of the association of Jurisprudence and Shariah in America, a former member of the council for mosques, former member of the Committee for Endowments and Awaqaf, a member of the Shariah Board for Imtiyaz, a former member of the Shariah Board for UIB (Bahrain), a former member of the Shariah Commission associated with AlMashair for Hajj and Umrah services, and a former member of the Shariah Commission for Ain, a Takaful Insurance company.

14. Executive Management's Committees

The Board of Directors has delegated the day-to-day management of the Company's affairs to the CEO who is responsible for the implementation of the strategic plan of the Company. The CEO manages the Company through the following management committees:

Committee Name	Primary Responsibilities
Management Committee	<ul style="list-style-type: none"> • Corporate Strategy • Performance Assessment • Finance • HR • Administrative Issues
Assets & Liabilities Committee	<ul style="list-style-type: none"> • Manage the Balance Sheet • Financial Management • Liquidity Management • Banking Relations
Investment Management Committee	<ul style="list-style-type: none"> • Review of Investments • Exits Processes • Acquisitions Processes
Executive Risk Management Committee	<ul style="list-style-type: none"> • Risk Management Policies • Risk Management Strategy • Risk Review • Risk Assessment • Compliance Policy • Provisioning

15. Executive Management and Senior Management

Following are the job titles of the members of the Executive Management of the Company:

Murad Al Ramadan **Chief Executive Officer – until April 2018**

Mr. Murad Al Ramadan is an investment professional with well over 19 years of industry experience in financial services, Investment Banking, and real estate investment and development. Mr. Al Ramadan joined the group in 2009 as the deputy CEO and Head of Investment of Inovent's real estate investment arm Al Khaleej Development Co. (Tameer). He then held the post of Chief Investment Officer of Inovent in 2012 and was appointed Acting Chief Executive Officer in May 2015 before becoming the Chief Executive Officer in January 2016.

Prior to joining Inovent, Mr. Al Ramadan worked for Gulf Finance House (GFH) as an Investment Director where he structured and managed real estate investment transactions in excess of US\$1billion. Mr. Al Ramadan started his career in Accounting and Auditing, holding various positions and has worked for KPMG in Bahrain and Qatar.

Mr. Al Ramadan represents Inovent on a number of Boards, including his position as Chairman of Durrat Marina (Bahrain), Vice Chairman of Takhzeen Self Storage (Bahrain), and Board Member and Chairman of the Audit Committee for Gulf Real Estate Co. (Kingdom of Saudi Arabia), a Board Member in Bahrain Investment Wharf (Bahrain), and a Board Member in Tamcon contracting, amongst others.

Mr. Ramdhan holds B.Sc in Accounting from University of Bahrain, and MBA from NYIT.

Yasser Al Jar **Acting Chief Executive Officer – Since April 2018**

Mr. Yasser Al Jar is a seasoned professional with over 20 years of experience focused in the fields of audit and assurance services, commercial banking, investment banking, and real estate. Mr. Al Jar joined the Group in August 2011 as "Executive Director – Finance" in Al Khaleej Development Co. (Tameer), a wholly owned subsidiary of Inovent, and continued his journey to become Chief Executive Officer of INOVEST in 2019. Al Jar started his career in 1998, in the domain of external assurance services with Arthur Anderson, one of the largest international audit firms at that time. Subsequently, Al Jar held a number of key positions as Financial Controller in a number of reputable financial institutions, namely Shamil Bank of Bahrain (which has merged with Ithmaar Bank) and Qatar First Investment Bank. During this period, Al Jar was nominated on several Board committees, most significantly on the Executive Management Committee. Mr. Al Jar has the distinguished credentials of having worked in the Islamic banking sector on numerous levels, from dealing with a range of business products, to deal sourcing, and interacting with third parties, as well as financial and investment structuring. He further sits on the Boards of a number of real estate and construction-based companies.

Mr. Al Jar holds a B.Sc in Accounting from the University of Bahrain. He holds CIPA and CSAA certificates from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He is an accredited instructor of the Islamic Accounting Standards issued by AAOIFI and member of the Technical Advisory and Interpretations Committee of AAOIFI. Furthermore, Al Jar is member of the working groups originated by AAOIFI to review and formulate the Islamic Accounting Standards.

Fahad Bushager
Head of Investment

Mr. Bushager joined Inovent as Head of Investment in 2016. Mr. Bushager has over 14 years of experience in the financial sector, the majority of which was dedicated to investment banking.

Before joining Inovent, Mr. Bushager held posts within a number of investment institutions, including his most recent position as Head of Investments Coverage within the GCC, South East Asia and Pacific Markets at Anfaal Capital (JV between ICD & Maybank Investment Bank). Within that capacity, Mr. Bushager has garnered exposure in deal shaping and structuring on both private equity and asset management fronts, M&A, fund management, risk assessment and mitigation, as well as executing deal exit strategies.

Mr. Bushager holds a BSBA (Accounting) from the American University of Sharjah (AUS), as well as being a Certified Islamic Banker (CIB), and an Executive Master's degree (Islamic Finance) from the General Council for Islamic Banks and Financial Institutions (CIBAFI).

Hamad Zainalabedeen
Head of Internal Audit

Hamad Zainalabedeen joined Inovent BSC in 2009 as the Head of Internal Audit Department. Mr. Zainalabedeen has worked in a number of local and world renowned financial institutions and professional audit firms over the last 19 years with extensive auditing experience in Islamic Investment Banks, Investment Businesses, Manufacturing Enterprises, Governmental Organizations and other sectors.

Prior to joining Inovent, Mr. Zainalabedeen held leading positions in Internal Audit at Investment Dar Bank and Gulf Finance House. Hamad also worked with Ernst & Young and Arthur Andersen as an external auditor.

Hamad holds an Executive MBA and Bachelors of Science in Accounting from the University of Bahrain.

16. Executive Management Shareholding

The executive & Senior Management do not hold any shares in the company.

17. Details of stock options incentive

No stock option incentive has been provided to senior management.

18. Executive Management Remuneration

The Company Establishes management remuneration in line with approved internal policies, procedures and guidelines. The qualification of such remuneration set by the company's Board of Directors. The total salaries remuneration paid to the senior Management was US\$818,561 in 2018.

19. Related Party Transactions

The details of related party transactions are shown under Note 26 of the Consolidated Financial Statements for the year ending 31 December 2018. For further information, the shareholders are requested to refer to said Note.

20. Compliance Control and Money Laundering Combating

Company recognizes its responsibility of compliance with all the related provisions by implementing global best practice. The Company has established a unit for regulatory control, to ensure adherence to the guidelines & rules of the Central Bank of Bahrain. This unit acts both to ensure observance of the principles of Islamic Sharia and regulatory rules, and the implementation of Compliance best practice.

The procedures for combating money laundering form a major part of compliance assignments. The Company maintains specific policies and procedures, approved by the Board of Directors, for money laundering prevention. These include a Client Due Diligence

process, reporting of suspicious transactions, periodical staff awareness and training programs, & record-keeping, as well as the key policy of appointment of an officer dedicated to money laundering prevention. Money laundering prevention Policy & Procedures are reviewed annually by external auditors, who report their findings to the Central Bank of Bahrain. The Company is committed to combating money laundering, and to implementing all AML rules, principles and guidelines issued by the Central Bank of Bahrain.

Pursuant to HC Module of the CBB Rulebook (Volume 4 - HC Module) that refers to the principle of “Comply or Explain”, which provides that it is necessary for the Company to interpret non-compliance events with the recommendations prescribed in the Rulebook, the Company is pleased to inform the shareholders that the Company is in compliance with CBB rules and guidance.

21.External Auditor

The AGM held on 29 March 2018 approved reappointing M/S Ernst & Young to conduct the review and audit of the Company's consolidated financial statements for the year ended 31 December 2018. Total fees approved by the Board of Directors for the external auditors were US\$ 129,000.

22. Financial in resulting Violations

During 2018, there was one violation from Capital Markets Authority, Kuwait, which resulted the company paying fine as follow:

Type of the Violation	Value of the financial fine
delay in disclosure of material information	US\$ 10 thousand

23. Communications with the Investors

INOVEST communicate to investors through the adherence with both Bahrain Bourse and Kuwait Boursa rules and regulations with regard to disclosure of material information beside the press releases the Company issued. The Investor may communicate with the Company via visiting its official website to view the financial data and statements, and all the other information included in the website.

Sharia Supervisory Board Report

In the name of Allah, The Beneficent, The Merciful

Sharia Supervisory Board Report on the Inovent For the Financial Year Ended on 31 December 2018

In The Name of Allah, the Most Beneficent, the Most Merciful, Prayers and Peace are upon the last messenger, our prophet Mohammed, his family and companions.

To the Shareholders of Inovent,
Acting as Sharia Supervisory Committee pursuant to the appointment resolution passed by the General Assembly of the Company, we are required to provide the following report:

The Sharia board of Inovent has reviewed the Company principles, contracts or agreements related transactions, and applications submitted by the Company for the financial year ended on 31 December 2018, and upon comparing them with the fatwa and rulings issued during the financial year ended on 31 December 2018, we found them compatible with the above mentioned fatwa and rulings.

We 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 Inovent has not violated Islamic Shari rules and principles.

The Sharia board believes that it has expressed its opinion in respect of the activities carried out by Inovent, and the management is responsible for ensuring that the Company conducts its business in accordance with Islamic Shari. However, our responsibility is limited to form an independent opinion based on our review of the activities and operations conducted by Inovent.

In our opinion:

The contracts, transactions and dealings entered into by the Company during the financial year ended on 31 December 2018 that we have reviewed are in compliance with the Islamic Shari rules and principles.

The calculation of Zakat is in compliance with Islamic Shari rules and principles.

The Sharia board has also discussed with the representative of the Company the financial statements for financial year ended on 31 December 2018, and the Sharia board is satisfied that these statements are in compliance with the Islamic Sharia.

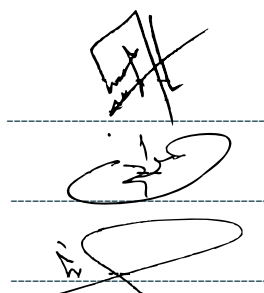
This report has been prepared based on the information provided by the Company, The Sharia board is satisfied that the Company activities are in compliance with the Islamic Sharia.

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

Shaikh Dr. Khalid Shuja'a Al-Otaibi
Chairman

Shaikh Dr. Murad Bou Daia
Member

Shaikh Dr. Dawoud Salaman Bin Essa
Executive Member



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 2018, 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 2018, 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.

Report on Other Regulatory Requirements

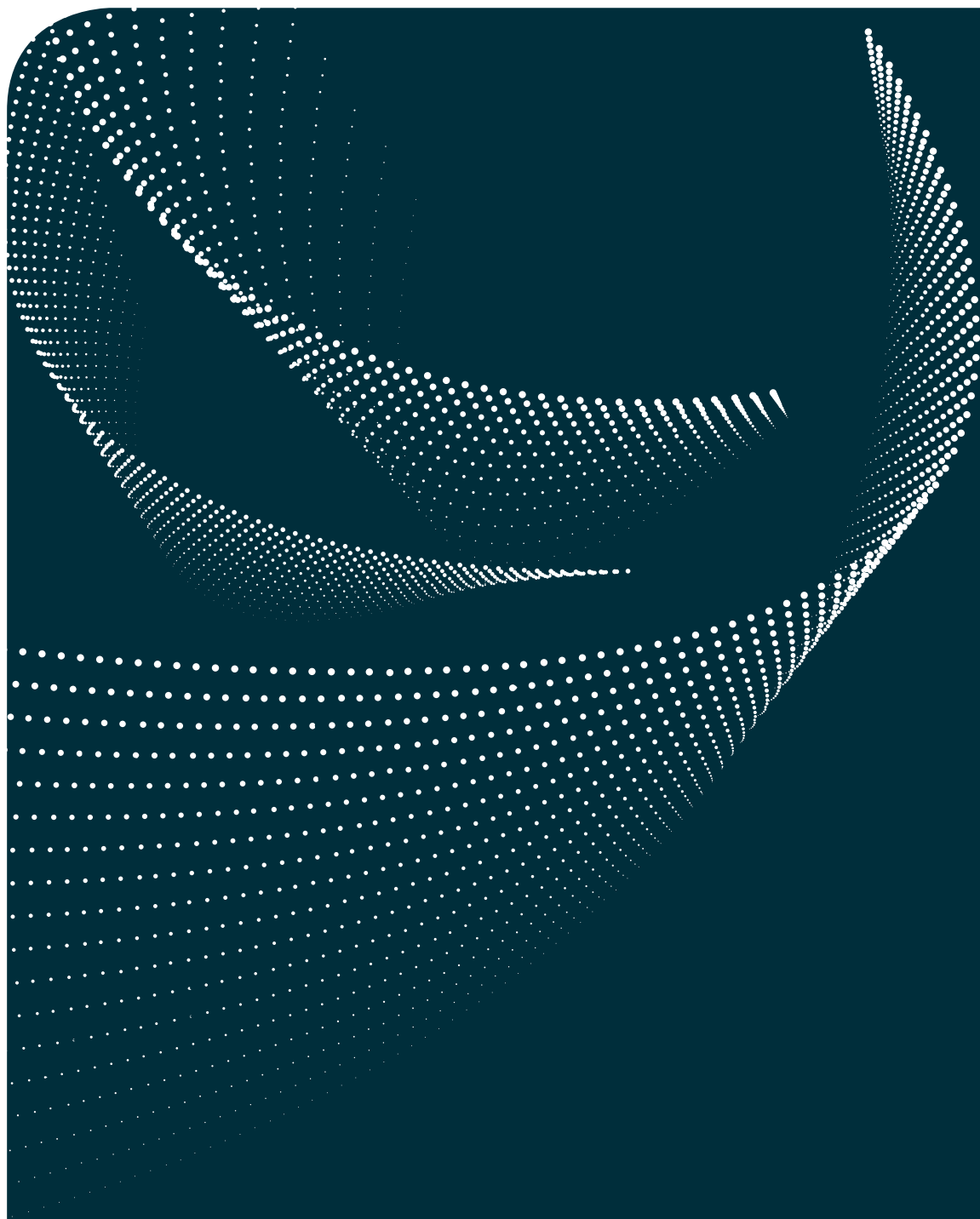
As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain ("CBB") Rule Book (Volume 4), we report that:

- 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 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 2018 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.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

Partner's registration no: 45
14 February 2019
Manama, Kingdom of Bahrain



Consolidated Financial Statements

Inovest B.S.C.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(Expressed in US\$000's)

	Note	2018	2017
ASSETS			
Cash and bank balances	5	36,375	21,740
Accounts receivable	6	32,656	45,383
Investments	7	16,201	18,487
Investment in a joint venture and associates	8	88,500	85,938
Investments in real estate	9	80,786	76,823
Property, plant and equipment	10	11,146	12,965
Other assets	11	1,305	4,018
TOTAL ASSETS		266,969	265,354
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Other liabilities and accounts payable	12	93,389	102,256
Financing from a bank	13	9,227	12,927
Total liabilities		102,616	115,183
Owners' Equity			
Share capital	14	114,604	114,604
Less: Treasury shares	14	(1,239)	(1,239)
		113,365	113,365
Reserves	15	3,358	1,999
Retained earnings		19,808	7,036
Equity attributable to Parent's shareholders		136,531	122,400
Non-controlling interest		27,822	27,771
Total owners' equity		164,353	150,171
TOTAL LIABILITIES AND OWNERS' EQUITY		266,969	265,354



Dr. Omar Salem Al Mutawa
Chairman



Yaser Hamad Al-Jar
Chief Executive Officer



Bashar Naser Al Tuwaijri
Vice-Chairman

The attached notes 1 to 32 form part of these consolidated financial statements.

Inovest B.S.C.
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2018
(Expressed in US\$000's)


	Note	2018	2017
OPERATING INCOME			
Net income from construction contracts	16	16,239	11,714
Income from investment in real estate	17	3,073	3,981
Income from investments	18	3,566	4,593
Fee for management and other services	19	953	672
Net share of (loss) / income from investment in a joint venture and associates	8	(2,238)	1,165
Other income	20	2,142	1,083
TOTAL OPERATING INCOME		23,735	23,208
OPERATING EXPENSES			
Staff costs	21	5,235	5,098
General and administrative expenses	22	2,723	3,228
Financing costs		703	897
Property related expenses		1,651	1,086
Depreciation	10	908	730
TOTAL OPERATING EXPENSES		11,220	11,039
NET OPERATING PROFIT		12,515	12,169
Recoveries from / (provision against) impaired receivables	23	1,543	(6,117)
PROFIT FOR THE YEAR		14,058	6,052
Attributable to :			
Equity shareholders of the Parent		14,007	5,855
Non-controlling interest		51	197
BASIC AND DILUTED EARNINGS PER SHARE (US\$ cents)	24	4.95	2.06



Dr. Omar Salem Al Mutawa
Chairman



Yaser Hamad Al-Jar
Chief Executive Officer



Bashar Naser Al Tuwaijri
Vice-Chairman

The attached notes 1 to 32 form part of these consolidated financial statements.

Inovest B.S.C.
CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
For the year ended 31 December 2018
(Expressed in US\$000's)

	Equity attributable to Parent's shareholders						Non-controlling interest	Total owners' equity
	Share capital	Treasury shares	Reserves		Retained earnings	Total equity		
			Statutory reserve	Share option reserve				
At 1 January 2018	114,604	(1,239)	1,957	42	7,036	122,400	27,771	150,171
Cancellation of ESOP	-	-	-	(42)	166	124	-	124
Profit for the year	-	-	-	-	14,007	14,007	51	14,058
Transfer to statutory reserve	-	-	1,401	-	(1,401)	-	-	-
At 31 December 2018	114,604	(1,239)	3,358	-	19,808	136,531	27,822	164,353
At 1 January 2017	114,604	(651)	1,371	42	9,118	124,484	13,640	138,124
Reversal of appropriation to charity	-	-	-	-	626	626	-	626
Dividend paid	-	-	-	-	(7,977)	(7,977)	-	(7,977)
Purchase of treasury shares	-	(588)	-	-	-	(588)	-	(588)
Acquisition of a subsidiary	-	-	-	-	-	-	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

The attached notes 1 to 32 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 2018
(Expressed in US\$000's)

	2018	2017
Sources of charity funds		
Undistributed charity funds at the beginning of the year	-	626
Reversal of appropriation to charity funds	-	(626)
Undistributed charity funds at 31 December	-	-

The attached notes 1 to 32 form part of these consolidated financial statements.

Inovest B.S.C.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018
(Expressed in US\$000's)

	Note	2018	2017
OPERATING ACTIVITIES			
Net profit for the year		14,058	6,052
Adjustments for:			
Depreciation	10	2,158	2,135
Provision / (recoveries) from impaired receivables	23	(1,543)	6,117
Net share of loss / (income) from investment in joint a venture and associates	8	2,238	(1,165)
Gain on bargain purchase - associate	8	-	(3,393)
Gain on bargain purchase - subsidiary		-	(129)
Realised gain on sale of investment in real estate	17	(88)	(1,256)
Unrealised fair value loss on investment in real estate	9	2,387	749
		19,210	9,110
Net changes in operating assets and liabilities:			
Short-term deposits (with an original maturity of more than 90 days)		68	7,249
Accounts receivable		9,273	(12,776)
Other liabilities and accounts payable		(8,867)	(7,076)
Other assets		2,713	3,022
Net cash from / (used in) operating activities		22,397	(471)
INVESTING ACTIVITIES			
Acquisition of a subsidiary net of cash acquired		-	4,217
Impairment loss on a joint venture	8	1,516	-
Additions in investment in real estate	9	(6,872)	(7,175)
Proceeds from sale of investment in real estate - net	9	610	10,448
Purchase of investment in a joint venture and associates	8	-	(7,040)
Purchase of property, plant and equipment	10	(345)	(1,060)
Distributions during the year	8	372	-
Dividends received from investments	18	719	-
In kind settlement of dividend		-	1,976
Proceeds from sale of property, plant and equipment	10	6	74
Net cash (used in) / from investing activities		(3,994)	1,440
FINANCING ACTIVITIES			
Net movement in financing from a bank	13	(3,700)	(3,481)
Dividend paid		-	(7,977)
Purchase of treasury shares		-	(588)
Net cash used in financing activities		(3,700)	(12,046)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		14,703	(11,077)
Cash and cash equivalents at the beginning of the year		21,540	32,617
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5	36,243	21,540
Non cash transactions comprise:			
Transfer of treasury shares		124	-
Purchase of investment in a joint venture and associates	8	6,649	-
Investment in real estate acquired against accounts receivable		-	5,199
Transfer from investment to investment in a joint venture and associates	8	-	748
Transfer from investment in a joint venture and associates to a subsidiary	8	-	17,785

The attached notes 1 to 32 form part of these consolidated financial statements.

Inovest B.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018
(Expressed in US\$000's)

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 2018. 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 2018 was 589 employee (31 December 2017: 768 employee).

The consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the Board of Directors dated 14 February 2019.

2 BASIS OF PREPARATION

2.1 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").

Inovest B.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018
(Expressed in US\$000's)

2 BASIS OF PREPARATION (continued)

2.2 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).

2.3 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.

Name of the subsidiary	Ownership 2018	Ownership 2017	Country of incorporation	Year of incorporation	Activity
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. (liquidated) *	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

Inovent B.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2018
(Expressed in US\$000's)

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation (continued)

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

Name of the subsidiary	Ownership 2018	Ownership 2017	Country of incorporation	Year of incorporation	Activity
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 Properties & Facilities 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%	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.

** ERESO 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 ERESO 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 ERESO 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;

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2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation (continued)

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.

2.4 New standards issued but not yet effective

The standards issued but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, when they become effective.

- FAS 28 - Murabaha and other deferred payment sales (effective from 1 January 2019)
- FAS 30 – Impairment and Credit Losses (effective from 1 January 2020)
- FAS 31 - Investment Agency (Al-Wakala Bi-Al-Istithmar) (effective from 1 January 2020)
- FAS 35 - Risk reserves (effective from 1 January 2021)

3 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 2018 changes in AAOIFI financial accounting standards (FAS) had any impact on the consolidated 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.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Investments (continued)

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.

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

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

(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.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Revenue recognition (continued)

(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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Impairment of financial assets (continued)

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.

4 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.

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.

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.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special purpose entities (continued)

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 these consolidated financial statements. This requires judgement when determining the maturity of assets and liabilities with no specific maturities.

5 CASH AND BANK BALANCES

	2018	2017
Short-term deposits (with an original maturity of 90 days or less)	10,136	4,244
Current account balances with banks	26,077	17,249
Cash in hand	30	47
Total cash and cash equivalents	36,243	21,540
Short-term deposits (with an original maturity of more than 90 days)	132	200
Total cash and bank balances	36,375	21,740

6 ACCOUNTS RECEIVABLE

	2018	2017
Amounts due from related parties (note 25)	30,413	33,089
Trade receivables	13,380	30,547
Other receivables	16,073	11,233
Rent receivable	1,690	971
	61,556	75,840
Less: provision for impaired receivables	(28,900)	(30,457)
	32,656	45,383

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

Amounts due from related party include an amount of US\$ 15,535 thousand / KWD 4,700 thousand (31 December 2017: US\$ 16,525 thousand / KWD 5,000 thousand), which is fully provided, resulted from a related party transaction that has taken place during 2017. Such transaction was not in compliance with the regulatory requirements of Central Bank of Bahrain Rulebook, Volume 4, Volume 6, and Bahrain Commercial Companies Law. In January 2018 an amount of US\$ 990 thousand / KWD 300 thousand has been recovered and the Group has taken the necessary actions against the respective counterparties at the appropriate courts in Kingdom of Bahrain and State of Kuwait to recover the remaining amount.

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

	2018	2017
At 1 January	30,457	24,365
Charge during the year	243	15,534
Write off during the year	(14)	(25)
Write back during the year	(1,786)	(9,417)
At 31 December	28,900	30,457

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7 INVESTMENTS

	2018	2017
Equity-type instruments at fair value through equity - Unquoted		
Real estate related	20,987	23,273
Others	3,642	3,642
	24,629	26,915
Less: Provision for impairment	(8,428)	(8,428)
At 31 December	16,201	18,487

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 2018 and 2017.

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

	2018	2017
At 1 January	8,428	11,678
Write off	-	(3,250)
At 31 December	8,428	8,428

8 INVESTMENT IN A JOINT VENTURE AND ASSOCIATES

	2018	2017
At 1 January	85,938	91,629
Acquisitions during the year	6,649	6,788
Distributions during the year	(372)	-
Impairment loss on a joint venture (note 18)	(1,516)	-
Net share of (loss) / income	(2,238)	1,165
Gain on bargain purchase	-	3,393
Transfer from investments	-	748
Transfer to a subsidiary	-	(17,785)
Inter company sales elimination	39	-
At 31 December	88,500	85,938

The Group maintains a provision for impairment of US\$ 15 million (31 December 2017: US\$ 13.4 million) against its investment in a joint venture and associates.

The movement in provision for impairment on investment in a joint venture and associates is as follows:

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8 INVESTMENT IN A JOINT VENTURE AND ASSOCIATES (continued)

	2018	2017
At 1 January	13,486	13,486
Charge during the year	1,516	-
At 31 December	15,002	13,486

The Group has an investment in the following joint venture:

Name of associate	Principal activities	Ownership		Country of incorporation	Carrying value	
		2018	2017		2018	2017
First Gulf Real Estate Company WLL (Investment acquired as a result of consolidation of Dannat Resort Development Company Ltd)	Purchase of land and construct buildings thereon for investments through sale or lease, manage and maintain real estates	55.56%	55.56%	Kingdom of Saudi Arabia	40,378	41,932

Summarised financial information of joint venture

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

	2018	2017
Total assets	57,799	57,799
Total liabilities	730	662
Total revenues	-	-
Total net loss	(68)	(93)

The joint venture had no contingent liabilities or capital commitments as at 31 December 2018 and 2017.

The principal associates of the Group are:

Name of associate	Principal activities	Ownership		Country of incorporation	Carrying value	
		2018	2017		2018	2017
Durrat Marina Investment Company Ltd.	Development and sale of commercial and residential properties	32.76%	27.39%	Cayman Islands	39,328	35,065
Takhzeen Warehousing and Storage Company	Management and maintenance of warehouses	37.24%	37.24%	Kingdom of Bahrain	5,151	5,298
Boyet Al Mohandseen Contracting Company	Development of real estate in Dhahran, Kingdom of Saudi Arabia	23.17%	23.17%	Kingdom of Saudi Arabia	3,643	3,643
					48,122	44,006

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8 INVESTMENT IN A JOINT VENTURE AND ASSOCIATES (continued)

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

	2018	2017
Summarised financial information of associates		
Total assets	159,173	167,505
Total liabilities	9,138	9,086
Total revenues	1,536	6,223
Total net (loss) / income	(7,383)	4,675

The associates had no contingent liabilities or capital commitments as at 31 December 2018 and 2017.

9 INVESTMENTS IN REAL ESTATE

	2018	2017
At 1 January	76,823	50,810
Purchases during the year	6,872	-
Unrealised fair value loss on investment in real estate (note 17)	(2,387)	(749)
Disposals during the year	(522)	(10,448)
Acquisition of a subsidiary	-	28,779
In-kind settlement of receivables	-	5,199
In-kind settlement of dividend	-	1,976
Gain on sale of investment in real estate	-	1,256
At 31 December	80,786	76,823

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\$ 96.29 million (31 December 2017: US\$ 80.30). 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\$ 80.82 million (31 December 2017: US\$ 76.82 million) approximates its fair value.

Investments in real estate stated at a carrying amount of US\$ 22.63 million (31 December 2017: US\$ 24.12 million) are secured as collateral against the financing facilities obtained (note 13).

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10 PROPERTY, PLANT AND EQUIPMENT

	Buildings on leasehold land	Machinery, equipment furniture and fixtures	Computer hardware and software	Motor vehicles	Total
Cost					
At 1 January 2018	10,122	10,489	1,481	2,263	24,355
Additions	-	187	49	109	345
Disposals	-	(55)	-	(15)	(70)
At 31 December 2018	10,122	10,621	1,530	2,357	24,630
Accumulated depreciation					
At 1 January 2018	1,512	7,001	1,339	1,538	11,390
Charge	406	1,411	74	267	2,158
Disposals	-	(55)	-	(9)	(64)
At 31 December 2018	1,918	8,357	1,413	1,796	13,484
Net book amount:					
At 31 December 2018	8,204	2,264	117	561	11,146
At 31 December 2017	8,610	3,488	142	725	12,965

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

	2018	2017
Depreciation charged to contract costs (note 16)	1,250	1,405
Depreciation charged to expenses	908	730
	2,158	2,135

11 OTHER ASSETS

	2018	2017
Advances to contractors	927	3,552
Prepayments	378	466
	1,305	4,018

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12 OTHER LIABILITIES AND ACCOUNTS PAYABLE

	2018	2017
Lease rent payables (note 12.1)	50,105	50,105
Accruals and other payables	24,085	26,178
Case compensation and other contingencies (note 12.2)	8,858	8,739
Amounts due to related parties (note 12.3 and 25)	4,689	30
Retentions payable	4,398	4,187
Trade payables	1,254	3,578
Advance from a client for construction contract	-	9,439
	93,389	102,256

Note 12.1

The Group entered into a long term lease contract with the Ministry of Industry, Commerce and Tourism ("MOICT") 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 12.2

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\$ 8,149 thousand (31 December 2017: US\$ 8,030 thousand) for such future contingencies.

Note 12.3

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

13 FINANCING FROM A BANK

	2018	2017
Commodity murabaha financing	9,227	12,927

The Group has obtained financing from a bank to fund the acquisition of investments, purchase of real estate and to meet working capital requirements. These liabilities bear market rates of profit and are repayable in accordance with the repayment terms agreed with the respective bank.

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14 SHARE CAPITAL

	2018	2017
Authorised		
375,000,000 (31 December 2017: 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 2017: 286,511,225) ordinary shares of US\$0.40 each	114,604	114,604
Treasury shares		
Less: 3,500,000 (31 December 2017: 3,500,000) treasury shares	(1,239)	(1,239)
Closing balance		
283,011,225 (31 December 2017: 283,011,225) ordinary shares	113,365	113,365

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 2018

Name	Incorporation	Number of shares	holding %
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	202,830,751	70.79%
		286,511,225	100%

At 31 December 2017

Name	Incorporation	Number of shares	holding %
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%

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.

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14 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 2018

Name	No. of shares	No. of shareholders	of total % outstanding shares
Less than 1%	80,283,100	688	28.02%
1% up to less than 5%	122,547,651	16	42.77%
5% up to less than 10%	44,698,883	2	15.60%
10% up to less than 50%	38,981,591	1	13.61%
	286,511,225	707	100%

At 31 December 2017

Name	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%

Details of shares owned by the directors of the Group are as follows:

31 December 2018

	Number of shares
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 Neseef	-
	-

At 31 December 2017, the Company did not have elected Board of Directors thus no shares were held by the Board of directors out of the total issued and fully paid-up share capital of the Company.

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15 STATUTORY RESERVES AND TREASURY SHARES

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\$ 1,401 thousand has been made for the year ended 31 December 2018 (31 December 2017: US\$ 586 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.

16 NET INCOME FROM CONSTRUCTION CONTRACTS

	2018	2017
Contract income	54,875	84,374
Contract costs	(38,636)	(72,660)
	16,239	11,714

The contract costs include depreciation amounting to US\$ 1,250 thousand (31 December 2017: US\$ 1,405 thousand).

17 INCOME FROM INVESTMENT IN REAL ESTATE

	2018	2017
Rental income	5,372	3,474
Realised gains on sale of investment in real estate	88	1,256
Unrealised fair value losses on investment in real estate (note 9)	(2,387)	(749)
	3,073	3,981

18 INCOME FROM INVESTMENTS

	2018	2017
Realised gain on sale of an investment	4,363	500
Dividend income	719	319
Impairment loss on a joint venture (note 8)	(1,516)	-
Gain on bargain purchase - associate	-	3,393
Fair value gain on transfer of investment to investment in a joint venture and associates	-	252
Gain on bargain purchase - subsidiary	-	129
	3,566	4,593

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19 FEE FOR MANAGEMENT AND OTHER SERVICES

	2018	2017
Property and facility management income	636	545
Financial advisory service charges	95	127
Other management services	222	-
	953	672

20 OTHER INCOME

	2018	2017
Electricity and water services	1,640	238
Profit on short-term deposits	191	629
Others	311	216
	2,142	1,083

21 STAFF COSTS

	2018	2017
Salaries and benefits	4,603	4,420
Other staff expenses	632	678
	5,235	5,098

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Legal and professional fees	730	480
Rent, rates and taxes	601	605
Board member expenses	238	571
Advertising and marketing	236	309
Regulatory fees	186	185
IT related expenses	143	148
Travelling and transportation	128	70
Labour accommodation expenses	115	25
Directors professional liability insurance	57	66
Financial penalties (note 22.1)	10	93
Foreign exchange loss	1	266
Other expenses	278	410
	2,723	3,228

Note 22.1

During 2018, Kuwait Capital Markets Authority imposed a financial penalty of US\$ 10 thousand for delay in disclosure of material information relating to the exit from real estate investment in Saudi Arabia in July 2018.

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 **22**

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GENERAL AND ADMINISTRATIVE EXPENSES (continued)

Note 22.1(continued)

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.

During 2017, 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, during 2017 CBB also imposed a financial penalty of US\$ 53 thousand for breaching BCCL and CBB Rules for dealing with a related party company.

23 RECOVERIES FROM / (PROVISION AGAINST) IMPAIRED RECEIVABLES

The Group reversed an amount of US\$ 1,786 thousand (31 December 2017: US\$ 3,263 thousand) as a result of settlements in respect of outstanding account receivables due from third parties.

The Group booked a provision against one of its related party receivables amounting US\$ 243 thousand (31 December 2017: US\$ 15,534 thousand)

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

24 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:

	2018	2017
Income attributable to the equity shareholders of the parent for the year	14,007	5,855
Weighted average number of shares outstanding at the beginning and end of the year	283,011	284,535
Earnings per share - US\$ cents	4.95	2.06

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

25 PROPOSED DIVIDEND

A dividend of US\$ 5.7 million (US\$ cents 2.0 per share) is proposed for the year ended 31 December 2018 subject to regulatory approvals and the approval of the shareholders in the Annual General Meeting (no dividend was proposed for the year ended 31 December 2017).

26 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.

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26 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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. Outstanding balances at the year end are unsecured.

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

31 December 2018					31 December 2017			
	Associates and joint venture	Key management /personnel/ Board /members external auditors	Other related parties	Total	Associates and joint venture	Key management personnel/ Board members/ external auditors	Other related parties	Total
Accounts receivable - gross	9,606	-	20,807	30,413	9,488	-	23,601	33,089
Provision	(8,764)	-	(17,943)	(26,706)	(8,764)	-	(17,699)	(26,463)
Accounts receivable - net	842	-	2,864	3,707	724	-	5,902	6,626
Other liabilities and accounts payable	4,662	25	2	4,689	1	28	1	30

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

31 December 2018					31 December 2017			
	Associates and joint venture	Key management /personnel/ Board /members external auditors	Other related parties	Total	Associates and joint venture	Key management personnel/ Board members/ external auditors	Other related parties	Total
Income								
Fee for management and other services	32	-	101	133	32	-	109	141
Income from investments	-	-	4,363	4,363	-	-	-	-
Net income from construction contracts	-	-	-	-	-	-	564	564
Net share of (loss) / income from investment in a joint venture and associates	(2,238)	-	-	(2,238)	1,165	-	-	1,165
Other income	-	-	-	-	-	-	25	25
	(2,206)	-	4,464	2,258	1,197	-	698	1,895
Expenses								
Staff costs	-	1,498	-	1,498	-	1,627	-	1,627
General and administrative expenses	6	362	73	441	9	618	71	698
	6	1,860	73	1,939	9	2,245	71	2,325
Recoveries from / (provision against) impaired receivables (note 23)	-	-	-	-	6,154	(15,534)	-	(9,380)

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26 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Compensation of the key management personnel is as follows:

	2018	2017
Salaries and other benefits	1,498	1,627

27 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 2018					
	Investment and related services	Construction Contracts	Development and sale of industrial plots	Property and facility tnmeganam secivres	Eliminations	Total
Net revenues from external customers	(533)	16,239	4,599	(40)	-	20,265
Inter-segment transactions	-	-	-	231	(231)	-
Income from investments	1,590	-	-	-	1,976	3,566
Net share of loss from investment in a joint venture and associates (note 8)	(2,238)	-	-	-	-	(2,238)
Other income	92	173	2,245	9	(377)	2,142
Total revenue	(1,089)	16,412	6,844	200	1,368	23,735
Segment (loss) / profit	(6,368)	12,495	5,845	47	2,039	14,058
Segment assets	307,104	65,891	113,981	256	(220,263)	266,969
Segment liabilities	66,471	20,244	56,155	47	(40,301)	102,616

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27 SEGMENTAL INFORMATION (continued)

31 December 2017						
	Investment and related services	Construction Contracts	Development and sale of industrial plots	Property and facility management services	Eliminations	Total
Net revenues from external customers	1,816	11,714	2,741	96	-	16,367
Income from investments	3,137	-	3,432	-	(1,976)	4,593
Net share of (loss) / income from investment in a joint venture and associates (note 8)	675	-	575	-	(85)	1,165
Other income	143	44	878	27	(9)	1,083
Total revenue	5,771	11,758	7,626	123	(2,070)	23,208
Segment (loss) / profit	(13,162)	7,985	13,133	96	(2,000)	6,052
Segment assets	280,609	67,324	91,694	3,555	(177,828)	265,354
Segment liabilities	63,821	34,173	56,834	2,027	(41,672)	115,183

28 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:

	2018	2017
Guarantees	21,577	23,200

The Group has the following operating lease commitments:

	2018	2017
Future minimum lease payments:		
Within one year	421	482
After one year but not more than five years	68	933
Total	489	1,415

29 FIDUCIARY ASSETS

The assets managed on behalf of customers, to which the Group does not have any legal title are not included in the interim consolidated statement of financial position. At 31 December 2018, the carrying value of such assets is US\$ 129 million (31 December 2017: US\$ 144 million).

30 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.

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30 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

	Gross maximum exposure 2018	Gross maximum exposure 2017
Accounts receivable	32,656	45,383
Commitments and contingent liabilities	21,577	23,200
Total	54,233	68,583

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 2018				Total
	Up to 6 months	6-12 Months	1-3 Years	3 Years and above	
Accounts receivable	744	1,860	8,927	-	11,531

	31 December 2017				Total
	Up to 6 months	6-12 Months	1-3 Years	3 Years and above	
Accounts receivable	17,206	3,078	6,582	-	26,866

Accounts receivables amounting to US\$ 1.85 million (31 December 2017: US\$ 3.64 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 2018			31 December 2017		
	Assets	Liabilities	Contingent liabilities	Assets	Liabilities	Contingent liabilities
Geographic region:						
Kingdom of Bahrain	206,352	102,613	21,577	165,554	105,750	23,200
Other GCC countries	60,617	3	-	99,800	9,433	-
	266,969	102,616	21,577	265,354	115,183	23,200

	31 December 2018			31 December 2017		
	Assets	Liabilities	Contingent liabilities	Assets	Liabilities	Contingent liabilities
Industry sector:						
Real estate	184,643	73,154	21,577	182,338	69,559	23,200
Non real estate	82,326	29,462	-	83,016	45,624	-
	266,969	102,616	21,577	265,354	115,183	23,200

30 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 2018 and 2017, 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.

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30 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 2018 based on expected periods to cash conversion from the consolidated statement of financial position date:

	Up to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	No fixed maturity	Total
ASSETS									
Cash and bank balances	34,999	1,334	-	42	-	-	-	-	36,375
Accounts receivable	15,401	1,800	919	2,095	12,441	-	-	-	32,656
Investments	-	-	-	-	16,201	-	-	-	16,201
Investment in a joint venture and associates	-	-	-	-	88,500	-	-	-	88,500
Investments in real estate	-	-	-	-	80,786	-	-	-	80,786
Property, plant and equipment	-	-	-	-	-	-	-	11,146	11,146
Other assets	724	214	240	122	5	-	-	-	1,305
Total assets	51,124	3,348	1,159	2,259	197,933	-	-	11,146	266,969
LIABILITIES									
Other liabilities and accounts payable	19,444	456	562	2,031	17,807	3,316	49,773	-	93,389
Financing from a bank	39	960	972	1,992	5,264	-	-	-	9,227
Total liabilities	19,483	1,416	1,534	4,023	23,071	3,316	49,773	-	102,616
Net liquidity gap	31,641	1,932	(375)	(1,764)	174,862	(3,316)	(49,773)	11,146	164,353
Cumulative liquidity gap	31,641	33,573	33,198	31,434	206,296	202,980	153,207	164,353	
Contingencies and commitments	-	-	-	-	21,577	-	-	-	21,577

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30 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:

	Up to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	No fixed maturity	Total
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

30 RISK MANAGEMENT (continued)

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.

31 SOCIAL RESPONSIBILITY

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

32 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.