# ESTERAD INVESTMENT COMPANY BSC

## CONSOLIDATED FINANCIAL STATEMENTS

## 31 DECEMBER 2016

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**CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2016**

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# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of myself and my fellow members of the Board of Directors of Esterad, I would like to present to you the Company's Annual Statement Reports for the financial year ending 31st December 2016.

I am sure all agree that 2016 was another difficult year for the financial and business communities in many countries and companies around the world. The year was full of diverse events, perhaps mostly political or geopolitical in nature, which applied direct or indirect pressure on the direction of currencies, interest rates and other financial markets. Two such events which had notable impact on selected markets around the world are the Brexit and the US presidential election. There were, however, other breaking or escalating news all year round exacerbating the feeling of uncertainty and negativity across the investment and business world. A summary highlight of the noteworthy happenings in 2016 were for instance the escalation of conflict in Yemen, the heightened migrant crisis in Europe, the Iran-US nuclear deal and lifting of sanctions, oversupply and drop of the oil price to around US$30, China's presumed growth slow down, the GCC austerity measures, terrorist attacks in places such as Brussels and Turkey, Russia's ongoing tension with the west and last but not least the failed military coup in Turkey.

The sum effect of the incidents above on top of the outcome of the weak economic data in mainly the USA, China and Europe were generally negative for the US dollar, the global stock markets and the price of oil during the first few months of the year. During the same period until about the middle of the year, however, commodity prices, especially metals, as well as the bond markets were booming due to the downward trend in bond yields and dollar value. As the year progressed into the second half, the key data coming out of the major economies proved resilient showing signs of solid recovery and henceforth reversal of the US dollar and bond yields' downward trend. The surprise outcome of the US election result, in addition to the expectation of higher interest rates in the horizon fuelled a rally of US dollar against most of currencies especially those of emerging markets causing massive selloffs in the bond markets almost everywhere. By the close of the year, the value of most commodities including oil price maintained their double digit growth returned during the year whilst equity markets in general including the GCC stock markets reversed most of their earlier losses beginning of the year and ended up more or less breakeven.

The conclusion of the global investment environment explained above somehow resembles the performance of Esterad' assets last year. The gross income generated by the Company was BD1,903,929 which is a gross return over total assets of only 4.66%. It should be known however that such total income is only generated from the productive, marketable and income producing assets currently under Esterad's direct management, which means that excluding the private equity and the other legacy pre-crisis assets mostly controlled by external managers, the return on the relatively new and income producing assets would certainly produce a much improved percentage figure. Moreover, these non-productive legacy assets which have significantly dwindled in value over the past few years, either through liquidation or fair value losses, were once again the main culprit in 2016 for most of the other comprehensive revaluation losses that caused the gross comprehensive revenue to dip into negative bottom line territories. However, the process of liquidation and reinvestment into revenue generating assets is ongoing and for this reason your Board of Directors are cautiously optimistic the worse of these troublesome assets are over especially that in aggregate they currently constitute a relatively much smaller percentage of the total investment assets than before.

Specifically in terms of the audited consolidated financial results for the year 2016, Esterad achieved lower total income and net profit of BD 1,903,929 and BD 806,360 compared to 2015's BD 2,270,936 and BD 1,155,070 respectively. The Company also produced a total comprehensive Income of BD (1,374,943) compared to a small profit of BD 55,624 last year primarily as mentioned above due to further fair value losses on mainly some private holdings that deteriorated further under the turbulent business environment of the past two years. Accordingly, the Company's earnings per share dropped from 8.12 fils in 2015 to 5.65 fils in 2016, whilst on a more positive note, total expenses was controlled at BD 1,097,569 in 2016, which is a further drop of 2% from the BD 1,115,866 figure in 2015.

As for Esterad's financial condition at the end of 2016, the Company's total assets and shareholders' equity have contracted compared to last year by 11% and 8% respectively. Total assets stood at BD 40,885,024 at the end of 2016 relative to BD 45,799,254 end of 2015, whilst the shareholders equity was BD 34,145,403 end of 2016 compared to BD 36,932,173end of 2015. The primary reason for the drop in the value of total assets was the decision in the 4th quarter to sell some of the fixed income securities for the purpose of profit taking, which also led to a reduction in the total borrowings by around 30% from BD 6,762,626 end of 2015 to BD 4,750,200 end of 2016. The Company's cash balance has marginally increased by BD 684,278 from its level end of 2015 to reach BD 4,530,397 by year end 2016.

Based on the above financial results, the Board of Directors in its meeting held on 25th January 2017 has resolved to propose to the shareholders to pay out a cash dividends for the year 2016 worth BD 697,521 which equivalent to 5% of the paid up capital.

We in Esterad expect a relatively better economic condition in 2017 compared to the past two years both regionally in the GCC and globally in many of the developed countries despite a number of looming uncertainties on the back of mainly the political overhand in the USA and Europe next year. The reason for optimism is a combination of short term surge in some of the key economic measures in the USA, Europe, China and Japan, particularly in relation to improving figures of employment, consumer expenditure and industrial production. Moreover, a longer term observation of the same main economic indicators over the past 5 years also reveals a steady growth trend, albeit currently slow, in the above mentioned economies upon which one hopes that the upward growth cycle is well entrenched and working. Tighter economic condition and more buoyant trade and investment activities throughout the rest of world will be stimulants for higher commodities' prices including oil, the key economic booster for the GCC markets. As a result, the Company will gear up its investment activities for a growing but still volatile stock market performance whilst heavily increasing exposure to the fixed income producing assets. At the same time, all efforts will be made to control lower the general operating cost of running your Company.

Finally, on behalf of the Board of Directors I wish to thank the shareholders for their patience and support during the past difficult years in Esterad's long life, hoping the years ahead will be more rewarding and fruitful to all. I would also like to thank our business associates and my fellow directors for their support and vision that they bring to the board. Finally and in particular I thank Esterad's Management and employees for their dedication, hard work and commitment to the wellbeing of the Company.

Rashed Al Meer
Chairman
25 January 2017

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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**

Esterad Investment Company BSC
Kingdom of Bahrain

**Report on the audit of the consolidated financial statements**

**Opinion**

We have audited the accompanying consolidated financial statements of Esterad Investment Company BSC (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Valuation of equity investments**

*Refer to the accounting policy in note 3(viii)(d) and note 5 for disclosures related to carrying value of equity investments and valuation techniques.*

We focused on the below mentioned area because equity investments represent the principal element of the financial statements of the Group.

| **Description** | ***How the key audit matter was addressed in our audit*** |
|---|---|
| **A Valuation of quoted equity investments** | |
| The Company's portfolio of listed equity investments make up 38% of the Group's total assets (by value) and is considered one of the drivers of operations and performance. We don't consider these investments to be at high risk of significant misstatement, or to be subject to a significant risk of judgment because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they were one of the key audit areas we focused on. | Our audit procedures for quoted investments, included:<br>▪ agreeing 100% of the investments holdings in the portfolio to independently received third party confirmation and/or statement of accounts; and<br>▪ agreeing the valuation of 100% of investments in the portfolio to externally quoted prices. |
| **B Valuation of unquoted equity investments at fair value** | |
| 19% of the Group's total assets (by value) is held in equity investments where no quoted market price is available. The fair value for such investments are assessed using valuation techniques such as discounted cash flows, net asset values and earnings multiples.<br><br>The application of valuation techniques often involve the exercise of judgment by the Group and the use of assumptions and estimates about the future performance of the investee company. Accordingly, this was a key area of audit focus. | Our audit procedures, with the assistance of our valuation specialists, included:<br>▪ assessing the appropriateness of the valuation techniques used by comparing with observed industry practice;<br>▪ challenging key inputs and assumptions used in the valuations, such as earnings multiples and discount factors; by using our knowledge of |

| **Description** | ***How the key audit matter was addressed in our audit*** |
|---|---|
| | the industries in which the investees operates and industry norms; and<br>▪ comparing the key underlying financial data inputs to external sources, investee company financial and management information as applicable.<br><br>We also assessed the adequacy of the Group's disclosures in relation to valuation of equity investments by reference to the requirements of the relevant accounting standards. |

**Other Information**
The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Chairman's statement, which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other regulatory requirements**

As required by the Bahrain Commercial Companies Law, we report that:

a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the Chairman's statement is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Mahesh Balasubramanian.

KPMG

KPMG Fakhro
Partner Registration number 137
25 January 2017

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
**as at 31 December 2016**

Bahraini Dinars

| | Note | **31 December 2016** | 31 December 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 4 | 4,530,397 | 3,846,119 |
| Investment securities | 5 | 35,491,820 | 40,546,449 |
| Investment property | 6 | 307,932 | 851,932 |
| Other assets | 7 | 554,875 | 554,754 |
| **Total assets** | | **40,885,024** | 45,799,254 |
| **Liabilities** | | | |
| Bank borrowings | 9 | 4,750,200 | 6,762,626 |
| Unclaimed dividends | | 1,056,788 | 1,024,735 |
| Other liabilities | | 485,834 | 649,706 |
| **Total liabilities** | | **6,292,822** | 8,437,067 |
| **Total net assets** | | **34,592,202** | 37,362,187 |
| **Equity** | | | |
| **Shareholders' equity** | | | |
| Share capital | 11 | 14,000,000 | 14,000,000 |
| Share premium | | 7,966,301 | 7,966,301 |
| Treasury shares | 11 | (93,961) | (93,961) |
| Reserves | 10 | 10,003,690 | 14,039,759 |
| Retained earnings | | 2,269,373 | 1,020,074 |
| **Total equity attributable to shareholders of the parent company** | | **34,145,403** | 36,932,173 |
| Non-controlling interest | | 446,799 | 430,014 |
| **Total equity** | | **34,592,202** | 37,362,187 |

Rashed Al Meer
Chairman

Abdulrahman Jamsheer
Deputy Chairman

Faisal Janahi
Chief executive officer

The consolidated financial statements consisting of pages 6 to 34 were approved by the Board of Directors on 25 January 2017.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
**for the year ended 31 December 2016**

Bahraini dinars

| | Note | 2016 | 2015 |
|---|---|---|---|
| Investment income | 13 | 1,870,566 | 1,905,130 |
| Income from investment property | 6 | 32,485 | 78,356 |
| Other income | 14 | 878 | 287,450 |
| **Total income** | | **1,903,929** | 2,270,936 |
| General and administrative expenses | 15 | 933,869 | 875,851 |
| Interest expense | 16 | 163,700 | 240,015 |
| **Total expenses** | | **1,097,569** | 1,115,866 |
| **Profit for the year** | | **806,360** | 1,155,070 |
| **Other comprehensive income:** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Net changes in fair value of equity investments at fair value through other comprehensive income | | (2,181,303) | (1,099,446) |
| **Total other comprehensive income for the year** | | **(2,181,303)** | (1,099,446) |
| **Total comprehensive income for the year** | | **(1,374,943)** | 55,624 |
| **Profit for the year attributable to :** | | | |
| Shareholders of the parent company | | **787,822** | 1,132,383 |
| Non-controlling interest | | 18,538 | 22,687 |
| | | **806,360** | 1,155,070 |
| **Total comprehensive income attributable to:** | | | |
| Shareholders of the parent company | | (1,393,481) | 32,937 |
| Non-controlling interest | | 18,538 | 22,687 |
| | | **(1,374,943)** | 55,624 |
| Basic earnings per 100 fils share | 11 | **5.65 fils** | 8.12 fils |

Rashed Al Meer
Chairman

Abdulrahman Jamsheer
Deputy Chairman

Faisal Janahi
Chief executive officer

The consolidated financial statements consist of pages 6 to 34.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
**for the year ended 31 December 2016**

Bahraini dinars

| | Attributable to the shareholders of the parent company | | | | | | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| **2016** | Share Capital | Share premium | Treasury shares | Reserves | Retained earnings (note 10) | **Total** | | |
| At 1 January 2016 | 14,000,000 | 7,966,301 | (93,961) | 14,039,759 | 1,020,074 | 36,932,173 | 430,014 | 37,362,187 |
| **Comprehensive income for the year** | | | | | | | | |
| Profit for the year | - | - | - | - | 787,822 | 787,822 | 18,538 | 806,360 |
| Other comprehensive income | | | | | | | | |
| Net changes in fair value of equity investments at fair value through other comprehensive income | - | - | - | - | (2,181,303) | (2,181,303) | - | (2,181,303) |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **(1,393,481)** | **(1,393,481)** | **18,538** | **(1,374,943)** |
| **Distributions** | | | | | | | | |
| Dividends to equity holders for 2015 | - | - | - | - | (1,395,042) | (1,395,042) | - | (1,395,042) |
| **Total distributions** | - | - | - | - | (1,395,042) | (1,395,042) | - | (1,395,042) |
| Transfer to statutory reserve | - | - | - | 3,690 | (1,937) | 1,753 | (1,753) | - |
| Transfer from reserves to retained earnings (note xx) | - | - | - | (4,039,759) | 4,039,759 | - | - | - |
| **At 31 December 2016** | **14,000,000** | **7,966,301** | **(93,961)** | **10,003,690** | **2,269,373** | **34,145,403** | **446,799** | **34,592,202** |

The consolidated financial statements consist of pages 6 to 34.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**for the year ended 31 December 2016***(continued)*

Bahraini dinars

| | Attributable to the shareholders of the parent company | | | | | | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| 2015 | Share Capital | Share premium | Treasury shares | Reserves | Retained earnings (note 10) | Total | | |
| Restated balance 1 January 2015 | 14,000,000 | 7,966,301 | (93,961) | 14,035,155 | 2,401,637 | 38,309,132 | 417,692 | 38,726,824 |
| Comprehensive income for the year | | | | | | | | |
| Profit for the year | - | - | - | - | 1,132,383 | 1,132,383 | 22,687 | 1,155,070 |
| Other comprehensive income | | | | | | | | |
| Net changes in fair value of equity investments at fair value through other comprehensive income | - | - | - | - | (1,099,446) | (1,099,446) | - | (1,099,446) |
| Total comprehensive income for the year | - | - | - | - | 32,937 | 32,937 | 22,687 | 55,624 |
| Distributions | | | | | | | | |
| Dividends to equity holders for 2014 | - | - | - | - | (1,395,042) | (1,395,042) | - | (1,395,042) |
| Total distributions | - | - | - | - | (1,395,042) | (1,395,042) | - | (1,395,042) |
| Transfer to statutory reserve | - | - | - | 4,604 | (2,348) | 2,256 | (2,256) | - |
| Distributions to non-controlling interest on liquidation of subsidiaries | - | - | - | - | (17,110) | (17,110) | (8,109) | (25,219) |
| At 31 December 2015 | 14,000,000 | 7,966,301 | (93,961) | 14,039,759 | 1,020,074 | 36,932,173 | 430,014 | 37,362,187 |

The consolidated financial statements consist of pages 6 to 34.

## CONSOLIDATED STATEMENT OF CASH FLOWS
**for the year ended 31 December 2016**

| | 2016 | 2015 |
|---|---|---|
| **Operating activities** | | |
| Dividends received | 1,189,005 | 1,295,239 |
| Interest received | 836,450 | 1,322,745 |
| Proceeds from sale of equity securities | 3,221,647 | 12,206,462 |
| Purchase of equity securities | (1,465,254) | (12,689,853) |
| Purchase of debt securities | (8,933,145) | (4,653,941) |
| Proceed from matured and sale of debt securities | 9,921,564 | 9,352,993 |
| Proceeds for derivative instruments, net | 41,864 | 163,120 |
| Custody fees and investment related expenses paid | (91,658) | (97,158) |
| Salaries and benefits paid | (740,529) | (588,343) |
| Payments for general and administrative expenses | (308,758) | (307,590) |
| Rent received and other income, net of expenses paid | 47,710 | 55,779 |
| **Net cash generated from operating activities** | **3,718,896** | 6,059,453 |
| **Investing activities** | | |
| Acquisition of equipment | (3,050) | (102,639) |
| Proceeds from sale investment property | 535,000 | - |
| **Net cash generated from/ (used in) investing activities** | **531,950** | (102,639) |
| **Financing activities** | | |
| Repayments of borrowings, net | (2,012,426) | (3,609,021) |
| Loan to related party | - | (173,460) |
| Interest paid | (183,965) | (262,581) |
| Distribution to non-controlling interest on liquidation of subsidiaries | (7,187) | (16,990) |
| Dividends paid | (1,362,990) | (1,322,412) |
| **Net cash used in financing activities** | **(3,566,568)** | (5,384,464) |
| **Net increase in cash and cash equivalents during the year** | **684,278** | 572,350 |
| Cash and cash equivalents as at 1 January | 3,846,119 | 3,273,769 |
| **Cash and cash equivalents at 31 December** (Note 4) | **4,530,397** | 3,846,119 |

The consolidated financial statements consist of pages 6 to 34.

## 1. REPORTING ENTITY

Esterad Investment Company BSC ('the Company') is a Bahraini public joint stock company, established in 1973 by Amiri Decree 9/1973 and the shares are listed in Bahrain Bourse.

The principal activity of the Company is to invest in a wide ranging variety of investment assets in both local and international markets.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group").

## 2. BASIS OF PREPARATION

### (i) Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in conformity with Bahrain Commercial Companies Law 2001.

### (ii) Basis of measurement
The consolidated financial statements are prepared using the going concern assumption and on the historical cost basis, except for the following:
- derivative financial instruments are measured at fair value;
- investments designed at fair value through profit or loss and at fair value through other comprehensive income are measured at fair value; and
- Investment properties are measured at fair value.

### (iii) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Bahraini Dinars ("BD"), which is the Company's functional and presentation currency.

### (iv) Use of estimates and judgements
The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 18.

### (v) New standards, amendments and interpretations effective from 1 January 2016
The following standards, amendments and interpretations, which became effective as of 1 January 2016, are relevant to the Group:

#### a) Annual Improvements to IFRSs 2012–2014 Cycle – various standards.

The annual improvements to IFRSs to 2012-2014 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 January 2016; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The adoption of these amendments had no significant impact on the consolidated financial statements.

**(vi) New standards, amendments and interpretations issued but not yet effective**

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however; the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

**a) Disclosure Initiative (Amendments to IAS 7)**

The amendments require disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

The Group has not early adopted Disclosure Initiative (Amendments to IAS 7) in its consolidated financial statements for the year ended 31 December 2016.

**b) IFRS 9 Financial Instruments**

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group early adopted IFRS 9 except Impairment- financial assets and contract assets and Disclosures which are applicable from 1 January 2018.

**c) IFRS 15 – Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is currently performing an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

**Transition**

The Group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, using the retrospective approach. As a result, the Group will apply all of the requirements of IFRS 15 to each comparative period presented and adjust its consolidated financial statements.

## 3. SIGNFICANT ACCOUNTING POLICIES

**(i) Basis of consolidation**

**(a) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences unit the date on which control ceases.

**(b) Non-controlling interest ("NCI")**

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**(c) Loss of control – non-controlling interest**

When Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in former subsidiary is measured at fair value when control is lost.

**(d) Associate**

Associates are those entities in which the Group has significant influence, but not control or joint, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

On initial recognition of investment in each associate, the Group makes an accounting policy election as to whether the associate shall be equity accounted or designated as an investment at fair value through profit or loss in the consolidated financial statements. The Group, being like a venture capital organisation investing in private equity investments, designates certain of its investments in associates, as allowed by IAS 28 'Investments in Associates', as 'investments carried at fair value through profit or loss'.

Currently there are no associates which are equity accounted and all associates are measured at fair value through profit or loss.

If the equity method is chosen, the consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

**(e) Transactions eliminated on consolidation**

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(ii) Foreign currency**

*Transactions*

Monetary assets and liabilities are translated into Bahraini Dinars at exchange rates ruling at the statement of financial position date. Transactions in foreign currencies during the year are converted at the rate ruling at that time. Foreign exchange gains and losses are recognised in the statement of income.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when fair value was determined. Translation differences for non-monetary items, such as FVTOCI investments (note viii (a)), are included in fair value reserve in other comprehensive income.

*Group entities*

The other group entities presentation currency is the Bahraini Dinars and hence, the translation of financial statements of the group entities does not result in exchange differences.

(iii) **Interest income and expense** are recognised in the statement of income using the effective interest method. Interest bearing financial assets and liabilities except those classified as FVTPL are recognized using effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of financial asset or liability, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

The application of effective interest rate method has effect of recognising the interest income or expense evenly in proportion to the amount outstanding over the period to maturity or repayment.

(iv) **Rental income** from sub-leased properties is recognised according to the rent agreements entered between the Company and the tenants on an accrual basis over the lease term. Rental income is included as part of other income in the consolidated financial statements.

(v) **Dividend income** is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(vi) **Cash and cash equivalents** comprise of cash in hand and at bank and deposits maturing within 90 days, which are subject to insignificant risk of fluctuation in its realisable value.

(vii) **Trade receivables** are measured at the original invoice amount less any impairment allowances. **Other receivables** are stated at amortised cost less any impairment allowance.

(viii) **Investment securities**

Financial assets and liabilities comprise all assets and liabilities reflected in the statement of financial position, although excluding investments in subsidiaries, equity accounted associated companies and joint ventures, employee benefit accruals, pre -payments and taxation payable.

**a) Initial recognition and measurement**

The Group recognises financial assets and liabilities in the consolidated statement of financial position when, and only when, the Group becomes party to the contractual provisions of the instrument. Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology. Financial assets are classified into one of the following three categories:-

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income (FVTOCI)
- Financial assets at fair value through the profit or loss (FVTPL)

Financial liabilities are classified into one of the following two categories:-

- Financial liabilities at amortised cost
- Financial liabilities at fair value through the profit or loss (FVTPL)

Financial assets are initially recognised at fair value, including transaction costs that are directly attributable to the acquisition of the financial asset except transaction costs on financial instruments measured at FVTPL are not included in the amount at which the instrument is initially measured; instead, they are immediately recognised in profit or loss. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of listed/ quoted financial assets and liabilities classified as FVTPL are recognised on the trade date, i.e. the date on which Group becomes party to the contractual provisions of the investments.

All regular way purchases and sales of other financial assets and liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty.

Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

**b) Subsequent measurement**

Subsequent to initial measurement, financial assets and liabilities are measured at either amortised cost or fair value. The classification and the basis for measurement are subject to the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

Financial assets are measured at amortised cost using the effective interest rate method if:-
i) the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

ii) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of these two criteria is not met, the financial assets are classified and measured at fair value, either through the profit or loss (FVTPL) or through other comprehensive income (FVTOCI).

Additionally, even if a financial asset meets the amortised cost criteria, the entity may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

***Financial assets at fair value through other comprehensive income (FVTOCI)***

At initial recognition, the Group can make an irrevocable election to classify an equity investment that is not held for trading as FVTOCI.

For this purpose, a financial asset is deemed to be held for trading if the equity investment meets any of the following conditions:-

i) it has been acquired principally for the purpose of selling in the near term;
ii) on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profitability; or
iii) it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

The irrevocable election is on an instrument-by-instrument basis. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the consolidated statement of income.

***Financial assets at fair value through the profit or loss (FVTPL)***

Financial assets not otherwise classified above are classified and measured as FVTPL and changes therein, including any interest or dividend income, are recognized in the profit or loss

***Financial liabilities at amortised cost***

All financial liabilities, other than those classified and measured as financial liabilities at FVTPL, are classified as financial liabilities at amortised cost and are measured at amortised cost using the effective interest rate method as described in note 3 (iii).

***Financial liabilities at fair value through the profit or loss***

Financial liabilities not otherwise classified above are classified as financial liabilities at FVTPL. This classification includes derivatives that are liabilities measured at fair value.

**c) Derecognition of financial assets and liabilities**

Financial assets are derecognised and removed from the consolidated statement of financial position when the right to receive cash flows from the assets has expired; the Group has transferred its contractual right to receive the cash flows from the assets, and substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised and removed from the consolidated statement of financial position when the obligation is discharged, cancelled, or expires.

**d) Fair value measurement**

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price. If the bid-ask spread for a specific asset or liability is wide, then the Group uses the price within the bid-ask spread that is most representative of fair value in the circumstances.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

**(ix) Impairment of financial assets**

Financial assets not classified as at fair value, are assessed at each reporting date to determine whether there is an objective evidence of impairment. A provision for impairment is established where there is objective evidence that the Group will not collect all amounts due, in accordance with the contractual terms of the investment.

Objective evidence that a financial asset is impaired may include the issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of issuers in the group, or economic conditions that correlate with defaults in the group.

Provisions for impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the at the current market rate of interest for a similar financial asset.

(x) **Assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities , are classified as held-for-sale if it is highly probable that they will be recovered primary through sale rather than through continuing use.

Such assets, or disposal group, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to remaining assets and liabilities on pro rata basis, except no loss is allocating to financial assets, employee benefit assets, or investment property assets which continue to be measured in accordance with the Group's other accounting policies. Impairment loss on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on measurement are recognized in profit or loss.

(xi) **Offsetting financial assets and liabilities**

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

(xii) **Derivative financial instruments held for risk management**

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of a derivative is the equivalent to its prevailing market rates or is based on broker quotes. Derivatives with positive market values are disclosed as assets and derivatives with negative market values are disclosed as liabilities in the statement of financial position.

In certain circumstances the Group enters into derivative instruments to hedge foreign currency risks. Changes in the fair value of derivative financial instruments that are designated, and qualify as fair value hedges, are included in the statement of income together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk being hedged. Unrealised gains or losses on hedged assets which are attributable to the hedged risk are adjusted against the carrying values of thehedged assets or liabilities. For derivatives that are not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in the statement of comprehensive income.

(xiii) **Equipment** held for operational purposes, are carried at cost less accumulated depreciation and impairment losses. The cost of additions and major improvements are capitalised.

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of items of equipment as follows:

| | |
|---|---|
| Computers hardware | 3 years |
| Vehicles and furniture | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. When an item of property, plant and equipment is sold or discarded, the respective cost and accumulated depreciation relating thereto are eliminated from the statement of financial position, the resulting gain or loss being recognised in the statement of income.

(xiv) **Investment properties** are initially measured at the acquisition price and subsequently at fair value with any change therein recognised in profit or loss. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(xv) **Borrowings** include loans that represents the Group's sources of debt funding. Borrowings are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(xvi) **Trade and other payables** are stated at their amortised cost.

(xvii) **Provision** is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(xviii) **Statutory reserve**: In accordance with the Bahrain Commercial Companies Law 2001, 10% of the net profit is appropriated to a statutory reserve, until it reaches 50% of the paid-up share capital. This reserve is not normally distributable except on liquidation.

(xix) **Contingency reserve and general reserve** are appropriated from retained earnings and are available for distribution.

(xx) **Treasury shares:** When share capital of the Company is repurchased, the amount of consideration paid is recognised as a change in equity. Repurchased shares classified as treasury shares are carried at cost and are presented as a deduction from equity. Gains/ losses on disposal of treasury shares are recognised in equity.

(xxi) **Segments**: A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from other segments.

The Group divides its business activities into strategic equity holdings portfolio, fixed income portfolio, trading portfolio and properties & other income producing portfolios and the revenue information of these components are reported to the Chief Operating Decision Maker (CODM).

However, expenses and results are reviewed at the Group level and therefore no operating segment disclosure is provided in these consolidated financial statements.

(xxii) **Earnings per share** - The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is equal to the basic EPS as there are no dilutive potential ordinary shares.

## 4. CASH AND CASH EQUIVALENTS

| | 2016 | 2015 |
|---|---|---|
| Cash and bank balances | 3,512,497 | 3,846,119 |
| Short-term bank deposits | 1,017,900 | - |
| | **4,530,397** | 3,846,119 |

Cash and bank balances include margin accounts on derivatives of BD 267,526 (2015: BD 312,372).

## 5. INVESTMENT SECURITIES

| | 2016 | 2015 |
|---|---|---|
| ***Equity securities*** | | |
| At FVTPL | 14,869,561 | 15,730,694 |
| At FVTOCI | 11,354,070 | 14,748,944 |
| | **26,223,631** | 30,479,638 |
| ***Debt securities*** | | |
| At amortized cost | 9,268,189 | 10,066,811 |
| | **35,491,820** | 40,546,449 |

Equity securities comprise:

| | 2016 | 2015 |
|---|---|---|
| Listed equity investments | 15,410,439 | 17,109,352 |
| Unquoted equity investment at fair value | 7,971,575 | 9,297,164 |
| Externally managed funds | 2,841,617 | 4,073,122 |
| | **26,223,631** | 30,479,638 |

**Fair value of investments**

The Group determines fair values of investment securities that are not quoted in active markets by using valuation techniques. Where valuation techniques (for example, financial models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision.

There is no certainty about future events (such as continued operating profits and financial strength). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

Also, the actual price paid in a transaction may differ from the appraised fair value due to factors such as the motivation and negotiating skills of the parties, the structure of the transaction (e.g. financing structure, transition of control, etc.), and or other factors unique to the transaction.

For the purposes of fair valuations, the future cash flows have been estimated by the management, based on information and discussions with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial statements. Cash flows have been projected for an estimated operating period and then a terminal value has been estimated using growth rates. The discount rates used for computing the present value of future cash flows have been arrived at after considering the risk free rate, expected market premium, country risk and systematic risk underlying each investee company. Where a multiple based approach has been used, the investments have been valued using the multiple of similar companies trading in recognized stock exchanges and adjusted by an appropriate marketability discount.

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|
| Equity investment unquoted at fair value | Market Comparison technique: The valuation model is based on market P/B multiple derived from quoted prices of companies comparable to the investee. The estimate is adjusted for the effect of the non-marketability of the equity securities | Adjusted market multiple<br><br>Non-marketability factor (15%)<br><br>Average book value to price multiple (1.18X) | The estimated fair value would increase (decrease) if:<br><br>- Non-marketability factor was lower (higher)<br><br>- The adjusted market multiple were higher (lower) |

| | | | |
|---|---|---|---|
| Equity investment unquoted at fair value | Discounted cash flows technique: the valuation is based on the discounted cash flows which is estimated by management and use WACC to calculate the discounted cash flows. The estimate is adjusted for the effect if non-marketability of the equity securities. | Estimated cash flow<br><br>WACC (15%)<br><br>Non-marketability factor (30%) | The estimated fair value would increase (decrease) if:<br><br>- The estimated cash flows were higher (lower)<br>- WACC were lower (higher)<br><br>- Non-marketability factor was lower (higher). |
| Other externally managed funds | Net Asset value as received from the investment manager | Net asset value | The estimated fair value would increase (decrease) if the net asset value increase / (decrease) |
| Futures and interest rate swaps | Market comparison technique: The fair value of the derivative is the equivalent to its prevailing market rates or is based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments | Not Applicable. Based on valuations provided by the counterparty. | Not Applicable |

Non-marketability factor represents the amounts that the Group has determined that market participants would take into account these premiums and discounts when pricing the investments.

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Profit or Loss | OCI | Profit or Loss | OCI |
| WACC (1% increase) | (65,414) | - | (82,197) | - |
| Non-marketability factor (10% increase) | (570,878) | - | (621,821) | - |
| Multiple (10% increase) | 207,217 | - | 212,587 | - |
| Net asset value (10% increase) | 211,216 | 645,239 | - | 937,329 |

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Profit or Loss | OCI | Profit or Loss | OCI |
| WACC (1% decrease) | 68,148 | - | 86,640 | - |
| Non-marketability factor (10% decrease) | 570,878 | - | 621,821 | - |
| Multiple (10% decrease) | (214,822) | - | (212,587) | - |
| Net asset value (10% decrease) | (211,549) | (645,239) | - | (937,329) |

The Group has the following material associates which are designated at fair value through profit or loss:

| | **Country of incorporation** | **Principal place of business** | **Principal activities** | **Percentage of holding** |
|---|---|---|---|---|
| Lefebvre Gulf BSC (c) | Bahrain | UAE | Aluminium Fabrication | 38.92% |
| United Cement Company BSC (c) | Bahrain | Bahrain | Cement Trading | 27.00% |

The following table summarizes the financial information of material associates as included in its management accounts:

| | Amount in BD | |
|---|---|---|
| | **2016** | 2015 |
| Associate (1) | | |
| Non-current assets | 1,419,658 | 1,786,262 |
| Current assets | 3,284,240 | 4,262,852 |
| Non-current liabilities | (392,286) | (169,147) |
| Current liabilities | (165,220) | (1,274,367) |
| **Net Assets (100%)** | **4,146,392** | 4,605,600 |
| Revenue | 498,307 | 1,122,670 |
| Loss | (886,875) | (698,427) |
| Total Comprehensive Income | (886,875) | (698,427) |
| Carrying value | 2,246,976 | 2,250,312 |

| | Amount in BD | |
|---|---|---|
| | **2016** | 2015 |
| Associate (2) | | |
| Non-current assets | 1,497,294 | 1,594,840 |
| Current assets | 9,232,968 | 9,346,989 |
| Non-current liabilities | (298,072) | (309,231) |
| Current liabilities | (2,603,195) | (2,798,752) |
| **Net Assets (100%)** | **7,828,995** | 7,833,846 |
| Revenue | 14,390,262 | 14,256,574 |
| Profit | 1,150,745 | 1,093,803 |
| Total Comprehensive Income | 1,194,121 | 1,093,803 |
| Dividend received by the Group | 283,500 | 405,000 |
| Carrying value | 2,113,829 | 2,125,917 |

## 6. INVESTMENT PROPERTY

| | **2016** | 2015 |
|---|---|---|
| **Reconciliation of carrying amount** | | |
| Balance at 1 January | 851,932 | 307,932 |
| Acquisitions | 1,200 | 513,396 |
| Sale | (535,000) | - |
| Change in the fair value | (10,200) | 30,604 |
| **Net carrying value 31 December** | **307,932** | 851,932 |

Income from investment property comprise:

| | **2016** | 2015 |
|---|---|---|
| Rental income on investment property | 38,539 | 47,752 |
| Change in fair value of investment property | - | 30,604 |
| Realised loss on sale of investment property | (6,054) | - |
| | **32,485** | 78,356 |

Changes in fair values are recognised as gains and losses in profit or loss. All gains are unrealised.

**Fair value of investment property**
The fair value of investment property is based on offer price received. Property comprises a Labour Camp in Ajman. While model based valuations would yield a high value, the Group believes that such assets should be carried at values close to realization value of assets. The Group believes that the fair value of investment property is same as in the previous year of BD 307,932.

The fair value measurement for all of the investment properties has been categorised as a Level 2 fair value based on the inputs to the valuation technique used.

## 7. OTHER ASSETS

| | **2016** | 2015 |
|---|---|---|
| Accrued interest | 117,755 | 94,442 |
| Rental receivable for investment property | 38,539 | 47,752 |
| Equipment | 41,311 | 59,214 |
| Prepaid expenses | 20,557 | 23,251 |
| Derivatives at fair value (see note 19) | 46,144 | 17,453 |
| Staff loans | 82,727 | 90,146 |
| Receivable from sale of investments | - | 12,881 |
| Other receivables | 207,842 | 209,615 |
| **Total at 31 December** | **554,875** | 554,754 |

## 8. INVESTMENT IN SUBSIDIARIES

Set out below are the Group's principal subsidiaries at 31 December 2016. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly and indirectly by the group and the proportion of ownership interests held equals to the voting rights held by group.

| Name of the entity | Proportion of ownership and voting power held by the Group | |
|---|---|---|
| | **2016** | 2015 |
| Esterad BahrainInvest II WLL | 98.14% | 98.14% |
| Esterad RealInvest 1 WLL | 100.00% | 100.00% |
| Esterad Real Estate Holding WLL | 97.03% | 97.03% |
| Labac UAE 1 WLL | 51.00% | 51.00% |

Investments in subsidiaries mainly comprise special purpose vehicles which have been set-up to hold the strategic and private equity investments of the Company. These entities are not engaged in any other activities. All subsidiaries are incorporated and have their principal place of business in Bahrain and use same reporting date as the Group.

The following table summaries the information relating to each of the Group's subsidiaries that has material NCI, before any intra-group elimination:

| **31 December 2016** | **Labac UAE** |
|---|---|
| NCI percentage | **49%** |
| Non-current assets | 307,932 |
| Current assets | 525,406 |
| Non-current liabilities | - |
| Current liabilities | (3,227) |
| **Net assets** | **830,111** |
| Net assets attributable to NCI | 406,754 |
| Revenue | 38,681 |
| Profit | 36,900 |
| OCI | - |
| **Total comprehensive income** | **36,900** |
| Profit allocated to NCI | 18,081 |
| OCI allocated to NCI | - |

## 9. BANK BORROWINGS

| | 2016 | 2015 |
|---|---|---|
| Bank loans | 4,750,200 | 6,762,626 |
| | **4,750,200** | 6,762,626 |

These borrowings are used for purchase of debt securities and are secured against debt securities of BD 9,268,189 (2015: BD 10,066,811) having fair value of BD 9,278,126 (2015: BD 9,922,641) as disclosed in Note 5. The borrowings have a contractual maturity of upto 3 months and 1 month and are at various interest rates basis ranging from 1.84% to 2.00 % (2015: 1.23% to 1.62 %.).

## 10. APPROPRIATIONS AND RESERVES

The Board of Directors proposes a dividend of 5% (2015: 10%) of the paid-up capital (excluding treasury shares). This amounts to BD 697,521 (2015: BD 1,395,042).

Movements in reserves during the year are as follows:

| | Opening balance | Transfer in to reserves | Transfer out of reserve | Closing balance |
|---|---|---|---|---|
| Statutory reserve | 7,539,759 | 3,690 | - | 7,543,449 |
| Contingency reserve | 6,500,000 | - | (4,039,759) | 2,460,241 |
| **2016** | **14,039,759** | **3,690** | **(4,039,759)** | **10,003,690** |
| 2015 | 14,035,155 | 4,604 | - | 14,039,759 |

## 11. SHARE CAPITAL

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | Number | **Value** | Number | Value |
| Authorized: Shares of 100 fils each | 200,000,000 | 20,000,000 | 200,000,000 | 20,000,000 |
| Issued and fully paid: Shares of 100 fils each | 140,000,000 | 14,000,000 | 140,000,000 | 14,000,000 |
| Total treasury shares at cost | (495,847) | (93,961) | (495,847) | (93,961) |
| **Net shares in public issue at 31 December** | **139,504,153** | **13,906,039** | 139,504,153 | 13,906,039 |

| | 2016 | 2015 |
|---|---|---|
| Stock exchange price per 100 fils share at 31 December | **169 fils** | 198 fils |
| Market capitalization of the Company as at 31 December | **23,660,000** | 27,720,000 |
| Basic earnings per 100 fils share | **5.65 fils** | 8.12 fils |

The earnings per share is calculated by dividing the net profit attributable to ordinary shareholders of BD 748,542 (2015: net profit of BD 1,132,383) by the weighted average number of shares outstanding at the end of the year of 139,504,153 (2015: 139,504,153) excluding treasury shares.

**Additional information on shareholding pattern**

(i) Names and nationalities of the major shareholders and the number of equity shares held through which they have an interest of 5% or more of outstanding shares.

| | Nationality | No. of shares | % holding |
|---|---|---|---|
| Social Insurance Organization | Bahraini | 29,682,057 | 21.20% |
| National Bank of Bahrain | Bahraini | 17,302,311 | 12.36% |

(ii) The distribution of ordinary shares ownership based on nationality of the shareholder is shown below:

| | Number of shares | Number of shareholders | % of total outstanding shares |
|---|---|---|---|
| Bahraini | 139,219,366 | 4,357 | 99.44% |
| Other GCC countries | 744,186 | 41 | 0.53% |
| Others | 36,448 | 6 | 0.03% |
| **Total** | **140,000,000** | **4,404** | **100%** |

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

(iv) Distribution of the directors' holdings:

| Number of shares held | Between 0 and 99,999 shares | Between 100,000 and 499,999 shares | Between 500,000 and 2,000,000 shares | Above 2,000,000 shares |
|---|---|---|---|---|
| Number of directors | 3 | 4 | - | 1 |

(v) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

| Categories* | Number of shares | Number of shareholders | % of total outstanding shares |
|---|---|---|---|
| Less than 1% | 75,407,879 | 4,396 | 53.86% |
| 1% up to less than 5% | 17,607,753 | 6 | 12.58% |
| 5% up to less than 10% | - | - | - |
| 10% up to less than 20% | 17,302,311 | 1 | 12.36% |
| 20% up to less than 30% | 29,682,057 | 1 | 21.20% |
| **Total** | **140,000,000** | **4,404** | **100.00%** |

* Expressed as a percentage of total outstanding shares of the Company.

## 12. EMPLOYEE BENEFITS

Bahraini employees are covered by the Social Insurance Organization pension scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's contributions in respect of Bahraini employees for 2016 which represent a defined contribution scheme under International Accounting Standard 19 – Employee Benefits amounted to BD 25,557 (2015: BD 32,408).

Employees are entitled to leaving indemnities based on length of service and final salary paid in accordance with the policy of the Group. Provision for this commitment which represents a defined benefit plan under International Accounting Standard 19 – Employee Benefits has been made by calculating the notional liability had all employees left at the statement of financial position date. At 31 December 2016 the Group employed 4 Bahrainis and 2 expatriate. Also the Group has 4 Bahraini work as consultants.

*12 Employee benefits (continued)*

| Provision for employees' leaving indemnities | 2016 | 2015 |
|---|---|---|
| At beginning of the year | 477,165 | 417,674 |
| Charge for the year | 54,775 | 62,803 |
| Paid during the year | (209,140) | (3,312) |
| **Provision at 31 December** | **322,800** | 477,165 |

## 13. INVESTMENT INCOME

| | 2016 | 2015 |
|---|---|---|
| **Income from equity securities** | | |
| Dividends received | 1,189,046 | 1,271,307 |
| Fair value (losses)/ gains, net | (132,285) | 166,819 |
| | **1,056,761** | 1,438,126 |
| **Income from debt securities** | | |
| Interest income | 568,523 | 670,492 |
| Gains/ (losses) on sale | 273,749 | (254,711) |
| | **842,272** | 415,781 |
| **Gains/ (losses) from derivative instruments held for risk management** | | |
| Realised gains | 78,124 | 163,685 |
| Fair value losses | (13,922) | (17,926) |
| | **64,202** | 145,759 |
| **Other income** | | |
| Bank interest | 1,669 | 724 |
| Foreign exchange (loss)/gain and others income | (1,994) | 2,143 |
| | **(325)** | 2,867 |
| **Custody fees** | **(92,344)** | (97,403) |
| **Total Investment Income** | **1,870,566** | 1,905,130 |

Income from equity securities include dividends from investment designed at fair value through other comprehensive income amounting to BD 252,565 (2015: BD 287,987).

## 14. OTHER INCOME

Other income primarily comprise reversal of certain accruals made previous years.

## 15. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2016 | 2015 |
|---|---|---|
| Salaries and benefits | 590,921 | 623,806 |
| Board remuneration and committees' fees | 130,250 | 63,250 |
| Professional and legal fees | 25,004 | 20,934 |
| Office rent and service charges | 31,680 | 25,835 |
| IT related expenses | 46,751 | 47,160 |
| Depreciation on equipment | 21,712 | 11,236 |
| Communication expenses | 18,340 | 17,177 |
| Government and other fees | 17,802 | 16,623 |
| Publishing and company meetings | 11,311 | 10,025 |
| Repairs and maintenance | 4,571 | 4,326 |
| Share registration expenses | 7,936 | 8,041 |
| Travel and entertainment expenses | 3,533 | 2,402 |
| Other expenses | 24,058 | 25,036 |
| | **933,869** | 875,851 |

## 16. INTEREST ON EXPENSE

Interest expense pertains to borrowings for purchase of debt securities. The interest on debts are payable on monthly and quarterly basis with rates varying from 1.84% to 2.00%.

## 17. RELATED PARTIES

### Transactions with key management personnel

Key management personnel of the Company include the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel compensation is as follows:

| | 2016 | 2015 |
|---|---|---|
| Board remuneration paid (2015) | 32,000 | - |
| Board remuneration accrual (2016) | 23,000 | - |
| Board sitting fees | 107,250 | 63,250 |
| Remuneration to key management personnel | 136,440 | 129,912 |
| **Total** | **275,690** | 193,162 |

The Group has accrued board remuneration of BD 23,000 (2015: BD Nil) for the year ended 31 December 2016 which is subject to shareholders and regulatory authorities' approval.

### Transactions with shareholders and entities in which directors are interested

Transactions with shareholders, entities controlled by directors, or over which they exert significant influence, are conducted on terms as approved by the Board of Directors. There were no other significant transactions with entities where the directors were interested. Transactions during the year and balances as at the year end are as follows:

### Associate companies

Transactions during the year and balances as at the year end are as follows:

| | 2016 | 2015 |
|---|---|---|
| Dividend income | 283,500 | 405,000 |
| Other income | 500 | 1,000 |
| Other investment income | 38,539 | 47,752 |
| Fair value losses | (15,446) | (398,420) |
| Receivable from associate company | 38,539 | 47,752 |

Other income pertains to for board sitting fees received from the associate companies.

## 18. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

### Judgements

In the process of applying the Group accounting policies, management decides on acquisition of an investment whether it should be classified as trading security, investment designated at fair value through profit or loss, Investments in bonds and notes, loans and receivables or investment designated at fair value through other comprehensive. The classification of each investment reflects the management's intention in relation to each investment and will be subject to different accounting treatments based on such classification - see note 3 (viii) and note 3 (ix).

## 19. DERIVATIVES INSTRUMENTS HELD FOR RISK MANAGEMENT

The Group uses derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency and equity market risks. The instruments used include forward contracts, interest rate swaps, futures and options. The fair values of derivatives instruments at 31 December is as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| Types of instruments: | **Notional amount** | **Fair values** | Notional amount | Fair values |
| FX Futures | - | - | 1,244,666 | 13,459 |
| Interest rate swaps | 4,750,200 | 43,231 | 6,762,626 | (19,970) |
| | **4,750,200** | **43,231** | 8,007,292 | (6,511) |

The positive fair values of the above derivatives are BD 46,144 (2015: BD 17,453) and negative fair values are BD 2,913 (2015: BD 23,964).

## 20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

**Overview**

Financial instruments of the Group include cash and cash equivalents, trade receivables, investment securities, receivables, derivative financial instruments held for risk management, trade payables, accrued liabilities and unclaimed dividends of prior years.

Accounting policies for financial instruments are set out in note 3. The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for measuring and managing risk. Further qualitative disclosures are included throughout these financial statements.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Audit Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedure, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit which is outsourced to a professional firm. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and causes the other party to incur a financial loss.

Cash and cash equivalents are placed with banks with good credit ratings. Credit risk on receivables is considered to be limited due to the short term nature and quality of the limited local customers which the Group deals with. Also the majority of receivables are usually backed by some form of collateral such as bank guarantees.

Credit risk also arises from the Group's investment activities. The credit management process involves monitoring of concentration by asset type and geography and the regular appraisal of the counterparty credit quality through the analysis of qualitative and quantitative information. For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure. Given these stringent Investment Policies & Procedures, management does not expect any counterparty to fail to meet its obligations. Regular audits of compliance with the Investment Policies and Procedures are conducted by the Internal Audit function.

Exposure to credit risk

The Group's maximum exposure to credit risk is as follows:

| | 2016 | 2015 |
|---|---|---|
| Cash and cash equivalents | 4,530,397 | 3,846,119 |
| Debt securities | 9,268,189 | 10,066,811 |
| Other assets | 493,035 | 471,088 |

The Group does not have any collateral held as security or any other credit enhancement against its exposure to credit risk. The Group assesses impairment for each financial asset specifically and does not assess impairment on a portfolio basis.

The Group writes off a receivable balances when the Group determines that carrying amounts are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from any collateral will not be sufficient to pay back the entire exposure.

At 31 December 2016, the Group believes that no provision for impairment is necessary in respect of receivables past due. The table below shows the Group's financial assets that are due but not considered impaired:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Gross** | **Impairment** | Gross | Impairment |
| Past due < 6 months | 19,269 | - | 23,876 | - |
| Past due > 6 months | 19,270 | - | 23,876 | - |
| | **38,539** | - | 47,752 | - |

The management does not expect any impairment on the past due receivables due to the status of current discussions and negotiations with the debtors and the extent of actual subsequent payments received.

Maturity of financial assets exposed to credit risk

The Group monitors concentrations of credit risk by maturity. An analysis of concentrations of credit risk at the reporting date is shown below:

| **2016** | less than 1 year | 1 – 5 years | 6 - 10 years | **Total** |
|---|---|---|---|---|
| Cash and cash equivalents | 4,530,397 | - | - | 4,530,397 |
| Debt securities | - | 9,268,189 | - | 9,268,189 |
| Other assets | 493,035 | - | - | 493,035 |
| **2016 Totals** | **5,023,432** | **9,268,189** | - | **14,291,621** |
| 2015 Totals | 6,064,420 | 6,210,729 | 2,108,868 | 14,384,017 |

Geographical concentration of investments

The Group also monitors concentrations of credit risk by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

| **2016** | Cash and cash equivalents | Debt securities | Other assets | **Total** |
|---|---|---|---|---|
| Bahrain and other GCC countries | 3,443,271 | 9,268,189 | 493,035 | 13,204,495 |
| USA, EU and Japan | 1,087,126 | - | - | 1,087,126 |
| **Total** | **4,530,397** | **9,268,189** | **493,035** | **14,291,621** |

| 2015 | Cash and cash equivalents | Debt securities | Other assets | Total |
|---|---|---|---|---|
| Bahrain and other GCC countries | 3,121,826 | 10,066,811 | 471,088 | 13,659,725 |
| USA, EU and Japan | 724,293 | - | - | 724,293 |
| Total | 3,846,119 | 10,066,811 | 471,088 | 14,384,018 |

**Liquidity risk**

Liquidity risk is defined as the risk that the Group will not have funds available to meet its financial liabilities as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity requirements are reviewed daily using cash flow forecasting models by the Investment Management team and Finance Department and adjusted according to Investment and Operational requirements as necessary.

20 *Financial instruments and risk management (continued)*

Residual contractual maturities of financial liabilities are:

| **2016** | Carrying value | Gross nominal outflow | Less than 1 month | 1 – 3 months | 3 months to 1 year | 1 – 5 years |
|---|---|---|---|---|---|---|
| Borrowings | 4,750,200 | 4,763,975 | 3,166,800 | 1,583,400 | - | - |
| Unclaimed dividends | 1,056,788 | 1,056,788 | 1,056,788 | - | - | - |
| Other liabilities | 157,250 | 157,250 | 157,250 | - | - | - |
| **Total liabilities** | **5,964,238** | **5,978,013** | **4,380,838** | **1,583,400** | - | - |
| Commitments | 988,732 | 988,732 | - | 988,732 | - | - |
| **Total** | **6,952,970** | **6,966,745** | **4,380,838** | **2,572,132** | - | - |

| 2015 | Carrying value | Gross nominal outflow | Less than 1 month | 1 – 3 months | 3 months to 1 year | 1 – 5 years |
|---|---|---|---|---|---|---|
| Borrowings | 6,762,626 | 6,856,627 | 4,041,440 | 2,721,186 | - | - |
| Unclaimed dividends | 1,024,735 | 1,024,735 | 1,024,735 | - | - | - |
| Other liabilities | 208,065 | 208,065 | 208,065 | - | - | - |
| Total liabilities | 7,995,426 | 8,089,427 | 5,274,240 | 2,721,186 | - | - |
| Commitments | 1,076,021 | 1,076,021 | - | 1,076,021 | - | - |
| Total | 9,071,447 | 9,165,448 | 5,274,240 | 3,797,207 | - | - |

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on investment.

The Group is exposed to market risk with respect to its short term deposits, and investment securities. All such transactions are carried out within the guidelines set by the Investment Policies & Procedures.

The Group regularly assesses these risks and has established policies and business practices to protect against the adverse effects of market movement and other potential exposures. The Group monitors global markets on a daily basis and assesses the extent of exposure of differing market conditions. The Group also monitors the portfolio through the weekly Management Investment Committee by scrutinising economic and market indicators which provide an insight to potential market risk. The Management also assesses the risk by means of quarterly reports which identify and quantify the various risks that could affect the Group's investments.

*Exposure to market risks – quoted equity portfolios*

A principal analytical tool used to measure and monitor market risk exposure within the Group's FVTPL portfolios is Value at Risk (VaR). The VaR of a portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 10-day holding period. The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.

20 *Financial instruments and risk management (continued)*

- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Group uses VaR limits for total market risk and specific foreign exchange, equity and other price risks. The overall structure of VaR limits is subject to review and approval by the Management. VaR limits are allocated to quoted equity portfolios. Daily reports of utilisation of VaR limits are submitted to the senior management and regular summaries are submitted to the Board.

A summary of the VaR position of the Group's trading portfolios at 31 December and during the year is as follows:

| **2016** | At 31 December | Average | Maximum | Minimum |
|---|---|---|---|---|
| Foreign currency risk | 0.212 | 0.090 | 0.835 | 0.002 |
| Other price risk | 0.073 | (0.006) | 0.125 | (0.194) |
| **Overall** | **0.285** | **0.084** | **0.960** | **(0.192)** |

| 2015 | At 31 December | Average | Maximum | Minimum |
|---|---|---|---|---|
| Foreign currency risk | 0.020 | 0.021 | 0.051 | 0.002 |
| Other price risk | 0.786 | 0.194 | 4.433 | (0.424) |
| Overall | 0.806 | 0.215 | 4.484 | (0.422) |

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. The Group also limits market risk by actively monitoring the key factors that affect market movements in addition to periodically analysing the operating and financial performance of investees.

*Exposure to interest rate risk – non-trading portfolios*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily from its floating rate borrowings. The Group manages interest rate risk by constantly monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios.

The Group is exposed to interest rate risk on the following financial assets and liabilities:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | Carrying value (BD) | Effective interest rates (%) | Carrying value (BD) | Effective interest rates (%) |
| **Assets** | | | | |
| Debt securities | 9,268,189 | 5.78% | 10,066,811 | 6.50% |
| **Liabilities** | | | | |
| Borrowings | 4,750,200 | 1.92% | 6,762,626 | 1.50% |

A change of 1% in interest rates would have increased/(decreased) equity and profit and loss by1%+/- BD 90,480 (2015: +/- BD 98,586). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

20 *Financial instruments and risk management (continued)*

*Exposure to currency risk*

Currency is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group had the following significant net exposures denominated in foreign currency as of 31 December:

| | 2016 | 2015 |
|---|---|---|
| Sterling Pounds | 1,548 | 381,108 |
| Euros | 563,158 | 1,455,130 |
| Kuwaiti Dinars | 2,754,999 | 2,778,431 |
| Other GCC Currencies (*) | 4,224,888 | 5,699,024 |

(*) These currencies are pegged to the US Dollar.

The Bahraini Dinar is effectively pegged to the Dollar, thus currency risks occur mainly in respect of other currencies. The Group normally uses forward exchange contracts to hedge a specific foreign currency risk.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. The sensitivity of the exposures in foreign currencies is addressed by the VaR model.

## 21. CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group's target is to achieve a return on shareholders' equity at a margin above the risk free rate which is appropriate for the level of investment risk. In 2016 the total return was 2.31% (2015: 3.00%).

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's Management Incentive Scheme. The Group does not have a defined share buy-back plan. There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 22. COMMITMENTS

As at 31 December 2016, the Group has net outstanding commitments to invest in managed funds amounting to BD 988,732 (2015: BD 1,076,021).

The Group has commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2016 | 2015 |
|---|---|---|
| Not later than one year | 27,746 | 27,746 |
| Later than one year and not later than five years | 20,809 | 48,555 |

## 23. FAIR VALUE HIERARCHY AND CATEGORIES

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

**Valuation of financial instruments**

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. as derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

This includes verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument and understanding how the fair value has been arrived at and the extent to which it represents actual market transactions.

Significant valuation issues are reported to the Audit Committee.

The table below analyses financial instruments, measured at fair value as at the end of the year, by level in the fair value hierarchy into which the fair value measurement is categorized:

| **2016** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Investment Securities: | | | | |
| - At FVTOCI | 4,901,683 | - | 6,452,387 | 11,354,070 |
| - At FVTPL | 10,508,756 | - | 4,360,805 | 14,869,561 |
| Derivatives financial assets | - | 46,144 | - | 46,144 |
| | **15,410,439** | **46,144** | **10,813,192** | **26,269,775** |
| Derivatives financial liabilities | - | 2,913 | - | 2,913 |

*23 Fair value hierarchy and categories (continued)*

| 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investment Securities: | | | | |
| - At FVTOCI | 5,754,887 | - | 8,994,057 | 14,748,944 |
| - At FVTPL | 11,354,465 | - | 4,376,229 | 15,730,694 |
| Derivatives financial assets | - | 17,453 | - | 17,453 |
| | 17,109,352 | 17,453 | 13,370,286 | 30,497,091 |
| Derivatives financial liabilities | - | 23,964 | - | 23,964 |

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year ended 31 December 2016. The table below shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

| | **2016** | 2015 |
|---|---|---|
| Balance at 1 January | 13,370,285 | 16,582,576 |
| Total gains or losses: | | |
| -in profit and loss | (15,446) | (398,421) |
| -in other comprehensive income | (1,825,671) | (483,474) |
| Sale/ distributions | (802,360) | (2,396,751) |
| Purchases | 86,384 | 66,356 |
| **Balance at 31December** | **10,813,192** | 13,370,286 |

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values.

| **2016** | At FVTPL | At FVTOCI | At amortised cost | Total carrying value | Fair value |
|---|---|---|---|---|---|
| Cash and cash equivalents | - | - | 4,530,397 | 4,530,397 | - |
| Investment Securities | | | | | |
| - Equity securities | 14,869,561 | 11,354,070 | - | 26,223,631 | 26,223,631 |
| - Debt securities | - | - | 9,268,189 | 9,268,189 | 9,278,126 |
| Derivatives held for risk management | 46,144 | - | - | 46,144 | 46,144 |
| Other assets | - | - | 493,035 | 493,035 | - |
| **Total financial assets** | **14,915,705** | **11,354,070** | **14,291,621** | **40,561,396** | |
| | | | | | |
| Borrowings | - | - | 4,750,200 | 4,750,200 | - |
| Unclaimed dividends | - | - | 1,056,788 | 1,056,788 | - |
| Derivatives held for risk management | 2,913 | - | - | 2,913 | 2,913 |
| Other liabilities | - | - | 157,250 | 157,250 | - |
| **Total financial liabilities** | **2,913** | - | **5,964,238** | **5,967,151** | |

*23 Fair value hierarchy and categories (continued)*

| 2015 | At FVTPL | At FVTOCI | At amortised cost | Total carrying value | Fair value |
|---|---|---|---|---|---|
| Cash and cash equivalents | - | - | 3,846,119 | 3,846,119 | - |
| Investment Securities | | | | | |
| - Equity securities | 15,730,694 | 14,748,944 | - | 30,479,638 | 30,479,638 |
| - Debt securities | - | - | 10,066,811 | 10,066,811 | 9,922,641 |
| Derivatives held for risk management | 17,453 | - | - | 17,453 | 17,453 |
| Other assets | - | - | 471,088 | 471,088 | - |
| Total financial assets | 15,748,147 | 14,748,944 | 14,384,018 | 44,881,109 | |
| | | | | | |
| Borrowings | - | - | 6,762,626 | 6,762,626 | - |
| Unclaimed dividends | - | - | 1,024,735 | 1,024,735 | - |
| Derivatives held for risk management | 23,964 | - | - | 23,964 | 23,964 |
| Other liabilities | - | - | 208,065 | 208,065 | - |
| Total financial liabilities | 23,964 | - | 7,995,426 | 8,019,390 | |

The carrying values of cash and cash equivalents, other assets, borrowings, unclaimed dividend and other liabilities are a reasonable approximation of fair value.

## 24. COMPARATIVES

Certain prior year amounts have been regrouped to conform to the presentation in the current year. Such regrouping did not affect previously reported comprehensive income for the year or total equity.