

Persistent Growth

Annual Report 2019

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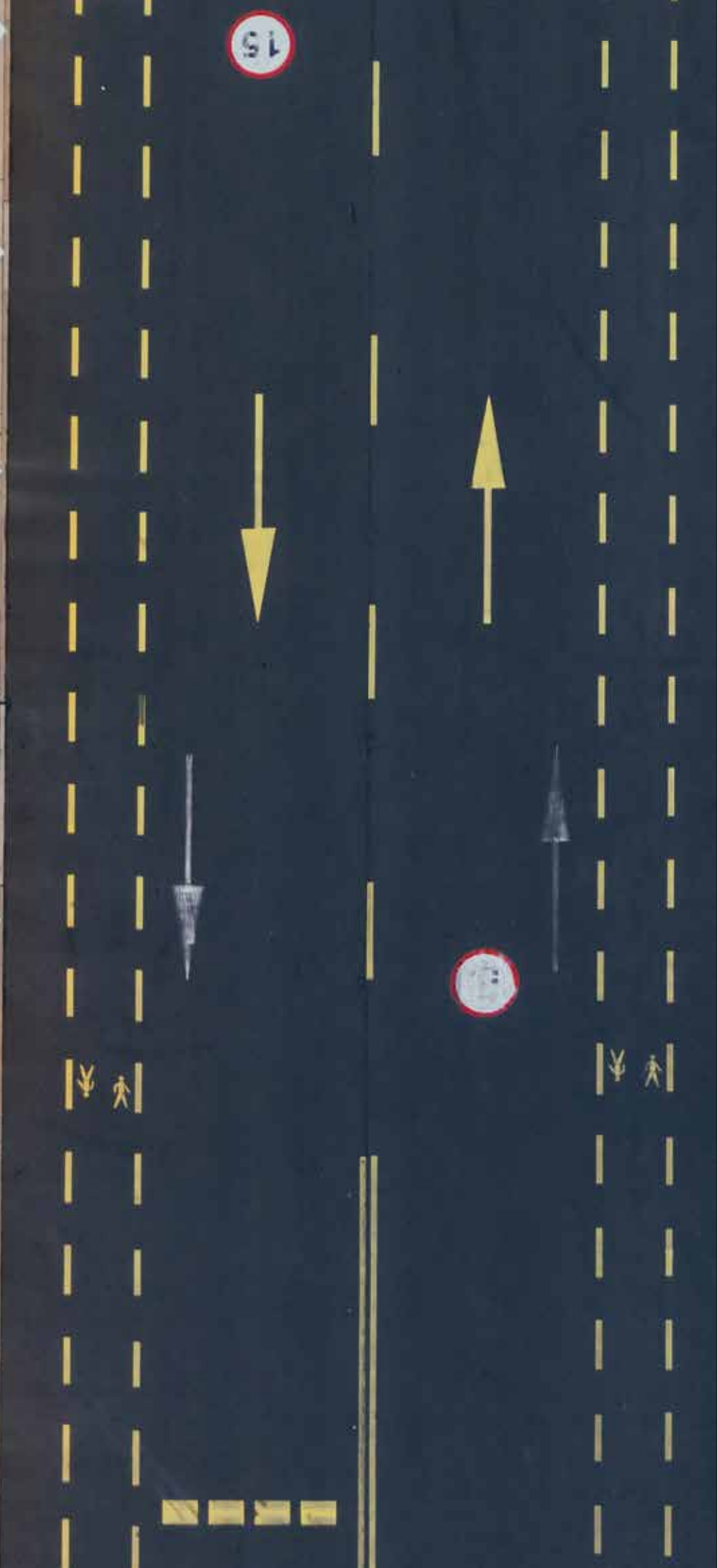
His Royal Highness
Prince Khalifa bin Salman Al Khalifa
The Prime Minister of the
Kingdom of Bahrain



His Majesty
King Hamad bin Isa Al Khalifa
The King of the
Kingdom of Bahrain



His Royal Highness
Prince Salman bin Hamad Al Khalifa
The Crown Prince, Deputy Supreme
Commander and First Deputy Premier
of the Kingdom of Bahrain



An aerial photograph of a port or industrial yard. The ground is paved with concrete and marked with yellow lines. Several large white semi-trailers are parked in rows. A yellow truck is positioned diagonally across the middle-left section. Another yellow truck is at the bottom left. In the bottom right, a yellow container is visible. The text 'A New Era of Growth' is overlaid in large white letters. On the left side, there are yellow labels with black numbers: 133, 134, 135, 136, 137, and 138.

A New Era of Growth

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Company Overview

Esterad has a rich legacy in Bahrain as a highly profitable investment company, but such reputation and position does not ensue overnight. In fact, we have a long and proven track record of secure investments regionally and internationally in a variety of assets. Our investment divisions include real estate, private equity and public market investments.

After a brief period of quiescence, Esterad is back and stronger than ever. We want to bring a new, bold and aggressive strategy to life and focus on bringing in more business for Bahrain. With the skill and expertise of our current team and under the guidance of our new Board of Directors, Esterad is faced with an opportunity to not only change the way business is done, but to also dominate the local market.

That's what we do. We find, chase and make opportunities in the market and thrive by transforming ideas with potential into inspired investments.

193 % Annual Return

Simple average of returns from original investment in 1973.

1973

Balexco

United Cement

Bahrain Livestock

Esterad

New Strategy

Exit Non-Core

Strategic Majority

Amwaj Gateway

Esterad Chairman's Vision for Growth

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to share Esterad Investment Company BSC's (Esterad) Annual Statement Reports for the financial year ended 2019. In my first annual statement to you as Chairman of Esterad, I am delighted to report to you on Esterad's positive performance.

2019 started on a shaky footing with a sharp tightening in global financial conditions late last year and global recession worries mid-year because of US-China trade wars and inversion of the yield curve. With the preliminary trade agreement and mid-cycle rate adjustment complete, recession probability has reduced for 2020 and the world economy is looking forward towards a slow growth environment. Regionally, GCC markets rallied in the first half of the year, but consequent to geo-political issues, Saudi markets were under pressure in the second half of the year producing negative returns. Given the volatility during the year, Esterad investment holdings have performed extremely well across business lines given the investments are done with a long-term growth perspective of each investment made.

During the year, Esterad streamlined its operations with a core focus to diversify the nature of its investment income. This was achieved by having a balance allocation across our investment asset classes, i.e. Public Markets, Real Estate and Private Equity.

440% Profits

Net Profit reaching BD 2,701,362 in 2019 as compared to BD 500,639 in 2018.



Performance

2019 bottom-line results reflect the progress towards a new business strategy for Esterad. All business lines contributed positively towards Esterad's profitability with Net Profit reaching BD 2,701,362 in 2019 as compared to BD 500,639 in 2018. Total comprehensive income increased from BD 1,673,629 to BD 3,903,073. Accordingly, Esterad earnings per share increased from 3.49 fils in 2018 to 19.36 fils in 2019.

During the year, Esterad geared its private equity and real estate investments towards special situation investments with controlling positions. This revised investment strategy resulted in positive performance of the investments and achieving substantial growth in the Net Profit of Esterad. As per the revised strategy of controlling its investments, Esterad exited certain non-contributing or non-strategic investments during the year providing increased liquidity for Esterad. Esterad's public markets investments performed extremely well in the year. Esterad generated sizeable gains from its trading and strategic equity portfolio during the year as well as high single digit return from its fixed income portfolio.

Esterad's balance sheet continues to be strong and highly liquid, with ~63% of Esterad balance sheet being invested in liquid investments. Total assets decreased from BD 43,605,402 in 2018 to BD 43,000,399 in 2019. Consequent to strong operating performance, shareholder equity has increased from BD 32,694,410 to BD 36,597,483.

Proposed Dividends

Given the strong operational performance during the year, the Board of Directors recommends to distribute 10% dividends for 2019.

Appreciation

Finally, on behalf of the Board, I would like to take this opportunity to thank our shareholders for their sustained confidence in Esterad and to our valued employees who have contributed to a strong operational performance. We look forward to 2020 being another successful year for Esterad in continuation of our investment strategy which started in 2019.


Hisham Alrayes
Chairman

63 % Liquid

Esterad total assets in 2019 are liquid assets.

**Our ambition
is to positively
contribute to
the growth of
the region, with
a special focus
on Bahrain's
development.**

Board of Directors



Hisham Alrayes
Chairman

Hisham Alrayes is a regionally renowned investment banker with more than 20 years of experience in managing and undertaking financial services, Private Equity and Real Estate investments with a value exceeding US\$10 billion.

Hisham holds a Master's degree with honors in Business Administration from the University of DePaul, in Chicago, and a Bachelor's degree in Engineering with honors from the University of Bahrain.

He currently holds an executive role and board membership in the following companies:

- Board Member, GFH Financial Group
- Chairman, Balexco
- Board Member, Khaleeji Commercial Bank (KHCB)
- Chairman, Falcon Cement Company
- Chairman, GBCORP



Abdulrahman Jamsheer
Deputy Chairman

Abdulrahman has been involved with Esterad since its inception and has played a vital role in the progress and development of the company. He is currently a member of the Board Executive Committee and the Nomination and Remuneration Committee. Abdulrahman is a well-known public figure in Bahrain, appointed by His Majesty the King as a member of the Shura Council since it was established.

Abdulrahman holds a BSC in Agriculture Science from American University of Beirut and the Engineer AGRICOLE diploma.

He also holds Board positions and memberships in the following companies:

- Chairman of Fortuna Co. W.L.L.
- Chairman of Delmon Poultry, Bahrain
- Vice Chairman of Lona Real Estate BSC
- Board Member of Cold Storage Company (BANZ), Bahrain
- Board Member of Bahrain Duty Free Shops Complex, Bahrain



Razi Al Murbati

Razi brings to his role more than 16 years of experience in the banking and finance sector including a significant track record in Islamic Finance and Advisory.

Previously, Razi served as Head of Investment Development & Distribution for the GCC region at The First Investor in Qatar, a subsidiary of Barwa Bank. Prior to that, he was Regional Director of the Investment Advisory Group of Abu Dhabi Investment House.

Razi is a member of the Board of Directors of Esterad, as well as the Chairman of the Audit & Risk Committee.

He currently holds an executive role and board memberships in the following companies:

- Chief Executive Officer, GFH Capital SA
- Board Member of GBCORP
- Board Member of Falcon Cement Company



Husain Al Hussaini

Husain is a member of the Board of Directors, the Board Executive Committee and the Nomination and Remuneration Committee. He is currently Chief Executive – Treasury, Capital Markets & Wealth Management at the National Bank of Bahrain (NBB), which he assumed in 2017.

Husain completed an MBA in Marketing & Management at DePaul University, in the USA; a PMD programme for Management Development at Harvard Business School in Boston; as well as a B.A. in Economics at Concordia University, in Canada.

Currently, Husain holds Board Positions and memberships in the following companies:

- Member of Delta Mu Delta, Chicago, USA
- Member of Interarab Cambist Association
- Member of International Securities Market Association
- Member of Harvard Business School Alumni Club, USA
- Member of Bahrain Financial Market Association
- Vice Chairman of the Board of Directors and Vice Chairman of the Investment Committee of the Securities and Investment Company (SICO)
- Member of Board of Trustees in Bahrain Polytechnic
- Member of the CBB Deposit Protection & Unrestricted Investors Accounts



Abdulla Jamsheer

Abdulla is a prominent business person and asset manager in Bahrain and is a member of the Board of Directors, the Audit and Risk Committee of Esterad. He holds a Bachelor's degree majoring in Philosophy and Psychology from Alexandria University in Egypt. He has over 30 years of experience in the regional financial markets comprising different asset classes to include equities, private equity, and real estate.

Currently, Abdulla holds the following positions:

- Director, United Paper Industries, Bahrain
- Chairman of Jamsheer Investments, Bahrain
- Director, Sanad Investments, Bahrain
- Chairman of Egyptian European Investment Company, Egypt



Husain Aamer

Husain is a member of the Board of Directors of Esterad and a member of the Audit and Risk Committee. He has over 30 years of experience in corporate and private banking, ten of which he spent working with Chase Manhattan Bank where he held an esteemed position as Head of Private Banking.

In 1994, Husain founded Galaxy Investment Company, specialised in Asset Management and in 1999, he founded and is the current Chairman of Gulf Dental Specialty Hospital. He holds a Diploma in Economics & Accounting from Bahrain Bankers training centre.

In the past, Husain was Board of Director and Chairman of the Audit Committee of Bahraini Saudi Bank, a member of the Board of Directors of Bahrain Aluminium Extrusion Company (BALEXCO), and a member of the Board of Directors and Executive Committee member of Bahrain Livestock Company.



Mazen I. Abdulkarim

Mazen brings to Esterad 26 years of experience in banking, private equity and investments, gained in major financial centres such as London, Hong Kong, New York and, more recently, Bahrain. Mazen is a member of the Board of Directors, the Board Executive Committee and the Nomination and Remuneration Committee. He holds a BSc in Finance (Honors) Bentley University, USA.

Mazen currently runs a family office and a proprietary investment portfolio. In addition, his other directorships include:

- Al Jazeera Tourism Company B.S.C(c) Bahrain
- Gulf Investment Corporation G.S.C. Kuwait

**With the skills
and expertise
of our team,
Esterad has an
opportunity
to dominate
Bahrain's local
market.**

Executive Team



Chandan Gupta
General Manager

Chandan has over 20 years of experience in Banking and Finance undertaking and managing investments in excess of US\$ 5 billion; and was previously the Group Chief Financial Officer at GFH Financial Group BSC. Before joining GFH in 2005, Chandan worked with HSBC and Price Waterhouse Coopers in Mumbai, India.

He is a Certified Public Accountant (CPA) from the American Institute of Certified Public Accountants, a Certified Financial Analyst (CFA-ICFAI) from the Institute of Certified Financial Analysts of India, a Chartered Accountant (CA) from the Institute of Chartered Accountants of India and holds a Bachelor's degree of Commerce (B.Com) from University of Mumbai.

Chandan currently holds positions in the following companies:

- Director, Lefebvre Gulf BSC, Bahrain
- Director, Oman Aluminium Cast, Oman
- Director, Esterad Amwaj Co. WLL, Bahrain



Hanan Abdulghani
Head of Direct Investments

Hanan is the Head of Direct Investments at Esterad with an experience of over 15 years in the investment field. Her areas of expertise include Private Equity, Real Estate, Corporate Finance, Asset Management and General Portfolio Management.

Hanan joined Esterad in 2005. She holds a BSc in Banking & Finance and a CFA charter awarded by the CFA Institute.

Hanan is a member or director in the following organisations:

- Chairwoman, Lefebvre Gulf B.S.C., Bahrain
- Director, Oman Aluminium Cast, Oman
- Director, First Bahrain Real Estate Development Co., Kuwait
- Member, CFA Society, Bahrain



Abdulrahman Al Malki
Head of Business Development

Abdulrahman is a seasoned executive who has held a number of senior roles across banking and investments over the past 16 years. Prior to Esterad, he served as an Executive Vice President at National Investment Co, one of the leading investment firms in Kuwait, where he established and managed the Wealth Management business. Previously he was part of the senior management team of GFH Financial Group, leading the revitalisation and the restructuring of the group. Prior to that, he held positions in various regional financial institutions such as Bank Al Khair, Real Capita, and Gulf International Bank.

Abdulrahman completed his BSc in Management Information System with distinction from the University of Bahrain, and is pursuing an EMBA from Hult Business School. Similarly, he completed the Leadership Grooming Program for Islamic banks in Ivey Business School, Canada and has been elected as "Best Placement Manager" several times across entities. He also holds a certificate with distinction in Investor relations from JP Morgan.



Abdulla Nooruddin
Head of Real Estate

With over 15 years of experience in real estate and investments, Abdulla has served renowned private and public sector institutions throughout his career. He previously headed the Investment and Strategic Planning department at Amlak Social Insurance and prior to that held senior roles at both Mumtalakat and Edamah (entities representing the sovereign wealth fund of Bahrain). He has also held earlier positions at Venture Capital Bank, GIB, as well as KPMG.

Abdulla is a holder of the CFA charter, awarded by the CFA institute, in the USA, and has a Master's degree in Business Information Technologies from Northumbria University in Newcastle, UK. He also holds a Bachelor's degree in Economics from Clark University in Massachusetts, USA. He currently has positions in the following companies:

- Director, Esterad Amwaj Co. WLL, Bahrain
- Director, Amwaj Islands Central Owners Association, Bahrain
- Director, Mayflower Investments, Bahrain
- Director, Leaves Holding WLL



Mohamed Noor
Head of Non-Direct Investments

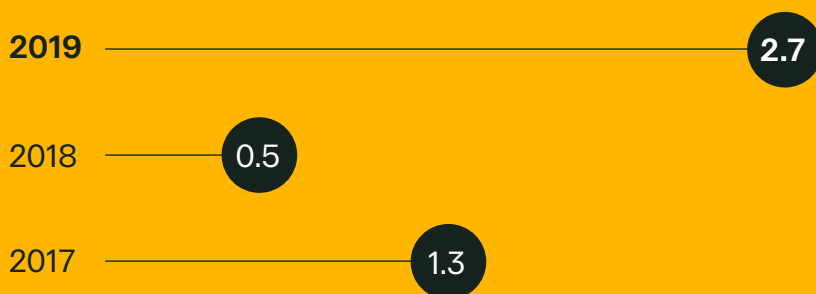
Mohamed holds a BSc in Business Administration from the University of Bahrain. Over the past 25 years, he has acquired vast experience in portfolio management, project finance, project analysis, and marketing. He is an investment professional specializing in GCC and International Equity and Fixed Income markets.

Mohamed's career started at Merrill Lynch International, the Bahrain Saudi Aluminium Marketing Co. (BALCO) and Bahrain Development Bank before joining Esterad in 1998 as an Investment Manager.

Financial Highlights

Profit

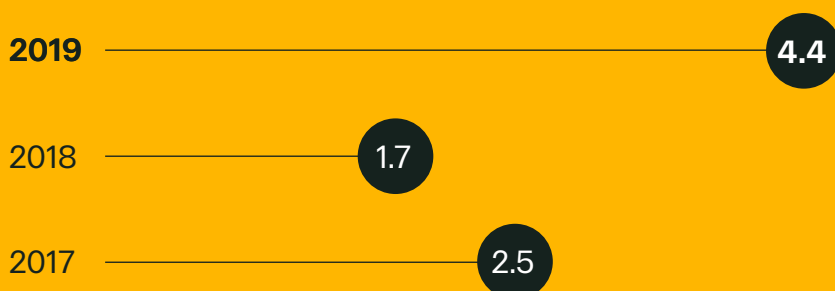
BD 2.7 Mil



Profit for 2019 is higher by 440% consequent to revised investment strategy.

Total Income

BD 4.4 Mil



Total Income for 2019 is higher by 159% due to positive contribution from all business segments.

Total Equity

BD 36 Mil



Total Equity for 2019 is higher by 12% due to higher profitability and investment valuations.

Total Assets

BD 43 Mil



~63% of Total Assets of 2019 are liquid assets.

Corporate Governance

Corporate Governance

OVERVIEW

Esterad's Board charter outlines the responsibilities of the Company's Board of Directors, and identifies the personal and professional conduct expected of the Directors. It defines the respective roles, responsibilities and authorities of the Board and of Management in the governance, management and control of the organisation.

The Corporate Governance principles followed by Esterad are in line with the requirements of the Corporate Governance Code issued by the MOICT and the High Level Controls (Corporate Governance) Module of CBB Volume 6 and any other rules, regulations and Directives issued on this matter.

OUR COMMITMENT

Esterad has long embraced the values embodied in the Company's operating principles: integrity, respect for people and diverse backgrounds, courtesy, and shareholder focus. Consistent with these principles, Esterad is committed to applying international standards and best practices in its corporate governance.

The Board is committed to maintaining a high standard of corporate governance practice and devotes considerable effort to identify and formalise best practices. We believe that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of the Company and its ability to protect the rights of shareholders and stakeholders, and enhance shareholder value. In recent years, we have strengthened the Company's corporate governance implementation with more detailed principles, in line with regulatory requirements.

GOVERNANCE

Governance aims to establish a system that governs and controls the Company's businesses and practices in order to create efficient institutions which contribute to building a strong, transparent and competitive national economy for the purpose of reducing any adverse effects on the national economy, acting parties and local community due to not committing to the best practices in managing joint stock companies. As per the Company's organisation structure, the Board plays a pivotal role in the Company's corporate governance. It is ultimately responsible for the Company's compliance with its legal and regulatory obligations, the Company's Memorandum and Articles of Association, and its duties to shareholders. This is achieved with collaboration from all parties including the Board and its sub-committees, particularly the Board Executive Committee, the Board Audit & Risk Committee and the Board Nomination & Remuneration Committee, in union with the external and internal auditors, and Company's officers and employees.

OWNERSHIP STRUCTURE

Esterad Investment Company shares are listed on the Bahrain Bourse. The Company has issued 140,000,000 ordinary shares, each with a nominal value of 0.100 fils. All shares are fully paid.

Description of the Shareholders who hold 5% or more of the Company's share capital

	Name	No of shares held	Shareholding %	Name of the natural person, the final beneficiary
1.	Manarat Investment Holding, Cayman	29,682,057	21.20%	Manarat Investment Holding
2.	National Bank of Bahrain BSC	17,302,311	12.36%	National Bank of Bahrain BSC

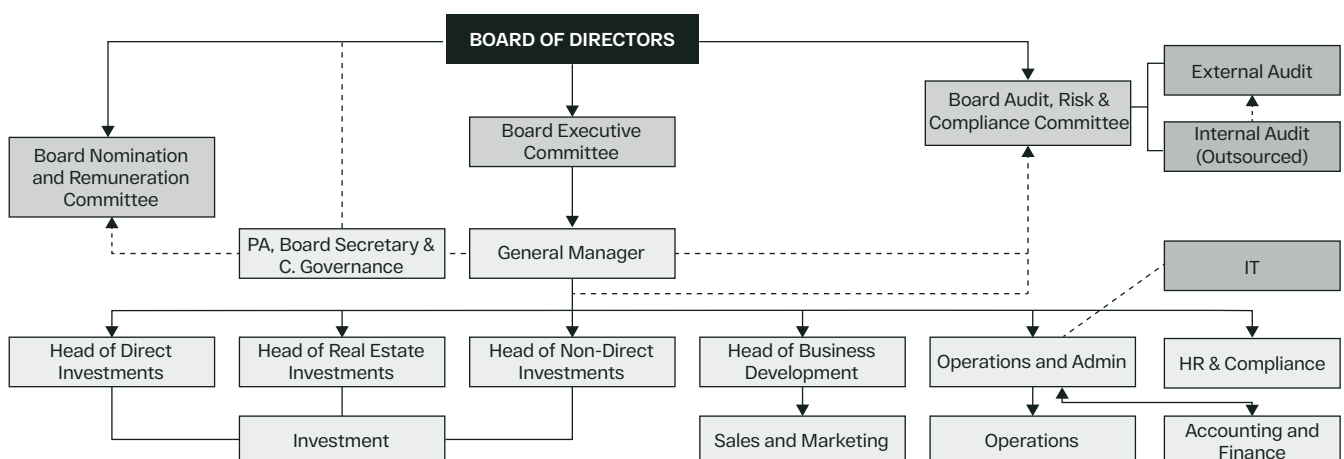
Description of Shareholder classification

		Shareholding %		
	Shareholder classification	Individuals	Corporate	Government or Organisations
1	Local	52.13%	24.13%	0.86%
2	Arab	1.38%	0.00%	0.0%
3	Foreign	0.00%	21.50%	0.00%
	Total	53.51%	45.63%	0.86%
				100.00%

Description of how Shareholders are distributed according to their respective shareholding

	Shareholding (share)	No. of shareholders	No. of shares held	Shareholding %
1	< 50,000	4,024	26,018,006	19.01%
2	50,000 to 500,000	224	31,677,918	23.41%
3	500,000 to 5,000,000	32	35,319,708	24.02%
4	> 5,000,000	2	46,984,368	33.56%
	Total	4,282	140,000,000	100%

Company Structure



The group structure of Esterad Investment Company BSC, and its subsidiaries

Name/Entity	Nationality	Legal Status	Percentage	Invested Capital
Esterad Real Invest 1 W.L.L	Bahraini	WLL	100.00%	BHD 3,300,000
Esterad Bahrain Invest II W.L.L	Bahraini	WLL	98.14%	BHD 2,225,900
Esterad Real Estate Holding	Bahraini	WLL	97.03%	BHD 593,800
Labac UAE 1	Bahraini	WLL	51.00%	BHD 612,000
*Esterad Amwaj Co., WLL	Bahraini	WLL	70.00%	BHD 11,900,000
Esterad Amwaj Partnership Co.,	Cayman	Ltd	100.00%	USD 8,500

*Owned by Esterad Amwaj Partnership Co., Cayman Islands

BOARD, BOARD MEMBERS AND MANAGEMENT

The Board shall consist of executive, non-executive and independent Directors in accordance with the rules and regulations of the Ministry of Industry, Commerce & Tourism and the Company Articles of Association. The Board of Directors is elected by the shareholders to oversee the management of the Company and to assure that the long-term interests of the shareholders are being served.

The Board of Directors charter/framework was first established in 2012 and periodically reviewed thereafter. The main function of the Board is to manage the business in the best interest of the stakeholders. It is their duty to add value to the business and to ensure that the Company continues to improve its profitability and the price or value of its shares.

The Board is responsible for oversight of Esterad's business that is conducted by its managers, officers and employees, under the direction of the General Manager. The Board has the authority to determine all matters relating to the directions, policies, practices, management and operations of the Company and is accountable to the shareholders and stakeholders of the Company for the business operations and affairs of the Company.

Primarily, the Board's role is to:

- Provide leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed;
- Set the Company's strategic aims, ensure that the necessary financial and human resources are in place for the Company to meet its objectives, and review management performance; and
- Set the Company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

Independence of Directors

In line with the requirements of the CBB's HC Module, Esterad has in place Board-approved procedures to review and determine the Directors' Independence on an annual basis, as specified in the CBB rule book and in line with the MOICT Corporate Governance Code. A review was carried out in 2019 and the Board of Directors resolved that the three Executive Directors of Esterad met the relevant requirements and accordingly, they were classified as 'Independent' Directors.

The Board of Directors comprises of seven members and includes Independent and Executive Directors.

Name	Classification	Representation
Mr. Hisham Alrayes	Executive Director	Corporate Shareholding
Mr. Abdulrahman Jamsheer	Independent Director	
Mr. Husain Al Hussaini	Executive Director	Corporate Shareholding
Mr. Razi Al Merbati	Executive Director	Corporate Shareholding
Mr. Husain Aamer	Independent Director	
Mr. Abdulla Jamsheer	Independent Director	
Mr. Mazen Abdulkarim	Independent Director	

- The Board Audit & Risk Committee comprises of two Independent members and one Executive member.
- The Board Nomination & Remuneration Committee comprises of two Independent members and two Executive members
- The Board Executive Committee comprises of two Independent members and two Executive members
- Board Term: The Board was re-elected/re-appointed by the shareholders in the AGM held on 22nd March 2017 for a term of three years, expiring 31st December 2019
- Director's Appointment Letters: In accordance with the CBB Module and in line with the Corporate Governance Code, each Director has signed a Director's appointment letter which includes his duties and terms and conditions.
- No change of Directors during the year.

BOARD PERFORMANCE EVALUATION, INDUCTION AND TRAINING

An annual evaluation of the Board and its committees was conducted in 2019 and results reviewed and analysed by the Board Nomination and Remuneration Committee, with recommendations ratified by the Board of Directors prior to the Annual General Meeting. The Committee acknowledged that all Board members have the relevant skills and expertise to effectively carry out their duties as Board and committee members. During 2019 part of Board training explored practical frameworks, Board of Directors' best practices, in-depth corporate governance training, and identifying the strategies, structures and processes to optimise Board efficiency.

DIRECTORS' SHAREHOLDING INTERESTS AND TRADING ACTIVITIES

The number of shares held by Directors and their related parties as at 31st December 2019:

Name	Title	31 Dec. 2019	31 Dec. 2018
Mr. Hisham Alrayes *	Chairman	421,570	0
Mr. Abdul Rahman Jamsheer**	Deputy Chairman	2,260,124	2,203,836
Mr. Husain A. S. Al Hussaini	Director	62,271	62,271
Mr. Razi Al Merbati	Director	0	0
Mr. Abdulla Jamsheer	Director	473,856	473,856
Mr. Husain Aamer	Director	128,700	128,700
Mr. Mazen Abdulkarim	Director	303,070	303,070
Total		3,649,591	3,171,733
As a percentage of total number of shares*		2.61%	2.27%

Percentage calculated on the basis of 140,000,000 shares.

* Through Lewan Investment Holding, Cayman Island

** Through Fortuna Company WLL, Bahrain

Directors' trading activities during 2019

Name	Transaction date	Shares bought/Sold	Total
Fortuna Company WLL, Bahrain	2018 CFWD	-	2,203,836
Mr. Abdul Rahman Jamsheer, Director	9-May-19	7,000	2,210,836
	12-May-19	48,518	2,259,354
	22-May-19	770	2,260,124
TOTAL		56,288	2,260,124

Name	Transaction date	Shares bought/Sold	Total
Lewan Investment Holding, Cayman Island	2018 CFWD	-	-
Mr. Hisham Alrayes, Chairman	9-Jun-19	30,000	30,000
	10-Jun-19	40,000	70,000
	12-Jun-19	52,746	122,746
	13-Jun-19	94,000	216,746
	17-Jun-19	184,824	401,570
	20-Jun-19	20,000	421,570
TOTAL		421,570	421,570

ELECTION SYSTEM OF DIRECTORS AND TERMINATION ARRANGEMENTS**Board Membership**

There are formal and thorough procedures for the appointment of new Directors to the Board and are subject to the Commercial Companies Law, and the Company's Articles of Association, as amended from time to time. Currently the size of the Board of the Company is seven members. All of Directors of the Company were elected and appointed at the Annual General Shareholders Meeting held on 22nd March 2017. As a member of the Board, each Director has signed a formal written appointment letter which covers, among other things, the Director's duties and responsibilities in serving on the Board, the terms and conditions of their Directorship, the annual remuneration and entitlement to reimbursement of expenses and access to independent professional advice when needed. The validity of the Directorship is three years commencing from the election date. The next election date is scheduled to be held during March 2020.

The General Assembly shall elect the members of the Board through secret 'cumulative voting'. Candidates who secure majority votes of those present shall be elected as members of the Board.

Any appointment or election to the Board is subject to acknowledgement of the admission of nominating in writing. The acknowledgements shall include disclosures of his/her business activity which competes with the business of the Company directly or indirectly; and the names of the companies on which he or she holds any employment or membership in the Board of Directors.

Termination of Board Membership

A Director's membership of the Board of Directors terminates in the following events:

1. If he is appointed or elected contrary to the provisions of the Central Bank of Bahrain rules and regulations, the Commercial Companies Law and/or the Company's Articles of Association.
2. If he forfeits any of the conditions stated in Article 26 of the Company Articles of Association.
3. If he misuses his position as Director in carrying on personal matters or business in which he has a personal interest, or that is competitive to that of the Company or if he causes any type of actual damage to the Company or adversely affected its reputation. Termination from the Board of Directors shall not prejudice the Company's right to compensation.
4. If he fails to attend at least 75% of all the Board meetings in a given financial year without lawful excuse notified in writing to the Board, and the Board shall resolve on this matter as it may deem fit.
5. If he resigns or withdraws from his office, provided the foregoing shall be done in an opportune and suitable time, otherwise he shall be liable to pay compensation to the Company.
6. If he accepts appointments in any other office in the Company for which he would receive salary or remuneration other than that which the Board of Directors may decide from time to time to remunerate him because of the executive nature of his duties.

Removal of the Directors

The General Meeting may terminate the membership of all or some of the members of the Board of Directors. Requests for termination shall be presented to the Board of Directors by shareholders representing at least 10% of the Capital. The Board shall forward such request to the General Meeting within a maximum period of one month from the date of its submission; otherwise the Ministry of Industry, Commerce and Tourism may issue a notice for the meeting. The General Meeting may not consider this request with respect to the said termination unless the request is on the agenda, save when serious developments are revealed during the meeting requiring such termination.

Filling Vacancies on the Board

In case the office of one or more Directors becomes vacant, filling the vacancy/vacancies shall be in accordance with the provisions of Article (179) of the Law.

BOARD MEETINGS AND ATTENDANCE

Description of the Board's duties and functions:

The board's key purpose is to ensure the Company's prosperity by collectively directing the Company's affairs, while meeting the appropriate interests of its shareholders and relevant stakeholders, and will in particular include:

- Provide leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed;
- Set the Company's strategic aims, ensure that the necessary financial and human resources are in place for the Company to meet its objectives, and review management performance;
- Set the Company's values and standards and ensure that its obligations to its shareholders and others are understood and met;
- Establish key Company policies and procedures;
- Constructively challenge and contribute to the development of strategy;
- Scrutinise the performance of management in meeting-agreed goals and objectives and monitor the reporting of performance;
- Form Executive, Audit & Risk, and other Committees, appoint their members and specify their powers, as well as ensure a formal board nomination and election process;
- Serve on any committees of the Board as required from time to time and attend meetings of any such committees;
- At all times comply with the Articles and Memorandum of Association of the Company;
- Abide by fiduciary duties as a Director of the Company;
- To use best endeavours to promote, protect, develop and extend the business of the Company;
- Immediately report any wrongdoing or proposed wrongdoing of any other employee or Director of the Company to the Chairman;
- Ensure compliance with any codes with applicable laws/guidelines and practices issued or adopted by the Company from time to time;
- Monitor conflicts of interest and related party transactions.

Board of Directors' Meetings

Directors of the Company play an active role in participating in the Company's meetings through contribution of their professional opinions and active participation in discussion. According to the Bahrain Commercial Companies Law and CBB rules, Board meetings will be conducted at least four times a year (on a quarterly basis) and all Board members must attend at least 75% of all Board meetings within a calendar year.

Directors	Title	2019 Meetings Dates						
		28th Jan.	19th Mar.	28th Apr.	6th Jul.	*16th Jul.	23rd Oct.	27th Nov.
Mr. Hisham Alrayes	Chairman	√	√	√	√	√	√	X
Mr. Abdulrahman Jamsheer	Deputy Chairman	√	√	√	√	√	√	√
Mr. Hussain Al Hussaini	Director	√	√	√	√	√	√	√
Mr. Razi Al Merbati	Director	√	√	√	√	√	√	X
Mr. Hussain Aamer	Director	√	X	√	√	√	√	√
Mr. Abdulla Jamsheer	Director	√	√	√	√	√	√	√
Mr. Mazen Abdulkarim	Director	√	√	√	√	√	√	√

*Meeting by circulation.

Note:

- Number of meetings held: 7 (6 actual + 1 by circulation).
- The Chairman of the Board of Directors is an Independent, Executive Director unanimously chosen by the board members.

Board Audit & Risk Committee Meetings

The Board Audit & Risk Committee monitors the financial reporting process of the Company and reviews the Company's financial control, risk management and internal control systems and arrangements under the Company's whistleblower policy.

Directors	Title	2019 Meetings Dates			
		28th Jan.	28th Apr.	16th Jul.	23rd Oct.
Mr. Razi Al Merbati	Chairman	√	√	√	√
Mr. Husain Aamer	Member	√	√	√	√
Mr. Abdulla Jamsheer	Member	√	√	√	√

Note:

- As per the Board Audit & Risk Committee Charter a minimum of 4 meetings are to be held annually.
- Actual number of meetings held: 4.
- The Chairman of the Board Audit & Risk Committee is an Independent, Executive Director unanimously chosen by the board members.

Board Nomination & Remuneration Committee Meetings

The Board Nomination and Remuneration Committee reviews the structure, size and composition of the Board and its Committees and makes recommendations to the Board on the appointment and re-appointment of Directors.

Directors	Title	2019 Meetings Dates		
		21st Jan.	28th Jan.	8th Sep.
Mr. Hisham Alrayes	Chairman	√	√	√
Mr. Husain Al Hussaini	Member	√	√	√
Mr. Abdulrahman Jamsheer	Member	√	√	√
Mr. Mazen Abdulkarim	Member	√	√	√

Note:

- As per the Board NRC Charter a minimum of 2 meetings are to be held annually.
- Actual number of meetings held: 3.
- The Chairman of the Board NRC is an Independent, Executive Director unanimously chosen by the board members.

Board Executive Committee Meetings

The purpose of the Board Executive Committee is to review and implement the Company's business strategy, monitor performance and manage its assets and liabilities in accordance with the policies and directives of the Board.

Directors	Title	2019 Meetings Dates				
		21st Jan.	28th Apr.	8th Sep.	21st Oct.	11th Dec.
Mr. Hisham Alrayes	Chairman	√	√	√	√	X
Mr. Husain Al Hussaini	Member	√	√	√	√	√
Mr. Abdulrahman Jamsheer	Member	√	√	√	√	√
Mr. Mazen Abdulkarim	Member	√	√	√	√	√

Note:

- As per the Board Executive Committee Charter a minimum of 4 meetings are to be held annually.
- Actual number of meetings held: 5.
- The Chairman of the Board Executive Committee is an Independent, Executive Director unanimously chosen by the board members.

Work of Committees and any significant issues

The Committees report their activities and put forward recommendations to the Board during the quarterly Board Meetings. No significant issues were reported during 2019.

The Annual General Meeting

It is mandatory by Commercial Company Law Decree No. 21 of 2001 (and as amended) for all Bahraini Shareholding Companies to hold their Assembly General Meetings annually. The General Meeting of Shareholders is Esterad's highest decision-making body in which shareholders participate in the management and supervision of the Company. During the financial year, the Annual General Meeting (AGM) is normally held in March and Extraordinary General Meetings (EGM) wherever necessary. The objective is that as many of Esterad shareholders as possible can be involved in decision-making at a General Meeting. Esterad's Corporate Governance Principles provides that Directors are expected to attend annual shareholder meetings. At the Company's last annual shareholder meeting dated 19th March 2019, six out of seven Board members attended, one was absent. No dividends were paid to shareholders for the year ending 2018.

A media announcement/notice shall be made at least 21 days before the meeting and shall include the meeting's agenda and the invitation for the general assembly. The notice lists items on the Meeting's agenda and the criteria specifying a shareholder's right to attend the Meeting himself or by proxy. Moreover, the notice of the General Meeting and the Board of Directors' and shareholders' proposals to the Meeting will be published as a stock exchange release.

Additionally, all documents, such as the Financial Statements, Chairman's Statement, Auditors' Report, proposed dividend announcement and Nomination for Board membership (election year only) will be available to shareholders on the Company's website at www.esterad.net prior to the Meeting.

REMUNERATION AND SITTING FEES OF DIRECTORS

Remuneration is performance-based. Each Director will be entitled to a Director's remuneration fee which is determined by the Board with authorisation granted by the shareholders at the Company's Annual General Meeting.

- Total remunerations paid to the directors for the (last) year 2018: NIL
- The proposed total remunerations to be paid to the directors for the year 2019, which will be presented at the Annual General Meeting for approval: BHD 175,000
- Sitting fees paid to the Company's Board of Directors for Board and Committee meeting attendance during 2019:

Description	No. of meetings	Paid (BHD)
Board of Directors	7	39,000
Audit & Risk Committee	4	9,000
Executive Committee	5	14,250
Nomination & Remuneration Committee	3	9,000
Total		71,250

Note: No sitting fees paid for Board of Directors meeting dated 16th July 2019.

EXECUTIVE MANAGEMENT

The number of shares held by Executive Management and their related parties

Name	Title	31 Dec. 2019	31 Dec. 2018
Mr. Chandan Gupta	CEO	0	0
Mrs. Hanan Abdulghani	Director	0	0
Mr. Mohamed Noor	Senior Manager	0	0
Mr. Abdulla Nooruddin*	Senior Manager	11,288	0
Mr. A.Rahman Al Malki	Senior Manager	0	0
Total		11,288	0
As a percentage of total number of shares**		0.008%	0.00%

* New employee

** Percentage calculated on the basis of 140,000,000 shares

Senior Executive Management trading activities during 2019: Nil

Total remunerations paid to the key Executive Officers

Total remunerations (lump-sum) paid to the top key Senior Executives/employees, including salaries, benefits, allowances, increases, stock options, end-of-service benefits, pensions: BHD 213,588.

- Note # 17 of the 2019 Audited Financial Statements.

Related Parties Transactions

The Company has in place a policy which is set out to define the related parties, related transactions and how the Company discloses information. The policy applies to Esterad's Directors and Key Management Personnel.

- As per the 2019 audited Financial Statements, Note # 17 pertains to related parties transactions.

INTERNAL CONTROLS, POLICIES & PROCEDURES

Guidance on the best ways to manage, lead, organise and monitor the business through a series of transparent, clearly defined policies, processes and procedures.

Conflicts of Interest

Each Director and officer shall inform the entire Board of conflicts of interest as they arise and abstain from voting on the matter in accordance with the relevant provisions of the Company Law. This disclosure shall include all material facts in the case of a contract or transaction involving the Director or Officer. The Directors and Officers must understand that any approval of a conflict transaction is effective only if all material facts are known to the authorising persons and the conflicted person did not participate in the decision. In compliance with the Central Bank's Corporate Governance Code (Principles HC 2.2 and HC2.3) and the Company's Board Charter, the Board of Directors and Executive Management each made every practical effort to arrange his/her personal and business affairs to avoid a conflict of interest with the Company which resulted in their declaration of no 'conflict of interests' during the year. During 2019, no conflict of interest was raised or noted to the Board and no Director abstained from voting.

Disclosure Policy

The Company's disclosure policy aims to ensure that all parties operating in the market have simultaneous access to sufficient and true information on the Company. The periodic disclosure obligation refers to the Company's obligation to disclose information regularly on its profit performance; financial statements and the Report by the Board of Directors as well as interim reports.

Code of Business Conduct and Ethics

The Company's Code of Business Conduct and Ethics applies to all Directors, officers and employees of the Company. The Code covers a wide range of best practices and procedures. Those who violate the standards in the Code shall be subject to disciplinary action up to and including termination of employment.

Whistleblower Policy

In order to encourage all employees to disclose any wrongdoing that may adversely impact the Company, the Company's stakeholders, employees, or public at large, the Board introduced the Whistleblower Policy in 2011. This policy was circulated to all Directors and employees of the Company and sets forth:

- An investigative process of reported acts of wrongdoing and retaliation.
- Procedures for reports of questionable auditing, accounting and internal control matters from employees on a confidential and anonymous basis and from other interested third parties.
- The policy provides adequate protection to the employees.

Succession Planning

The objective of the Company's succession plan is to manage the process of attrition in critical positions of the Company, without affecting the Company's performance, i.e. to ensure that the correct calibre of successor is in place, both in the event of an emergency and during the normal course of business.

Critical positions that meet these criteria are all positions from Manager Level and above. In addition, from time-to-time, certain other positions may be considered as "Critical Positions". An Annual review was performed in September 2019.

Internal Controls

The Board of Directors is responsible for the Company's system of internal control. It sets appropriate policies on internal control and seeks regular assurances that will enable it to satisfy itself that the system is functioning effectively. The Board further ensures that the system of internal control is effective in managing risks in the manner that it has approved. Thus, a full review of the Company's system, policies, procedures and compliance are examined independently by outsourcing to an Internal Auditor who reports directly to the Board Audit & Risk Committee and finally to the Board of Directors.

Moreover, all employees have some responsibility for internal controls as part of their accountability for achieving objectives. They, collectively, have the necessary knowledge, skills, information and authority to establish, operate and monitor the system of internal control.

Company Adoption of the Corporate Governance Code and Non-Compliance

Principal	Non-Compliant	Partially Compliant	Fully Compliant	Explanation in case of non-compliance
Principle 1: The Company Shall be Headed by an Effective, Collegial and Expert Board.		√		
Principle 2: The Directors and Executive management Shall have Full Loyalty to the Company.			√	
Principle 3: The Board Shall Have Rigorous Controls for Financial Audit and Reporting, Internal Control, and Compliance With the Law.			√	
Principle 4: The Company Shall have Effective procedures for Appointment, Training, and Evaluation of the Directors.			√	
Principle 5: The Company Shall Remunerate Directors and Senior Officers Fairly and Responsibly.			√	
Principle 6: The Board Shall Establish a Clear and Efficient Management Structure for the Company and Define the Job Titles, Powers, Roles and Responsibilities.			√	
Principle 7: The Company Shall Communicate With Shareholders, Encourage Their Participation, and Respect Their Rights.			√	
Principle 8: The Company Shall Disclose its Corporate Governance.			√	
Principle 9: Companies Which Offer Islamic Services Shall Adhere to the Principles of Islamic Shari'a.*			N/A	
Principle 10: The Board Shall Ensure the Integrity of the Financial Statements Submitted to Shareholders Through Appointment of External Auditors.			√	
Principle 11: The Company Shall Seek Through Social Responsibility to Exercise its Role as a Good Citizen.			√	

The Board has adopted the Company's Code of Conduct on the criteria and determinants of professional conduct and ethical values, as mentioned in Chapter Two, Section Two, Paragraph five, of the Code and confirms its compliance with the Corporate Governance Code of the Kingdom of Bahrain and the High-Level Controls Module of Vol. 6 of the CBB Rule Book, with the exception of the following:

- HC-1.4.5, HC-3.2.1, HC-4.2.2, HC-5.3.2 which stipulates that the Chairman of the Board of Directors, the Audit Committee, and the Nomination & Remuneration Committees should each be an independent Director.

In these instances, the Company used the "Comply or Explain" principle, namely that "The Chairman of the Board of Directors and the Board Committees are non-independent, Executive Directors unanimously chosen by the Board members after a rigorous review by the members of their qualifications and experience".

AUDITORS AND CONSULTANCY SERVICES

External Audit: As part of its duties and responsibilities, the Audit & Risk Committee reviews and recommends to the Board the appointment, resignation, or dismissal of the external auditors and the audit fees as well as discusses with the external auditors their work, findings and recommendations. The current External Auditor is KPMG, details below:

Name of the audit firm	KPMG FAKHRO
Years of service as the Company's external auditor	Since 1973
Name of the partner in charge of the Company's audit	Jalil Al Aali
The partner's years of service as the partner in charge of the Company's audit	1
Total audit fees for the financial statements for the year 2019 (BHD)	19,859
Other special fees and charges for non-audit services other than auditing the financial statements for the year 2019 (BHD) if any. In the absence of such fees, this shall be expressly stated.	NIL

Internal Audit: The internal audit role is outsourced to Grant Thornton public accountants who perform an examination of the internal control systems for Esterad and provide an independent and objective review of the efficiency of the Company's operations. Grant Thornton reports directly to the Board Audit & Risk Committee. The Company paid a total of BHD 5,600 to Grant Thornton in 2019 for services rendered.

The Board has recommended the reappointment of KPMG for the audit year ending 2020, subject to approval by the shareholders at the General Assembly Meeting.

CORPORATE SOCIAL RESPONSIBILITY

Since our founding in 1973, Esterad has embodied the true spirit of corporate social responsibility, and we are committed to the highest standards of corporate citizenship. The Company culture and values are rooted in service, integrity, and taking personal responsibility for our actions, outcomes, and reputation. During 2019 Esterad approved and disbursed several CSR community contributions and initiatives, as below:

	Charity	Type	Amount	Status
1	Bahrain Red Crescent Society	Community welfare	30,000	Paid
2	Bahrain Defense Force, Cardiac Centre	Health	26,000	Paid
3	Terminal illness treatment	Health	5,000	Paid

In addition to the above, Esterad continues to provide premises (gratuitous) to the "Be Free" Centre which falls under the umbrella of the Bahrain Women's Association for Human Development.

SHAREHOLDER MATTERS

The Board of Directors actively encourages transparency and is committed to maximising shareholder value. With over forty five years of history and a successful investment track record, Esterad looks forward to continue to serving the interests of its shareholders and investment partners for many years to come. The Board of Directors shall observe the requirements of the Commercial Companies Law in respect of the shareholders' general assemblies and shareholder rights. A specific section to describe shareholders' rights to participate and vote at each shareholders' meeting, including invitations can be viewed on the Company's website: **www.esterad.net**

Shareholder Services

The Company's share register is maintained by Karvy Fintech (Bahrain) W.L.L. in addition to an electronic version maintained by the Bahrain Bourse. Any matter in relation to the transfer of shares, change of name or address, or loss of share certificate or dividend cheques etc. should be addressed to Karvy directly:

7th Floor, Al Zamil Tower,
Building 31, Road 383, Block 305, Manama,
Kingdom of Bahrain
Tel: +973 215080
Email: bahrain.helpdesk@karvy.com

Communication with Shareholders

The Board of Directors shall maintain ongoing personal contact with key shareholders to solicit their views and understand their concerns. To ensure all shareholders have equal and timely access to important Company information, Esterad's main media and communication tool is through the Bahrain Bourse market announcements and press releases. All material facts are also available on the Company's website at www.esterad.net. Uploads include the publishing of its annual reports, audited financial statements (annual and quarterly), corporate governance report, media releases and any other important announcements and newsletters.

Rumours and Information Leaks

Esterad will not comment on rumours circulating in the market, share price performance or competitors' or clients' actions unless it is necessary to do so in order to correct information that is relevant to the Company or obviously incorrect. Nor will the Company comment on business transactions that are considered confidential or incomplete from the point of view of the Company's operations. In case Company-related, unpublished information has inadvertently been disclosed outside the Company's insiders, Esterad will communicate the matter to the Compliance Officer with the practice commonly applied to the disclosure of material information.

Contact Esterad and its Board of Directors

The Board recognises the importance of communication and adopts an effective and transparent system between the Company and its shareholders. Moreover, the Annual General Meeting provides an opportunity for face-to-face communication between the Board and the shareholders of the Company. Shareholders are welcome to raise any query in relation to the Company's business at the AGM. Moreover, interested persons can also contact the Board by mail or by e-mail in writing through Investor Relations mentioned below:

Investor Relations
Esterad Investment Company
24th Floor, Suite 2404, Almoayyed Tower
Seef District, P.O. Box 1080, Manama,
Kingdom of Bahrain.
Tel: +973 17585400 Fax: +973 17585444
Email: mail@esterad.net

Consolidated **Financial** **Statements**

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 2019, 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 2019, 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 2019. 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 3H(v) and note 22 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
<p>A) Carrying value of quoted equity investments</p> <p>The Company's portfolio of listed equity investments makes up 19.9% 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.</p>	<p>Our audit procedures for quoted investments, included:</p> <ul style="list-style-type: none"> • agreeing 100% of the investment securities in the portfolio to independently received third-party confirmation or statement of accounts; and • agreeing the valuation of 100% of investments in the portfolio to externally quoted prices.

Description	How the key audit matter was addressed in our audit
<p>B) Valuation of unquoted equity investments at fair value</p> <p>26.8% 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.</p> <p>The application of valuation techniques involves 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.</p>	<p>With the assistance of our valuation specialists, our audit procedures included:</p> <ul style="list-style-type: none"> • assessing the appropriateness of the valuation techniques used by comparing with observed industry practice; • challenging key inputs and assumptions used in the valuations, such as, discount factors by using our knowledge of the industries in which the investees operate and industry norms; and • comparing the key underlying financial data inputs to external sources, investee company financial and management information as applicable. <p>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.</p>

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 scepticism 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 2019 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 regulatory requirements

As required by the 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 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 Jalil AlAali.



KPMG Fakhro

Partner Registration number 100

28 January 2020

Consolidated Statement of Financial Position

as at 31 December 2019

Bahraini Dinars

	Note	31 December 2019	31 December 2018
Assets			
Cash and bank balances	4	5,378,354	2,719,019
Deposit with bank		997,938	997,938
Investment securities	5	28,778,073	38,793,152
Investment property	6	323,778	307,932
Other assets	7	7,522,256	787,361
Total assets		43,000,399	43,605,402
Liabilities			
Bank borrowings	9	4,300,774	9,236,500
Unclaimed dividends		1,015,171	1,055,305
Other liabilities		1,086,971	619,187
Total liabilities		6,402,916	10,910,992
Total net assets		36,597,483	32,694,410
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)
Statutory reserve		7,556,291	7,555,566
General reserve		460,241	2,460,241
Retained earnings		6,220,984	319,811
Total equity attributable to shareholders of the parent company		36,109,856	32,207,958
Non-controlling interest		487,627	486,452
Total equity		36,597,483	32,694,410

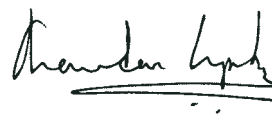
The consolidated financial statements were approved by the Board of Directors on 28 January 2020 and signed on its behalf by:



Hisham Alrayes
Chairman



Abdulrahman Jamsheer
Deputy Chairman



Chandan Gupta
General Manager

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

Bahraini Dinars

	Note	2019	2018
Investment income	13	4,395,947	1,702,938
Other income	14	49,398	43,214
Total income		4,445,345	1,746,152
Operating expenses	15	1,483,928	987,370
Interest expense	16	260,055	258,143
Total expenses		1,743,983	1,245,513
Profit for the year		2,701,362	500,639
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		519,350	(2,174,268)
Items that are or may be reclassified subsequently to profit or loss			
Net change in fair value of debt securities at FVTOCI		948,826	-
Fair value gain on debt securities at FVTOCI reclassified to profit or loss on sale		(266,465)	-
Total other comprehensive income		1,201,711	(2,174,268)
Total comprehensive income for the year		3,903,073	(1,673,629)
Profit for the year attributable to:			
Shareholders of the parent company		2,700,187	486,400
Non-controlling interest		1,175	14,239
		2,701,362	500,639
Total comprehensive income attributable to:			
Shareholders of the parent company		3,901,898	(1,687,868)
Non-controlling interest		1,175	14,239
		3,903,073	(1,673,629)
Basic and fully diluted earnings per 100 fils share	11	19.36 fils	3.49 fils

The consolidated financial statements were approved by the Board of directors on 28 January 2020 and signed on its behalf by:



Hisham Alrayes
Chairman



Abdulrahman Jamsheer
Deputy Chairman



Chandan Gupta
General Manager

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

2019	Share Capital	Share Premium	Treasury Shares
Balance as at 1 January 2019	14,000,000	7,966,301	(93,961)
Comprehensive income for the year:			
Profit for the year	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive income for the year	-	-	-
Transfer from general reserve to retained earnings (note 10)	-	-	-
Transfer to statutory reserve	-	-	-
At 31 December 2019	14,000,000	7,966,301	(93,961)

* retained earnings include fair value reserve of BD (5,884,590) (2018: BD (4,687,584)).

2018	Share Capital	Share Premium	Treasury Shares
Balance as at 1 January 2018 (as previously reported)	14,000,000	7,966,301	(93,961)
Adjustment on initial adoption of IFRS 9	-	-	-
Balance at 1 January 2018 (restated)	14,000,000	7,966,301	(93,961)
Comprehensive income for the year:			
Profit for the year	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive income for the year	-	-	-
Non-controlling interest adjustments	-	-	-
Dividends declared for 2017	-	-	-
At 31 December 2018	14,000,000	7,966,301	(93,961)

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.

Bahraini Dinars

Attributable to the shareholders of the parent company				Non-controlling interest	Total equity
Statutory reserve	General reserve	Retained earnings*	Total		
7,555,566	2,460,241	319,811	32,207,958	486,452	32,694,410
-	-	2,700,187	2,700,187	1,175	2,701,362
-	-	1,201,711	1,201,711	-	1,201,711
-	-	3,901,898	3,901,898	1,175	3,903,073
-	(2,000,000)	2,000,000	-	-	-
725	-	(725)	-	-	-
7,556,291	460,241	6,220,984	36,109,856	487,627	36,597,483
Attributable to the shareholders of the parent company				Non-controlling interest	Total equity
Statutory reserve	General reserve	Retained earnings	Total		
7,555,566	2,460,241	2,962,901	34,851,048	454,015	35,305,063
-	-	(100,000)	(100,000)	-	(100,000)
7,555,566	2,460,241	2,862,901	34,751,048	454,015	35,205,063
-	-	486,400	486,400	14,239	500,639
-	-	(2,174,268)	(2,174,268)	-	(2,174,268)
-	-	(1,687,868)	(1,687,868)	14,239	(1,673,629)
-	-	(18,198)	(18,198)	18,198	-
-	-	(837,024)	(837,024)	-	(837,024)
7,555,566	2,460,241	319,811	32,207,958	486,452	32,694,410

Consolidated Statement of Cash Flows

for the year ended 31 December 2019

Bahraini Dinars

	2019	2018
Operating activities		
Dividends received	906,823	937,486
Interest received	1,252,663	1,141,167
Sale of investment securities	35,175,563	5,179,224
Purchase of investment securities	(28,147,899)	(6,975,744)
Proceed from derivative instruments	31,151	-
Custody fees and investment related expenses paid	(67,679)	(93,297)
Deposit with bank	-	(1,000,000)
Salaries and benefits paid	(975,366)	(657,125)
Payments for other operating expenses	(431,792)	(355,947)
Rent received and other income, net of expenses paid	183,548	35,605
Net cash generated from / (used in) operating activities	7,927,012	(1,788,631)
Investing activities		
Sale of equipment	8,200	-
Acquisition of equipment, net	(7,369)	(15,350)
Net cash generated from / (used in) investing activities	831	(15,350)
Financing activities		
Borrowings availed, net	(4,935,726)	-
Interest paid	(292,648)	(267,218)
Dividends paid	(40,134)	(825,940)
Net cash used in financing activities	(5,268,508)	(1,093,158)
Net increase / (decrease) in cash and cash equivalents during the year	2,659,335	(2,897,139)
Cash and cash equivalents as at 1 January	2,722,259	5,619,398
Cash and cash equivalents at 31 December* (Note 4)	5,381,594	2,722,259

*Cash and cash equivalents at 31 December 2019 is gross of the expected credit loss of BD 3,240 (2018: BD 3,240).

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

Bahraini Dinars

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 on the 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 Commercial Companies Law.

(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.

(iv) Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's 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 judgements and estimates made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- classification of investment securities: assessment of business model within which the assets are held (refer note 3H(iii));
- Impairment of financial instruments. Refer note 3H(vi) and note 19; and
- measurement of the fair value of equity securities classified as level 3 (refer note 3H (v)) and note 22)

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2019

Bahraini Dinars

2. BASIS OF PREPARATION (contd.)

(v) New standards, issued and effective from 1 January 2019

The following standards, amendments and interpretations, which became effective as of 1 January 2019, are relevant to the Group:

a) IFRS 16 Leases

The Group adopted IFRS 16 on the effective date 1 January 2019 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The Group presents right of use assets in "other assets" and lease liabilities in "other liabilities" in the statement of financial position.

IFRS 16, introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The adoption on this standard did not have a significant impact on the consolidated financial statements.

b) Long-term interests in associates and joint venture (Amendments to IAS 28)

An amendment to IAS 28 Investments in Associates and Joint Ventures will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment, which addresses equity-accounted loss absorption by LTI, involves the dual application of IAS 28 and IFRS 9 Financial Instruments.

The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. In effect, this is a three-step annual process:

- Apply IFRS 9 independently
- True up past allocations
- Book current year equity share

The adoption of this amendment had no significant impact on the consolidated financial statements.

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

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

The IASB has made limited scope amendments to IFRS 10 financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

The effective date for these changes has now been postponed until the completion of a broader review - which the IASB hopes will result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. However, early adoption continues to be permitted.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2019

Bahraini Dinars

3. SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of consolidation

(i) *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 until the date on which control ceases.

(ii) *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.

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

When Group loses control over a subsidiary, it derecognises 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.

(iv) *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.

(v) *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 subsidiaries 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.

(B) 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.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2019

Bahraini Dinars

3. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(C) 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 recognised using effective interest rate method. The effective interest rate method is a method of calculating the amortised 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.

(D) 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.

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

(F) Cash and bank balances are recorded at amortised cost in the financial statements less expected credit loss.

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.

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

(H) Investment securities

Investment securities comprise listed and unlisted equity securities, quoted bonds, structured notes and externally managed funds.

(i) Classification

Financial assets

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); and
- Financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities

Financial liabilities are classified into one of the following two categories

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

(ii) Initial recognition and measurement

Financial assets

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 which are expensed in profit or loss.

All regular way purchases and sales of listed quoted financial assets are recognised on the trade date. All regular way purchases and sales of other financial assets are recognised on the settlement date.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2019

Bahraini Dinars

Financial liabilities

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.

(iii) Subsequent measurement

Financial assets

Subsequent to initial measurement, financial assets 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:

(a) 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;
- 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 the objective of the business model is to both hold to collect and sell debt instrument, it is classified at fair value through other comprehensive income.

If either of these two classification 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.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measured requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets.

(b) 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 recycled to profit or loss.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2019

Bahraini Dinars

3. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(H) Investment securities (contd.)

(iii) Subsequent measurement (contd.)

Financial assets (contd.)

(c) Financial assets at fair value through 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 recognised in the profit or loss.

Financial liabilities

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.

Financial liabilities classified as financial liabilities at FVTPL includes derivatives.

(iv) 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.

(v) 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 well recognised valuation techniques including discounted cash flows, price earning, multiples and recent market transactions. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. 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.

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.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2019

Bahraini Dinars

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.

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.

(vi) Impairment of financial assets

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and debt securities measured at FVTOCI

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date;
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2019

Bahraini Dinars

3. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(H) Investment securities (contd.)

(vi) Impairment of financial assets (contd.)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof and is charged to the comprehensive income. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(vii) 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.

(viii) 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 the hedged 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.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2019

Bahraini Dinars

- (I) **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.

- (J) **Investment properties** are properties held from rental income or capital appreciation or both. They 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.

- (K) **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.

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

- (M) **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.

- (N) **Statutory reserve:** In accordance with the Commercial Companies Law, 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.

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

- (P) **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.

- (Q) **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.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2019

Bahraini Dinars

3. SIGNIFICANT ACCOUNTING POLICIES (contd.)

(R) 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 BANK BALANCES

	2019	2018
Cash and bank balances	5,381,594	2,722,259
Less: Impairment allowance	(3,240)	(3,240)
	5,378,354	2,719,019

5. INVESTMENT SECURITIES

Investment securities comprise

	2019	2018
at FVTOCI		
Quoted debt securities	7,703,749	-
Quoted equity securities	668,510	3,436,535
Unquoted equity securities	1,470,613	1,999,680
Managed funds	233,929	1,641,796
	10,076,801	7,078,011
at FVTPL		
Quoted equity securities	7,901,214	9,224,223
Unquoted equity securities	10,041,053	4,055,912
Structured notes	759,005	-
	18,701,272	13,280,135
at amortised cost		
Debt securities	-	18,435,006
	28,778,073	38,793,152

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2019

Bahraini Dinars

Reclassification of debt securities

On 28 April 2019, the Company changed its business model for debt securities portfolio and now hold them both to collect contractual cash flows and sell. Accordingly, the existing portfolio was reclassified on 1 July 2019, the beginning of next reporting period being in accordance with IFRS 9. Any investment purchased after 28 April 2019 is measured at FVTOCI. The impact of the reclassification as 1 July 2019 was as follows:

	Impact of reclassification
Fair value of debt securities as at 1 July 2019	10,958,108
Amortised cost as at 1 July 2019	10,744,185
Fair value gain on reclassification date	213,923

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%
Esterad Amwaj WLL	Bahrain	Bahrain	Real estate	49%

During the year, the Group sold its interest in United Cement company resulting in profit of BD 266,367. During the fourth quarter, the Group acquired 100% of Esterad Amwaj WLL, a Bahraini incorporated company that owns a real estate project in the Kingdom of Bahrain for a consideration of BD 15,223,600 and in the same quarter sold 51% of the company resulting in a profit which is included in gain on sales of equity securities. The remaining 49% stake is accounted for as investments in associate at FVTPL.

The following table summarises the financial information of material associates unadjusted for Group's share:

	2019	2018
Associate (1)		
Non-current assets	4,245,341	3,937,850
Current assets	4,202,466	4,081,963
Non-current liabilities	(455,905)	(760,178)
Current liabilities	(2,661,960)	(2,086,609)
Net Assets (100%)	5,329,942	5,173,026
Revenue	3,877,796	7,117,548
Loss	(1,552,802)	(364,079)
Total Comprehensive Income	(1,552,802)	(364,079)
Carrying value	1,711,053	2,022,279

Notes to the Consolidated Financial Statements (contd.)

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Bahraini Dinars

5. INVESTMENT SECURITIES (contd.)

Reclassification of debt securities (contd.)

	2019
Associate (2)	
Non-current assets	17,000,000
Current assets	5,051
Non-current liabilities	-
Current liabilities	-
Net Assets (100%)	17,005,051
Revenue	50
Profit	-
Total Comprehensive Income	50
Dividend received by the Group	-
Carrying value	8,330,000

6. INVESTMENT PROPERTY

Property comprises a Labour Camp in Ajman on a leased land. The fair value of investment property is based on an firm external offer received. The fair value measurement has been categorised as a Level 2.

7. OTHER ASSETS

	2019	2018
Receivable from sale of investment	7,024,788	-
Accrued interest	91,797	270,256
Receivable from non-controlling interest	173,460	173,460
Derivatives at fair value (see note 18)	-	150,141
Rental receivable for investment property	24,501	24,384
Staff loans	22,396	67,066
Prepaid expenses	25,912	22,846
Equipment	46,701	13,621
Cash margin on derivatives	-	31,138
Other receivables	112,701	34,449
	7,522,256	787,361

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Bahraini Dinars

8. SIGNIFICANT SUBSIDIARIES

Set out below are the Group's principal subsidiaries at 31 December 2019. 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	
	2019	2018
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%
Esterad Amwaj Partnership Company	100%	-

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 the Group's subsidiary, Labac UAE 1 WLL that has a material NCI, before any intra-group elimination:

	2019	2018
NCI percentage	49%	49%
Non-current assets	323,778	307,932
Current assets	458,708	584,176
Non-current liabilities	(26,120)	-
Current liabilities	(39,046)	(8,112)
Net assets	717,320	883,996
Net assets attributable to NCI	351,487	433,158
Revenue	46,447	25,339
Profit	13,865	21,839
OCI	-	-
Total comprehensive income	13,865	21,839
Profit allocated to NCI	6,794	10,701
OCI allocated to NCI	-	-

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9. BANK BORROWINGS

	2019	2018
Bank loans	4,300,774	9,236,500
	4,300,774	9,236,500

These borrowings are used for purchase of debt securities and are secured against debt securities of BD 7,703,749 (2018: BD 18,435,006) having fair value of BD 7,703,749 (2018: BD 18,296,523) as disclosed in note 5. The borrowings have a contractual maturity of up to 3 months and are at various interest rates basis ranging from 3.00% to 3.80% (2018: 3.57% to 3.90%).

10. APPROPRIATIONS

The Board of Directors proposes a dividend of 10% (2018: nil) of the paid-up capital (excluding treasury shares). This amounts to BD 1,395,042 (2018: BD nil). On Assembly General meeting held on 19 March 2019, shareholders approved to transfer BD 2,000,000 from general reserve to retained earnings.

11. SHARE CAPITAL

	2019		2018	
	Number	Value	Number	Value
Authorised: 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

	2019	2018
Stock exchange price per 100 fils share at 31 December	163 fils	108 fils
Market capitalisation of the Company as at 31 December	22,820,000	15,120,000
Basic earnings per 100 fils share	19.36	3.49 fils

The earnings per share is calculated by dividing the net profit attributable to ordinary shareholders of BD 2,700,187 (2018: net profit of BD 486,400) by the weighted average number of shares outstanding at the end of the year of 139,504,153 (2018: 139,504,153) excluding treasury shares.

Notes to the Consolidated Financial Statements (contd.)

for the year ended 31 December 2019

Bahraini Dinars

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
Manarat Investment Holding	Cayman Island	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:

	No. of shares	No. of shareholders	% of total outstanding shares
Bahraini	107,957,935	4,233	77.11%
Other GCC countries	1,913,910	43	1.37%
Others	30,128,155	6	21.52%
Total	140,000,000	4,282	100%

- (iii) The Company has only one class of equity shares which carry 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	2	4	-	1

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

Categories*	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	4,276	99.87%	57.67%
1% up to less than 5%	4	0.09%	8.77%
5% up to less than 10%	-	-	-
10% up to less than 20%	1	0.02%	12.36%
20% up to less than 30%	1	0.02%	21.20%
Total	4,282	100%	100%

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

Notes to the Consolidated Financial Statements (contd.)

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Bahraini Dinars

12. EMPLOYEE BENEFITS

Bahraini employees are covered by the Social Insurance Organisation 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 2019 which represent a defined contribution scheme under International Accounting Standard 19 – Employee Benefits amounted to BD 36,504 (2018: BD 36,003).

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 2019 the Group employed 8 Bahrainis and 3 expatriate.

Provision for employees' leaving indemnities	2019	2018
At beginning of the year	429,072	369,207
Charge for the year	3,458	59,865
Paid during the year	(253,211)	-
Provision at 31 December	179,319	429,072

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Bahraini Dinars

13. INVESTMENT INCOME

	2019	2018
Income from equity securities		
Dividends received	906,838	937,486
Gain/(loss) on sale	1,459,150	(79,143)
Fair value gains/(losses), net	1,022,495	(162,975)
	3,388,483	695,368
Income from debt securities		
Interest income	843,365	940,042
Reversal of impairment loss	62,142	-
Gain on sale	266,465	-
	1,171,972	940,042
(Losses)/gains from derivative instruments held for risk management		
Realised losses	(122,286)	-
Fair value (losses)/gains	(141,478)	83,768
	(263,764)	83,768
Other investment income		
Bank interest	112,201	79,026
Interest in structured notes	45,172	-
Foreign exchange loss	(1,944)	(548)
	155,429	78,478
Custody fees	(56,173)	(94,718)
Total Investment Income	4,395,947	1,702,938

Income from equity securities include dividends from investment designed at fair value through other comprehensive income amounting to BD 275,008 (2018: BD 209,885).

Notes to the Consolidated Financial Statements (contd.)

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Bahraini Dinars

14. OTHER INCOME

	2019	2018
Rental income	24,503	24,335
Fair value movement on investment property	(10,274)	–
Gain on sale of equipment	8,200	49
Sitting fee from investees	11,241	4,879
Reversal of accrual	15,728	13,951
	49,398	43,214

15. OPERATING EXPENSES

	2019	2018
Staff cost	900,840	674,276
Board remuneration and committees' fees	200,250	74,000
Advertisement and publicity	100,848	500
Professional and legal fees	97,093	31,188
Office rent and service charges	15,642	39,301
IT related expenses	49,167	42,151
Depreciation on equipment	30,387	21,399
Communication expenses	12,293	18,617
Government and other fees	18,295	17,930
Publishing and company meetings	20,925	14,076
Share registration expenses	9,592	9,240
Travel and entertainment expenses	6,613	4,354
Other expenses	21,983	40,338
	1,483,928	987,370

16. INTEREST EXPENSES

Interest expense pertains to bank borrowings. The interest on debts is payable on monthly and quarterly basis with rates ranging from 3.00% to 3.80% (2018: 3.57% to 3.90%).

Notes to the Consolidated Financial Statements (contd.)

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Bahraini Dinars

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:

	2019	2018
Board remuneration	126,000	-
Board sitting fees	74,250	74,000
Remuneration to key management personnel	213,588	149,556
Total	413,838	223,556

The Group has accrued board remuneration of BD 126,000 (2018: BD nil) for the year ended 31 December 2019 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:

	2019	2018
Balances with related parties		
Receivable from associate companies	24,501	24,384
Receivable from non-controlling interest	173,460	173,460
Receivable from director and key management personnel	304,000	-
Transactions with related parties		
Dividend income from an associate	67,500	175,500
Fair value (loss)/gain from an associate	(311,226)	164,760
Realised gain on sale of share in associate	266,367	-
Investment property income from an associate	24,503	24,384
Other income from an associate	11,241	4,879
Sale of investment to director and key management personnel	304,000	-

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

Certain transactions were approved by the Board of Directors under Article 189(b) of the Commercial Companies Law in the financial year ended 31 December 2019 where the Chairman, Directors or Managers had a direct or indirect interest in the contracts or transactions which have been approved by the Board.

Notes to the Consolidated Financial Statements (contd.)

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Bahraini Dinars

18. DERIVATIVE INSTRUMENT 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:

Types of instruments:	2019		2018	
	Notional amount	Fair values	Notional amount	Fair values
Interest rate swaps	4,300,774	(115,244)	9,236,500	150,141
	4,300,774	(115,244)	9,236,500	150,141

The positive fair values of the above derivatives are BD nil (2018: BD 150,141) and negative fair values are BD 115,244 (2018: BD nil).

19. FINANCIAL RISK MANAGEMENT

Overview

Financial instruments of the Group include cash and bank balances, 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.

Notes to the Consolidated Financial Statements (contd.)

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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.

Exposure to credit risk

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

	2019	2018
Cash and bank balances	5,378,354	2,719,019
Deposit with banks	997,938	997,938
Debt securities	7,703,749	18,435,006
Other receivables	7,448,643	600,753
	21,528,684	22,752,716

Debt securities

Credit risk also arises from the Group's investment activities particularly debt securities. Debt securities are either sovereign or sovereign-backed and accordingly credit risk is limited.

The movement in the allowance for impairment for debt securities at FVTOCI during the year was as follows:

	2019			Total
	12- month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Balance at 1 January	94,697	-	-	94,697
Write back of impairment	(62,142)	-	-	(62,142)
Balance at 31 December	(32,556)	-	-	(32,556)

	2018			Total
	12- month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Balance at 1 January per IAS 39	-	-	-	-
Adjustment on initial application of IFRS 9	94,697	-	-	94,697
Balance at 1 January per IFRS 9	94,697	-	-	94,697
Write back of impairment	-	-	-	-
Balance at 31 December	94,697	-	-	94,697

Notes to the Consolidated Financial Statements (contd.)

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19. FINANCIAL RISK MANAGEMENT (contd.)

Credit risk (contd.)

Debt securities (contd.)

The following table presents an analysis of the credit quality of debt securities at FVTOCI. It indicates whether assets debt securities measured at FVTOCI were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired.

	2019 FVTOCI			Total
	12- month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
BB- to BB+	3,477,735	-	-	3,477,735
B- to B+	3,562,902	-	-	3,562,902
Gross carrying amounts	7,040,636	-	-	7,040,636
Loss allowance	(32,556)	-	-	(32,556)
Amortised cost	7,008,080	-	-	7,008,080
Carrying amount	7,703,749	-	-	7,703,749

	2018 Amortised cost			Total
	12- month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
BBB- to AAA	7,976,066	-	-	7,976,066
B- to B+	10,553,637	-	-	10,553,637
Gross carrying amounts	18,529,703	-	-	18,529,703
Loss allowance	(94,697)	-	-	(94,697)
Amortised cost	18,435,006	-	-	18,435,006
Carrying amount	18,435,006	-	-	18,435,006

Receivables

The table below shows the Group's financial assets that are past due but not considered impaired:

	2019		2018	
	Gross	Impairment	Gross	Impairment
Past due < 6 months	5,737,038	-	12,192	-
Past due > 6 months	1,312,251	-	12,192	-
	7,104,289	-	24,384	-

The above receivables include receivable from sale of investments of BD 7,024,788 of which BD 3,759,366 was received subsequent to the reporting period. The management believes that no allowance for impairment is necessary in respect of receivables past due.

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Cash and bank balances and deposit with banks

Cash and bank balances and deposits with banks 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. Impairment on cash and bank balances has been measured on the 12-month expected loss basis and reflects the short-term maturities of the exposures. The Group uses a similar approach for assessment of ECLs for cash and cash bank balances to that used for debt securities at fair value through OCI. The allowance as at 31 December 2019 was immaterial.

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:

2019	less than 1 year	1 – 5 years	6 - 10 years	Total
Cash and bank balances	5,378,354	-	-	5,378,354
Deposit with bank	997,938	-	-	997,938
Debt securities	-	2,621,229	5,082,520	7,703,749
Other assets	7,448,643	-	-	7,448,643
2019 Totals	13,824,935	2,621,229	5,082,520	21,528,684
2018 Totals	8,286,001	11,570,653	2,896,062	22,752,716

Deposit with bank of BD 997,938 as at 31 December 2019 (2018: BD 997,938) is net of impairment allowance of BD 2,062 as at 31 December 2019 (2018: BD 2,062).

Geographical concentration of financial assets

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:

2019	Cash and bank balances	Deposit with bank	Debt securities	Other assets	Total
Bahrain and other GCC countries	4,355,213	997,938	7,703,749	7,448,643	20,505,543
USA, EU and Japan	1,023,141	-	-	-	1,023,141
	5,378,354	997,938	7,703,749	7,448,643	21,528,684

2018	Cash and bank balances	Deposit with bank	Debt securities	Other assets	Total
Bahrain and other GCC countries	2,064,252	997,938	18,435,006	569,615	22,066,811
USA, EU and Japan	654,767	-	-	31,138	685,905
	2,719,019	997,938	18,435,006	600,753	22,752,716

Notes to the Consolidated Financial Statements (contd.)

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19. FINANCIAL RISK MANAGEMENT (contd.)

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.

Residual contractual maturities of financial liabilities are:

2019	Carrying value	Gross nominal outflow	Less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years
Borrowings	4,300,774	4,308,815	4,308,815	-	-	-
Unclaimed dividends	1,015,171	1,015,171	1,015,171	-	-	-
Other liabilities	848,244	848,244	848,244	-	-	-
Total liabilities	6,164,189	6,172,230	6,172,230	-	-	-
Commitments	4,517,709	4,517,709	-	4,517,709	-	-
Total	10,681,898	10,689,939	6,172,230	4,517,709	-	-

2018	Carrying value	Gross nominal outflow	Less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years
Borrowings	9,236,500	9,314,378	6,573,929	2,740,449	-	-
Unclaimed dividends	1,055,305	1,055,305	1,055,305	-	-	-
Other liabilities	190,116	190,116	190,116	-	-	-
Total liabilities	10,481,921	10,559,799	7,819,350	2,740,449	-	-
Commitments	676,921	676,921	-	676,921	-	-
Total	11,158,842	11,236,720	7,819,350	3,417,370	-	-

Market risk

Market risk is the risk that changes in market prices - e.g. interest rate, equity prices and foreign exchanges rates will affect the Group's income or the value of its holdings of financial instruments. 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 cash and bank balances, bank deposits, and investment debt 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.

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Interest rate risk

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 bank 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:

	2019		2018	
	Carrying value (BD)	Effective interest rates (%)	Carrying value (BD)	Effective interest rates (%)
Assets				
Cash and bank balances	5,377,854	3.00%	2,719,019	2.5%
Deposits with bank	997,938	4.50%	997,938	4.00%
Debt securities	7,703,749	6.21%	18,435,006	5.91%
Liabilities				
Bank Borrowings	4,300,774	3.80%	9,236,500	3.65%

A change of 1% in interest rates would have increased/(decreased) equity and profit and loss by +/- BD 76,120 (2018: +/- BD 165,357). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Exposure to currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group had the following significant net exposures denominated in foreign currency as of 31 December:

	2019	2018
US Dollars	12,216,287	22,460,181
Kuwaiti Dinars	1,910,073	2,319,561
Other GCC Currencies (*)	895,714	1,088,381
Euros	76,721	144,631
Sterling Pounds	515	1,612

(*) 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.

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20. CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base 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 2019 the total return was 7.34% (2018: 1.55%).

The Group does not have a defined share buy-back plan and treasury shares are purchased depending on favourable market prices. 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.

21. COMMITMENTS

As at 31 December 2019, the Group has net outstanding commitments to invest in managed funds amounting to BD 4,517,709 (2018: BD 676,921).

22. FAIR VALUE AND CATEGORIES OF FINANCIAL INSTRUMENTS

Fair value

The fair value 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.

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.

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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 recognised 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.

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 categorised:

2019	Level 1	Level 2	Level 3	Total
Investment Securities				
FVTOCI				
Debt securities:	7,703,749	-	-	7,703,749
Equity securities	668,510	-	1,470,613	2,139,123
Managed funds	-	-	233,929	233,929
FVTPL				
Equity securities	7,901,214	-	10,041,053	17,942,267
Structured notes	-	759,005	-	759,005
	16,273,473	759,005	11,745,595	28,778,073
Derivatives financial liabilities	-	115,244	-	115,244
2018	Level 1	Level 2	Level 3	Total
Investment Securities				
FVTOCI				
Equity securities	3,436,535	-	1,999,680	5,436,215
Managed funds	-	-	1,641,796	1,641,796
FVTPL				
Equity securities	9,224,223	-	9,224,223	13,280,135
Other financial instruments at FVTPL				
Derivatives held for risk management	-	150,141	-	150,141
	12,660,758	150,141	7,697,388	20,508,287

Notes to the Consolidated Financial Statements (contd.)

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22. FAIR VALUE AND CATEGORIES OF FINANCIAL INSTRUMENTS (contd.)

Fair value (contd.)

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year ended 31 December 2019. 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:

	2019	2018
Balance at 1 January	7,697,388	9,928,004
Total gains or losses:		
– in profit and loss	559,208	164,760
– in other comprehensive income	(472,512)	(2,340,581)
Sale/distributions	(3,498,055)	(58,983)
Purchases	7,459,566	4,188
Balance at 31 December	11,745,595	7,697,388

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
Unquoted equity investments at fair value	<ul style="list-style-type: none"> Discounted cash flows technique. Recent sales transactions 	<ul style="list-style-type: none"> Estimated cash flow and terminal value WACC (15%) Non-marketability factor (30%) 	<p>increase (decrease) if:</p> <ul style="list-style-type: none"> The estimated cash flows were higher (lower) WACC were lower (higher) Non-marketability factor was lower (higher)
Externally managed funds	NAV Net Asset value as received from the fund 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

Notes to the Consolidated Financial Statements (contd.)

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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 effect:

	2019		2018	
	Profit or Loss	OCI	Profit or Loss	OCI
WACC (1% increase)	(119,815)	-	(140,289)	-
Non-marketability factor (10% increase)	(213,882)	-	(288,001)	-
Multiple (10% increase)	-	-	225,734	-
Net asset value (10% increase)	833,000	240,454	193,083	364,148

	2019		2018	
	Profit or Loss	OCI	Profit or Loss	OCI
WACC (1% decrease)	137,986	-	163,418	-
Non-marketability factor (10% decrease)	213,882	-	290,092	-
Multiple (10% decrease)	-	-	(185,060)	-
Net asset value (10% decrease)	(833,000)	(240,454)	(211,775)	(364,148)

Notes to the Consolidated Financial Statements (contd.)

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Bahraini Dinars

22. FAIR VALUE AND CATEGORIES OF FINANCIAL INSTRUMENTS (contd.)

Classification

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

2019	At FVTPL	At FVTOCI	At amortised cost	Total carrying value	Fair value
Cash and bank balances	-	-	5,378,354	5,378,354	-
Deposit with bank	-	-	997,938	997,938	-
Investment Securities					
- Equity securities	17,942,267	2,139,123		20,081,390	20,081,390
- Structured notes	759,005			759,005	759,005
- Managed funds		233,929		233,929	233,929
- Debt securities	-	7,703,749	-	7,703,749	7,703,749
Derivatives held for risk management	-	-	-	-	-
Other assets	-	-	7,448,643	7,448,643	-
Total financial assets	18,701,272	10,076,801	13,824,935	42,603,008	
Borrowings	-	-	4,300,774	4,300,774	-
Unclaimed dividends	-	-	1,015,171	1,015,171	-
Derivatives held for risk management	115,244	-	-	115,244	115,244
Other liabilities	-	-	833,000	833,000	-
Total financial liabilities	115,244	-	6,148,945	6,264,189	

Notes to the Consolidated Financial Statements (contd.)

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2018	At FVTPL	At FVTOCI	At amortised cost	Total carrying value	Fair value
Cash and bank balances	-	-	2,719,019	2,719,019	-
Deposit with bank	-	-	997,938	997,938	-
Investment Securities					
- Equity securities	13,280,135	5,436,215	-	18,716,350	18,716,350
- Managed funds	-	1,641,795	-	1,641,795	1,641,795
- Debt securities	-	-	18,435,006	18,435,006	18,296,523
Derivatives held for risk management	150,141	-	-	150,141	150,141
Other assets	-	-	600,753	600,753	-
Total financial assets	13,430,276	7,078,010	22,752,716	43,261,002	
Borrowings	-	-	9,236,500	9,236,500	-
Unclaimed dividends	-	-	1,055,305	1,055,305	-
Derivatives held for risk management	-	-	-	-	-
Other liabilities	-	-	190,116	190,116	-
Total financial liabilities	-	-	10,481,921	10,481,921	

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

Notes to the Consolidated Financial Statements (contd.)

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Bahraini Dinars

23. RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

	Liabilities		
	Borrowings	Dividends payable	Other liabilities
Balance at 1 January 2019	9,236,500	1,055,305	619,187
Additional borrowings, net	(4,935,726)	-	-
Interest paid	-	-	(292,648)
Dividends paid	-	(40,134)	-
Net cash generated from/(used in) financing activities	(4,935,726)	(40,134)	(292,648)
Other changes:			
Interest expenses on borrowing and IRS	-	-	53,511
Other changes – liabilities	-	-	706,921
Liability-related other changes	-	-	760,432
Equity-related other changes	-	-	-
Balance at 31 December 2019	4,300,774	1,015,171	1,086,971

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.

Notes to the Consolidated Financial Statements (contd.)

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Bahraini Dinars

Equity							Total
Share capital	Share premiums	Treasury shares	Reserve	Retained earning	Retained earning		
14,000,000	7,966,301	(93,961)	10,015,807	319,811	486,452		43,605,402
-	-	-	-	-	-		(4,935,726)
-	-	-	-	-	-		(292,648)
-	-	-	-	-	-		(40,134)
-	-	-	-	-	-		(5,268,508)
-	-	-	-	-	-		53,511
-	-	-	-	-	-		706,921
-	-	-	-	-	-		760,432
-	-	-	(1,999,275)	5,901,173	1,175		3,903,073
14,000,000	7,966,301	(93,961)	8,016,532	6,220,984	487,627		43,000,399