

ESKAN BANK REALTY INCOME TRUST
CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2018

ESKAN BANK REALTY INCOME TRUST

Information about the Trust

<u>Board of the Directors of the Trust</u>	Mr. Naser Ebrahim Abdulrahman Obaid (Chairman) Dr. Graham Edward Journeaux - (Resigned on October 18, 2018) Mr. Aref Ahmed Hasan Qamber - (Resigned on August 1, 2018) Mr. Michael Roy Pankhurst - (Appointed on October 18, 2018) Mr. Muhammad Saeed Butt - (Appointed on August 1, 2018)
<u>Registered office</u>	Office 341, Floor 34 Bahrain World Trade Center, West Tower P.O. Box 18206 Manama Kingdom of Bahrain
<u>Principal banker</u>	Bahrain Islamic Bank B.S.C.
<u>Trustee & custodian</u>	Crestbridge Bahrain B.S.C. (c)
<u>Investment manager</u>	Eskan Bank B.S.C. (c)
<u>Sub-investment manager & market maker</u>	SICO B.S.C. (c)
<u>Registrar</u>	Bahrain Clear B.S.C. (c)
<u>Property manager</u>	Cluttons L.L.P.
<u>Administrator</u>	Keypoint Consulting W.L.L.
<u>Paying agent</u>	Karvy Computershare W.L.L.
<u>Property appraiser</u>	Savills – DMB International W.L.L.
<u>External auditor</u>	Deloitte & Touche – Middle East Engagement Partner: Irshad Mahmood
<u>Shari'ah board</u>	Dr. Sheikh Nezam Yacouby (Chairperson) Dr. Sheikh Abdulaziz Khalifa AlQassar (Vice Chairperson) Sheikh Abdalnasser Al-Mahmood (Member)

ESKAN BANK REALTY INCOME TRUST

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ESKAN BANK REALTY INCOME TRUST

Directors' report For the year ended December 31, 2018

The Directors have pleasure in submitting their report together with the audited consolidated financial statements of ESKAN Bank Realty Income Trust (the "Trust" or "EBRIT") and its subsidiaries (together the "Group") for the year ended December 31, 2018.

Principal activities

The Trust is a closed ended Real Estate Investment Trust ("REIT") and its primary objective is to maximize stable Shari'ah compliant income generation for the unitholders with a long term approach and risk adjusted manner. The Trust invests primarily in income generating properties in the Kingdom of Bahrain.

Results and financial position

The consolidated financial position of the Group as at December 31, 2018 and the results for the year ended December 31, 2018 are set out in the accompanying consolidated financial statements.

Dividends

The Directors have declared an interim dividend relating to the year ended December 31, 2018 amounting to BHD 594,000 (equivalent to 3% of the unit capital of the Trust) which was paid on September 13, 2018. The Directors will consider a final dividend in respect of the year ended December 31, 2018, which will be communicated in 2019.

Board of Directors of the Trust

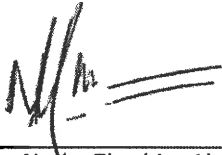
The following Directors served during the year ended December 31, 2018:

Mr. Naser Ebrahim Abdulrahman Obaid (Chairman)
Dr. Graham Edward Journeaux - (Resigned on October 18, 2018)
Mr. Aref Ahmed Hasan Qamber - (Resigned on August 1, 2018)
Mr. Michael Roy Pankhurst - (Appointed on October 18, 2018)
Mr. Muhammad Saeed Butt - (Appointed on August 1, 2018)

Auditors

The auditors, Deloitte & Touche Middle East, have expressed their willingness to be reappointed as auditors of the Group for the year ending December 31, 2019.

On behalf of the Directors:



Mr. Naser Ebrahim Abdulrahman Obaid
Chairman

March 31st, 2019



بسم الله الرحمن الرحيم

Shari'a Supervisory Board Report for the year ended 31 December 2018

04th Jamada II 1440 BC coinciding 10 February 2019

Praise be to Allah, and May peace and blessing be upon Prophet Mohammed, his family and his companions

To the Unit holders of ESKAN Bank Reality Income Trust

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with the letter of appointment, we are required to submit the following report:

During the year ended 31 December 2018, we have reviewed the principles and contracts relating to the transactions and applications conducted by ESKAN Bank Reality Income Trust (the "Trust"). We have also conducted our review to form an opinion as to whether the Trust has complied with Shari'a Rules and Principles and with specific Fatwas, rulings and guidelines issued by us.

We believe that ensuring the conformity of the Trust's activities with the provision of Islamic Shari'a is the sole responsibility of the Trust's Management, while the Shari'a Supervisory Board is only responsible for expressing an independent opinion based on our review of the operations of the Trust, and to report to you.

We have reviewed the internal Shari'a auditor report which contains the detail findings of auditing the Trust financial statements, transactions, activities, investments and pertinent documentation adopted by the Trust Manager. Our review was conducted to form an opinion as to whether the Trust Manager has complied with Shari'a rules and principles issued by us and also with the directives and guidelines issued by AAOIFI.

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

In our opinion:

Contracts, transactions and dealings related to the Trust entered into by the Trust Manager during year ended 31 December 2018 that we have reviewed complies with the Islamic Shari'a Rules and Principles.



Since distributions to the unit holders are their share according to the terms and conditions of the total collected rent, minus what is determined according to the terms and conditions of the Fund, Therefore the Zakat is on the holder of each unit according to his applicable Zakat period and Nisab.

We pray that Allah may grant all of us further success and prosperity.

Sh. Dr. Nezam Mohammed Saleh Yacouby

Chairman

Sh. Dr. Abdul Aziz Khalifa Al Qassar

Vice Chairman

Sh. Abdul Nasser Omar Al Mahmood

Executive Member

To the Unitholders
Eskan Bank Realty Income Trust
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Eskan Bank Realty Income Trust (the "Trust" or "EBRIT") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and to operate in accordance with Islamic Shari'ah rules and principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Auditing Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2018 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

Report on regulatory requirements and other matters

As required by the Bahrain Commercial Companies Law of 2001 (and subsequent amendments) and the Central Bank of Bahrain (CBB) Rulebook (Volume 7), we report that:

- a) the Trust has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Directors' report is consistent with the consolidated financial statements;
- c) Nothing has come to our attention which causes us to believe that the Trust has breached any of the applicable provisions of the Bahrain Commercial Companies Law of 2001 (and subsequent amendments), Financial Trust Law No. 23 of 2006 (as amended), the CBB Rulebook (Volume 7) and CBB directives and regulations (as contained in Volume 7 of the CBB Rulebook), rules and procedures of the Bahrain Bourse or the terms of the Trust Instrument, which would materially affect its activities or its consolidated financial position as at December 31, 2018;
- d) satisfactory explanations and information have been provided to us by Directors in response to all our requests; and
- e) the Trust has also complied with the Islamic Shari'ah rules and principles as determined by the Shari'ah Board of the Trust.

Deloitte & Touche

DELOITTE & TOUCHE – MIDDLE EAST
Partner Registration No. 157
Manama, Kingdom of Bahrain

March 31, 2019

ESKAN BANK REALTY INCOME TRUST
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	Notes	2018 BHD	2017 BHD
Assets			
Non-current asset			
Investment in real estate	5	<u>16,520,000</u>	<u>19,700,000</u>
Current assets			
Trade receivables	6	447,636	386,584
Prepaid expenses		500	15
Cash and cash equivalents	7	<u>374,158</u>	<u>511,356</u>
Total current assets		<u>822,294</u>	<u>897,955</u>
Total assets		<u>17,342,294</u>	<u>20,597,955</u>
Liabilities			
Current liabilities			
Trade and other payables	8	244,870	207,043
Due to related parties	9.4	<u>8,667</u>	<u>40,535</u>
Total liabilities		<u>253,537</u>	<u>247,578</u>
Net assets attributable to unitholders		<u>17,088,757</u>	<u>20,350,377</u>
Equity			
Unit capital	11	19,800,000	19,800,000
Statutory reserve	12	1,000	1,000
Capital expenditure reserve	2.7 (k)	4,000	2,000
Accumulated (losses) / profits		<u>(2,716,243)</u>	<u>547,377</u>
Net assets attributable to unitholders		<u>17,088,757</u>	<u>20,350,377</u>
Number of outstanding units	11 & 19	<u>198,000,000</u>	<u>198,000,000</u>
Net asset value per unit	19	<u>0.0863</u>	<u>0.1028</u>

The consolidated financial statements were approved and authorized for issue by the Directors on March 31, 2019 and signed on their behalf by:



Mr. Naser Ebrahim Abdulrahman Obaid
Chairman



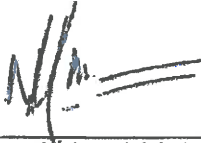
Mr. Michael Roy Pankhurst
Director

The attached notes form part of these consolidated financial statements.

ESKAN BANK REALTY INCOME TRUST
CONSOLIDATED INCOME STATEMENT
YEAR ENDED DECEMBER 31, 2018

	Notes	2018 BHD	November 8, 2016 (Inception) to December 31, 2017 BHD
Rental income	13	1,437,183	1,418,201
Service fee income	13	82,734	79,804
Property operating expenses	14	<u>(372,605)</u>	<u>(245,990)</u>
Property operating income		1,147,312	1,252,015
Other income	15	98,090	-
Investment management fee	4.1 (a)	(50,000)	(50,000)
Administration fee	4.2	(10,000)	(10,000)
Trustee and custodian fees	9.1	(22,000)	(22,000)
Other professional fees		(17,450)	(17,006)
Other expenses		<u>(4,617)</u>	<u>(8,632)</u>
Operating profit		1,141,335	1,144,377
Net unrealised loss on revaluation of investment in real estate	5	(3,180,000)	-
Allowance for impairment on trade receivables	6	<u>(34,955)</u>	-
(Loss) / profit for the year / period		<u>(2,073,620)</u>	<u>1,144,377</u>
(Loss) / earnings per unit	20	<u>(0.0105)</u>	<u>0.0058</u>

The consolidated financial statements were approved and authorized for issue by the Directors on March 31, 2019 and signed on their behalf by:



Mr. Naser Ebrahim Abdulrahman Obaid
Chairman



Mr. Michael Roy Pankhurst
Director

ESKAN BANK REALTY INCOME TRUST
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED DECEMBER 31, 2018

	No. of units	Unit capital BHD	Statutory reserve BHD	Capital expenditure reserve BHD	Accumulated (losses)/ profits BHD	Total BHD
Issue of units (Note 11)	198,000,000	19,800,000	-	-	-	19,800,000
Profit for the period	-	-	-	-	1,144,377	1,144,377
Transfer to statutory reserve (Note 12)	-	-	1,000	-	(1,000)	-
Transfer to property capital expenditure reserve (Note 2.7 (k)) capital expenditure reserve (Note 2.7 (k))	-	-	-	2,000	(2,000)	-
Dividend (Note 10)	-	-	-	-	(594,000)	(594,000)
At December 31, 2017	198,000,000	19,800,000	1,000	2,000	547,377	20,350,377
Loss for the year	-	-	-	-	(2,073,620)	(2,073,620)
Transfer to property capital expenditure reserve (Note 2.7 (k)) capital expenditure reserve (Note 2.7 (k))	-	-	-	2,000	(2,000)	-
Dividends (Note 10)	-	-	-	-	(1,188,000)	(1,188,000)
At December 31, 2018	198,000,000	19,800,000	1,000	4,000	(2,716,243)	17,088,757

The attached notes form part of these consolidated financial statements.

ESKAN BANK REALTY INCOME TRUST
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

	Notes	2018 BHD	November 8, 2016 (Inception) to December 31, 2017 BHD
Cash flows from operating activities			
(Loss) / profit for the year / period		(2,073,620)	1,144,377
Adjustment for:			
Net unrealised loss on revaluation of investment in real estate	5	3,180,000	-
Allowance for impairment on trade receivables	6	34,955	-
Operating cash flows before changes in working capital		<u>1,141,335</u>	<u>1,144,377</u>
Changes in working capital:			
Increase in trade receivables		(96,007)	(386,584)
Increase in prepaid expenses		(485)	(15)
Increase in trade and other payables		37,827	207,043
(Decrease) / increase in due to related parties		(31,868)	40,535
Net cash generated from operating activities		<u>1,050,802</u>	<u>1,005,356</u>
Cash flows from investing activity			
Net cash inflow on acquisition of subsidiaries		-	100,000
Net cash generated from investing activity		<u>-</u>	<u>100,000</u>
Cash flows from financing activity			
Dividends	10	(1,188,000)	(594,000)
Net cash used by financing activity		<u>(1,188,000)</u>	<u>(594,000)</u>
Net (decrease) / increase in cash and cash equivalents		(137,198)	511,356
Cash and cash equivalents at the beginning of the year / period		<u>511,356</u>	-
Cash and cash equivalents at the end of the year / period	7	<u>374,158</u>	<u>511,356</u>

The initial units were issued for in kind transfer of assets and hence has not been included in the consolidated statement of cash flows. The assets transferred comprise:

		November 8, 2016 (Inception) to December 31, 2017 BHD
Properties transferred from Bahrain Property Musharaka Trust	5	19,700,000
Bank balance in subsidiaries		100,000
		<u>19,800,000</u>

The attached notes form part of these consolidated financial statements.

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

1. GENERAL INFORMATION

Eskan Bank Realty Income Trust (the "Trust" or "EBRIT"), was created through a trust instrument entered into between Bahrain Property Musharaka Trust ("BPMT") as the Settlor and Crestbridge Bahrain B.S.C (c) as the Trustee ("Crestbridge" or the "Trustee") on November 3, 2016 and was registered as a trust under the Financial Trust Law of Kingdom of Bahrain (law No. 23 of the year 2006 and as replaced by law No. 23 of 2016) with the Central Bank of Bahrain (the "CBB") under registration number FT/11/002/16 on November 8, 2016.

EBRIT is established as a closed-ended Shari'ah compliant Bahrain Real Estate Investment Trust with a 100-year duration and has been authorized by the CBB to be constituted as a Bahrain domiciled retail Collective Investment Undertaking in derogation from Rule BRT-1.1.2 of Volume 7 of the CBB Rulebook.

1.1 At the inception of the Trust, the Trust had issued 198,000,000 units at a price of BHD 0.100 per unit and a Net Asset Value of BHD 0.101 per unit to the pre Initial Public Offer Unitholder BPMT. In consideration for the same BPMT transferred the ownership of the Inaugural Trust Property to the Trust consisting of 100% of the authorized and issued capital of:

- Segaya Plaza Company B.S.C. (c), a closed joint stock company incorporated under the law of Bahrain with commercial registration number 96206 owning certain real estate property named Segaya Plaza. The property is situated on the northern edge of Segaya and south of Salmaniya Hospital. The total land area of the property is approximately 5,469 square meters and has a leasable area of 15,893 square meters consisting of 15 retail units and 105 fully furnished residential apartments; and
- Danaat Al Madina Company B.S.C. (c), a closed joint stock company incorporated under the law of Bahrain with commercial registration number 96210 owning certain real estate asset property named Danaat Al Madina. Danaat Al Madina is located in Isa Town. It is a mixed use property consisting of approximately 10,460 square meters of leasable area. The property consists of 44 retail units and 2 office towers named Durra 1 and Durra 2. The total land area of the property is approximately 29,014 square meters. There are certain freehold apartments situated on the floors above the retail units which do not form part of the Trust property.

1.2 The ownership of both the properties listed above, were transferred to the Trust on November 10, 2016. However, as per the prospectus of Trust any profit and losses pertaining to the Trust Properties shall accrue to the benefit of the Unitholders from January 1, 2017.

1.3 BPMT made an initial public offering of 144,394,499 units of EBRIT at an offer price of BHD 0.100 to individuals and institutions in the Kingdom of Bahrain via a prospectus dated November 15, 2016. The initial public offering opened on November 22, 2016 and closed on December 6, 2016. The allotment of the units to the participants of the Initial Public Offering was made on December 14, 2016 and the units of EBRIT were listed on the Bahrain Bourse and commenced trading from January 2, 2017.

1.4 The primary objective of achieving an attractive level of return from rental income and long-term capital growth and to maximize stable income generation for the unitholders with a long term approach and in a risk-adjusted manner. EBRIT intends to increase its Shari'ah compliant property portfolio, as and when attractive opportunities arise. The Trust will focus predominantly on yielding properties in Bahrain and with a conservative leverage policy, as and when required and when deemed to be in the best interest of the unitholders.

1.5 EBRIT is overseen by Crestbridge as the Trustee. The Trustee has appointed Eskan Bank B.S.C. (c) ("Eskan"), a bank incorporated in the Kingdom of Bahrain as the Investment Manager. Eskan as the Investment Manager has appointed SICO B.S.C. (c) ("SICO") as the Sub-Investment Manager. EBRIT is administered by Keypoint Consulting W.L.L., Bahrain (the "Administrator") and Crestbridge is also the Custodian of EBRIT.

1.6 EBRIT does not currently have any direct employees, however, it uses the services of a Trustee, Investment Manager (who in turn has appointed a Sub-Investment Manager), a Property Manager, a Property Appraiser, an Administrator and a Custodian for the management, administration and custody functions.

1.7 These consolidated financial statements consist of the activities of the Trust and its two fully owned subsidiaries namely:

- a) Segaya Plaza Company B.S.C. (c); and
- b) Danaat Al Madina Company B.S.C. (c).

The Trust together with its subsidiaries is referred to as (the "Group").

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

1 **GENERAL INFORMATION** (continued)

1.8 Terms utilized herein and not defined shall have the same meaning as per the Trust Instrument.

1.9 These consolidated financial statements of the Group have been authorised for issue in accordance with a resolution of the Board of Directors of the Trust dated March 31, 2019. The Shari'ah Board has reviewed the consolidated financial statements of the Group and have provided clearance on Sharia'ah compliance on March 31, 2019.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

2.1 **Statement of compliance**

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), the Shari'ah Rules and Principals as determined by the Shari'ah Board of the Trust, Financial Institutions Law, the CBB Rulebook Volume 7, directives, regulations and associated resolutions and the terms of the Trust Instrument. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB").

2.2 **Basis of preparation**

The consolidated financial statements are prepared on the historical cost convention, modified for fair valuation of investment in real estate.

The consolidated financial statements are presented in Bahraini Dinars ("BHD") which is considered to be the Group's functional and operational currency.

2.3 **Going concern**

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

2.4 **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Trust and its subsidiaries as at December 31, 2018. The financial statements of the subsidiaries are prepared for the same reporting year as the Trust, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity with the objective of obtaining benefits from its operations.

The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of operations from the date of acquisition or up to the date of disposal, as appropriate.

2.5 **New accounting standards: issued and effective**

There are no new AAOIFI accounting standards, amendments to standards and interpretations that have been issued and are effective for the first time for the financial year beginning on or after January 1, 2018 that would be expected to have material impact on the Group.

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 New accounting standards: issued but not yet effective

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019 and are expected to be relevant to the Group:

(a) *FAS 28 "Murabaha and other deferred payment sales" (effective 1 January 2019)*

FAS 28 prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transaction and different elements of such transaction.

(b) *FAS 30 "Impairment and credit losses" (effective 1 January 2020)*

FAS 30 intends to define the accounting principles for impairment and credit losses (including expected credit losses) to be in line with ever-changing global best practices.

(c) *FAS 33 "Investments in sukuk, shares and similar instruments" (effective 1 January 2020)*

FAS 33 (which supersedes earlier FAS 25) sets out the improved principles for classification, recognition, measurement, presentation and disclosure of investment in sukuk, shares and other similar instruments of investments made by Islamic financial institutions (IFIs / the institutions), in line with Sharia principles. It defines the key types of instruments of Sharia compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held.

(d) *FAS 34 "Financial reporting for sukuk-holders" (effective 1 January 2020)*

FAS 34 aims to establish the principles of accounting and financial reporting for assets and businesses underlying the sukuk to ensure transparent and fair reporting to all relevant stakeholders, particularly including sukuk-holders.

(e) *FAS 35 "Risk reserves" (effective 1 January 2021)*

FAS 35 intends to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risk faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions.

2.7 Significant accounting policies

a) Investment in real estate

Investment in real estate is initially recognized at cost including directly attributable expenditure. Subsequent to initial recognition, the investment in real estate is stated at fair value, which reflects market conditions at the reporting date.

Any unrealised gains arising from a change in the fair value of investment in real estate shall be recognised directly in equity under "property fair value reserve" for the year in which it arises.

Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value shall be adjusted in equity against the property fair value reserve, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses shall be recognised in the consolidated statement of operations. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated statement of operations in the previous financial year, the unrealised gains relating to the current financial year shall be recognised to the extent of crediting back such previous losses in the consolidated statement of operations.

The realised profits or losses resulting from the sale of any investment in real estate shall be measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the property fair value reserve account shall be recognised in the consolidated statement of operations for the current financial year.

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.7 **Significant accounting policies** (continued)

b) **Financial assets**

(i) Classifications

The Group currently classifies its financial assets as 'loans and receivables'. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. Loans and receivables comprise of 'trade receivables' and 'cash and cash equivalents' in the consolidated statement of financial position.

(ii) Recognition and measurement

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(iv) Impairment of financial assets

An allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the receivable is impaired.

The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective profit rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of operations. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit ratings), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of operations.

c) **Cash and cash equivalents**

Cash and cash equivalents includes cash at bank with original maturities of three months or less.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise of cash at bank.

d) **Rental and service income receivables**

Rental and service income receivables are amounts due from tenants arising from leases on investment in real estate in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

e) **Financial liabilities**

Financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost.

f) **Derecognition of financial liabilities**

The Group derecognises a financial liability when the obligation under the liability is discharged.

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.7 **Significant accounting policies** (continued)

g) **Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer), if not, they are presented as non-current liabilities. Accounts payables are recognized initially at fair value and subsequently measured at amortized cost.

h) **Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of net assets if, and only if, there is currently an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

i) **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to EBRIT and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

(i) **Rental income**

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

(ii) **Service fee income**

Service fee income represents amounts receivable for property service charges that are payable by tenants to contribute towards the operation and maintenance expenses of the relevant property. Service fees are recognised on a time proportion basis in accordance with the terms of the rental or service agreements.

j) **Property expenses**

Property expenses comprise all property related expenses which include third party property and facility management fees and utility expenses. Property expenses are recognised in consolidated statement of operations in the year in which they are incurred (on an accruals basis).

k) **Capital expenditure reserve**

The Investment Manager has forecasted the expected capital expenditure requirements of the real estate properties within the Inaugural Trust Property and established a reserve, to be funded on an ongoing basis, for such expenditures to ensure the properties maintain their income generating capacity and value.

l) **Foreign currencies**

Foreign currency transactions are recognised in the functional currency at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are retranslated at the rates of exchange at that date.

Exchange differences arising on the settlement of transactions and on the retranslation of monetary items are included in consolidated statement of operations for the year.

m) **Earning prohibited by Shari'ah**

EBRIT is committed to avoiding recognizing any income generated from non-Islamic sources. Accordingly, any non-Islamic income will be credited to a Charity Trust where EBRIT uses these Trusts for social welfare activities. To date, no non-Islamic income has been generated.

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

3.1 Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

a) Determination of fair market value of investment in real estate

Valuation of investment in real estate involves judgement and is based on the valuation by independent external valuers.

b) Impairment of trade receivables

The Group's management periodically reviews items classified as receivables to assess whether a provision for impairment should be recorded in the consolidated statement of operations. Management estimates the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty. The actual result may differ resulting in future change to such provisions.

4. FEES AND EXPENSES

4.1 Investment management fee

The Investment Manager is entitled to the following fees payable from the Trust Properties:

- a) BHD 50,000 per annum if the Trust's Gross Asset Value over a trailing 12-month period is below or equal to BHD 25,000,000; or
- b) 0.5% per annum of the Gross Asset Value of the Trust if the Trust's Gross Asset Value over a trailing 12-month period is in excess of BHD 25,000,000.

The Investment Manager is entitled to a performance incentive as follows:

The Investment Manager is entitled to a performance incentive should (A) distributions of Net Distributable Income to Unitholders, calculated at the end of each Financial Year, by dividing such distributions by the Offer Price exceed 7% (the amount of such excess distribution, the "**Excess Distribution**") and (B) the NAV calculated at the end of same Financial Year be higher than the NAV calculated at the end of the last Financial Year where a performance incentive was paid to the Investment Manager or, should no performance incentive have been paid to the Investment Manager prior to the end of a Financial Year, the NAV calculated at the end of such Financial Year be higher than the NAV as at the Issue Date. In any such case the Excess Distribution shall be allocated at 30:70 between the Investment Manager and the Unitholders, and any amendment to the profit should be done following obtaining the approval of the Trustee.

The Sub-Investment Manager shall not be separately entitled to fees and shall share in the Investment Management Fees in accordance with an agreement between the Investment Manager and such Sub-Investment Manager.

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

4. **FEES AND EXPENSES** (continued)

4.2 **Administration fee**

The annual Administrator fees charged to the Group for the services provided are determined as follows:

- a) BHD 10,000 if the weighted average of the NAV across the year is less than or equal to BHD 25 million; or
- b) the higher of BHD 17,500 or 0.07% of the weighted average of the NAV across the year if the weighted average of the NAV across the year is greater than BHD 25 million; and
- c) BHD 1,000 per year per Subsidiary.

4.3 **Custody fee**

Under the Custody Agreement, the annual Custodian fees charged to the Trust for the services provided are expected to equate to BHD 2,000 per annum.

4.4 **Registrar fee**

As per the Registrar Agreement, the annual Registrar fees charged to the Trust for the services provided are dependent on the number of outstanding Unitholders and are expected to range between BHD 2,000 and BHD 10,000 per annum.

4.5 **Trustee fee**

The annual Trustee's fees charged to the Trust for the services provided are expected to equate to BHD 20,000 per annum.

4.6 **Property appraiser fee**

The Property Appraiser is entitled for the services provided to the Group a fee up to BHD 5,450 per annum.

4.7 **Property manager fee**

The Property Manager is entitled to a monthly fee up to BHD 9,400 in addition to leasing agency fees equivalent to 1-month rent on successfully arranging new tenants.

4.8 **Regulatory fee**

The Bahrain Bourse is entitled to an annual fee of BHD 5,000 and the CBB is entitled to an annual fee of BHD 2,000.

5. **INVESTMENT IN REAL ESTATE**

The following table shows the movement in investment in real estate:

	<u>2018</u>	<u>2017</u>
	BHD	BHD
Balance at the beginning of the year	19,700,000	-
Properties transferred from BPMT	-	19,700,000
Net unrealised loss on revaluation of investment in real estate	<u>(3,180,000)</u>	-
Balance at the end of the year	<u>16,520,000</u>	<u>19,700,000</u>

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

5. **INVESTMENT IN REAL ESTATE** (continued)

Schedule of investment in real estate as at December 31, 2018:

	Cost		Fair value	
	2018 & 2017	2018	2017	
	BHD	BHD	BHD	
Segaya Plaza	11,150,000	11,000,000	11,350,000	
Danaat Al Madina	8,550,000	5,520,000	8,350,000	
	<u>19,700,000</u>	<u>16,520,000</u>	<u>19,700,000</u>	

As at December 31, 2018, the Group held total investment in real estate amounting to BHD 16,520,000 (2017: 19,700,000) in two properties located in the Kingdom of Bahrain. The investment in real estate has been valued by an independent external appraiser – Savills represented by its global associate DMB International W.L.L. in Bahrain. Both these properties have been leased out. The Trust has recognised the decline in fair value based on the third party valuation, adjusted for other available information.

Investment in real estate is stated at fair value, being the estimated amount for which a property would exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction wherein the parties had each acted knowledgeably, prudently and without compulsion. Fair value is estimated based on the Income Approach (direct capitalization) Method as described below.

The Income Approach is a recognized valuation approach in many world markets where real estate is held as an investment. It is used to value tenanted property for which there is good market comparable evidence of rents paid by tenants and of capital sales.

The capitalization or income multiplier approach is the simplest form of this approach (price earnings ratios are used in equity share markets). Earnings or income in the case of property is the rent received by an owner when a property is tenanted.

Property valuations are carried out in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors ("RICS") and are undertaken by appropriately qualified valuers who are members of RICS and who have recent experience in the locations and categories of properties being valued.

Sensitivity analysis to significant changes to unobservable inputs within Level 3 of the hierarchy

The significant unobservable inputs used in the fair value measurement of investment properties is the yield rate. The yield rate is an expression of the relationship between price paid by buyers and the expected income to be derived from ownership.

Significant increases / (decreases) in the yield rate in isolation would result in a significantly higher / (lower) fair value measurement.

6. **TRADE RECEIVABLES**

	2018	2017
	BHD	BHD
Property rental & service charges receivable	482,591	386,584
Allowance for impairment on trade receivables	<u>(34,955)</u>	<u>-</u>
	<u>447,636</u>	<u>386,584</u>

7. **CASH AND CASH EQUIVALENTS**

	2018	2017
	BHD	BHD
Current accounts	<u>374,158</u>	<u>511,356</u>

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

8. TRADE AND OTHER PAYABLES

	<u>2018</u>	<u>2017</u>
	BHD	BHD
Advance rent	22,966	43,379
Security deposit	81,688	81,122
Property expenses payable	48,694	22,366
Accrued fees (Note 8.1)	34,400	18,725
Other liability	57,122	41,451
	<u>244,870</u>	<u>207,043</u>

8.1 Accrued fees

	<u>2018</u>	<u>2017</u>
	BHD	BHD
Property manager fee	21,600	9,450
Administration fees	2,500	2,500
Audit fees	5,000	2,375
Registrar fees	2,000	2,000
Other fees and expenses	3,300	2,400
	<u>34,400</u>	<u>18,725</u>

9. RELATED PARTIES

Related parties comprise of the Trustees, Investment Manager, Sub-Investment Manager & Market Maker and associated companies, Unitholders, Directors and other key management personnel of the above entities.

9.1 Transactions with related parties

During the year, the Group entered into the following transactions with related parties:

Related Party	Nature of Transaction	2018	November 8, 2016 (Inception) to December 31, 2017
		BHD	BHD
Eskan Bank B.S.C. (c)	Investment management fee	50,000	50,000
Eskan Bank B.S.C. (c)	Performance supplement	98,090	-
Crestbridge Bahrain B.S.C (c)	Trustee & Custodian Fees	22,000	22,000

9.2 The following related parties owned units in the Group:

Related Party	Nature of Relationship	Units Held as at December 31, 2018	Units Held as at December 31, 2017
Eskan Bank B.S.C. (c)	Investment Manager of the Trust	63,618,044	63,618,044
SICO B.S.C. (c)	Sub-Investment Manager	9,900,000	10,119,000
SICO B.S.C. (c)	Market Maker	3,649,000	2,174,049
Bahrain Liquidity Fund	Operated by SICO	5,277,700	5,527,080
Bahrain Property Musharaka Trust	Pre-IPO Unitholder	-	1,920,100

9.3 As at December 31, 2018: No balance included in property rental & service charges receivable (Note 6) from Eskan Bank B.S.C. (c) in connection with rental of 4 units at Danaat Al Madina (December 31, 2017: BHD 9,141 was included in property rental & service charges receivable).

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

9. **RELATED PARTIES** (continued)

9.4 Amounts due to related parties as at December 31, 2018 consist of the following balances:

	2018	2017
	BHD	BHD
Bahrain Property Musharaka Trust (note 9.4.1)	-	19,368
Eskan Bank B.S.C. (c) (Management fee payable)	4,167	16,667
Crestbridge Bahrain B.S.C (c) (Trustee and Custody fees payable)	4,500	4,500
	<u>8,667</u>	<u>40,535</u>

9.4.1 The amount payable to BPMT relates to rent collected from tenants that pertain to the period before January 1, 2017 which were repayable to BPMT as per the terms of the Trust Instrument.

10. **DIVIDENDS**

The Directors have declared and distributed dividends totalling BHD 1,188,000 after obtaining CBB approval during the period. BHD 594,000 was declared for the six month period ended December 31, 2017 at 3% and BHD 594,000 was declared for the six month period ended June 30, 2018 at 3%.

11. **UNIT CAPITAL**

The capital of the Trust consists of 198,000,000 units with a par value of BHD 0.100 per unit. The units represent beneficial interest in the Trust, divided into interest of one class only.

The units shall be entitled to the rights and subject to the limitations, restrictions and conditions set out in the prospectus and the Trust Instrument. The interest of each unitholder shall be determined by the number of units registered in the name of the unitholder.

The units shall be indivisible. However, two persons or more may jointly own one unit, provided that one person shall represent them towards the Trust.

Each unit shall represent a proportionate, undivided beneficial ownership interest in the Trust and shall confer the right to one vote at any meeting of the unitholders and to participate pro rata in any distribution by the Trust, whether of Net Distributable Income of the Trust or other amounts, and in the event of termination or winding-up of the Trust, in the net asset of the Trust remaining after satisfaction of all liabilities. No Unit shall have any preference or priority over any other. Units shall rank among themselves equally and ratably without discrimination, preference or priority.

Units shall be issued and held in dematerialized book entry form with the Central Depository in accordance with the applicable rules of the Module CSD of the CBB Rulebook, Volume 7.

No unitholder shall be entitled to pre-emption rights in any issue of units.

Weighted average number of units for the purposes of calculating earnings per unit for the year is 198,000,000 (2017: 198,000,000) units.

12. **STATUTORY RESERVE**

The Trust is regulated by the CBB Rulebook Volume 7 – Collective Investment Undertaking. However, its subsidiaries Segaya Plaza Company B.S.C. (c) and Danaat Al Madina Company B.S.C. (c) follow provisions of the Bahrain Commercial Companies Law, Decree Number 21 of 2001 (as amended), and are required to transfer an amount equivalent to 10% of the net profit before appropriations to a reserve account until such time as a minimum 50% of the share capital is set aside. Accordingly during this year, no transfer has been made to the statutory reserve by the subsidiaries as the statutory reserve has already reached 50% of the share capital (December 31, 2017: BHD 500 has been transferred to the statutory reserve by each of the subsidiary companies and it has been recognized in the consolidated statement of changes in net assets of the Group).

13. **REVENUE**

	2018			November 8, 2016 (Inception) to December 31, 2017		
	Rental income	Service fee income	Total	Rental income	Service fee income	Total
	BHD	BHD	BHD	BHD	BHD	BHD
Segaya Plaza	992,398	31,882	1,024,280	1,005,150	31,755	1,036,905
Danaat Al Madina	444,785	50,852	495,637	413,051	48,049	461,100
	<u>1,437,183</u>	<u>82,734</u>	<u>1,519,917</u>	<u>1,418,201</u>	<u>79,804</u>	<u>1,498,005</u>

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

14. PROPERTY OPERATING EXPENSES

	2018 BHD	November 8, 2016 (Inception) to December 31, 2017 BHD
Property management fee	85,150	64,700
Property management expenses	287,455	181,290
	372,605	245,990

15. OTHER INCOME

	2018 BHD	2017 BHD
Performance supplement	98,090	-

Pursuant to the Investment Management Agreement, and whilst not a mandatory obligation on the Investment Manager, the Investment Manager intends to supplement the annualized Net Distributable Income of the Trust (the "Performance supplement") for any Interim Distribution Period or Distribution Period in which the annualized Net Distributable Income falls below 6 percent of the Offer Price. Accordingly, taking into consideration the Net Distributable Income for the year ended 31 December 2017 and June 30, 2018, the Investment Manager has agreed to provide an amount of BHD 98,090 as performance supplement during the year.

16. BUSINESS AND GEOGRAPHIC SEGMENTS

The Directors are of the opinion that the Group is mainly engaged in a single segment of business, being investments in income generating real estate properties located in the Kingdom of Bahrain.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Group include cash and cash equivalents and trade receivables.

Financial liabilities of the Group include trade and other payables and due to related parties.

Significant accounting policies

Significant accounting policies and methods adopted, including the criteria for recognition, basis of measurement, and the basis on which income and expenses are recognized in respect of each class of financial assets and financial liabilities are set out in Note 2.

Categories of financial instruments

	2018 BHD	2017 BHD
Financial assets		
Loans and receivables at amortized cost (excluding prepaid expense)	821,794	897,940
Financial liabilities		
Payables at amortized cost (excluding advances)	230,571	204,199

Financial risk management objectives

The Investment Manager provides investment management services to the Group and monitors and manages the financial risks relating to the operations of the Group. These risks include credit risk, liquidity risk and market risk (foreign currency risk, equity price risk and profit rate risk).

The risk associated with financial instruments and the Group's approaches to managing such risks are:

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk management objectives (continued)

17.1. Credit risk

The credit risk faced by the Group is the risk of a financial loss if (i) tenants fail to make rental payments or meet other obligations under their leases or (ii) a counterparty to a financial instrument or other financial arrangement fails to meet its obligations under that instrument or arrangement.

(i) Tenants

The Group maintains the property portfolio under continual review through the appointed property manager to minimize tenant credit risk. Tenants occupying under existing leases at the time of the acquisition of an interest in a property are actively monitored for timely payment of rent and other obligations following the acquisition. New tenants that commence occupation subsequent to the acquisition of an interest in a property are assessed at the time of entering a lease.

The Group engages external property management agents to manage the payment of rents by tenants. The Group through the Investment Manager remains actively involved and undertakes regular consideration of tenant profiles, existing and anticipated voids, overdue rents and outstanding rent reviews. Rent deposits are held in respect of all new leases and may be withheld by the Group in part or in whole if receivables due from the tenant are not settled or in case of other breaches of contract.

75% of the property rental and service charge receivable are due from two tenants (2017: 75% from one tenant) as at the reporting date.

(ii) Financial counterparties

The Group is not exposed to significant credit on liquid funds as it only maintains cash deposits with a bank, with high credit ratings, that is Shari'ah compliant and regulated by the CBB.

Maximum exposure to credit risk

The management of the Group believes that the carrying amount of financial assets recorded in the consolidated financial statements at the reporting date represents the Group's maximum exposure to credit risk.

Recorded financial assets have not been provided as collateral for any facilities.

17.2. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities, it arises because of the possibility (which may often be remote) that the entity could be required to pay its liabilities earlier than expected.

The Group manages liquidity risk by maintaining sufficient cash at banks or by obtaining credit facilities from the banks.

17.3. Market risk

Market risk is the risk that the fair value and/or future cash flows of financial instruments will be adversely affected by the movements in markets variables. The Group is not currently exposed to significant fluctuations with Currency Risk, Equity Price Risk, and Profit Rate Risk.

a) Currency risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates. The Group may hold assets denominated in currencies other than its functional currency of BHD. All of the assets of the Group are denominated in BHD and accordingly, the Group is not exposed to currency risk.

b) Equity price risk

Equity price risk is the sensitivity of the Group to movements in the value of its investments in equity. As the Group does not currently hold any such investments, it is not exposed to any equity price risk.

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

17. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** (continued)

17.3. **Market risk**

c) Profit rate risk

Profit rate risk is the risk that changes in profit rates will affect future cash flows or the fair value of financial instruments of the Group. Given that the Group does not have any profit rate bearing assets, it is not exposed to profit rate risk.

17.4. **Concentration risk**

All the real estate investment of the Group is located in the Kingdom of Bahrain. Decreased government revenue from reduced oil prices may have a negative effect on Bahrain economy and in turn on the Group's Properties. Emerging markets such as Bahrain are generally susceptible to greater risk than in more developed markets. Any unexpected changes in the political, social, economic or other conditions in Bahrain may have a material adverse effect on the investment in real estate of the Group.

18. **FAIR VALUES**

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

The Directors believe that the fair values of financial instruments recorded at amortised cost at the reporting date are not significantly different from the carrying values included in the consolidated financial statements.

18.1 **Fair value measurements recognized in the consolidated statement of financial position**

Fair value measurements subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Investment in real estate carried at fair value are categorized within level 3 of the fair value hierarchy.

There were no transfers between Level 1, Level 2 and Level 3 during the year.

19. **NET ASSET VALUE PER UNIT**

	Net Assets Value BHD	Number of Units in issue	Net Assets Value Per Unit BHD
As at December 31, 2018	17,088,757	198,000,000	0.0863
As at December 31, 2017	20,350,377	198,000,000	0.1028

The net asset value per unit is based on the net assets value and units outstanding as at December 31, 2018 and December 31, 2017.

ESKAN BANK REALTY INCOME TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

20. EARNINGS PER UNIT

Earnings per unit are calculated by dividing the profit for the year attributable to unitholders of the EBRIT by the weighted average number of units outstanding during the year.

	2018	November 8, 2016 (Inception) to December 31, 2017
	BHD	BHD
(Loss) / profit attributable to unitholders	<u>(2,073,620)</u>	<u>1,144,377</u>
	Units	Units
Weighted average number of units outstanding	<u>198,000,000</u>	<u>198,000,000</u>
	BHD	BHD
(Loss) / earnings per unit	<u>(0.1047)</u>	<u>0.0058</u>

As this is a closed-ended real estate investment trust, diluted earnings per unit is not applicable.

21. NET DISTRIBUTABLE INCOME

"Net Distributable Income" is defined in Clause 9.5 (e) of the Trust Instrument and is arrived at as follows:

	Notes	2018	November 8, 2016 (Inception) to December 31, 2017
		BHD	BHD
Opening Balance		547,377	-
(Loss) / profit for the year		(2,073,620)	1,144,377
Add back unrealized fair value loss pertaining to the Trust property	5	3,180,000	-
Add back Allowance for impairment on trade receivables	6	34,955	-
Deduct statutory reserve	12	-	(1,000)
Deduct capital expenditure reserve	2.7 (k)	(2,000)	(2,000)
		<u>1,686,712</u>	<u>1,141,377</u>
Dividend distributed		<u>(1,188,000)</u>	<u>(594,000)</u>
Net distributable income available		<u>498,712</u>	<u>547,377</u>

ANNEXURES

ESKAN BANK REALTY INCOME TRUST
ANNEXURE A: CONSOLIDATED STATEMENT OF PORTFOLIO INVESTMENTS, RECEIVABLES AND
FINANCING
AS AT DECEMBER 31, 2018

	Notes	2018	
		BHD	% of portfolio
<u>Investments</u>			
Investment in real estate:			
Segaya Plaza	5	11,000,000	64.83%
Danaat Al Madina	5	5,520,000	32.53%
	5	<u>16,520,000</u>	<u>97.36%</u>
<u>Receivable</u>			
Rent and service charges receivable	6	447,636	2.64%
		<u>16,967,636</u>	<u>100.00%</u>
		2017	
		BHD	% of portfolio
<u>Investments</u>			
Investment in real estate:			
Segaya Plaza	5	11,350,000	56.51%
Danaat Al Madina	5	8,350,000	41.57%
	5	<u>19,700,000</u>	<u>98.08%</u>
<u>Receivable</u>			
Rent and service charges receivable	6	386,584	1.92%
		<u>20,086,584</u>	<u>100%</u>

ESKAN BANK REALTY INCOME TRUST
ANNEXURE B: CONSOLIDATED STATEMENT OF FINANCIAL HIGHLIGHTS
YEAR ENDED DECEMBER 31, 2018

Per Unit	2018	November 8, 2016 (Inception) to December 31, 2017
	BHD	BHD
Net asset value at the beginning of the year	0.1028	-
Income from investments		
Net income from investments	0.0055	0.0058
Net unrealized losses from investment	<u>(0.016)</u>	<u>-</u>
Total income from investments	<u>(0.0105)</u>	<u>0.0058</u>
Distributions to unitholders		
From net profit on investment	<u>(0.006)</u>	<u>(0.0030)</u>
Total distributions	<u>(0.006)</u>	<u>(0.0030)</u>
Capital contributions	-	0.1000
Net asset value at the end of the year	<u>0.0863</u>	<u>0.1028</u>
Financial Ratios / supplemental data		
Total net assets at the end of the year	17,088,757	20,350,377
Weighted average net assets	20,074,688	20,230,639
Ratio of expenses to weighted average net assets	0.0255:1	0.0175:1
Turnover rate of portfolio investments	N.A.	N.A.
Annual rate of return	(10.33%)	5.66%

Disclosure of the methods used to calculate the following:

a) Ratio of expenses to weighted average net assets

The ratio of expenses is computed taking the total expenses for the year divided by the weighted net assets of the group during the year.

b) Annual rate of return

The annual rate of return is computed by dividing the net (loss) / profit for the year by the weighted average net assets of the group during the year.

ESKAN BANK REALTY INCOME TRUST
ANNEXURE C: ADDITIONAL DISCLOSURES
YEAR ENDED DECEMBER 31, 2018

Additional Disclosures

The additional disclosures as required by "BRT-3.1 General Requirements" to the Rulebook on Collective Investment Undertakings (CIU) – Volume 7 on Capital Markets are as follows:

BRT-3.1.1- Jointly Controlled Entities - Not Applicable as EBRIT does not have any joint ownership in any investment.

BRT-3.1.2- Financing and Debt Position - Not Applicable as EBRIT does not have any Financing or Debt.

BRT-3.1.4- Portfolio Performances. (Predominantly extracted from valuation report provided by Savills):

Properties	Segaya Plaza	Danaat Al Madina
a) Address of the asset;	Segaya Plaza, Oman Ave, Manama, Kingdom of Bahrain	Danaat Al Madina, Isa Town, Kingdom of Bahrain
b) Acquisition date;	November 10, 2016	November 10, 2016
c) Type of property including the respective proportion allocated to office/retail/residential/parking;	Residential (80.65%), Retail (19.3%)	Offices (57.0%), Retail (43.0%)
d) Land area;	5,469 sq m	29,014 sq m*
e) Gross/lettable building space;	Net lettable area is 15,893 sq m	Net lettable area is 10,460 sq m
f) Current valuation;	BHD 11,000,000	BHD 6,750,000****
g) Valuation cap rate;	Gross yield is 9.33% and net yield is 7.37% based on the 2018 projected net rental income.	Gross yield is 7.30% and net yield is 5.46% based on the 2018 projected net rental income.
h) Average passing rent per square meter;	BHD 64.448**	BHD 47.384**
i) Current level of leasing incentives for each asset;	3 To 6 months grace period to new tenants	3 To 6 months grace period to new tenants
j) Annualized net rent based on current rent roll;	BHD 1,024,280***	BHD 495,637***
k) Vacant space of a building and any large impending lease expiries;	-Vacant Space: two retail units are vacant; the residential building is fully leased -Large impending lease expiries: The residential building lease has been renewed for a period and expired on the February 14, 2019. Subsequently, it was announced that the Ministry of Education (leasing the residential building) would be leaving the premises on May 15, 2019 and the same was announced on the Bahrain Bourse.	-Vacant Space: The combined space is approximately 20.7% vacant. -large impending lease expiries: Not Applicable
l) Operating profit (after property expenses);	Current net rental income stands at BHD 785,129 per annum - after operating costs	Current net rental income stands at BHD 279,446 per annum - after operating costs
m) Percentage of ownership (and commentary on control provisions);	100%	100%
n) Form of ownership (e.g. freehold or leasehold ownership);	Freehold	Freehold
o) Year of construction completion/major refurbishment; and	Construction completion date is May 31, 2014 and no major refurbishments have been carried out since then.	Construction completion date is April 26, 2015 and no major refurbishments have been carried out since then.
p) Impending capital expenditure costs.	some capital expenditure would be required as well as a marketing initiative and the budget of BHD 123,000 has been recommended"	None

*Includes land area for certain freehold apartments situated on floors above the retail components which do not form part of the Trust Property.

**the average rent per sqm is calculated based on the annualized rent divided by the total net lettable area.

*** The annualized figures are based on the figures reported in the consolidated statement of operations for the year January 1, 2018 to December 31, 2018.

**** The Trust has recognised a further decline in fair value of BHD 1,230,000 based on additional information available.