البحرين الأولى
First Bahrain

Excecuting The Plan

Annual Report 2012

H.H. Sheikh Sabah Al-Ahmad
Al-Jaber Al-Sabah

Amir of the State of Kuwait

H.H. Sheikh Nawaf Al-Ahmad
Al-Jaber Al-Sabah

Crown Prince of the State of Kuwait

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Company Profile

First Bahrain Real Estate Development Co. K.S.C. (First Bahrain) is an innovative real estate investment company, dedicated to achieving sustainable returns through collaborative relationships. First Bahrain creates enduring value for all stakeholders with a demand-driven investment approach.

Operating out of offices in Kuwait and Bahrain, the Company is strategically positioned to execute projects across the GCC.

Established in October 2004 in Kuwait as Baraq Al Khaleej Holding Company, with a paid up capital of KD 1 million, the corporate name was later changed to First Bahrain Real Estate Development Company, and the paid up capital increased to KD 30 million. In 2007, First Bahrain opened an office in the Kingdom of Bahrain. Since its inception the Company has been guided by the principles of Islamic Sharia in all its daily operations and business interests.

The principal shareholders of First Bahrain are leading regional institutions and high-profile real estate investors, including KAMCO, Housing Finance Co. "Iskan", Action Group Holdings Co. and Wafra International Investments Co.

First Bahrain owns or holds rights to over 1,000,000 square feet of strategically located lands in the Kingdom of Bahrain.

The Company's inaugural project, Majaal, a Small-to-Medium-sized Enterprise (SME) focused industrial facility, is located at the Bahrain Investment Wharf (BIW), within Salman Industrial City, near to both the new Khalifa bin Salman Port and the Bahrain International Airport. Majaal's first phase has been operational and generating positive cash flows since February 2010, maintaining full occupancy since September 2011.

Construction work for the next phase of the development began in July 2012. The three new buildings, which will double the leasable area, are due to be open for business by the third quarter of 2013. The development of the remaining two plots is scheduled to commence in the first quarter of 2013 with completion by the end of the year. When complete, the entire development will offer approximately 400,000 square feet of leasable high quality, flexible use industrial facilities.

In the face of stiff economic and political challenges, the Company is faithfully executing its plan to create value through the conversion of its raw land holdings into robust fully-developed income generating assets. Marked by entrepreneurial leadership, commitment and integrity, First Bahrain is actively putting its potential to work for the realisation of the vision of all of our stakeholders.

Our Vision

Our vision is to realise value potential

Our Mission

With entrepreneurial vision and innovation, First Bahrain exists to initiate and orchestrate real estate developments which bring enduring value and sustainable prosperity to both our communities and to our shareholders, through partnerships and investments made in accordance with the principles of Sharia.

Report of the Board of Directors

On behalf of the Board of Directors, it is my duty and responsibility to present this Annual Report and Consolidated Financial Statements of First Bahrain for the year ended 31 December 2012.

As you review the details in the pages which follow, you will see that First Bahrain is reporting an unrealized loss for the year, in the amount of KD (1,116,081), due to a reduction in the value of our raw land holdings in the Seef district of Bahrain. While this loss is reflective of the Bahrain real estate market's movement towards a new equilibrium point after the valuation bubble of the previous decade, I am pleased to state that the Company's underlying fundamentals are strong. The Company is executing on our plans to fully convert our undeveloped industrial-zoned lands into productive income generating assets. Despite the ongoing economic and political stress in the country, Majaal has maintained full occupancy throughout the year and is well on its way to the completion of an expansion program which will enable the Company to triple its rental revenue over the coming two years.

Economic Environment

Mirroring the challenging environment we face in the local market, the global financial conditions remain fragile, according to the International Monetary Fund (IMF), in their November 2012 Regional Economic Outlook of the Middle East and Central Asia. Global growth, projected at 3.3% for 2012 and expected to rise slightly to 3.6% in the coming year, is still hampered by high unemployment, the ongoing debt crisis in the Euro-zone along with threats to the American economy from political disagreements over how to address the country's statutory debt ceiling.

Despite these global economic issues, along with the ongoing regional conflicts and political uncertainty in many countries, the MENA region showed relative stability, and in some sectors, a return to confidence in the market. Oil revenue remained strong. In Kuwait, where current account surpluses are the highest in the region, the KSE Market Index rebounded by 5% in the last two months of the year after hitting a four year low in November. In Dubai, Forbes reports that the city is leading growth in the region, thanks to their zero tax policy and economic free zones. Looking at Dubai's industrial property market, Knight Frank reports signs of rental growth acceleration, highlighting Dubai's recovery along with growth in global trade.

In Bahrain, CBRE reported that both Fitch and Standard & Poors had maintained relatively positive sovereign credit ratings of BBB for the Kingdom on the year. CBRE sees the local real estate market stabilizing at the bottom end of the rent cycle as the supply of new office space slowed over the period. Bahrain's GDP growth is forecast to grow to 2.8% in 2013 over the 2.0% figure predicted for 2012. Although measured, these are signs of improvement.

Financial Summary

As stated previously, the Company is reporting a loss of KD (1,116,081) due to a reduction of value of the Company's investment property by KD (1,473,131). This loss in the value of the Company's undeveloped lands in Seef represented an increase over the loss of KD (416,768) in the prior year. This unrealised loss was offset slightly by our investments held at fair value which posted an unrealised gain of KD53,369 versus a loss of KD (172,507) in 2011.

Aside from these unrealised changes in the values of our assets, the remainder of the Company's efforts produced a net gain of KD 303,681, a particular accomplishment when compared with the operating gain of KD 83,700 in the prior year. The primary difference in these results was the growth of the Company's net rental income, due to the success of Majaal's leasing efforts. In 2012, the net rental income rose to KD 308,170 over KD 259,638 in the previous year. The other factor in this positive result was a concerted effort to reduce costs, trimming the operating expenses from KD (559,490) to KD (410,012), for a reduction of 27%.

With respect to the Balance Sheet, as noted previously, the value of the investment properties declined during the year, dropping to KD 30,341,004 from KD 31,076,161 in the prior year, primarily reflecting the reduction in the value of the Seef property, as the market searches for a new equilibrium in the ongoing correction from the real estate bubble of the previous decade. Accordingly, non-current assets contracted to KD 30,412,534 from KD 31,182,078 in 2011. Likewise, total assets stood at KD 39,172,226 at year end, down from KD 40,020,513 in the prior year. The reduction in asset values was mitigated somewhat by a strengthening of the value of the Bahraini Dinar by 0.93% relative to the Kuwaiti Dinar; movement which also reduced the accumulated deficit in the Foreign Currency Translation Reserve by 45%.

Reflecting the Company's good health, the debt to equity ratio at year end was a mere 1.9%. The majority of the KD 717,982 in total liabilities (KD 686,096 : 2011) was the outstanding principle on a KD 562,269 Murabaha facility with Kuwait Finance House - Bahrain. This facility was reclassified from a long-term to current liability during the year as the balance will be payable in full on 26 April 2013. The Company is expecting to settle this amount in advance of the maturity date.

Reflecting this pending repayment, the Company's current ratio, being current assets over current liabilities, decreased significantly from 87.2 to 12.8. Even with the drop in this ratio, the Company remains in a good position to meet all its current and future obligations.

Such liquidity metrics give continued evidence of the Company's consistent, conservative and well-controlled approach to the management of the resources entrusted to it by the shareholders. The Company continues to stand apart from its peers through its faithful commitment to its Sharia-guided investment philosophy and focus on domestic demand driven developments designed to bring enduring value and sustainable prosperity.

Plans for 2013

Believing that slow and steady wins the race, First Bahrain continues to execute on its plans with an appropriate amount of due-diligence and caution.

Having maintained full occupancy for the existing facility and recognizing an ongoing market shortage in available industrial facilities, the Board chose to proceed with the construction of Majaal's next phase in mid-2012. This new facility will see the leasable area of the development more than double to nearly 260,000 square feet. The Company will look to this next phase to expand its revenue base; with expectation to generate new cash flow from mid 2013, once the year-long construction programme is complete.

We have also been pursuing a potential anchor tenant for the final phase of the Majaal development which should ensure the profitability and bankability of the project as a whole. As a result, we expect to proceed with and even complete the Majaal development on our existing industrial property in Bahrain by the end of 2013. Such an achievement will position Majaal for regional expansion.

Beyond Majaal, First Bahrain is actively working with a potential partner to activate its residential property in Janabiya. A concept design has been created and a special project status zoning change has been requested, upon the receipt of which we hope to proceed with the development of a community sports and recreational facility which would enhance the neighbourhood and add value to our adjacent holding.

As more and more of the Company's assets are developed and become income generating, revenue growth will stabilize the volatility caused by market valuations of our raw lands. Accordingly, I am increasingly optimistic about the good future ahead for our Company and all of our stakeholders, thanks much to the hard work and dedication to duty of our experienced and proven management team.

Transitions & Acknowledgments

This year we welcomed a new member to the Board of Directors, Mrs. Asmahan Ahmad Al-Abdulhadi the Vice President of Central Services at Iskan. We sincerely appreciate her valuable contribution, wisdom and insight.

In closing, on behalf of the Board of Directors, I extend my sincere best wishes to H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, the Amir of the State of Kuwait, and to H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, the Crown Prince of the State of Kuwait, for their wise leadership and dedication to advancing the prosperity and promising future of the State of Kuwait.

Likewise, I express appreciation to all governmental ministries, supervisory bodies, and regulatory authorities of the State, for their constructive support and sage guidance.

Finally, I also offer my sincere gratitude to our shareholders for their continued faith and confidence; to our tenants for their loyalty and trust; to our business partners for their counsel and support; and to our management and staff for their professionalism and dedication to duty.

May Almighty God grant us all sustained success and prosperity.

Salah Ahmed Al-Wuhaib
Chairman

Special Feature

MAJAAL™

Majaal is a leading provider of industrial facilities for Small to Medium sized Enterprises (SMEs), a market segment which constitutes the engine of growth for every economy. As developer and operator of these flexible multi-purpose facilities, Majaal seeks to facilitate the growth of business and industry in the markets we serve.

In addition to high-specification warehouse space, Majaal provides SMEs a unique range of business administration and logistics support services, including: 24/7 security, state-of-the-art ICT provisions, transportation assistance and fit-out management services.

The first Majaal property is located at the Bahrain Investment Wharf (BIW) within the Salman Industrial City, providing easy access to Khalifa bin Salman Port and other major transport links in Bahrain. Majaal holds land covering over 717,000 square feet in this modern and private industrial development.

The initial three S-Type buildings became operational in February 2010 and were fully leased as of September 2011. Each building is sub-dividable into units as small as 2,500 square feet.

Given the proven demand for smaller unit sizes, an additional three S-Type buildings are now under construction, which will add an additional 130,000 square feet of leasable area from May 2013.

The centerpiece for the Majaal development at BIW will be our new M-Type building which will be complete in December 2013. It will comprise of one large clear span warehouse shed that can be divided into units of minimum space of 10,700 square feet. This final building will add approximately 150,000 square feet of net leasable area along with a business center designed to support the needs of the tenant community, offering a leasable conference room, a copy centre and other logistics services.

The new M-Type building will have raised floors to cater for high trailer vehicles, wider turning angles to cater for immense trucks, 12m structure height, 2,500kva electricity supply, adjustable dock-levelers for the berthing vehicles, separate ramped vehicular access for each unit.

Majaal's first SME-focused industrial facilities are on the southern end of the island of Muharraq in a safe and secure location ideal for business growth. Situated in close proximity to all major air, sea and land transport links, including the new Khalifa Bin Salman Port and direct road links to Saudi Arabia, this location facilitates transportation for easy import and export of goods, reducing logistical requirements and translating into direct cost reduction.

In this project, First Bahrain is building more than just a collection of warehouses, rather, a unique and timely business is being built in Majaal Warehouse Company. Recognising a gap in the market between full-service third-party logistics (3PL) operators and standard warehouse sheds with no services or security, First Bahrain has created both a product to cater to this market need along with a growing company to operate that product and to develop it into a successful regional brand.

Project:
Majaal Warehousing Development at BIW

Target Market:
Small to Medium Enterprises

Location:
Bahrain Investment Wharf,
Salman Industrial City,
Kingdom of Bahrain

Value:
45,000,000 USD

Phase I:

Date of Completion:
February 2010

Leasable Area :
130,000 square feet

Current Tenants:
20

Occupancy Rate:
100%

Average Lease Term:
45 months

Phase II:

Expected Start of Construction:
February 2013

Expected Completion:
December 2013

Leasable Area :
150,000 square feet

Phase III:

Start of Construction:
July 2012

Expected Completion:
May 2013

Leasable Area:
130,000 square feet

Executive Management Review

Executing the plan, First Bahrain achieved significant operational results in 2012 with the stabilization and maintenance of rental revenue from Majaal and the commencement of construction on the next phase of our development.

In addition to these core achievements, Management made significant progress towards identifying and securing an anchor tenant for the final phase of the initial Majaal development on our currently held industrial lands in Bahrain. The conclusion of a long-term lease agreement, expected in early 2013, will ensure the profitability of the Majaal development and provide necessary comfort for banks interested in funding the expansion. On the strength of this long-term lease agreement, a major financing deal is likewise expected to be concluded early in 2013. The terms of this deal will reduce our current finance expenses while also extending the repayment period to align with projected future cash flows, ensuring that the project will be fully self-funding.

While these successes are eclipsed by the unrealized losses from reductions in the value of our undeveloped Seef lands, as reported in these financial statements, the overall outlook for the Company is improving as it puts its holdings to work. In 2012, 100% of the Company's rental revenue was generated by just 20% of its land. By the end of 2013, First Bahrain will have converted 60% of its raw land holdings to income generating assets. With this expansion in place, net rental income is expected to triple over the coming two years. Accordingly, these new rental revenues will soon dampen and ultimately cancel out any volatility associated with the changing fair market values of the remaining undeveloped properties.

In addition to these gains in rental income, aggressive cost controls featuring a significant reduction in staff and a downsizing of the Company's Kuwait office enabled us to reduce our operating expenses by 27% over last year. The result saw profit net of any unrealized movement increase to KD 303,681, up from KD 83,700. These are the positive fundamentals underlying the unrealized loss of KD (1,116,081) reported for the year.

Building On Our Success

Having maximized revenues from the initial phase of the Majaal development, Management was given the mandate to commence construction of the next phase of the development in June. This growth mandate was significant as it was the Company's first commitment to expansion in the aftermath of both the economic and political crises of the previous years. The mandate demonstrated the Board of Director's affirmation of the Management team and their confidence in our ability to execute the plan. Likewise, it represented hope in the future of Bahrain's economy as a suitable location for foreign direct investment.

A new contractor, Abdulaal Construction Services, a Bahraini firm with experience dating back to 1944, was chosen after a competitive bidding process. The result of the tender was an 18% reduction in the cost of the construction contract. By the end of the year, the development was well over half way to completion, with a scheduled delivery date of 18 May 2013.

In the preparation for the marketing of the new facility, Majaal signed a sponsorship deal with Hilal Conferences & Exhibitions as the anchor partner for Industrial Facilities in their upcoming Gulf Industry Fair, which was later held at the Bahrain International Exhibition Centre during the second week of January 2013. The sponsorship deal, heavily subsidised by a Bahrain government program to stimulate the economy through its labour fund, Tamkeen, ensured that Majaal was promoted prominently in all the advance marketing material for the Fair. Likewise, at the event, Majaal was strategically positioned on the centre aisle, where many good contacts were made with potential new tenants.

High Praise and Positive Press

HRH the Prime Minister of Bahrain, who was present to open the Gulf Industry Fair, paid an extended visit to the Majaal stand. His Royal Highness praised our Company for its innovation and success, for its commitment to supporting SMEs from the industrial sector of the economy and for its ongoing commitment to invest in the Kingdom of Bahrain.

Surrounding its participation in the Fair, Majaal received significant positive press coverage including lead stories in the business pages of each of the country's leading newspapers. Gulf Industry Magazine also featured Majaal on the cover of its January 2013 Bahrain Review issue, declaring the "Majaal model successful".

Positive relationships with the press have been regularly leveraged to position the Company well within the market. My position as a spokesman and thought leader for the real estate industry in Bahrain has become well established with over eight interviews published in varying media throughout the year.

Next Steps in the Plan

Looking forward to 2013, we expect to announce shortly the conclusion of the aforementioned long-term lease and construction of the final phase of Majaal's first project at the BIW, along with a major financing deal to secure the remaining funding for the development. We intend to have completed construction on the entire facility by the end of 2013.

Majaal will also continue to explore and prepare for regional expansion opportunities. The feasibility study conducted by Ernst & Young in Saudi Arabia during 2012 affirmed our business model and has given us comfort that our concept will work once we identify the proper locations, financing and partners necessary to enter these new markets in Saudi Arabia and across the GCC.

Beyond Majaal, First Bahrain has identified a long-term tenant and commissioned a concept design for a sports and recreational facility to be developed on our land in Janabiya. A zoning change is required for the project. Once attained, we expect to proceed with this development as well. Located in a neighbourhood with dense residential property but no commercial development or other services, the local Municipality has demonstrated strong support for our project and is advocating for the zoning change on our behalf. We expect that this development will enhance the value of our adjacent plot where we expect to develop a follow-on commercial project.

Our plans for the Company's strategic holding in Seef, a mixed-use commercially-zone property located across from the country's iconic City Centre Mall, remain on hold given the present oversupply in the office and hospitality markets. We will closely monitor the market and will be ready to move as opportunities come available.

Accordingly, as we press ahead confidently, we will continue to exercise conservative self-discipline and fiscal restraint. We are committed to being good stewards of the resources entrusted to us by the shareholders. We appreciate your faith in us and we look forward to future success of the plans discussed as we seek to realise our potential and provide you with your just rewards.

Transitions & Acknowledgements

In conclusion, I extend my sincere thanks to the Board of Directors for their wise direction and accountability along with their enduring confidence in our professionalism and demonstrated ability to deliver positive results. I extend our warm appreciation to our business partners for their faithful support.

Finally, I offer my deep gratitude to each member of our staff. You have daily demonstrated that you can execute consistently and deliver solid results with great skill and professionalism While we were sad to have said good bye to several valued team members in 2012, I appreciate and celebrate each of your individual and collective contributions during these challenging and uncertain times and commend you for your unwavering loyalty and dedication to duty. You have done your work faithfully and the results described here are a testimony to your efforts.

I am hopeful as I look forward and expect that, working together by God's grace, we will achieve our dreams and aspirations during 2013 and beyond.

Amin Ahmed Al Arrayed
General Manager

Board of Directors

Mr. Salah Al-Wuhaib
Chairman

Senior Vice President, Discretionary Portfolios, MENA Asset Management Dept., KIPCO Asset Management Co., KAMCO

Mr. Al-Wuhaib currently manages the MENA Asset Management Dept. at KAMCO. He is also Vice Chairman for Housing Finance Co. "Iskan" Board of Directors. Mr. Al-Wuhaib previously worked with the Kuwait Fund for Arab Economic Development; Wafra Investment Advisory Group based in New York; and the Kuwait Investment Authority. Mr. Al-Wuhaib holds a Bachelor's degree in Business Administration, majoring in Management, from Eastern Washington University, USA.

Ms. Rasha Al-Awadhi
Vice Chairman, Audit Committee Chairperson

Senior Vice President – Asset Management & Investment Department, Housing Finance Co. "Iskan"

Ms. Al-Awadi is the Senior Vice President for Asset Management and Investment at Housing Finance Co. "Iskan." She has previously worked for Global Investment House, Kuwait Investment Co. and Kuwait Foreign Trading, Contracting and Investment Co. Her qualifications include Accredited Professional Accountant and Certified Global Investment Analyst from the American Institute for Financial Business and Research; and Certified Internal Audit from the American Institution of Internal Auditors; and Arbitrator from the Kuwait Commercial Arbitration Centre. Ms. Al-Awadi is a Member of the Kuwait Association of Accountants and Auditors. Ms. Al-Awadhi holds a Bachelor's degree in Accounting and Auditing from Kuwait University.

Mr. Abdulkareem Al-Khulaifi
Director

Manager, Department of Public Relations and Information, PIFSS

Mr. Al-Khulaifi is Manager in the Department of Public Relations and Information for the Public Institute for Social Security (PIFSS). With more than 33 years experience including senior positions at PIFSS in Human Resources and Public Relations along with posts as lecturer at both the Public Authority for Applied Education and Training and the Civil Service Commission. Mr. Al-Khulaifi conducted numerous academic studies in the field of enhancing client's service. He is a member of the International Social Security Association; the International Public Relations Association; the Gulf Cooperative Council's Technical Committee for Retirement; and serves as Secretary of the Kuwait Public Relations Society. Mr. Al-Khulaifi holds a Bachelor's degree in Business Administration from Kuwait University.

Mr. Talal Al-Omaim
Director

General Manager, Al-Iskan Real Estate Co.

Mr. Al-Omaim is currently serving as General Manager of the Al-Iskan Real Estate Co. (an Iskan subsidiary). Before joining Iskan, he worked with Burgan Bank and the Bank of Kuwait and the Middle East (BKME). Mr. Al-Omaim holds a Diploma in Professional Property Financing and Evaluation.

Mr. Ali Said Al-Mahri
Director

General Manager – Oman Branch, Action Group Holdings Co.

Mr. Al-Mahri is currently General Manager - Oman Branch for Action Group Holdings Co. where he also serves as supervisor for the United Arab Emirates branch. Mr. Al-Mahri is a Board Member of Iskan International Development Company in Kuwait. He has 12 years experience in finance within the government sector. A Fellow of the Chartered Accountants Association, Mr. Al-Mahri holds a Bachelor's degree in Economics and Accounting from University of Jordan and a Diploma in Military Science from Royal Military College, United Kingdom.

Mr. Abdul Wahab A. Al-Shaya
Director

Senior Vice President – Shareholder Affairs and Board Secretary, Housing Finance Co. "Iskan"

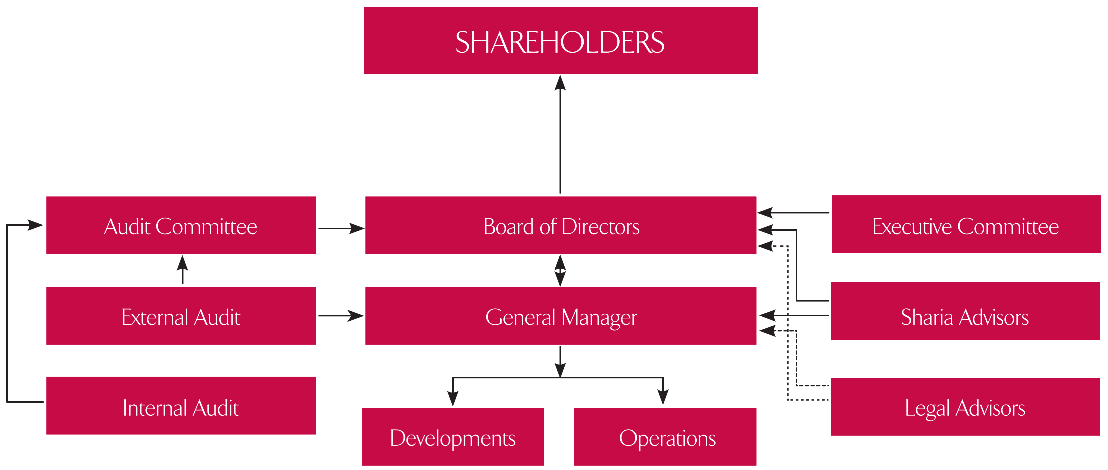
Mr. Al Shaya is the Senior Vice President for Shareholders Affairs and Secretary to the Board of Directors, Housing Finance Co. "Iskan" and General Manager to an Iskan subsidiary. He previously held the position of Senior Consultant to the top management of Kuwait Airways after he had held a managerial position to several directorates at the company and that of Administrative Affairs Manager at the Touristic Enterprises Company. His extensive work experience in the field of Business Management extends over a distinguished career of 36 years. Mr. Al Shaya holds a Bachelor's degree in Commerce, Accounting and Business Administration from the University of Kuwait.

Mrs. Asmahan Ahmad Al-Abdulhadi
Director

Vice President, Central Services, Housing Finance Co. "Iskan"

Mrs. Asmahan is currently the Vice Chairman of the Central Services at Housing Finance Co. "Iskan." She previously worked for Real State Bank, heading the Trade Finance department after she had managed the same department in Burgan Bank for 16 years. Her career spans over 31 years since she has graduated with a Bachelor's degree in Business Administration & Marketing from Kuwait University in 1982.

Corporate Governance



First Bahrain recognises the importance of sound corporate governance as a critical factor in attaining fairness for all stakeholders, enhancing shareholder value, and achieving organisational integrity and efficiency. The Company is committed to full compliance with the appropriate rules and regulations of relevant regulatory authorities in those jurisdictions where it operates.

The Company has a corporate governance structure in place that clearly segregates organisational functions and responsibilities. This structure reflects the division of roles and responsibilities between the Chairman of the Board, the Board of Directors and the Board Committees; the General Manager and the Executive Management team; and those corporate functions, such as Compliance, Internal Audit and Risk Management, which report through relevant Board Committees to the Board.

The Board comprises seven Directors, whose appointment reflects the shareholding of the Company. The Directors have a diverse range of skills and experience. Each Director brings independent judgment and considerable knowledge to the Board's discussions. Their profiles are listed separately in this Annual Report. The Board is supported by two committees – the Executive Committee and the Audit Committee – together with Sharia advisory services from Al Mashora and Al Raya for Islamic Financial Consulting.

The General Manager, supported by the Executive Management team, is delegated by the Board with responsibility for the day-to-day management of the Company. The Executive Management team is comprised of well qualified professionals with regional and international career backgrounds, and relevant experience in key areas such as banking, investments, real estate, and business administration. Their profiles are listed separately in this Annual Report.

Risk Management

The Board has established a risk management framework for the Company that clearly defines roles, responsibilities and reporting lines. Primary responsibility for managing risk rests with the Executive Management, while the Board, through its Audit Committee, retains ultimate responsibility for risk management.

One of the cornerstones of the Company's risk management approach is a well defined system of delegated authorities with respect to the commitment of capital. Its investment approval process brings rigour to the selection, assessment and approval of risks assumed under each of the Company's principal investment activities. Matters such as legal, accounting and general risk assessment are considered in each case.

The Company's Internal Audit function, performed by Protiviti, a global internal audit and risk consulting firm, provides independent reporting to the Audit Committee with respect to the management of risk, and also provides comment on the effectiveness of the design and operation of controls across the Company.

The main risks to which the Company is exposed are credit risk, liquidity risk and market risk, the latter comprising profit rate risk, foreign currency risk and equity price risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Company's strategic planning process.

Additional information on specific risk exposures is included in the Notes to the Consolidated Financial Statements in this Annual Report.

Executive Management

Amin Al Arrayed
General Manager

Mr. Al Arrayed has skilfully provided wise and stable leadership to the Company throughout a period of tremendous market volatility over the past five years. He brings an in-depth knowledge of banking, financial services and real estate developed over a 16 year career. Prior to being selected to lead First Bahrain, he was Head of Retail and Placement at Reef Real Estate Finance Company, and Regional Head of Retail Banking at BBK, in the Kingdom of Bahrain. Mr. Al Arrayed holds a Master's degree in Business Administration from the Kellstadt Graduate School of Business at DePaul University, Chicago, USA; and a Bachelor's degree in Economics from the University of Redlands, California, USA.

Daniel Taylor
Head of Operations & Finance

An entrepreneur, with a diverse career spanning 24 years, Mr. Taylor has a wealth of operational and management experience. At First Bahrain, Mr. Taylor leads the Operations and Finance teams, overseeing the planning and execution of the Company's activities; contributing directly to the achievement of the Company's strategic objectives. Prior to joining First Bahrain, he was General Manager of New York Coffee, and General Manager of Mariner Technologies, where he was the chief architect of the GCC business news portal, TradeArabia.com. A member of the Urban Land Institute and the American Chamber of Commerce in Bahrain, Mr. Taylor holds a Master's degree in Business Administration from the Kellstadt Graduate School of Business at DePaul University, Chicago, USA; and a Bachelor's degree from the University of Virginia, USA.

Yasser Abu-Lughod
Head of Development

Mr. Abu-Lughod brings over 27 years of international project management and engineering experience to the team at First Bahrain where he serves as the Head of Development, leading the Company's development efforts from concept to construction to commissioning and beyond. Prior to joining First Bahrain, Mr. Abu-Lughod worked as senior project manager for Mace International where he managed the infrastructure design and construction phases for Bahrain Bay Development project. He also held several senior posts at VicRoads in Victoria, Australia and GHD Global where he played a key role in the success of infrastructure projects in Al Khore Qatar. Mr. Abu-Lughod holds a B.Sc. in Civil Engineering from University of Wisconsin, Milwaukee; USA. He is a Charted Professional Engineer and a member of the Institution of Engineers in Australia, a holder of the Project Management Professional certification (PMP) and a member of the Project Management Institute (PMI).

Al Mashora & Al Raya Sharia Advisory Board Report

Praise is only to Allah and Peace and Blessing on the last Prophet, his family and companions.

To the Shareholders of First Bahrain Estate Development Co. (KSC)

Allah's Peace & Blessings on you,

As per Engagement Contract Signed with us, we have audited the contracts and transactions executed by the company during the fiscal year ended on 31/12/2012 to express our opinion on extent of the company compliance with the provision of Islamic Sharia as described on the opinions, guidelines and Sharia decisions issued by us.

Compliance with implementation of contracts and transactions in accordance with the provisions of Islamic Sharia shall be the responsibility of the company management. However, our liability is limited to expression of independent opinion on the extent of the company compliance with same based on our audit.

We have conducted our audit according to the controls criteria issued by Accounting & Audit Panel for Islamic Financial Institutions which require us to plan and implement audit procedures in order to obtain all information, interpretations and declarations that we deem necessary for providing us sufficient evidences to give reasonable confirmation that the company is in compliance with the provisions of Islamic Sharia as stated by us.

We have conducted our audit on the basis of examining samples of each type of contracts and transactions executed during the period. We believe that audit activities we have undertaken provide a proper basis for expressing our opinion.

In our opinion:

- The company, during the specified fiscal period, has conducted its duties towards execution of contracts and transactions in accordance with the provisions of Islamic Sharia as described on opinions, guidelines and sharia decisions by us.

- The company is not authorized to perform Zakat and the responsibility of the same shall reside in the shareholders.

Allah's Peace & Blessings may be upon you.

Sharia Advisory Board:

Prof. Abdul Razzaq Khalifa Al-Shaiji
Board Chairman

Prof. Abdul Aziz K. Al-Qassar
Member

Mr. Abdul Aziz Al Jarallah
Executive Member

Independent Auditor's Report

The Shareholders
First Bahrain Real Estate Development Company K.S.C. (Closed)
State of Kuwait

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of First Bahrain Real Estate Development Company K.S.C. (Closed) ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Kuwait Companies Law No. 25 of 2012, as amended, and the Company's articles and memorandum of association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of account. We have not become aware of any contravention, during the year of the Kuwait Companies Law No. 25 of 2012, as amended, or the Company's articles and memorandum of association, that would materially affect the Group's activities or its consolidated financial position.

Safi A. Al-Mutawa
License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International
Kuwait: 14 March 2013

Consolidated Financial Statements

Contents

Consolidated statement of financial position

as at 31 December 2012

	Notes	2012 KD	2011 KD
Assets			
Investment property	5	30,341,004	31,076,161
Furniture and equipment		71,530	105,917
Total non-current assets		30,412,534	31,182,078
Trade and other receivables	6	218,418	177,901
Investments at fair value through profit or loss	7	491,915	438,546
Islamic finance facilities	8	7,600,000	7,700,000
Cash on hand and at banks	8	449,359	521,988
Total current assets		8,759,692	8,838,435
Total assets		39,172,226	40,020,513
Equity and liabilities			
Equity			
Share capital	9	31,500,000	31,500,000
Statutory reserve	10	1,467,000	1,467,000
Foreign currency translation reserve		(284,729)	(520,637)
Retained earnings		5,771,973	6,888,054
Total equity		38,454,244	39,334,417
Non-current liabilities			
Long-term murabaha payable	11	-	557,071
Provision for employees' end of service indemnity		33,636	27,642
Total non-current liabilities		33,636	584,713
Current liabilities			
Short-term murabaha payable	11	562,269	-
Trade and other payables	12	122,077	101,383
Total current liabilities		684,346	101,383
Total liabilities		717,982	686,096
Total equity and liabilities		39,172,226	40,020,513

Salah Ahmed Al-Wuhaib
Chairman

Ms. Rasha Al-Awadi
Vice Chairman

The accompanying notes form an integral part of these consolidated financial statements

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	Notes	2012 KD	2011 KD
Income			
Change in fair value of investment property		(1,473,131)	(416,768)
Net rental income	13	308,170	259,638
Realised loss on sale of investments at fair value through profit or loss		-	(3,367)
Unrealised gain/ (loss) on investments at fair value through profit or loss		53,369	(172,507)
Income from Islamic finance facilities		454,152	464,877
Dividends		-	41,265
Foreign exchange gain		6,961	8,724
Total (loss) / income		(650,479)	181,862
Expenses and other charges			
General, administrative and marketing expenses		(122,317)	(230,820)
Depreciation		(15,413)	(17,818)
Staff costs		(274,852)	(321,352)
Finance costs		(53,020)	(65,945)
Board's remuneration	19	-	(51,500)
Total expenses and other charges		(465,602)	(687,435)
Loss for the year		(1,116,081)	(505,573)
Other comprehensive income			
Foreign currency translation differences for foreign operations		235,908	(178,567)
Other comprehensive income for the year		235,908	(178,567)
Total comprehensive income for the year		(880,173)	(684,140)
Losses per share (fils)	14	(3.54)	(1.60)

The accompanying notes form an integral part of these consolidated financial statements

Consolidated statement of changes in equity

for the year ended 31 December 2012

	Share capital KD	Statutory reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Total KD
Balance at 1 January 2011	31,500,000	1,467,000	(342,070)	7,393,627	40,018,557
Total comprehensive income for the year					
Loss for the year	-	-	-	(505,573)	(505,573)
Other comprehensive income	-	-	(178,567)	-	(178,567)
Total comprehensive income for the year	-	-	(178,567)	(505,573)	(684,140)
Balance at 31 December 2011	31,500,000	1,467,000	(520,637)	6,888,054	39,334,417
Total comprehensive income for the year					
Loss for the year	-	-	-	(1,116,081)	(1,116,081)
Other comprehensive income	-	-	235,908	-	235,908
Total comprehensive income for the year	-	-	235,908	(1,116,081)	(880,173)
Balance at 31 December 2012	31,500,000	1,467,000	(284,729)	5,771,973	38,454,244

The accompanying notes form an integral part of these consolidated financial statements

Consolidated statement of cash flow

for the year ended 31 December 2012

	Notes	2012 KD	2011 KD
Cash flows from operating activities:			
Loss for the year		(1,116,081)	(505,573)
Adjustments for:			
Depreciation		15,413	17,818
Realised loss on investments at fair value through profit or loss		-	3,367
Unrealised (gain)/ loss on investments at fair value through profit or loss		(53,369)	172,507
Change in fair value of investment property		1,473,131	416,768
Finance costs		53,020	65,945
Provision for employees' end of service indemnity		5,994	8,886
Operating income before changes in working capital		378,108	179,718
Trade and other receivables		(40,517)	(47,564)
Trade and other payables		20,694	(53,474)
Net cash from operating activities		358,285	78,680
Cash flows from investing activities:			
Additions to investment property		(491,758)	(54,933)
Paid for purchase of furniture and equipment		(11,044)	(44,453)
Proceed from sale of investments at fair value through profit or loss		-	16,126
Net cash used in investing activities		(502,802)	(83,260)
Cash flows from financing activities:			
Net movement in murabaha payable		-	(432,146)
Finance costs paid		(53,020)	(65,945)
Net cash used in financing activities		(53,020)	(498,091)
Net decrease in cash and cash equivalents		(197,537)	(502,671)
Net foreign exchange difference		24,908	39,320
Cash and cash equivalents at the beginning of the year		8,221,988	8,685,339
Cash and cash equivalents at the end of the year	8	8,049,359	8,221,988

The accompanying notes form an integral part of these consolidated financial statements

Notes to the consolidated financial statements

for the year ended 31 December 2012

1. Reporting group

First Bahrain Real Estate Development Company K.S.C. (Closed) ("the Company") was incorporated as a Kuwait Shareholding Holding Company on 5 October 2004. The Company is engaged in activities in accordance with Noble Islamic Shari'ah, which include:

- Trading, management and development of properties inside and outside Kuwait.
- Owning, buying and selling of stocks and bonds of real estate companies inside and outside Kuwait.
- Performing maintenance of properties, including mechanical, electro-mechanical, and air conditioning activities.
- Performing real estate advisory services, feasibility studies and real estate appraisals.
- Managing, operating and leasing hotels, clubs, residential buildings, touristic and health care resorts and providing support services.

The Company's main office is at City Tower, 2nd Floor, Khalid Bin Waleed Street, Sharq, Kuwait.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as "the Group"). A list of subsidiaries follows:

Name of the company	Country of incorporation	Percentage of ownership	Principal activities
First Kuwait Al Seef Real Estate Development Company W.L.L.	Kingdom of Bahrain	100%	Real estate and investment activities
FB Janabiya Residential Development Co. W.L.L.	Kingdom of Bahrain	100%	Real estate and investment activities
Majaal Warehouse Co. W.L.L.	Kingdom of Bahrain	100%	Real estate and investment activities

Subsidiaries include shares of KD 519 as at 31 December 2012 (KD 519 as at 31 December 2011) which are registered in the name of others on behalf of the Group, and there are letters of renunciation in favour of the Group.

The total number of employees in the Group was 10 as at 31 December 2012 (16 employees as at 31 December 2011).

The consolidated financial statements were authorized for issue by the Board of Directors on 28 February 2013, and the shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Committee of the IASB and the requirements of the Kuwait Companies Law No. 25 of 2012, the Company's articles and memorandum of association and the Ministerial Order No. 18 of 1990.

On 29 November, Kuwait Companies Law was issued by Decree law No. 25 of 2012 ("the Law"). The Law came into effect from the date it was published in Kuwait's Official Gazette. The Group is currently in the process of ensuring compliance with the provisions of the law and has six months of its effective date until 29 May 2013, in accordance with the executive regulations. The Group's management is of the view that application of the provisions of this law has no material impact on the Group's activities or its consolidated financial position.

b) Basis of measurement

The consolidated financial statements have been prepared on fair value basis for financial assets and liabilities carried at fair value through profit or loss. Non-financial assets and liabilities are stated at amortised cost or historical cost as modified by the revaluation of investment property.

c) 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 Kuwaiti Dinars, which is the Group's presentation currency.

Notes to the consolidated financial statements

for the year ended 31 December 2012

d) Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

In particular, information about estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 4.

e) New standards, interpretations and amendments effective from 1 January 2012

None of the new standards, interpretations and amendments, effective for the first time from 1 January 2012, have had a material effect on the consolidated financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

a) Basis of consolidation

The consolidated financial statements for the year ended 31 December 2012 include the Company and its subsidiaries referred to in note 1.

A subsidiary is an entity controlled by the Company. Control exists when the Company has the power directly or indirectly to govern the financial and operating policies of subsidiaries so as to obtain benefits from their activities.

The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Any intra-group balances and transactions, and any unrealized gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The consolidated financial statements are prepared using uniform accounting policies.

The subsidiaries' accounts are based on their management accounts for the year ended 31 December 2012. Total assets, liabilities and net loss of the subsidiaries as per these financial statements (after eliminations) amounted to KD 30,607,476 – KD 652,956 and KD 1,293,501 respectively.

b) Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary items denominated in foreign currencies which are stated at fair value are translated to the functional currency at the exchange rates ruling at the date of determining the fair value. Foreign currency differences arising on retranslation are recognized in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated to Kuwaiti Dinar at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Kuwait Dinar at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income.

c) Investment property
Investment property comprises completed property and property under construction or re-development held to earn rentals or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Land held under operating leases is classified and accounted for by the Group as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it was a finance lease. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Fair value measurement on property under development is only applied if the fair value is considered to be reliably measurable.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

d) Furniture and equipment
Furniture and equipment are measured at cost less accumulated depreciation and impairment losses (see note 3(h)). Depreciation is calculated to write off the cost of furniture and equipment by equal installments over their estimated useful lives as follows:

Furniture and office equipment	5 years
Computers and electronics	3 years
Leasehold improvement	3 years
Fixtures	10 years

The useful life, depreciation method and residual value of furniture and equipment at the end of their useful lives are reviewed annually to ensure that the method and period of depreciation is in line with the expected pattern of economic benefits from items of furniture and equipment. A change in the estimated useful life of furniture and equipment is applied at the beginning of the financial year of change with no retroactive effect.

e) Receivables
Receivables are stated at cost less impairment losses (see note 3(h)). The Group's receivables include trade and other receivables and Islamic finance facilities.

f) Investments at fair value through profit or loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value.

The amounts of each class of investments that has been designated at fair value through profit or loss are described in note 7.

Financial instruments at fair value through profit or loss are measured initially at fair value. Transaction costs on financial instruments through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments measured at fair value through profit or loss are measured at fair value with changes in their fair value recognized in profit or loss.

The fair value of financial instruments classified as financial assets at fair value through profit or loss is their quoted market price at the reporting date. If the quoted market price is not available, the fair value of the investment is estimated using generally accepted valuation methods such as discounted cash flow techniques or net asset value or market price of similar investments.

Financial assets at fair value through profit or loss are recognised or derecognised on the trade date i.e., on the date the Group commits to purchase or sell the investments.

g) Cash and cash equivalents
Cash and cash equivalents include cash on hand and at banks and highly liquid financial assets with original maturities of less than three months.

h) Impairment
Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. All impairment losses are recognised in profit or loss.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

Non-financial assets
The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

i) Payables
Payables are stated at amortised cost. The Group's payables include trade and other payables and murabaha payable.

j) Provisions
Provisions are recognized in the consolidated financial statements when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

k) Provision for employees' end of service indemnity
Provision is made for employees' end of service indemnity payable under the Kuwait labour law in private sector, based on employees' accumulated periods of service and latest entitlements of salaries, or on the basis of employment contracts, where such contracts provide extra benefits. The provision which is unfunded, is determined as the amount payable to employees as a result of involuntary termination of employment at the reporting date. Employees of the Group's subsidiaries in the Kingdom of Bahrain are entitled to post-service benefits under Bahrain laws.

Notes to the consolidated financial statements

for the year ended 31 December 2012

l) Revenue recognition

- Rental income from operating leases is recognized on a straight-line basis over the lease term.
- Income from Islamic finance contracts and deposits is recognized on a time proportion basis to achieve fixed rate of return on outstanding balances for these transactions.
- A property is regarded as sold when the significant risks and returns have been transferred to the buyer. Any gains or losses on the disposal of investment property are recognized in profit or loss in the year of disposal.
- Dividends income is recognized when the Group's right to receive dividends is established.
- Other revenues and expenses are recognized on an accrual basis.

m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, with the exception of:

- IFRS 9 Financial Instruments, which becomes mandatory for the Group's 2015 consolidated financial statements, with earlier application permitted, and could change the classification and measurement of financial assets. The Group is currently considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

- Consolidation Standards. A package of consolidation standards are effective for annual periods beginning or after 1 January 2013: IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements, IFRS 12 Disclosure of interests in other entities, consequential amendments to IAS 27 Separate financial statements, and IAS 28 Investments in associates and joint ventures. The Group's management have yet to assess the impact of these new and revised standards on the Group's consolidated financial statements.

- IFRS 13 Fair Value Measurement, which becomes mandatory for the Group's 2013 consolidated financial statements, with earlier application permitted, replaces existing guidance of fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosure about fair value measurements. The Group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

- IAS 19 Employee Benefits (Amended). The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

4. Use of estimates and judgments

Key sources of estimation uncertainty

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 carrying amounts of assets and liabilities within the next financial year, are as follow:

Valuations of property

The determination of the fair value of investment property requires the use of estimates. In addition, development risks (such as construction and letting risks) are also taken into consideration when determining the fair value of investment property under development. These estimates are based on local market conditions existing at the reporting date.

The continuing volatility in the global financial system is reflected in the turbulence in commercial real estate markets across the world. The significant reduction in transaction volumes continued this year. Therefore, in arriving at their estimates of market values as at 31 December 2012, the valuers have used their market knowledge and professional judgement and have not only relied solely on historic transactional comparables. In these circumstances, there is a greater degree of uncertainty than which exists in a more active market in estimating the market values of investment property. The lack of liquidity in capital markets also means that, if it was intended to dispose of the property, it may be difficult to achieve a successful sale of the investment property in the short term.

Notes to the consolidated financial statements

for the year ended 31 December 2012

Impairment of receivables

An estimate of the collectible amount of receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Determining fair values of investments at fair value through profit or loss

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.

Critical accounting judgments in applying the Group's accounting policies

The Group did not make any critical accounting judgements in 2012 or 2011.

5. Investment property

	Properties under development	Properties under development	Land held for capital appreciation	Building held for rental income and capital appreciation	
	Industrial-Zoned Properties KD	Residential-Zoned Properties KD	Commercial-Zoned Properties KD	Industrial-Zoned Properties KD	Total KD
At 1 January 2011	3,451,568	3,526,559	20,351,149	4,326,607	31,655,883
Additions during the year	31,647	-	-	23,286	54,933
Change in fair value	(135,718)	(222,450)	-	(58,600)	(416,768)
Foreign currency translation differences	-	(69,253)	(148,634)	-	(217,887)
Balance at 31 December 2011	3,347,497	3,234,856	20,202,515	4,291,293	31,076,161
At 1 January 2012	3,347,497	3,234,856	20,202,515	4,291,293	31,076,161
Additions during the year	473,514	6,375	-	11,869	491,758
Change in fair value	(55,707)	449,529	(1,827,587)	(39,366)	(1,473,131)
Foreign currency translation differences	30,557	32,925	178,944	3,790	246,216
Balance at 31 December 2012	3,795,861	3,723,685	18,553,872	4,267,586	30,341,004

Investment property represents land acquired through the Group's subsidiaries in the Kingdom of Bahrain.

Murabaha payable is secured on investment property to the value of KD 3,198,262 (2011: KD 3,224,175) (see note 11).

The Group's investment properties were revalued at 31 December 2012 by independent professionally qualified valuation officers who hold a recognised relevant professional qualification and have recent experience in the locations and categories of the investment properties valued.

Investment property with a carrying value of KD 26,073,418 was not in use as of 31 December 2012 (2011: KD 26,784,868), as it was either held for capital appreciation or in the process of construction. The Group determined that the fair value of all of its investment property under construction at 31 December 2012 was reliably determinable on a continuing basis.

Notes to the consolidated financial statements

for the year ended 31 December 2012

6. Trade and other receivables

	2012 KD	2011 KD
Accrued income	178,247	147,275
Prepaid expenses	40,171	30,626
	218,418	177,901

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 17.

7. Investments at fair value through profit or loss

	2012 KD	2011 KD
Held for trading		
Quoted equity securities	380,024	290,019
Designated upon initial recognition		
Unquoted funds	111,891	148,527
	491,915	438,546

A majority of the Group's equity investments classified as at fair value through profit or loss are listed on the Kuwait Stock Exchange. A three percent increase in stock prices at the reporting date would have increased profit or loss and equity by KD 14,757 (2011: an increase of KD 13,156); an equal change in the opposite direction would have decreased profit or loss and equity by KD 14,757 (2011: KD 13,156). The analysis is performed on the same basis for 2011.

The Group's exposure to currency risk related to investments at fair value through profit or loss is disclosed in note 17.

8. Cash and cash equivalents

	2012 KD	2011 KD
Islamic finance facilities	7,600,000	7,700,000
Cash on hand and at banks	449,359	521,988
	8,049,359	8,221,988

Islamic finance facilities carry effective average annual profit rate of 6.5% (2010: 6.5%).

The Group's exposure to currency risk and a sensitivity analysis for financial assets are disclosed in note 17.

9. Share capital

The Company's authorized, issued and paid up share capital amounted to KD 31,500,000 distributed over 315,000,000 shares of 100 fils each (31 December 2011: KD 31,500,000 distributed over 315,000,000 shares).

Notes to the consolidated financial statements

for the year ended 31 December 2012

10. Statutory reserve

In accordance with the Kuwait Companies' Law and the Company's articles of association, 10% of the profit for the year is required to be transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the paid up share capital. The reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when profit is not sufficient for the payment of such dividend. No transfers made to the statutory reserve during the year due to losses.

11. Murabaha payable

Murabaha payable represents the value of commodities purchased on a deferred settlement basis and bear average profit rate of 9.5% per annum (2011: 9.5% per annum). The murabaha is payable on different dates ending 26 April 2013 and are secured over investment property with a carrying amount of KD 3,198,262 (2011: KD 3,224,175) (see note 5). Amounts payable within the next twelve months are shown as current liability.

The Group's exposure to currency and liquidity risks related to murabaha payable is disclosed in note 17.

12. Trade and other payables

	2012 KD	2011 KD
Trade payables	97,717	41,019
Accrued expenses	24,360	60,364
	122,077	101,383

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 17.

13. Net Rental Income

Rental income represents income generated from the Majaal warehouse development, which provides industrial facilities to a diverse mix of small to medium sized enterprises. Majaal is the inaugural project for First Bahrain, located at the Bahrain Investment Wharf within the Salman Industrial City of the Kingdom of Bahrain.

	2012 KD	2011 KD
Average Occupancy Rate	98.8%	82.3%
Gross Rental Revenue	374,816	317,246
Costs of Revenue	(15,381)	(21,565)
Operational Costs	(51,265)	(36,043)
Net Rental Income	308,170	259,638

This project is targeting small-to-medium sized enterprises by offering units as small as 250 m² with the option to build offices within the leased space. The Company started operation of the facility in February 2010 and the facility reached full occupancy by September 2011.

Costs of revenue include brokerage commissions on new leases and the master development service charge paid to the private industrial park, the Bahrain Investment Wharf. Operational costs include insurance, security, maintenance and other operational expenses required to run the facility.

The net rental income grew from KD 259,638 in 2011 to KD 308,170 in 2012 due to the increase in the occupancy rate.

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14. Earnings per share

Earnings per share are calculated by dividing the net profit or loss for the year by the weighted average number of shares outstanding during the year, as follows:

	2012 KD	2011 KD
Loss for the year	(1,116,081)	(505,573)
Weighted average number of outstanding and paid shares	315,000,000	315,000,000
Losses per share (fils)	(3.54)	(1.60)

15. Related party transactions

Related parties comprise the Group's shareholders who have representation in the Board of Directors, Directors, key management personnel and their close family members. In the normal course of business and upon management approval, transactions have been carried out during the year ended 31 December 2012.

Transactions with key management personnel

Key management personnel receive compensation in the form of short-term employee benefits and post-employment benefits. Key management personnel received total compensation of KD 118,687 for the year ended 31 December 2012 (KD 153,200 for the year ended 31 December 2011).

Other related party transactions

	Transaction value for the year ended 31 December		Balance outstanding as at 31 December	
	2012 KD	2011 KD	2012 KD	2011 KD
Islamic finance facility	-	-	7,600,000	7,700,000
Income/ accrued income from Islamic finance facilities	451,758	497,295	63,978	71,678

These transactions are subject to the approval of the shareholders at the annual general assembly meeting.

16. Financial risk management

Overview

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, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group'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 procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and investment securities.

Trade and other receivables and Islamic finance facilities

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in notes 6 and 8. There are no significant concentrations of credit risk within the Group.

Investments

With respect to credit risk arising from the Group's investments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these investments. Management does not expect any counterparty to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations 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.

The Group manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At present the Group does expect to pay all liabilities at their contractual maturity. In order to meet such cash commitments the Group expects the operating activity to generate sufficient cash inflows. In addition, the Group holds financial assets for which there is a liquid market and that are readily available to meet liquidity needs.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Bahraini Dinar (BHD).

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.

The Group currently does not use financial derivatives to manage its exposure to currency risk.

Other market price risk

Equity price risk arises from equity securities. The primary goal of the Group's investment strategy is to maximise investment returns. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis. To manage its price risk arising from investments in equity securities which are carried at fair value through profit or loss, the Group diversifies its portfolio. The group's investments in equity of other entities are included primarily in Kuwait Stock Exchange.

Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Executive Management.

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

17. Financial instruments

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk for trade and other receivables and Islamic finance facilities at the reporting date by geographic region was:

	2012 KD	2011 KD
Domestic	7,701,601	7,797,353
Kingdom of Bahrain	116,817	80,548
	7,818,418	7,877,901

The aging of trade and other receivables and Islamic finance facilities at the reporting date was:

	2012 KD	2011 KD
Past due 0-30 days	2,029,918	2,177,901
Past due 31-120 days	5,788,500	5,700,000
	7,818,418	7,877,901

No provision was required in 2012 (2011: nil) for trade and other receivables and Islamic finance facilities.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Liquidity risk

The following are the expected maturities of financial liabilities at the reporting date.

	Carrying amount KD	One year or less KD	One to five years KD
31 December 2012			
Financial liabilities			
Murabaha payable	562,269	562,269	-
Trade and other payables	122,077	122,077	-
	684,346	684,346	-
31 December 2011			
Financial liabilities			
Murabaha payable	557,071	-	557,071
Trade and other payables	101,383	101,383	-
	658,454	101,383	557,071

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Currency risk

Exposure to currency risk

The Group is exposed to currency risk on certain assets denominated in a currency other than Kuwaiti Dinar. The currency giving rise to this risk is primarily Bahraini Dinar (BHD). At the reporting date the Group's net long exposure in foreign currency was BHD 50,524,995 (2011: BHD 41,421,216).

Sensitivity analysis

A 10 percent strengthening of the KD against the BHD at 31 December would have increased (decreased) equity and profit or loss by KD 3,789,450 (2011: KD 3,077,932). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2011.

A 10% weakening of the KD against the BHD at 31 December would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

Fair values

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The estimated fair value of financial assets and financial liabilities (trade and other receivables, Islamic finance facilities, murabaha payable and trade and other payables) at the reporting date are not materially different from their carrying values.

Fair value hierarchy

The next table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: 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: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
31 December 2012				
Investments at fair value through profit or loss	380,024	111,891	-	491,915
	380,024	111,891	-	491,915

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
31 December 2011				
Investments at fair value through profit or loss	290,019	148,527	-	438,546
	290,019	148,527	-	438,546

During the year ended 31 December 2012, there have been no transfers between fair value levels.

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18. Operating Segments

The Group has two reportable segments, as described below, which are the Group's strategic business units. Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. For each of the strategic business units, the Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Real estate activities. Includes trading, development and management of real-estate properties inside and outside Kuwait.
- Non-real estate activities. Includes investment in various Islamic financial instruments, mainly murabaha.

The operating segments derive their revenue primarily from return on real-estates and investment income. All of the Group's business activities and operating segments are reported within the above segments.

Financial information on reportable segments for the year ended 31 December 2012 is as follows:

	Real estate activities KD	Non-real estate activities KD	Total KD
Segment (losses)/ revenues	(1,158,000)	507,521	(650,479)
Segment expenses	(465,602)	-	(465,602)
Segment results	(1,623,602)	507,521	(1,116,081)
Segment assets	30,630,952	8,541,274	39,172,226
Segment liabilities	717,982	-	717,982
Capital expenditure	502,802	-	502,802

Financial information on reportable segments for the year ended 31 December 2011 is as follows:

	Real estate activities KD	Non-real estate activities KD	Total KD
Segment (losses)/ revenues	(148,406)	330,268	181,862
Segment expenses	(687,435)	-	(687,435)
Segment results	(835,841)	330,268	(505,573)
Segment assets	31,359,979	8,660,534	40,020,513
Segment liabilities	686,096	-	686,096
Capital expenditure	54,933	44,453	99,386

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of counterparties. Segment assets are based on the geographical location of the assets.

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Geographical information

	Revenues/ (losses) KD	Non-current assets KD
31 December 2012		
Inside Kuwait	747,447	6,202
Outside Kuwait	(1,397,926)	30,406,332
	(650,479)	30,412,534
31 December 2011		
Inside Kuwait	533,558	12,007
Outside Kuwait	(351,696)	31,170,071
	181,862	31,182,078

During 2012 and 2011, there were no transactions between the Group's reportable segments.

There were no changes in the reportable segments during the year. The accounting policies of the reportable segments are the same as described in note 3.

The Board assesses the performance of the operating segments based on a measure of segment profit. The profit or loss of the Group's reportable segments reported to the Board are measured in a manner consistent with that in the statement of comprehensive income. A reconciliation of segment result to net loss is therefore not presented separately.

The amounts provided to the Board in respect of total assets and total liabilities are measured in a manner consistent with that of the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment and physical location of the assets. As all assets and liabilities have been allocated to the reportable segments, reconciliations of reportable segments' assets to total assets, and of reportable segments' liabilities to total liabilities, are not presented.

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

19. Board's remuneration

On their meeting dated 10 May 2012, the shareholders' general assembly approved a remuneration of KD 27,500 to the Company's Board of Directors for the year 2011 (2010: KD 24,000). The Board's remuneration for 2010 was booked and paid after the approval of the annual general assembly meeting.

20. Proposed dividends

On 28 February 2013, the Board of Directors proposed not to distribute cash dividends to the shareholders for the year ended 31 December 2012, subject to the approval of the shareholders' general assembly.

On their meeting dated 10 May 2012, the shareholders' general assembly decided not to distribute dividends for the year 2011.