Annual Report 2013

Delivering on our promises

البحرين الأولى

First Bahrain

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

Kuwait Office

Location:
City Tower, 2nd Floor
Khaled Ibn Al-Waleed St., Sharq
State of Kuwait

Postal Address:
PO Box 64679, Shuwaikh (B) 70457
State of Kuwait

Contact:
T (+965) 22414902
F (+965) 22414903
E info@firstbahrain.com

www.firstbahrain.com
FirstBahrain
company/First-Bahrain-Real-Estate-Development-Co.

Bahrain Office

Location:
Almoayyed Tower, Suite 501
Seef District,
Kingdom of Bahrain

Postal Address:
PO Box 75622, Manama
Kingdom of Bahrain

Contact:
T (+973) 17567555
F (+973) 17567556
E info@firstbahrain.com

www.majaal.com
MajaalWarehouseCo
MajaalWarehouse
company/Majaal-Warehouse-Co.

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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 Global Investment House, 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.

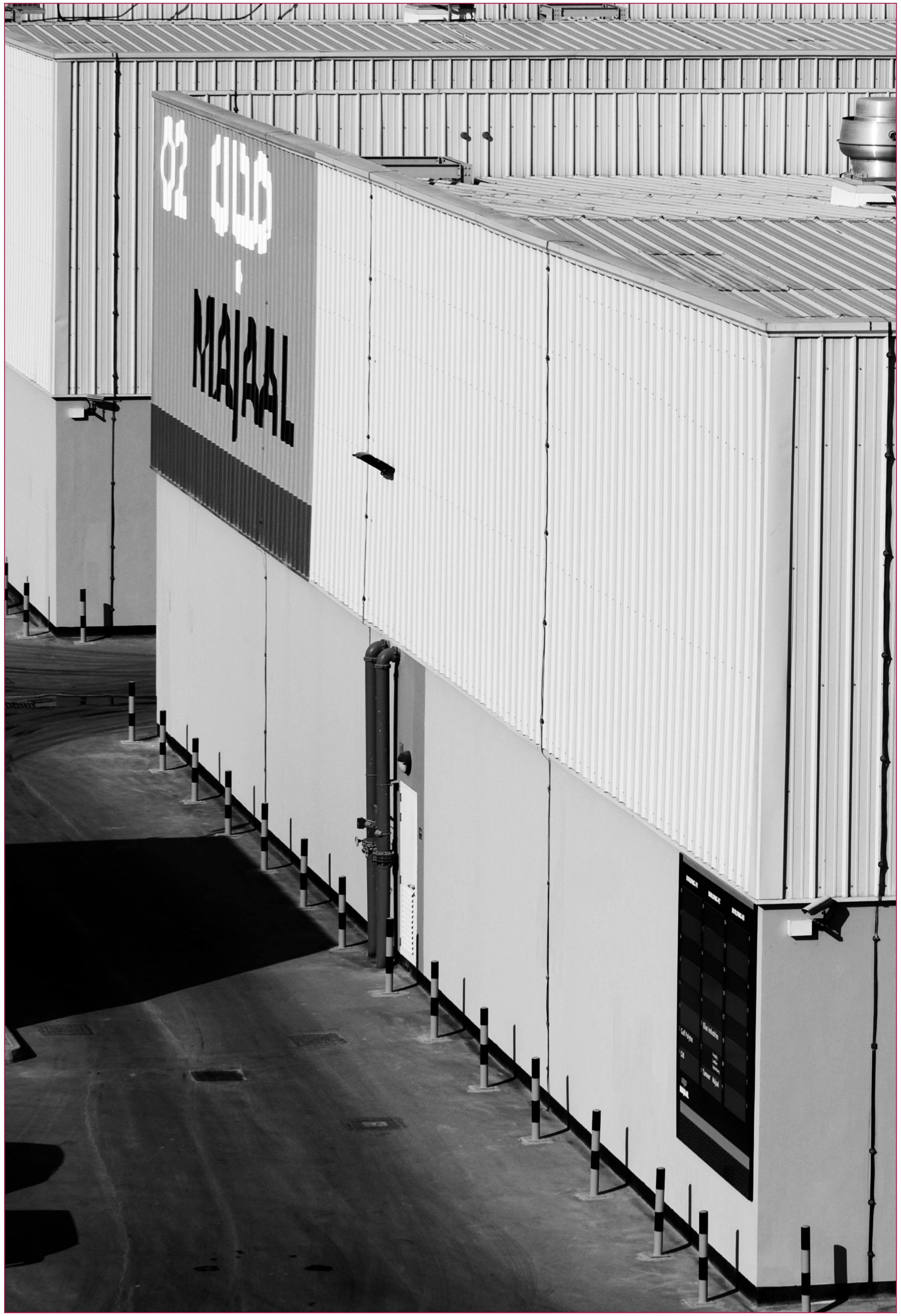
The Company's inaugural project, Majaal, a flexible-use industrial facility designed to support Small-to-Medium-sized Enterprises (SMEs), is located at the Bahrain Investment Wharf (BIW), within Salman Industrial City, near to both the new Khalifa bin Salman Port and the Bahrain International Airport. Majaal's first phase has been generating positive cash flow since it became operational in February 2010 and it has maintained full occupancy since September 2011.

Three identical buildings were constructed in the following phase of the development, for which construction began in July 2012. These new buildings, which doubled the leasable area of the facility, were immediately leased to a single, long-term tenant upon their completion in June 2013.

The final phase of the initial development began in February 2013 with the conclusion of a pre-lease of 75% of the building to a major FMCG distributor. This phase consists of a single building with higher specifications to facilitate higher storage density and easy on and off load of large trucks. The remaining units have also been pre-leased to another major tenant in advance of the completion of construction.

When the building is complete in early 2014, 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 delivering on its promises 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 is to realise value potential

Our Mission is that 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, I am pleased to present this Annual Report and Consolidated Financial Statements for the year ended 31 December 2013, the last of my six year tenure as Chairman of the Board of Directors

While First Bahrain is reporting a loss for the year in the amount of KD (1,023,750), I am confident that with this result we bring to a close a difficult season and position the Company for better days ahead. The loss is due to two major factors, a reduction in the value of our raw land holdings in the Seef district of the Kingdom of Bahrain and a loss incurred in the process of settling the outstanding debt issue raised at the AGM for 2012.

The debt settlement concluded on 24 December 2013 resolved amicably a major default through the repurchase of the shares of the related party which had defaulted. The Company also disposed of 73,324 square feet of land in the Seef district of the Kingdom of Bahrain in exchange for shares and cash from the same shareholder. While the combined transaction affirmed a 5% value reduction of the land value registered in the first quarter of 2013, it preserved the value of the Company's shares despite a -25% reduction in its assets.

The resulting Balance Sheet is very healthy and poised for growth. With our signature project, the Majaal warehousing development, in the process of tripling its leasable area, the Company is now funding itself from operational cash flow for the first time in its history. With several major long-term leases signed in 2013, the Company is set to see increases in rental income for the next two years before stabilizing in 2015.

Economic Environment

While there is still reason for caution, the global economic conditions did show improvement in 2013. Global Real GDP growth is projected at 3.3% for 2013 and expected to reach to 4.0% in 2014, according to the International Monetary Fund (IMF), in their November 2013 Regional Economic Outlook of the Middle East and Central Asia. The economic growth in Bahrain, projected at 4.4% for 2013 and expected to reach to 3.3% in 2014 is also advancing ahead of Consumer Price Inflation which is holding at 2.7% for 2013 and is expected to decline to 2.3% in 2014. These positive figures are in contrast with Kuwait where inflation was 3.0% in 2013. The GCC as a whole expects Real GDP to rise from 3.7% in 2013 to 4.1% in 2014, advancing ahead of inflation, which it forecasts will grow from 3.2% to 3.4%.

In January 2014, Fitch affirmed the outlook for Bahrain is stable and they maintained their sovereign credit rating at BBB. Bahrain currently ranks 13th on the Heritage Foundation's 2014 Index of Economic Freedom, which is the highest score of any country in the region. High scores in the areas of Rule of Law, particularly related to Property Rights, and Regulatory Efficiency helped Bahrain to achieve this prestigious global ranking. These results are strong positives for investors in real estate holdings in the country.

The industrial segment is currently one of the most promising in Bahrain's real estate market. Industrial real estate is primed for a new period of growth, given the number of projects that are in the pipeline or are nearing completion. The 2012-2013 "Global Free Zones Rankings" report by fDi Magazine gave high marks to Bahrain's infrastructure, ranking three of its facilities in the top 20 out of 150 such zones globally. The report ranked the Khalifa bin Salman Port and Industrial Area as 16th, the Bahrain International Airport as 19th, and the Bahrain International Investment Park as 15th globally.

With the completion of new industrial projects and increased spending on the oil and gas sector, the demand for warehousing and industrial infrastructure will continue to grow. The success of the Majaal project at BIW is indicative of a wider need within the industrial facilities market.

Financial Summary

As stated previously, the Company is reporting a loss of KD (1,023,750) due to a loss of KD (287,119) suffered in the process of the debt settlement and a reduction of value of the Company's investment property in Seef by 5%, KD (232,804) of which represented a realized loss on the three plots which were disposed of in the settlement and an additional unrealised loss of KD (464,853) on the plots which were retained. The value of the lands were reduced during the first quarter, however, they remained stable throughout the remainder of the year, offering hope that a market floor has indeed been reached.

Overall, the value of the investment property was buoyed by gains in the value of Majaal's industrial facilities due to the delivery and lease of the three buildings finished in June and the fourth due for completion in early 2014. The resulting KD 263,888 gain in the value of Majaal reduced the unrealised loss in the value of investment property to KD (200,965). While still a loss, this result was a significant reversal of the prior year loss of KD (1,473,131). With Seef reaching the market floor and with the new Majaal buildings becoming operational, the Company has strong expectation that the value of its investment properties will rise in the year ahead.

Net rental income saw a dip of 9% from KD 308,170 to KD 279,851 due to a provision taken related to the default of a tenant. However, new contracts signed during 2013 will see leasing revenue triple within the next two years. The year ended with 95% of the nearly 400,000 square feet of leasable area occupied.

Commensurate with the new construction and expanding operations, operating costs did rise by 7% over the prior year, but this rate was forty times less than the growth of the new revenue booked, thanks to conservative management and the removal of all redundancy in the system. It is expected that operating costs will continue to grow as the Company expands, however income and expense are now rightly aligned. Strict controls put in place during my tenure have delivered a 47% reduction in operating costs from when I took over the Chairmanship in 2008.

With respect to the Balance Sheet, there was significant movement both up and down in the value of the investment properties. The Seef land lost 5% of its value and then three of the lands were disposed of, leading to a total reduction of KD (5,354,504). Conversely, due to the ongoing construction of new facilities, the value of Majaal's investment properties grew by KD 2,931,424.

The combined result saw the value of the investment properties decline to KD 27,929,469 from KD 30,341,004 in the prior year.

The debt settlement wiped away the KD 7,600,000 of Islamic finance facilities held in 2012. Combined with the contraction in the value of the investment property, this reduction led to a decline in total assets from KD 39,172,226 in 2012 to KD 29,349,679.

The corresponding reduction in equity was the result of the repurchase of the Company's shares in exchange for the debt, to be held as treasury shares. Accordingly, total equity reduced from KD 38,454,244 in 2012 to KD 26,209,667 in early 2014.

Currency values held roughly constant throughout the year, with the Kuwaiti Dinar appreciating by 0.3% over the value of the Bahraini Dinar. Accordingly, the bulk of the reduction in the value of the Foreign Currency Translation Reserve from KD (284,729) to KD (178,361) was the result of the land disposal.

The construction at Majaal was funded by a BD 5 million (KD 3,750,000) Islamic finance facility agreed with BMI Bank in February 2013. A portion of these funds were used to re-finance the outstanding KD 562,269 Murabaha payable with Kuwait Finance House. By the end of the year, a total of KD 2,759,272 had been disbursed, being 75% of the facility. The remaining available funds will be sufficient to pay for the rest of the construction for both the second and third phases of the development. The utilisation of this finance facility saw the total liabilities of the Company rise from KD 717,982 to KD 3,140,012 at the end of 2013.

As a measure of the clean and sturdy balance sheet with which we finished the year, the debt to equity ratio was only 12%. With the debt settlement, the current ratio, being current assets over current liabilities, decreased from 12.8 to 4.0 but the Company still had more than enough cash on hand to fund ongoing operations for the coming year, ensuring all current and future obligations will be met.

Such liquidity metrics give confidence to the banks which have funded our operations and display clearly 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 developments designed to bring enduring value and sustainable prosperity.

Plans for 2014

While I will soon be departing, I am pleased to report that the Company is healthy and well-poised for growth in any direction that the new Board of Directors may choose to pursue.

Under my leadership, First Bahrain acquired and fully developed the Company's 717,679 square feet of industrial land at the Bahrain Investment Wharf. By the time we next meet as an AGM in early 2014, construction of the final phase of Majaal's first development will be complete. With the new building fully pre-leased in advance of delivery, we have secured future cash flow for the Company.

Even more exciting is the new service line we opened during 2013, selling development management services to other land owners. Leveraging our existing professional team and cost structure, we have been able to secure a significant new revenue stream. We see the provision of services as a significant component of the growth of the Company in the years ahead.

Beyond Majaal, First Bahrain expects to activate its property in Janabiya in the coming year, with likely pursuit of a mixed-use commercial and residential development to be built in at least two phases.

The Majaal property now represents just 39% of the value of the Company's investment property, yet it is producing 100% of the Company's operational cash flow. 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 over the past several years. 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

As my six year tenure as Chairman comes to a close, I would like to thank my fellow members of the Board of Directors for their support and tireless efforts to provide First Bahrain with quality leadership and accountability. Along with my pending departure, several other members of our Board of Directors will conclude their service to the Company at the upcoming AGM.

Accordingly, I wish a fond farewell and sincere thanks to Ms. Rasha Al Awadhi and Mr. Talal Al Omaim for their six years of faithful service. Likewise, I have been grateful for the support of Mr. Abdul Wahab A. Al-Shaya and Mrs. Asmahan Ahmad Al-Abdulhadi who are both leaving after a little over a year of participation on the Board.

In closing, 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 offer my sincere gratitude to our shareholders for their faith and confidence in my leadership these past six years. Likewise, I am particularly grateful for the dedication to duty displayed by our management and staff. We have achieved much together. Well done. I am proud of you all.

May Almighty God grant us all sustained success and prosperity.

Salah Ahmed Al-Wuhaib
Chairman

Special Feature

Project: Majaal Warehousing Development at BIW, Kingdom of Bahrain	Phase I:	Phase II:	Phase III:
Target Market: Small to Medium Enterprises	Start of Construction: February 2009	Start of Construction: February 2013	Start of Construction: July 2012
Location: Bahrain Investment Wharf, Salman Industrial City	Date of Completion: February 2010	Expected Completion: April 2014	Date of Completion: June 2013
Value: US$ 45 million	Leasable Area: 130,000 square feet	Leasable Area: 140,000 square feet	Leasable Area: 130,000 square feet
Total Occupancy: 95%	Current Occupancy: 89%	Pre-Leased Commitments: 100%	Current Occupancy: 100%
	Average Lease Term: 45 months	Average Lease Term: 100 months	Average Lease Term: 60 months

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 were constructed, doubling the leasable area when it was delivered in June 2013. The entire facility was leased to a single long-term tenant the same month it was delivered.

The centrepiece for the Majaal development at BIW will be our new M-Type building which will be complete in April 2014. 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 140,000 square feet of net leasable area along with a business centre 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-levellers 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.

And beyond facilities, our entrepreneurial team has expanded Majaal's product offering this year with the introduction of development management services where its existing team is employed in overseeing the design, construction, leasing and ongoing management of industrial facilities for third parties. Majaal took on its first two development management clients in 2013 and it is quickly expanding this line of the business.

First Bahrain has built far more than just a collection of warehouses, rather, a unique and growing business is being developed in Majaal Warehouse Company. Having recognised the 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 and a growing company to operate that product and to develop it into a successful regional brand.

Executive Management Review

In what was clearly the most eventful year of our corporate history, I am pleased to report that First Bahrain achieved unprecedented operational results.

We began 2013 with the signing of a multi-million dollar long-term lease agreement with a major Fast Moving Commercial Goods (FMCG) distributor who will serve as the anchor tenant for the final phase of our industrial development at BIW. This agreement represented the successful conclusion of a five year courting process and over nine months of active negotiations. Concurrent with and on the strength of this signing, the Company secured over US$ 13 million in Islamic finance to complete the construction of both the second and third phases of the project. The success of the Majaal project has earned the trust of both the banking and the broader business community as our team delivers on our promises year after year.

By the end of May, the construction for the second phase of the development was complete, doubling the leasable area available. Immediately upon completion of the construction, by the grace of God, we were able to negotiate a combined bid with a neighbouring landlord which won a hard fought competition to serve as the primary facility for a major third party logistics contract. The agreement signed with this single tenant fully leased our new facility on a long-term basis from the day it became operational.

In October, we reached another significant milestone in the history of the company as we signed our first two service contracts. Expanding our offerings to enable new revenue streams from the work of existing team members, Majaal is now offering development and facilities management services to third parties. Majaal's professional team supports the entire industrial facility life cycle from the conduct of feasibility studies prior to making investment decisions to the management of design and construction to ongoing leasing and facilities management.

Majaal's first development management services client is Al-Mazaya Holding Co. of Kuwait, who have held undeveloped land near Majaal at BIW for over seven years. In hiring Majaal, Al-Mazaya gained the support of a professional team who have demonstrated expertise in the delivery and management of industrial facilities, enabling them to go ahead with their previously dormant investment plans. Majaal in turn ensures that neighbouring developments within its own market maintain the same quality that we have already delivered, thus helping to further establish the market for superior industrial properties which we as Majaal have pioneered.

As the year closed, Management was actively involved in supporting the debt settlement negotiations amongst the shareholders, which came to an amicable conclusion on 24 December 2013 with the signing of an agreement between the committee appointed by the AGM and the shareholder involved in the default.

While these significant achievements are overshadowed in this year's financial statements by the losses recorded due to a further 5% reduction in the value of our undeveloped Seef lands and an additional amount written off as part of the debt settlement, the Company is primed for positive financial performance in the years ahead. With the balance sheet clean and leases in place for 95% of Majaal's 400,000 square feet of leasable area, from the beginning of 2014 the Company will have positive cash flows from operational revenue for the first time in its history. 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 buildings which represented just 13% of the value of its investment properties. By early 2014, First Bahrain will have converted 39% of its raw land holdings into income generating assets. With this expansion in place, the leases already signed during 2013 are scheduled to triple rental revenue over the coming two years. As such, the overall financial impact of our stellar performance of 2013 will not be fully displayed until we report our financial results for 2015.

With respect to the remainder of the investment property portfolio, these newly booked rental revenues will dampen and ultimately cancel out any volatility associated with the changing fair market values of the remaining undeveloped lands. As such, the more our properties are developed, the more we are able to reduce risk and ensure positive annual performance.

The cost of supporting these superior operational results was only a minor 7% increase over our costs in 2012. Continued stringent cost controls and the removal of all redundancy enabled us to achieve our goals while properly aligning our costs to our revenue.

High Praise and Positive Press

In order to market our growing project, in January 2013, Majaal participated in its second Gulf Industry Fair, the leading local trade show for our target market. Increasing our participation through sponsorship of the Industrial Facilities sector of the exhibition, Majaal leveraged its relationship with organizers Hilal Conferences & Exhibitions to gain significant media coverage before, during and after the show. Our participation as a sponsor of the show, 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.

HRH the Prime Minister of the Kingdom 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 seven interviews published in varying media throughout the year.

We also took steps forward in our use of social media, establishing LinkedIn, Facebook and Twitter accounts for both the Company and our subsidiary Majaal Warehouse Co. We now regularly post updates along with links to any recently published interviews, news articles or feature stories. Accordingly, I invite you to follow us online where you can receive real time news on our activities throughout the year. All of the links to our online accounts are listed in the contact information at the beginning of this report.

Looking Forward

Majaal will 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. We are also studying options to expand in Bahrain while diversifying our product offering.

We see the provision of services as a significant new line of business. With two client projects already booked and in progress, our reputation for excellence is growing. We will seek out additional opportunities for development and facilities management and expect that there is much room for growth within the Company's existing cost structure.

Beyond Majaal, First Bahrain is studying new options to develop our land in Janabiya. As the neighbourhood grows with housing supporting commuters to Saudi Arabia, there is a distinct lack of services available. Our corner plot, situated within view of the major highway, is well suited for a commercial development. We expect to put before the Board of Directors a plan to develop such a commercial centre within the first half of this next year. 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. We expect that this development will enhance the value of our adjacent plot where we expect to develop a follow-on residential project.

While our plans for the Company's strategic holding in Seef, a mixed-use commercially-zoned property located across from the country's iconic City Centre Mall, have long been on hold given the oversupply in the office and hospitality markets, we do see signs that the real estate cycle is nearing the point at which development will once again be appealing. We are hopeful that we could be moving forward on a project this next year. We will be closely monitoring the market and we are ready to move forward as opportunities come available.

As we boldly look to the future, 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 you, our 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, and particularly our outgoing Chairman, 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. I appreciate and celebrate each of your individual and collective contributions 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 2014 and beyond.

Amin Ahmed Al Arrayed
General Manager

Board of Directors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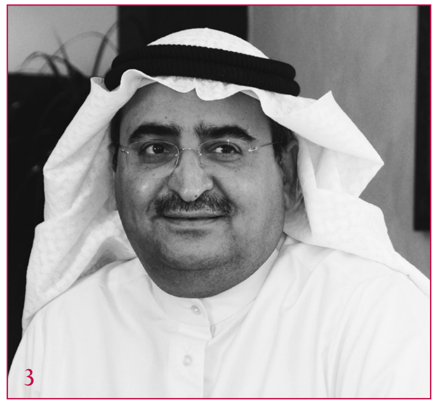
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1. Mr. Salah Al-Wuhaib
Chairman

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 the Vice President of the 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.

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

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

Ms. Al-Awadhi 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-Awadhi 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.

3. Mr. Abdulkarim 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 34 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.

4 .Mr. Talal Al-Omaim
Director

General Manager of the 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.

5. 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 10 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.

6. Mr. Abdul Wahab A. Al-Shaya
Director

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

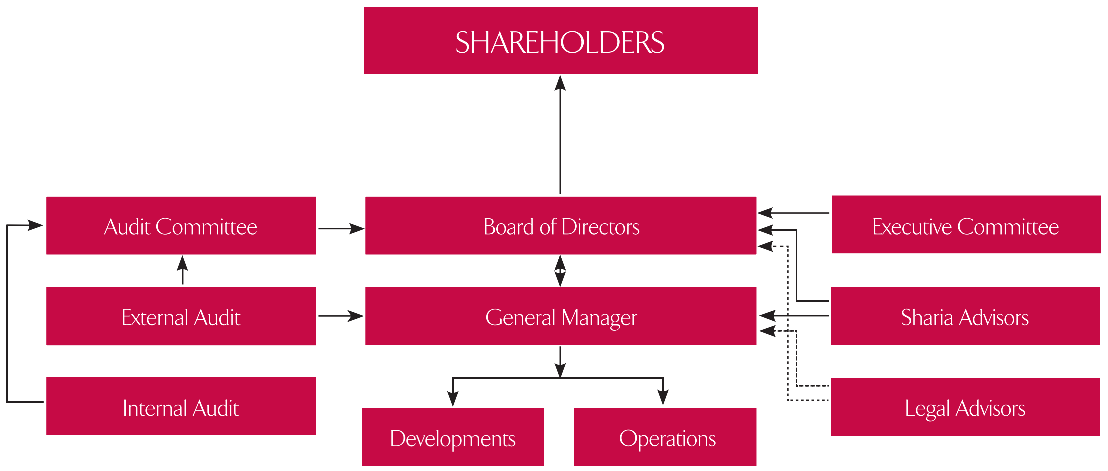
Mr. Al Shaya is the Senior Vice President for Shareholders Affairs and Secretary to the Board of Directors, Housing Finance Co. "Iskan" and General Manager to an Iskan subsidiary. He previously held the position of Senior Consultant to the top management of Kuwait Airways after he had held a managerial 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 37 years. Mr. Al Shaya holds a Bachelor's degree in Commerce, Accounting and Business Administration from the University of Kuwait.

7. 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 Estate Bank, heading the Trade Finance department after she had managed the same department in Burgan Bank for 16 years. Her career spans over 32 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 provides 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 skillfully provided wise and stable leadership to the Company throughout a period of tremendous market volatility over the past seven years. He brings an in-depth knowledge of banking, financial services and real estate developed over a 17 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 25 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 a member of the Board of Directors of 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 28 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)

Peace, mercy and blessings of Allah be upon you.

According to the contract signed with us we at Fatwa and Shariah Supervisory Board in Al Mashora and Al Raya have audited and supervised the principles adopted and the contracts related to the transactions concluded by the Company during the period from 01/01/2013 to 31/12/2013. We have carried out the necessary supervision to give our opinion on whether or not the Company has complied with the Islamic Shariah rules and principles as well as the Fatwas, decisions and guidelines made by us.

However, our liability is limited to the expression of independent opinion on the extent of the company compliance with same based on our audit.

Our supervision included examining the contracts and procedures used by the Company on the basis of examining each type of operations.

In our opinion, the contracts, operations and transactions concluded or used by the Company during the period from 01/01/2013 to 31/12/2013 and which have been reviewed by us, were in compliance with the provisions and principles of the Islamic Shariah.

Moreover, The Company has to draw the attention of its shareholders to the fact that they should pay their Zakat by themselves.

We wish the Company all success and prosperity in serving our religion and our country.

Peace, mercy and blessings of Allah be upon you.

Sharia Advisory Board:

Prof. Abdul Aziz K. Al-Qassar
Chairman of the Sharia Committee

Dr. Essa Zaki Essa
Shaira Committee Member

Dr. Ali Ibrahim Al-Rashed
Shaira Committee 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 2013, 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 2013, 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: 13 March 2014

Consolidated Financial Statements

Consolidated statement of financial position

as at 31 December 2013

	Notes	2013 KD	2012 KD
Assets			
Investment property	5	27,929,469	30,341,004
Furniture and equipment		80,662	71,530
Total non-current assets		28,010,131	30,412,534
Trade and other receivables	6	821,179	218,418
Investments at fair value through profit or loss	7	87,327	491,915
Islamic finance facilities	8	190,248	7,600,000
Cash on hand and at banks	8	240,794	449,359
Total current assets		1,339,548	8,759,692
Total assets		29,349,679	39,172,226
Equity and liabilities			
Equity			
Share capital	9	31,500,000	31,500,000
Treasury shares	10	(10,238,963)	-
Statutory reserve	11	1,467,000	1,467,000
Foreign currency translation reserve		(178,361)	(284,729)
Retained earnings		3,659,991	5,771,973
Total equity		26,209,667	38,454,244
Non-current liabilities			
Long-term murabaha payable	12	2,759,272	-
Provision for employees' end of service indemnity		45,672	33,636
Total non-current liabilities		2,804,944	33,636
Current liabilities			
Short-term murabaha payable	12	-	562,269
Trade and other payables	13	335,068	122,077
Total current liabilities		335,068	684,346
Total liabilities		3,140,012	717,982
Total equity and liabilities		29,349,679	39,172,226

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 2013

	Notes	2013 KD	2012 KD
Income			
Realised loss on sale of investment property		(232,804)	-
Change in fair value of investment property		(200,965)	(1,473,131)
Net rental income	14	279,851	308,170
Realised gain on sale of investments at fair value through profit or loss		24,799	-
Unrealised (loss) / gain on investments at fair value through profit or loss		(22,129)	53,369
Income from Islamic finance facilities		107,070	454,152
Loss on settlement with Housing Finance Company	8	(394,189)	-
Foreign exchange gain		424	6,961
Total loss		(437,943)	(650,479)
Expenses and other charges			
General, administrative and marketing expenses		(150,798)	(122,317)
Depreciation		(10,590)	(15,413)
Staff costs		(281,120)	(274,852)
Finance costs		(143,299)	(53,020)
Board's remuneration	20	-	-
Total expenses and other charges		(585,807)	(465,602)
Loss for the year		(1,023,750)	(1,116,081)
Other comprehensive income			
Foreign currency translation differences for foreign operations		106,368	235,908
Other comprehensive income for the year		106,368	235,908
Total comprehensive income for the year		(917,382)	(880,173)
Loss per share (fils)	15	(3.25)	(3.54)

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

Consolidated statement of changes in equity

for the year ended 31 December 2013

	Share capital KD	Treasury shares KD	Statutory reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Total KD
Balance at 1 January 2012	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
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(1,023,750)	(1,023,750)
Transfer to treasury shares	-	(10,238,963)	-	-	-	(10,238,963)
Retained earnings reduced	-	-	-	-	(1,088,232)	(1,088,232)
Other comprehensive income	-	-	-	106,368	-	106,368
Total comprehensive income for the year	-	-	-	106,638	(2,111,982)	(12,244,577)
Balance at 31 December 2013	31,500,000	(10,238,963)	1,467,000	(178,361)	3,659,991	26,209,667

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

Consolidated statement of cash flow

for the year ended 31 December 2013

	Notes	2013 KD	2012 KD
Cash flows from operating activities:			
Loss for the year		(1,023,750)	(1,116,081)
Adjustments for:			
Depreciation		10,590	15,413
Realised loss on investments at fair value through profit or loss		(24,799)	-
Unrealised loss / (gain) on investments at fair value through profit or loss		22,129	(53,369)
Change in fair value of investment property		200,965	1,473,131
Finance costs		11,121	53,020
Provision for employees' end of service indemnity		12,036	5,994
Operating income before changes in working capital		(791,708)	378,108
Trade and other receivables		(1,585)	(40,517)
Islamic finance facilities		(7,225,705)	-
Trade and other payables		212,919	20,694
Net cash (used in) / from operating activities		(7,806,079)	358,285
Cash flows from investing activities:			
Additions to investment property		(2,412,459)	(491,758)
Paid for purchase of furniture and equipment		(27,235)	(11,044)
Proceed from sale of investments at fair value through profit or loss		403,395	-
Net cash used in investing activities		(2,036,299)	(502,802)
Cash flows from financing activities:			
Net movement in murabaha payable		2,205,018	-
Finance costs paid		(11,121)	(53,020)
Net cash from / (used in) financing activities		2,193,897	(53,020)
Net decrease in cash and cash equivalents		(7,648,481)	(197,537)
Net foreign exchange difference		30,164	24,908
Cash and cash equivalents at the beginning of the year		8,049,359	8,221,988
Cash and cash equivalents at the end of the year	8	431,042	8,049,359

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

Notes to the consolidated financial statements

for the year ended 31 December 2013

1. Reporting group

First Bahrain Real Esate 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.
- Organizing real estate exhibitions for the Company's real estate projects.

The Company's main office is at Al-Madina 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 2013	Percentage of ownership 2012	Principal activities
First Kuwait Al Seef Real Estate Development Company W.L.L.	Kingdom of Bahrain	100%	100%	Real estate and investment activities
FB Janabiya Residential Development Co. W.L.L.	Kingdom of Bahrain	100%	100%	Real estate and investment activities
Majaal Warehouse Co. W.L.L.	Kingdom of Bahrain	100%	100%	Real estate and investment activities

Certain shares of subsidiaries are registered in the name of a related parties 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 2013 (10 employees as at 31 December 2012).

The consolidated financial statements were authorized for issue by the Board of Directors on 13 March 2014, 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") and the requirements of the Companies Law No. 25 of 2012, as amended, the Company's memorandum and articles of association and the Ministerial Order No. 18 of 1990.

On 29 November 2012 through a decree, Companies Law No. 25 of 2012 ("the Law") was issued and later amended by Law No. 97 of 2013 dated 27 March 2013 ("the Decree"). The Law came into effect from the date it was published in Kuwait's Official Gazette. The Executive Regulations have been issued by the Ministry of Commerce and Industry on 29 September 2013 and was published in the Kuwait's Official Gazette on 6 October 2013. According to article 3 of the resolution, the companies have one year from date of publishing the Executive Regulations to comply with the new amended Law. The Company's management is of the view that application of the provisions of the Law has no material impact on the Company's activities or on 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 2013

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.

3. Significant accounting policies

The accounting policies applied by the Group in these financial statements are consistent with those applied in the year ended 31 December 2012 except for the following new or revised IFRS that are effective from 1 January 2013.

IAS 1 Presentation of Financial Statements – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - (Amendments) (effective for annual periods beginning on or after 1 January 2013)

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The adoption of this standard has not resulted in any material impact on financial statements of the Group.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the notes relating to the assets and liabilities whose fair values were determined.

Other amendments to IFRS, which apply to the annual reporting periods effective from 1 January 2013, have no material impact on the Group's accounting policies or its financial position or performance.

a) Basis of consolidation

The consolidated financial statements for the year ended 31 December 2013 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 2013. Total assets, liabilities and net loss of the subsidiaries as per these financial statements (after eliminations) amounted to KD 28,449,124 – KD 3,053,935 and KD (540,008) respectively.

Notes to the consolidated financial statements

for the year ended 31 December 2013

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.

Notes to the consolidated financial statements

for the year ended 31 December 2013

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.

Notes to the consolidated financial statements

for the year ended 31 December 2013

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.

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) Treasury shares
Treasury shares consist of the Company's own shares that have been issued, subsequently reacquired by the Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (treasury shares reserve) which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any realised losses are charged to the same account to the extent of credit balance in such account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

n) 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 2014, and have not been applied in preparing these consolidated financial statements. The Group doesn't intend to adopt such standards earlier and their impact has not been determined.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32)	Effective for annual periods beginning on or after 1 January 2014
Investment Entities (amendments to IFRS 10 and 12 and IAS 27)	Effective for annual periods beginning on or after 1 January 2014
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	Effective for annual periods beginning on or after 1 January 2014
IFRS 9: Classification and measurement	Effective for annual periods beginning on or after 1 January 2017

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.

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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 2013, 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.

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.

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 2012	3,306,332	3,276,021	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	3,754,696	3,764,850	18,553,872	4,267,586	30,341,004
At 1 January 2013	3,754,696	3,764,850	18,553,872	4,267,586	30,341,004
Transfers	(2,025,041)	-	-	2,025,041	-
Land settled during the year (Note 8)	-	-	(4,496,275)	-	(4,496,275)
Additions during the year	1,322,591	-	-	1,089,868	2,412,459
Change in fair value	(48,519)	-	(697,657)	545,211	(200,965)
Foreign currency translation differences	5,532	11,546	(160,572)	16,740	(126,754)
Balance at 31 December 2013	3,009,259	3,776,396	13,199,368	7,944,446	27,929,469

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 10,953,705 (2012: KD 3,198,262) (see note 12).

The Group's investment properties were revalued at 31 December 2013 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 19,985,023 was not in use as of 31 December 2013 (2012: KD 26,073,418), 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 2013 was reliably determinable on a continuing basis.

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6. Trade and other receivables

	2013 KD	2012 KD
Accrued income	114,953	178,247
Due from Housing Finance Company settlement	658,957	-
Prepaid expenses	39,632	40,171
Other receivables	7,637	-
	821,179	218,418

Due from Housing Finance Company (a related party) settlement includes KD 607,604 resulting from the difference between the value of land plots and the value of shares under swap (Note 8).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 18.

7. Investments at fair value through profit or loss

	2013 KD	2012 KD
Held for trading		
Quoted equity securities	-	380,024
Designated upon initial recognition		
Unquoted funds	87,327	111,891
	87,327	491,915

A three percent increase in stock prices at the reporting date would have increased profit or loss and equity by KD 2,620 (2012: an increase of KD 14,757); an equal change in the opposite direction would have decreased profit or loss and equity by KD 2,620 (2012: KD 14,757). The analysis is performed on the same basis for 2012.

The Group's exposure to currency risk related to investments at fair value through profit or loss is disclosed in note 18.

8. Cash and cash equivalents

	2013 KD	2012 KD
Islamic finance facilities	190,248	7,600,000
Cash on hand and at banks	240,794	449,359
	431,042	8,049,359

Islamic finance facilities carry effective average annual profit rate of 2.25% (2012: 6.5%).

Cash on hand and at banks include amount of Nil KD (2012: KD 118,000) which represents cash in portfolio managed by related party.

The Group's exposure to currency risk and a sensitivity analysis for financial assets are disclosed in note 18.

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Islamic finance facilities

On 12th February 2013, Housing Finance Company (a related party), i.e. the party with whom the Group has Islamic finance facilities of KD 7,600,000 informed that they will enter into restructuring process along with proposal for swaping debt for assets.

On 26th September 2013, the annual general meeting of First Bahrain Real Estate Development Company ("the Company") was held where the shareholders agreed to form a committee authorized by the general assembly with power to examine the proposal submitted by Housing Finance Company and prepare a fully integrated study with view to maintaining the shareholders' rights and interests in terms of conducting valuation of assets and debt. The Committee shall have widest powers to take all necessary actions with Housing Finance Company and official authorities and the right to approve or decline any amendments to the proposal submitted by Housing Finance Company. The Committee is authorized to hold meetings and enter into and implement negotiations on behalf of the shareholders with Housing Finance Company.

On 18th November 2013, the shareholders' committee on the settlement of Housing Finance Company's debt amounting KD 7,883,786, held its meeting where the settlement clauses were approved.

On 24th December 2013, an agreement for debt settlement was signed by and between the Company (the First Party) and Housing Finance Company (the Second Party) to settle the debt payable to the Company for an amount of KD 7,883,786 as follows:

	KD
Balance as at 1 January 2013	7,600,000
Accrued profits for the year	41,671
Cash held with portfolio managed by Housing Finance Company	242,115
Balance payable by Housing Finance Company	7,883,786

The settlement includes the following items:

Item (1):
The Second Party hereby acknowledges that it owes the First Party for an amount of KD 7,883,786 "Balance due".

Item (2):
Deduct 5% of the debt, i.e. KD 394,189, so that the debt becomes KD 7,489,597.

Item (3):
The Second Party shall repay the above mentioned debt through transferring the ownership of 64,013,646 shares in First Bahrain Company to First Kuwait Al Seef Real Estate Development Company (as subsidiary). Both parties agreed to evaluate the share at price of Fils 117 per share, i.e. for total amount of KD 7,489,597 Such shares have been transferred to First Kuwait Al Seef Real Estate Development Company at 31st December 2013.

The First Party hereby acknowledges that once the Second Party has fully fulfilled its contractual obligations, it shall irrevocably discharge the latter in connection with any debt that has arisen out of the Portfolio No. (1) Contract dated 2nd November 2008 between both parties.

Item (4):
Once the Second Party has fulfilled all its obligations set forth in item (3) above, both parties agreed that they should finalize full exit of second party from the ownership of First Bahrain Real Estate Development so that the remaining shareholding of second party in First Bahrain shall be given in exchange for transferring by the first party the ownership of 3 back plots of land located in Al Seef area, Bahrain with the following details:

- Both parties agreed that the second party owned shares subject to exchange are 38,886,713 shares in First Bahrain Real Estate Development provided that the price per share shall be evaluated at Fils 100, i.e. total amount of KD 3,888,671;

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- In consideration for the above shares, both parties agreed that the first party owned lands subject to exchange are 3 plots of Al Seef Area located in Kingdom of Bahrain; and that total value of the three plots of land set out in the agreement shall be KD 4,496,275 and they are owned by the First Party through one of its subsidiaries in Kingdom of Bahrain, namely First Kuwait Al Seef Company.

- The second party acknowledges that the above exchange shall generate debt resulting from the difference between value of land and value of shares subject to exchange. Also such debt shall be due from second party to first party amounting to KD 607,604. The second party undertakes to settle amount of KD 207,604 immediately upon signing the initial sale agreement. The remaining of debt shall be settled on two installments during 2014.

Subsequently on 27th January 2014, initial property sale agreement was signed by First Kuwait Al Seef Real Estate Development Company (the First Party) and Housing Finance Company (the Second Party) whereby the First Party acknowledges that it sold, assigned and transferred the properties located in Kingdom of Bahrain to the Second Party including its title with all legal and factual warranties under the agreement. Such sale took place with acceptance by both parties for total amount of the three properties of KD 4,496,275, which is equal to an amount of Bahraini Dinars 5,955,000. Both parties agreed that the Second Party shall pay the selling price as follows:

1. KD 3,888,671 will be paid by the Second Party to the First Party through assignment and transfer of 38,886,713 shares held in First Bahrain Real Estate Development Company in two installments:

   First Installment: 38,375,983 shares will be transferred by the Second Party to the First Party upon signing the agreement. Such shares were transferred on 26th January 2014.

   Second Installment: 510,703 shares will be transferred by the Second Party to the First Party within maximum ten days from the agreement date. Such shares have not been transferred till date.

2. The Second Party shall pay the outstanding amount of KD 607,604 (Note 5) in three installments, which will fall due as follows:

   First Installment: by issuing a certified cheque in favor of First Bahrain Real Estate Development Company for an amount of KD 207,604. Such cheque was deposited on 28th January 2014

   Second Installment: an amount of KD 200,000, which will be payable on 1st June 2014.

   Third Installment: an amount of KD 200,000, which will be payable on 1st December 2014.

The Second Party shall issue an official debt acknowledgement affixed with the write of execution for the remaining amount of such debt in favor of the First Party upon signing this agreement. In return, the First Party shall take all required actions to transfer, register and authenticate the properties in the name of the Second Party.

At the reporting date, the Company holds 102,389,629 shares as treasury shares (Note 10). There are 510,730 shares still registered in the name of Board of Directors members, which will be transferred during 2014.

As a result of implementing the above agreement terms, the Company recognized treasury shares as at 31 December 2013 at 32% of the share capital (2012: nil). In the opinion of the Company's legal advisor, the acquisition of this percentage is in compliance with the requirements and provisions of Companies Law No. 25 of 2012, as amended, and the Company's articles and memorandum of association.

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 paid in cash (31 December 2012: KD 31,500,000 distributed over 315,000,000 shares).

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10. Treasury shares

The Company holds the following treasury shares as at 31 December:

	2013 KD	2012 KD
No. of treasury shares (shares)	102,389,629	-
Percentage of treasury shares to total issued shares	32.5%	-
Cost of treasury shares – KD	10,238,963	-

Treasury shares include 64,013,646 shares (2012: Nil) registered in the name of First Kuwait Al Seef Real Estate Development Company (a 100% owned subsidiary).

11. Statutory reserve

In accordance with the 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.

12. Murabaha payable

Murabaha payable represents the value of commodities purchased on a deferred settlement basis and bear average profit rate of 7% per annum (2012: 9.5% per annum). Five percent of the murabaha is payable on quarterly basis starting on 20 May 2015 and ending on 20 February 2020 and are secured over investment property with a carrying amount of KD 10,953,705 (2012: KD 3,198,262) (see note 5).

The Group's exposure to currency and liquidity risks related to murabaha payable is disclosed in note 18.

13. Trade and other payables

	2013 KD	2012 KD
Trade payables	305,780	97,717
Accrued expenses	29,288	24,360
	335,068	122,077

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

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14. 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.

	2013 KD	2012 KD
Average Occupancy Rate	98.4%	98.8%
Total leasable area	24,000	12,000
Gross Rental Revenue	569,454	382,795
Doubtful debt provision	(214,154)	(7,979)
Costs of Revenue	(17,837)	(15,381)
Operational Costs	(57,612)	(51,265)
Net Rental Income	279,851	308,170

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 2012.

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.

In June 2013, construction on an expansion facility was completed, doubling the leasable area. The additional property was fully leased to a single tenant from the same month.

The gross rental income grew from KD 382,795 in 2012 to KD 569,454 in 2013 due to the increase in the occupancy rate.

A tenant occupying one third of the original facility defaulted at the year end. Management has successfully recovered and re-leased 56% of its original unit however there is a significant write off required for the outstanding bad debt. Recovery is being attempted through the courts.

15. Loss per share

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

	2013 KD	2012 KD
Loss for the year	(1,023,750)	(1,116,081)
Weighted average number of outstanding and paid shares	315,000,000	315,000,000
Losses per share (fils)	(3.25)	(3.54)

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16. 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 2013.

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 156,544 for the year ended 31 December 2013 (KD 156,000 for the year ended 31 December 2012).

Other related party transactions

	Transaction value for the year ended 31 December		Balance outstanding as at 31 December	
	2013 KD	2012 KD	2013 KD	2012 KD
Islamic finance facility	-	-	-	7,600,000
Income/ accrued income from Islamic finance facilities	(281,260)	451,758	-	63,978
Due from Housing Finance Company	-	-	658,957	-

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

17. 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.

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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.

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18. 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:

	2013 KD	2012 KD
Domestic	691,004	7,701,601
Kingdom of Bahrain	320,423	116,817
	1,011,427	7,818,418

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

	2013 KD	2012 KD
Past due 0-30 days	207,604	2,029,918
Past due 31-120 days	803,823	5,788,500
	1,011,427	7,818,418

No provision was required in year 2013 (2012: 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 2013			
Financial liabilities			
Murabaha payable	2,759,272	-	2,759,272
Trade and other payables	335,068	335,068	-
	3,094,340	335,068	2,759,272
31 December 2012			
Financial liabilities			
Murabaha payable	562,269	562,269	-
Trade and other payables	122,077	122,077	-
	684,346	684,346	-

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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 34,838,687 (2012: BHD 50,524,995).

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 2,620,967 (2012: KD 3,789,450). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2012.

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 2013				
Investments at fair value through profit or loss	-	87,327	-	87,327
	-	87,327	-	87,327

	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

During the year ended 31 December 2013, there have been no transfers between fair value levels.

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19. 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 2013 is as follows:

	Real estate activities KD	Non-real estate activities KD	Total KD
Segment (losses)	(153,494)	(284,449)	(437,943)
Segment expenses	(585,807)	-	(585,807)
Segment results	(739,301)	(284,449)	(1,023,750)
Segment assets	28,831,310	518,369	29,349,679
Segment liabilities	3,140,012	-	3,140,012
Capital expenditure	2,456,985	-	2,456,985

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

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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.

Geographical information

	Revenues/ (losses) KD	Non-current assets KD
31 December 2013		
Inside Kuwait	(262,320)	3,749
Outside Kuwait	(175,623)	28,006,382
	(437,943)	28,010,131
31 December 2012		
Inside Kuwait	747,447	6,202
Outside Kuwait	(1,397,926)	30,406,332
	(650,479)	30,412,534

During 2013 and 2012, 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.

20. Board's remuneration

During its meeting dated 13 March 2014, the Board of Directors proposed no remuneration for the Company's Board of Directors for the year ended 31 December 2013 (2012: Nil), subject to the approval of the shareholders' general assembly.

21. Proposed dividends

During its meeting dated 13 March 2014, the Board of Directors proposed no distribution of cash dividends to the shareholders for the year ended 31 December 2013 (2012: Nil), subject to the approval of the shareholders' general assembly.

On their meeting dated 26 September 2013, the shareholders' general assembly decided not to distribute dividends for the year 2012.