Building Momentum

Annual Report 2016

البحرين الأولى
First Bahrain

His Highness
Sheikh Sabah Al Ahmad Al Jaber Al Sabah

Amir of the State of Kuwait

His Highness
Sheikh Nawaf Al Ahmad Al Jaber Al Sabah

Crown Prince of the State of Kuwait

His Royal Highness
Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the
Kingdom of Bahrain

His Majesty
King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad Al Khalifa

Crown Prince, Deputy Supreme Commander
& First Deputy Prime Minister

Kuwait Office City Tower, 2nd Floor,Khaled Ibn Al Waleed St., Sharq. PO Box 64679, Shuwaikh (B) 70457, State of Kuwait
T (+965) 22414902 F (+965) 22414903 E info@firstbahrain.com

Bahrain Office Almoayyed Tower, Suite 501, Seef District, PO Box 75622, Manama, Kingdom of Bahrain
T (+973) 17567555 F (+973) 17567556 E info@firstbahrain.com

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

www.majaal.com
MajaalWarehouseCo
MajaalWarehouse
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www.elmercadojanabiya.com www.elmercadovillage.com
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Company Profile

First Bahrain Real Estate Development Co. K.S.C. 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 was increased. 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 Shari'ah 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, Wafra International Investments Co., Action Group Holdings Co., Esterad Investment Co. and the General Retirement and Social Authority of the State of Qatar.

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, is a flexible-use industrial facility designed to support Small-to-Medium-sized Enterprises (SMEs). The facility is located at the Bahrain Investment Wharf (BIW), within Salman Industrial City, near to both the new Khalifa bin Salman Port and the Bahrain International Airport.

Comprised of seven buildings developed between 2009 and 2014, the complex is now operating at full occupancy, functioning as home to over 35 businesses representing a range of activities from FMCG distributors to small manufacturers. Providing leasing and facilities services for both this and third-party owned properties, the Company has over 570,000 square feet of facilities under management.

Development of the Janabiya property began in 2015, as the company initiated the first phase of a mixed use project on a 86,672 square foot plot. Construction of the commercial project, known as El Mercado Janabiya, was completed early in the year and was ready for operations from June 2016. Shops began opening throughout the summer with the anchor supermarket launching at the grand opening of the mall in November. By year-end, 100% of the units were leased with 57% of the shops being operational.

The residential phase of the El Mercado project began in early 2016 with design work and permissions to subdivide the neighbouring 150,000 square foot property into 42 individual plots for semi-detached and stand-alone homes. Construction commenced in the fourth quarter with completion scheduled to be complete by the end of 2017.

With the addition of commercial and residential developments to its portfolio of industrial properties, the Company has diversified its holdings, grown its balance sheet and is building momentum as it looks forward to cash exits and new projects on the horizon.

Despite the negative economic shocks coming from lower oil prices, removal of subsidies and new taxes, the Company continues to be optimistic about its potential as it takes advantage of low construction costs and maintains disciplined focus on growing its revenue across multiple sectors.

As it has done with Majaal, the Company is continuing to convert 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 benefit of all of its stakeholders.

Our Vision

Our vision is to realise value potential.

Our Mission

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

Our Values

Our values drive our behaviour. First Bahrain's four core values flow from who we are as people and shape who we are as a Company, enabling us to achieve our vision and mission. These values are also in rank order. If there is any conflict between two values, we choose conduct in line with the higher value.

Integrity

We are passionate and committed to our principles. Driven by Islamic values, we stand by our corporate social responsibilities. Our expertise and dedication enables us to transcend traditional ideas, and offer clients inspired and meaningful solutions.

Partnership

We continue to build an international network of strategic alliances. These alliances share our vision of maximizing Return of Investment in accordance with the principles of Shari'ah. In working together with select partners, we develop a strong and secure support-structure and move forward with confidence and strength.

Innovation

We embrace creativity in a constantly changing environment and provide intelligent solutions to capitalise upon these developments. Through dynamic planning, we enhance stakeholder value, increase investor opportunity, and spearhead regional real estate growth to higher levels.

Prosperity

Our understanding and insight into the real estate market is the driving force that enables us to ensure continued prosperity for all our shareholders. We have established an energetic culture that both demands and rewards excellence throughout every business venture.

Report of the Board of Directors

On behalf of the Board of Directors, it is my pleasure to present this Annual Report and Consolidated Financial Statements of First Bahrain for the year ended 31 December 2016, the third year under my leadership as Chairman and the final year of the current term of the Board of Directors.

Through the courageous leadership of the Board and the dedicated execution of the plans proposed by Management, First Bahrain has delivered on our plans for this term, outperforming both our targets and the overall market in the midst of difficult economic circumstances. Creative thinking combined with a disciplined approach to real estate fundamentals has enabled us to activate dormant holdings and diversify our investments into new sectors.

The commercial success of the El Mercado Janabiya retail centre, the construction and leasing for which were both completed during the year, led directly to a growth in total income of 60% to KD 1,829,014. This performance was achieved within the current cost structure, enabling net profit to jump by 148% to KD 831,759.

In 2014, when the Board was elected, the Company had endured three successive years of significant losses in the aftermath of the global financial crisis. In sharp contrast, we are very pleased to report that we have now enjoyed three years of increasing levels of net profit, and we are only building momentum.

On assuming our duties in 2014, the Company had operating income from just 28% of its holdings. The first year saw the completion of the final phase of the Majaal industrial facilities and the growth in rental income associated with this 54% expansion of the leasable area available at that time. By the end of 2014, 41% of the investment property of the Company was income generating, however all of it was within the industrial sector.

The following year saw the implementation of plans set in motion by the Board which began to further grow and diversify revenue with expansion into retail and residential property through the El Mercado mixed use development in Janabiya. As 2016 ends, 49% of the investment property of the Company is now generating rental income and a further 9% is under construction. The residential component of the Janabiya project is expected to be the Company's first major cash exit since the crisis in 2008.

The remaining 42% of the Company's assets are the Seef properties, adjacent to City Centre Mall. With the proceeds from the sale of the villas next year, we expect to commence the first phase of the development of these remaining four plots.

Across the whole of our term, rental income has grown a combined total of 353% from KD 279,851 to KD 1,267,306, while the value of the assets has grown a combined total of 22% from KD 29,349,679 to KD 35,934,981.

While principal repayments continued for construction finance for the Majaal facility, the overall finance level increased by 35% as additional murabaha drawdowns funded the construction of the Janabiya projects, growing the net finance amount from KD 4,139,688 to KD 5,606,809. Over the three years of the term, the finance balance increased by 103% as the Company successfully leveraged banking relationships to fund the construction of new projects and the creation of new streams of revenue. Across the term, the debt to equity ratio increased in measured fashion from 12% in 2013 to 20% in 2016, leaving ample room for further increases in leverage.

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Despite cash outlays to fund the ongoing construction of our retail development to meet finance expenses and debt repayment obligations, cash reserves stood at KD 1,239,484 million including the new escrow account dedicated to the funding of the construction of the residential project. On the strength of this performance, I am pleased to confirm that the board is recommending the distribution of a dividend of 5 fils per share this year. We appreciate your faith and patience and we are pleased to deliver to you.

Board Remuneration

In recognition of the efforts of the Board of Directors, KD 9,925 was distributed in 2016 as attendance allowances for the Board and the committees meetings. It was recommended in this year's Annual General Meeting to distribute KD 37,000 as remuneration for the board with KD 7,000 to the Chairman and KD 5,000 for the members.

Projects and Plans

First Bahrain's hard earned position as a leading creator of strong brands continues. Just as Majaal has become synonymous with first class industrial facilities for SMEs, our new brand, El Mercado, is well recognized as carrying the same commitment to quality, from the individual user experience to the brand mix of the tenants, quickly establishing a reputation as

a landmark property. Strong demand for the project is reflected in the 100% occupancy rate achieved by year end. The anchor supermarket opened its doors in Q4 2016, bringing the facility to life, along with 57% of the tenants which were open for business by that time.

El Mercado Village, our complementary residential development and demand driver for the retail centre, progressed through the design and permissions stages during the year with construction commencing in the fourth quarter. The first of the homes will be complete and ready for viewing during Q2 2017. Licensed to sell off-plan, the villas will be on showcase at the Gulf Property Show from 25-27 April. The construction program is scheduled to be complete by the end of 2017 and all homes should be ready for handover to their owners by the end of Q1 2018.

Looking forward, the Company is well positioned to continue building momentum as it activates the remaining dormant investment lands. Existing projects will be managed to maximize rental income and the Company anticipates employing the cash gained from the sale of the villas to reward the shareholders for their investment and to invest in future projects.

Plans are now being studied to extend the Company's success in the retail sector to a new development in Seef, the first phase of a mixed-use project which will realize the founding vision of the Company.

The Company will continue exploring means to realize cash exits from existing income generating properties to create liquidity for further expansion and dividends. The first successful listing of a Real Estate Industrial Trust (REIT) on the Bahrain Bourse occurred at the end of the year and this structure may offer a means of generating exits while maintaining some ongoing control over our existing brands. Wherever the Company invests, we will make sure we are adding value and contributing to the local community in keeping with our values.

Acknowledgments

As we complete the final year of this current Board of Directors, I would like to thank my fellow members for their ongoing support and commitment to provide the Company with quality leadership and accountability. We have achieved much during this term and we have prepared the Company to go forward in a much better state than when we first took the reins. The projects we have considered, scrutinized and approved are being skillfully executed and are providing a good return to our stakeholders.

I extend my best wishes to H.H. Sheikh Sabah Al Ahmad Al Jaber Al Sabah, the Amir of the State of Kuwait, 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 growth and development of the State of Kuwait.

In like manner, I am grateful for the faithful and well-considered leadership of H.M. the King Hamad bin Isa Al Khalifa, King of the Kingdom of Bahrain, H.R.H. Prince Salman bin Hamad Al Khalifa, The Crown Prince and Deputy Supreme Commander and First Deputy Prime Minister of the Kingdom of Bahrain and H.R.H. Prince Khalifa bin Salman Al Khalifa, the Prime Minister of the Kingdom of Bahrain. The reforms and initiatives made in the context of constrained budgets and economic difficulties are working to preserve the market and open up new opportunities in our home market, the Kingdom of Bahrain.

Furthermore, I express appreciation to all governmental ministries, supervisory bodies, and regulatory authorities of both countries, for their constructive support and wise guidance.

Finally, I offer my sincere appreciation to our shareholders for your affirmation of my leadership during this term. It has been my honour and privilege to provide leadership to the Company through this season. You have a good team and I expect that there is much more we can achieve together. You should all be proud of the achievements of these past three years. Towards this end, I am particularly grateful for the dedication to duty displayed by our management and staff. Thank you for your hard work and commitment. Keep up the strong effort and you will earn your just reward.

May Almighty Allah grant us all sustained prosperity and growth.

Waleed Ahmed Alkhaja
Chairman

Diversified and Growing Portfolio

El Mercado Janabiya is a neighbourhood retail centre designed to provide a mix of casual dining restaurants, cafés, shopping, and services supported by an anchor supermarket. By year-end, 57% of the tenant businesses were operational while the remaining 43% were in varying stages of fit-outs.

The facility has 160 covered car parks at ground level. The majority of the shops are on an elevated, landscaped open air platform cooled with water features.

The site for the development is on a plot size of over 85,000 square feet in Block 575 of Janabiya. Designed and managed by Sanad Engineering with HAJ serving as the Cost Consultant, the project was built by the Almoayyed Contracting Group.

Funding was arranged through an Islamic finance facility from Kuwait Finance House - Bahrain. The BD 2 million finance facility was more than enough to pay for the full sum of the construction contract.

Commercial Sector 12%

El Mercado Janabiya –
a neighbourhood retail centre

Location:
Corner of Avenues 27 and 79
Janabiya 575, Kingdom of Bahrain

Value:
US$ 13.3 million

Total Occupancy at 31 December:
100%

Leasable Area:
50,408 square feet

Start of Construction:
June 2015

Date of Completion:
April 2016

Commencement of Operations:
June 2016

Grand Opening:
November 2016

The El Mercado Village project is beginning to take shape as general contractor, Decorators, began construction during Q4. Designed with Spanish and Mediterranean touches by Sanad Engineering with support from Impact Interiors, the homes are complementary in style to the adjacent retail development. Permissions were obtained to change the project zoning to RHA (row houses) enabling the development of 34 semi-detached and 8 stand-alone villas.

By year-end, the Company had established and seeded the project escrow account in compliance with the new law governing off-plan sales. The license to sell off-plan was awarded during January 2017. 14% of the homes had been reserved during 2016, giving strong indication of the commercial viability of the project.

Up to BD 5 million of funding for the project has been secured from Kuwait Finance House as an extension of the facility for the retail centre. HAJ continues in their support of the project as the cost consultants.

The future occupants of the homes will be demand drivers for the businesses which locate within the retail centre. The two projects will benefit from each other's success.

Residential Sector 9%

El Mercado Village –
42 Villa Residential Development

Location:
Avenue 79, Janabiya 575,
Kingdom of Bahrain

Value:
US$ 20.7 million

Total Units:
42

Total Land Area:
153,279 square feet

Start of Construction:
October 2016

Expected Date of Completion:
December 2017

Expected Date of Handover:
March 2018

Diversified and Growing Portfolio

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.

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. Each building is sub-dividable into units as small as 1,345 square feet. Three more S-Type buildings were added to our inventory in June 2013.

The centrepiece of the development at BIW, completed during 2014, is our M-Type building, offering 150,000 square feet of net leasable area sub-divisible into units of minimum space of 10,700 square feet. The building features raised floors with adjustable dock-levellers to cater for direct on and off loading of trucks along with a 12m structure height to facilitate maximum storage density.

Beyond facilities, our entrepreneurial team has further expanded Majaal's product offering through the provision of development, leasing and facilities management services. Majaal has now successfully guided multiple third party industrial developments to completion. Majaal now has over 570,000 square feet of facilities under management.

Industrial Sector 37%

Majaal Warehousing Development at BIW

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

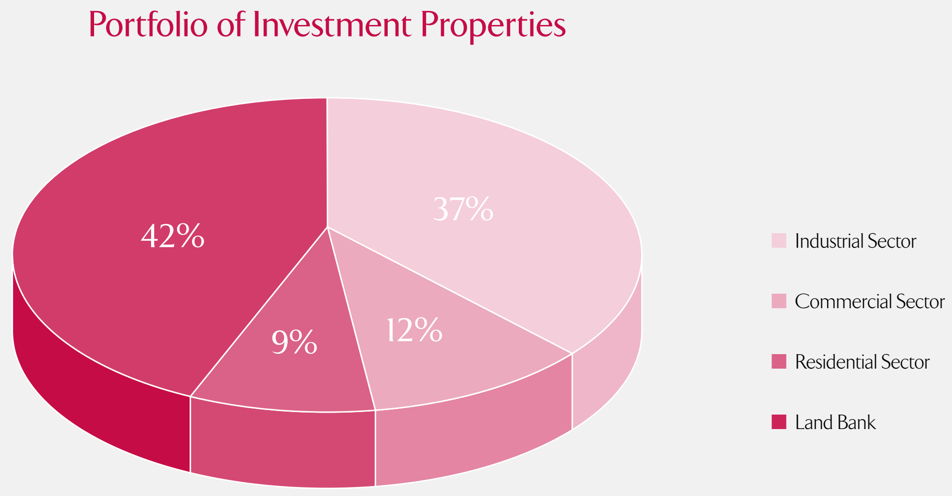
Value:
US$ 45 million

Total Occupancy at 31 December:
97%

Leasable Area:
405,308 square feet

Start of Construction:
February 2009

Date of Completion:
April 2014



The Company's four plots in the new central business district hold strategic value and significant potential. Having stabilized in value since the 2008 global financial crisis, the real estate cycle is approaching the point at which the economics are favourable for development again.

The Company is seriously considering the replication of its success with El Mercado with the development of a similar project which we seek to activate during 2017. Commencement of this project will be a landmark event as we see the activation of portions of all of the Company's land holdings.

Land Bank 42%

Seef District – just north of Bahrain City Centre Mall

Location:
Corner of Road 2819 and Road 4653
Seef 346, Kingdom of Bahrain

Value:
US$ 46.5 million

Total Land Area:
164,818 square feet

Expected Start of Construction:
Q4 2017

Expected Date of Completion:
Q3 2019

Report of the Chief Executive

With multiple projects active this year across the industrial, commercial and residential real estate sectors, 2016 has been First Bahrain's best year yet from an operational perspective. We have delivered on our plans and outperformed our targets.

Building on the success of our existing industrial properties operated by Majaal, which now has 570,000 square feet of assets under management, we diversified our investments with the commencement of work on a mixed use development in Janabiya last year.

Faithful to our promises, we delivered the El Mercado Janabiya neighbourhood retail centre on time and on budget during Q2. The mall, located on a major artery giving access to the southern end of the Saar and Janabiya communities, just off the highway to Saudi Arabia, began operations by the end of June.

Under the patronage of H.E. the Minister of Industry, Commerce and Tourism, Zayed bin Rashid Alzayani, we hosted a grand opening and ribbon cutting ceremony for the facility on 1st November, which also marked the formal launch of our anchor supermarket, Alosra. By year-end, 100% of the units were leased out and 57% of the shops were in operation. El Mercado now offers a unique combination of new restaurants, cafes, and retail options overlooking a beautiful open garden area.

The additional rental revenue and the associated gain in value of our investment property generated by the launch of El Mercado grew our total income by 60% over 2015. The increase also represented the first time that our revenue was diversified beyond our industrial holdings.

Leveraging the commercial success of the retail centre, Kuwait Finance House - Bahrain agreed to expand our KD 1.6 million murabaha by an additional KD 2.4 million to a total of KD 4.0 million, allowing us to commence construction of the second phase of our Janabiya project, the 42 homes of El Mercado Village. By year-end, construction had progressed to 20%, on pace to complete the works by 25 December 2017. Once government services are connected, the homes should be ready for handover during Q1 2018.

Achieving these milestones required tremendous effort throughout the year as the project needed a change in zoning from the municipality. In order to win approval, plans had to be revised multiple times as we negotiated with government bodies to design the optimal plot layout and worked to minimize the areas lost to support roads and services.

In the midst of these negotiations, a new real estate law came into effect, intended to protect home buyers from investing in failed developments. The law requires that developers create and maintain an escrow account for the deposit of all proceeds prior to receiving the required license to sell off plan. Two weeks from the end of the year, we successfully established an escrow account at Kuwait Finance House - Bahrain, the very first such account they had ever opened. The license to sell off plan was awarded to the Company by the Ministry of Works, Municipalities and Urban Planning three weeks later on 10 January 2017.

Acquiring the license to comply with the new real estate law positions the Company as a true leader in the market, receiving one of the first three such certificates awarded.

Pending receipt of the license to sell off plan, the Company received reservation requests for 6 of the 42 homes by year-end. Now that the license has been awarded, our marketing efforts will be stepping up. Supported by outdoor advertising and events at our mall, we will open the show home and participate in the Gulf Property Show from 25-27 April.

The additional rental revenue and the associated gain in value of our investment property generated by the launch of El Mercado grew our total income by 60% over 2015

The two phases of the El Mercado project, featuring similar architectural elements, will provide mutual demand drivers for one another as the retail centre raises the profile of the homes and the occupants of the homes are expected to frequent the retail centre.

The final project value is expected to be KD 6.4 million. After the construction funding is repaid to Kuwait Finance House – Bahrain, we expect to have KD 3.2 million available for reinvestment and distribution once the funds are released from escrow following the handover of keys to the home buyers.

I am very pleased to report that all of this growth has been funded through current operations and project finance sourced by Management, without any need to ask our valued shareholders for additional funds. Our growing income from real estate operations, including rental income from our industrial properties and professional fees from managing third party properties, is strong enough to insulate the Company from external shocks and is now giving us very predictable and steadily increasing cash flows. While our asset growth has been funded through debt, our debt to equity ratio remains at a very reasonable 20.6%, allowing room for further expansion. With KD 1.2 million in cash and a current ratio of 1.7, we are maintaining sufficient liquidity to meet all ongoing obligations.

With all of the business activity described, First Bahrain featured large in the press this past year, announcing retail tenant signings and participation in events through which we had audience with HRH the Prime Minister, Prince Khalifa bin Salman Al Khalifa and other senior leaders. As our projects make regular headlines in both the local and regional press, our reputation as a leading developer is further supported in the minds of potential partners, tenants and customers.

Our cloud-based real estate-focused CRM system is helping our existing team manage the increasing number of customer relationships, which have grown by over 200% since 2013 and is on track to grow by another 50% this coming year. Processes are being automated and policy manuals are being reviewed to support our continued expansion without significant associated growth in costs. We have also recently updated all our websites to be mobile-responsive, ensuring a professional presentation of our message to all potential customers, partners and investors.

Looking to the year ahead, we are working on plans to further diversify our portfolio through the activation of a project in Seef. With the expected cash exit from El Mercado Village, we can confidently fund the initial phase of a development on this property.
We will also continue to pursue strategies to monetize or partially exit from existing investment properties which have stabilized cash flows and have reached their maximum potential value.

As we execute these plans, we expect to continue to grow our net income in a steady and measured way. Despite all the negative signals in the broader economic environment, First Bahrain is on track to grow our income in a sustainable manner. As we achieve these results, we will grow our cash balances and start distributing for the shareholders on a consistent basis. We recognize that this journey has been a long one for our investors and we want you to know that we take our stewardship role seriously and we are keeping your interests at the forefront of our planning and consideration.

Acknowledgments
I would like to thank each member of the Board of Directors for their courage and support which has empowered us to execute our bold plans and exceed our objectives. Their wise counsel and advice, regular engagement and accessibility serves as a constant driver and example for me as I seek to lead my team to a higher level. Our Company is much better for the collective wisdom they represent. I am privileged to have them as a mentors and guides.

I am also deeply appreciative of the dedication to duty and entrepreneurial creativity of my executive team and our entire staff, who keep finding ways to differentiate our offerings, positioning us all for increasing levels of success. Their determined and faithful service has delivered better than expected results at every turn, as they apply their well-honed skills to each new challenge we face. They are each a credit to the organization.

The best days of this Company are still before us. Working together, by God's grace, we will achieve results beyond our expectations as we deliver enduring value to each of our stakeholders.

Amin Ahmed Al Arrayed
Chief Executive Officer

Board of Directors

Mr. Waleed Ahmed Alkhaja
Chairman

Mr. Alkhaja is a seasoned leader with a long career in investments. He served for 19 years in the Investment Directorate of the Kingdom of Bahrain's Ministry of Finance, before joining the Pension Fund Commission of Bahrain as Director of Investment and Executive Director of the SIO Asset Management Company. In 2013, he became the Managing Director of AMAK Property & Development, a family firm. He served two terms on the Board of Directors of Seef Properties, Batelco Group and Bahrain Tourism Co. He currently serves on the Board of Directors of Reef Real Estate Finance Co., Gulf Educational Projects and on the Board of Trustees of Applied Science University. Mr. Alkhaja holds a Bachelor's degree in Business Administration from North Texas State University.

Mr. Ahmad Mohammad Al Ajlan
Vice Chairman, Remuneration Committee Chairman

Mr. Al Ajlan is a well-respected senior leader with extensive experience in real estate and investment management. Currently serving as the Chairman for Al Jahra Cleaning Co., Mr. Al Ajlan has served on the Board of Directors of Qurain Petrochemical Industries Co. and Zumorroda Leasing & Finance Co. He previously worked as the General Manager of Real Estate House Co., Vice President of Qurain Holding Co. and General Manager of Pearl of Kuwait Real Estate Co. Earlier, he also served with the Kuwait Clearing Co., Kuwait Lube Oil Co. and the Public Industrial Authority. Mr. Al Ajlan holds a Bachelor's degree in Business Studies with an emphasis in Marketing from Kuwait University.

Mr. Sulaiman Mohammad Al Furaih
Director

Mr. Al Furaih is the Vice President of Financial Analysis for Wafra International Investment Co. in Kuwait, where he has risen through the ranks over a distinguished 12 years career with the firm. He also serves as the Chairman of the Board of Directors for Fanan Real Estate Co. Mr. Al Furaih holds a Bachelor of Science degree in Accounting and Auditing from Kuwait University.

Mr. Bader Ghanem Al Ghanem
Director

Mr. Al Ghanem is the Executive Vice President for MENA Asset Management at Global Investment House in Kuwait where he manages a portfolio valued in excess of USD 1 Billion. Prior to joining Global in 2010, he worked for Kuwait Middle East Financial Investment Co. (KMEFIC) and Kuwait Financial Centre (Markaz) where he held positions in asset management and futures trading. Mr. Al Ghanem holds a Bachelor of Science degree in Electrical Engineering along with a Bachelor of Arts degree in Economics from Boston University.

Mr. Abdullah Hamad Al Jouan
Director

Mr. Al Jouan is the Assistant General Manager for the AlJouaan Investment Company and the Managing Partner for Finance & Operations for the Gusto Group Food Services Co., providing strong leadership to these related family firms. His career in finance and investments has seen him serve with the Capital Markets Authority, the Kuwait Financial Centre (Markaz) and Boubyan Bank. Mr. Al Jouan holds a Bachelor of Science degree in Business Administration from the University of Denver.

Mr. Omar Faysal Reehan Al Temeimy
Director

Mr. Al Temeimy is the Vice President in the Investment Banking Department at Global Investment House in Kuwait. A member of the Global Investment House team since 2003, Mr. Al Temeimy brings significant experience in investment analysis and management. He holds a Bachelor's degree in Economics, with a specialization in Finance, from the International Islamic University of Malaysia and a Masters in Business Administration from the Kuwait Maastricht Business School.

Eng. Rawaf Ibrahim Bourisli
Director

Eng. Bourisli has served as the General Manager of Action Real Estate Company (AREC) since 2007. He is a qualified architect and expert in the field of mixed-use and mid-class development with over 15 years of professional experience in design, project management and real estate development throughout the Middle East. In addition, he is serving as Development Director and member of the Board of Directors for Action Hotels Company www.actionhotels.com (a public listed company on LSE), and as Chairman of Ebla Computer Consultancy www.eblacorp.com.

Eng. Bourisli holds a BSc in Architecture from Oklahoma State University where he was awarded the Iron Design Certificate. He is a serving member of the Kuwait Society of Engineers and is a regular speaker on budget & mid-market hotel developments in the Middle East.

Executive Management

Amin Al Arrayed
Chief Executive Officer

Mr. Al Arrayed has skillfully provided wise and stable leadership to the Company throughout a period of tremendous market volatility over the past nine years. He brings an in-depth knowledge of banking, financial services and real estate developed over a 21 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. Active in the local community, Mr. Al Arrayed serves on the Tamkeen advisory board for real estate and construction, as a member of the College Council for Business Administration for the University of Bahrain, and as the Curriculum Advisory Committee for the Bachelor of International Logistics Management program at Bahrain Polytechnic. 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
Chief Financial Officer

An entrepreneur, with a diverse career spanning 28 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
Chief Development Officer

Mr. Abu-Lughod brings over 30 years of international project management and engineering experience to the First Bahrain team where he leads the Company's developments 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).

Corporate Governance

The Company has put in place a Corporate Governance framework through which it seeks to safeguard shareholders interest, particularly for the minority owners.

The Company seeks to balance entrepreneurship, compliance and industry best practice, while creating value for all stakeholders. This includes, but is not limited to, conducting the policy and affairs of the Company in compliance with regulatory requirements. It also involves having checks and balances in place throughout the organization to ensure that the right things are always done in the right way.

First Bahrain Real Estate Development Company K.S.C. (Closed) is a Kuwaiti closed Shareholding Company which operates as a real estate developer in compliance with the guiding principles of Islamic Shari'ah. While not publicly listed, the Company is working to fully comply with the Corporate Governance framework as established by the Capital Markets Authority of Kuwait. The Company has only one class of ordinary share and the holders of shares have equal voting rights. The list of leading shareholders in the Company as of 31 December 2016 is as follows:

Name	Nationality	No. of Shares	Share %
Global Investment House (Client Accounts)	Kuwaiti	105,535,835	45.2%
Wafra International Investments (Client Accounts)	Kuwaiti	46,456,987	19.9%
Esterad Real Invest I WLL	Bahraini	14,520,000	6.2%
GRSIA Qatar	Qatari	11,319,000	4.9%
Yaqoub Yousif Mohammed Al Jouan	Kuwaiti	10,229,131	4.4%
Other Shareholders	Various	45,248,647	19.4%
Total		233,309,600	100%

Distribution of ownership by shares and nationality:

Nationality	Shareholders	No. of Shares	Share %
Kuwaiti	144	201,372,485	86.3%
Bahraini	4	20,134,180	8.6%
Qatari	1	11,319,000	4.9%
Other Nationalities	9	483,935	0.2%
Total	158	233,309,600	100%

Distribution of ownership by size of shareholders:

Size of Holding	Shareholders	No. of Shares	Share %
Less than 1%	145	18,278,459	7.8%
1% to less than 5%	10	51,702,603	22.2%
5% to less than 10%	1	14,520,000	6.2%
10% and above	2	148,808,538	63.8%
Total	158	233,309,600	100%

Board of Directors

The Articles of Association of the Company detail the responsibilities of the Chairman and members of the Board of Directors as well as the guidelines of Corporate Governance with respect to the distribution of responsibilities between the Board of Directors and Executive Management. The Board of Directors oversee all the business activities in consultation with the Executive Management team. The Board of Directors also discuss and confirm the Company's business strategy. Additionally, the Board of Directors is responsible for the preparation of financial statements, for risk management, and for Corporate Governance issues. These activities are supplementary to the main role of the Board of Directors which is to ensure adherence and commitment to the Company's values as set forth in its internal policies and procedures.

When appointed, Board Members are provided with the necessary detailed information to enable them to effectively perform their main role of overseeing the strategic, operational, financial, and compliance affairs as well as corporate Governance controls in the Company. The Corporate Governance framework allows a member of the Board of Directors to seek independent advice when necessary.

With respect to the channels of communication between the Board of Directors and Executive Management, the Board Members can contact and request information from the Executive Management at all times.

Board of Directors are responsible for ensuring that the systems and controls framework in the Company, including the Board structure and the organizational structure is appropriate for the Company's business and its associated risks. The Board of Directors ensure that there are sufficient resources and expertise to identify, understand, and measure the significant risks to which the Company is exposed in its activities. Directors are regularly assessing the systems and controls framework of the Company to ensure that:

- The Company's operations, individually and collectively are measured, monitored, and controlled by appropriate, effective and prudent risk management systems commensurate with the scope of the Company's activities;
- The Company's operations are supported by an appropriate control environment;
- The compliance, risk management and financial reporting functions are adequately resourced, independent of business lines and is run by individuals not involved with the day-to-day running of the various business areas.
- The Management develops, implements and oversees the effectiveness of comprehensive "Know Your Customer" standards, as well as on-going monitoring of accounts and transactions, in keeping with the requirements of relevant laws, regulations, and best practice.

In their strategy review process, the Board of Directors:

- Review the Company's business plans and the inherent level of risk in the plans;
- Assess the adequacy of capital to support the business risks of the Company;
- Set performance objectives; and
- Oversee major capital expenditures, divestitures, and acquisitions.

Election and Re-election of Directors:

In their meeting dated 6 May 2014 and in compliance with the terms stipulated in the Article of Association, the Shareholders elected all of the current members of the Board of Directors for a period of three years. The Directors are elected by the shareholders at the Annual General Meeting. Candidates for the Board shall be selected by the Remuneration Committee, and recommended to the Board of Directors for approval, in accordance with the qualifications approved by the Board taking into consideration the overall composition and diversity of the Board and areas of expertise new Board members might be able to offer.

Board Composition & Attendance

The members of the Board of Directors collectively possess an extensive background in finance, real estate development, and broader management experience. The members provide valuable directives in meeting Company objectives. The Board consists of seven (2015: seven) non-executive Directors comprising including the five (2015: five) independent Director(s).

Per the Articles of Association, the Board is required to meet six times during each year. Board members must attend 75% of all meetings within a calendar year. Board members will step down if they are unable to attend four consecutive meetings without an acceptable explanation. The absence of Board members at Board and Committee meetings will be noted in the meeting minutes. Board attendance percentage will then be reported during any General Assembly Meeting when Board members stand for re-election. Voting and attendance proxies for Board meetings are prohibited at all times.

Corporate Governance

Board & Committee Membership:

Director's Name	Nationality	Membership Type	Position	Committee Membership Remuneration	Audit & Risk Management
Waleed Ahmed Alkhaja	Bahraini	Independent	Chairman	Member	
Ahmad Mohammad Al Ajlan	Kuwaiti	Independent	Vice Chairman	Chairman	
Sulaiman Mohammad Al Furaih	Kuwaiti	Non-independent	Member		Chairman
Bader Ghanem Al Ghanem	Kuwaiti	Independent	Member	Member	
Abdullah Hamad Al Jouan	Kuwaiti	Independent	Member		Member
Omar Faysal Reehan Al Temiemy	Iraqi	Independent	Member		Member
Eng. Rawaf Ibrahim Bourisli	Kuwaiti	Non-independent	Member		Member

Board Meeting Attendance Record:

Board Meeting Date	2016 – 1	2016-2	2016-3	2016-4	2016-5	2016-6	Total
	14 Jan	21 Mar	21 Mar	19 May	2 Nov	6 Dec	
Waleed Ahmed Alkhaja	Present	Present	Present	Present	Present	Present	100%
Ahmad Mohammad Al Ajlan	Present	Present	Present	Present	Present	Present	100%
Sulaiman Mohammad Al Furaih	Present	Present	Present	Present	Present	Present	100%
Bader Ghanem Al Ghanem	Present	Present	Present	Present	Present	Present	100%
Abdullah Hamad Al Jouan	Present	Present	Present	Present	Present	Present	100%
Omar Faysal Reehan Al Temiemy	Present	Present	Present	Present	Present	Present	100%
Eng. Rawaf Ibrahim Bourisli	Present	Present	Present	Present	Present	Present	100%

Committee Meeting Attendance Record:

Meeting Date	2016-1	2016-2	2016-3	Total
	17 Mar	2 Nov	5 Dec	
Waleed Ahmed Alkhaja	Present	Present	Present	100%
Ahmad Mohammad Al Ajlan	Present	Present	Present	100%
Sulaiman Mohammad Al Furaih	Present	Present	Present	100%
Bader Ghanem Al Ghanem	Present	Present	Present	100%
Abdullah Hamad Al Jouan	Present	Present	Present	100%
Omar Faysal Reehan Al Temiemy	Present	Present	Present	100%
Eng. Rawaf Ibrahim Bourisli	Absent	Present	Present	67%

Profiles of each of the members of the Board of Directors are included within this Annual Report.

Board Committees

The Board of Directors have established two subordinate Committees and have delegated specific powers to each committee as follows:

Audit & Risk Management Committee

The primary purpose of the Audit & Risk Management Committee is to assist the Board of Directors in fulfilling its responsibilities by overseeing all audit (external, internal, and Shari'ah) related processes for the Company and its Subsidiaries and by reviewing the related financial information which will be provided to the shareholders, banks and other stakeholders, as well as the systems of internal controls which Management and the Board of Directors have established. The Committee must meet at least three times a year.

The Committee held three meetings during the fiscal year 2016.

Remuneration Committee

The Remuneration Committee was established to align with best practice in Corporate Governance. As and when required by the Board, the Committee identifies persons qualified to become members of the Board, to serve as Chief Executive Officer ("CEO") and or other officers of the Company. The appointment of the external and internal auditors, however, is the responsibility of the Audit & Risk Management Committee. The Committee can make recommendations to the Board including recommendations of candidates for the Board membership to be included by the Board on the agenda for the next AGM meeting, besides reviewing the Company's remuneration policies for both the Executive Management and for the Board of Directors. Board remuneration shall be subject to approval by the shareholders in the AGM meetings. The Committee must meet at least twice a year.

The Committee held two meetings during the fiscal year 2016.

Management

The Board delegates authority for the day-to-day management of the Company to the Chief Executive Officer, who is supported by a qualified and experienced Executive Management team. Profiles of the Executive Management are included within this Annual Report.

Communication & Disclosure

The Company conducts all communications with its stakeholders in a professional, transparent, and timely manner. Communication channels include this annual report and the Annual General Meeting of the shareholders. Other communication channels include the website, social media, and regular announcements made to the local press. For the most current information regarding the Company, including relevant news along with current and historical financial reports, you are invited to regularly visit the Company website at www.firstbahrain.com.

Risk Management

The Company has developed a risk management framework that provides controls and ongoing management of the major risks inherent in the Company's core business activities. The Board of Directors has the ultimate authority for setting the risk appetite, risk tolerance and associated parameters and limits, in which the Company operates. The Audit & Risk Management Committee is responsible for establishing, maintaining, and monitoring a risk based approach to all business activities and management of the Company.

The main risks that the Company is exposed to are credit, liquidity, and market risk. The nature of these risks are further detailed in note 17 to the Consolidated Financial Statements.

Capital Management

The policy of the Board of Directors is to maintain a strong capital base in order to maintain investor, creditor and market confidence, as well as to provide for the future development of the Company. The Board of Directors seeks to maintain a balance between the higher returns and growth which may be possible with higher levels of borrowings and the advantages and security offered by a sound capital position.

Internal Audit

Internal Audit provides an additional line of defence in risk management and internal controls. The role of internal audit is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Company is appropriately and effectively applied.

Internal Audit reports on a semi-annual basis to the Board of Directors through the Audit & Risk Management Committee. The internal auditors report to the Audit & Risk Management Committee the results of periodic audits and obtains commitments from Management to take any remedial action required for any issues raised. The Bahrain office of global audit and advisory firm, Deloitte, serves as the Company's internal auditors.

Al Mashora & Al Raya Shari'ah 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 Shari'ah 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 01/01/2016 to 31/12/2016. We have carried out the necessary supervision to give our opinion on whether or not the Company has complied with the Islamic Shari'ah 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 01/01/2016 to 31/12/2016, and which have been reviewed by us, were in compliance with the provisions and principles of the Islamic Shari'ah.

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.

Shari'ah Advisory Board:

Prof. Abdul Aziz K. Al-Qassar	Dr. Essa Zaki Essa	Dr. Ali Ibrahim Al Rashed
Chairman of the Shari'ah Committee	Shari'ah Committee Member	Shari'ah Committee Member

Independent Auditor's Report

The Shareholders,
First Bahrain Real Estate Development Company K.S.C. (Closed)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of First Bahrain Real Estate Development Company K.S.C. (Closed) ("the Company") and its subsidiaries, together "the Group", which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is the Board of Directors report included in the Group's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statement

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanation that we required for the purpose of our audit and the consolidated financial statements include the information required by the Companies Law No. 1 of 2016 and its Executive Regulations and the Company's Memorandum and Articles of Associations, as amended. 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 of the Company. We have not become aware of any violations of the provisions of the Companies Law No. 1 of 2016 and its Executive Regulations or of the Company's Memorandum and Articles of Association, as amended, during the year ended 31 December 2016 that might have had a material effect on the business of the Group or on its consolidated financial position.

Safi A. Al Mutawa
License No 138 "A"
of KPMG Safi Al Mutawa & Partners
Member firm of KPMG International
Kuwait: 30 March 2017

Consolidated Financial Statements

Consolidated statement of financial position

As at 31 December 2016

	Notes	2016 KD	2015 KD
Assets			
Investment property	5	33,378,463	32,345,937
Developing properties	6	493,100	–
Furniture and equipment		122,269	101,008
Total non-current assets		33,993,832	32,446,945
Trade and other receivables	7	409,920	244,339
Investments at fair value through profit or loss	8	4,563	4,880
Wekala deposit	9	287,182	430,166
Cash on hand and at banks	9	1,239,484	486,845
Total current assets		1,941,149	1,166,230
Total assets		35,934,981	33,613,175
Equity and liabilities			
Equity			
Share capital	10	23,330,960	23,330,960
Statutory reserve	11	1,614,806	1,526,237
Foreign currency translation reserve		2,078,470	1,881,445
Retained earnings		2,774,672	2,031,482
Total equity		29,798,908	28,770,124
Non-current liabilities			
Long-term murabaha payable	12	4,905,269	3,568,997
Provision for employees' end of service indemnity		70,804	60,440
Total non-current liabilities		4,976,073	3,629,437
Current liabilities			
Short-term murabaha payable	12	701,540	570,690
Trade and other payables	13	458,460	642,924
Total current liabilities		1,160,000	1,213,614
Total liabilities		6,136,073	4,843,051
Total equity and liabilities		35,934,981	33,613,175

Waleed Ahmed Alkhaja
Chairman

Ahmed Mohammed Al Ajlan
Vice Chairman

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

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Income			
Change in fair value of investment property	5	514,787	218,476
Net rental income	14	1,267,306	948,322
Income from consultancy		37,173	62,733
Unrealised (loss)/gain on investments at fair value through profit or loss		(343)	167
Write off on Investment at fair value through income statement		–	(83,486)
Income from wekala deposit		11,601	7,814
Foreign exchange loss		(1,510)	(9,590)
Total Income		1,829,014	1,144,436
Expenses and other charges			
General, administrative and marketing expenses		(229,894)	(212,735)
Staff costs		(437,224)	(356,960)
Depreciation		(20,440)	(18,331)
Finance costs		(255,765)	(203,859)
Contribution to Kuwait Foundation for the Advancement of Sciences		(7,971)	(3,173)
Zakat		(8,961)	(3,628)
Board of Directors remuneration	20	(37,000)	(9,925)
Total expenses and other charges		(997,255)	(808,611)
Profit for the year		831,759	335,825
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		197,025	1,059,315
Other comprehensive income for the year		197,025	1,059,315
Total comprehensive income for the year		1,028,784	1,395,140
Basic and diluted earnings per share	15	3.57	1.44

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

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Share capital KD	Statutory reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Total KD
Balance at 1 January 2015	31,500,000	1,490,982	822,130	3,851,908	27,374,984
Total comprehensive income for the year	–	–	1,059,315	335,825	1,395,140
Transfer to statutory reserve	–	35,255	–	(35,255)	–
Share Dividend	–	–	–	(2,120,996)	–
Capital reduction	(8,169,040)	–	–	–	–
Balance at 31 December 2015	23,330,960	1,526,237	1,881,445	2,031,482	28,770,124
Total comprehensive income for the year	–	–	197,025	831,759	1,028,784
Transfer to statutory reserve	–	88,569	–	(88,569)	–
Balance at 31 December 2016	23,330,960	1,614,806	2,078,470	2,774,672	29,798,908

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

Consolidated statement of cash flows

For the year ended 31 December 2016

	Notes	2016 KD	2015 KD
Cash flows from operating activities:			
Profit for the year		831,759	335,825
Adjustments for:			
Depreciation		20,440	18,331
Unrealised loss on investments at fair value through profit or loss		343	(167)
Change in fair value of investment property	5	(514,787)	(218,476)
Write off of Investments at fair value through profit or loss		–	83,486
Finance costs		255,765	203,859
Provision for employees' end of service indemnity		10,364	10,279
Operating income before changes in working capital		603,884	433,137
Trade and other receivables		(165,581)	88,968
Trade and other payables		(184,464)	521,172
Net cash from operating activities		253,839	1,043,277
Cash flows from investing activities:			
Additions to investment property	5	(723,391)	(1,071,512)
Paid for purchase of furniture and equipment		41,343	(1,443)
Net cash used in investing activities		(682,048)	(1,072,955)
Cash flows from financing activities:			
Net movement in murabaha payable		1,467,122	235,347
Finance costs paid		(255,765)	(203,859)
Net cash from financing activities		1,211,357	31,488
Net increase in cash and cash equivalents		783,148	1,810
Net foreign exchange difference		(173,493)	(102,365)
Cash and cash equivalents at the beginning of the year		917,011	1,017,566
Cash and cash equivalents at the end of the year	9	1,526,666	917,011

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

1. Reporting group

First Bahrain Real Estate Development Company K.S.C. (Closed) ("the Company") was incorporated as a Kuwait Shareholding Holding Company on 5 October 2004. The Company has commercial registration Number 103837 dated 16 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 City Tower, 2nd Floor, Khalid Bin Waleed Street, Sharq, Kuwait.

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

Name of the company	Country of incorporation	Percentage of ownership 2015	Percentage of ownership 2016	Principal activities
First Kuwait Al Seef Real Estate Development Company W.L.L.	Kingdom of Bahrain	99.9%	99.9%	Real estate and investment activities
FB Janabiya Residential Development Co. W.L.L. (FBJ)	Kingdom of Bahrain	99.8%	99.8%	Real estate and investment activities
Majaal Warehouse Co. W.L.L. (MWC)	Kingdom of Bahrain	99.8%	99.8%	Real estate and investment activities

During the year, the Group established Seef Hospitality Investment Company SPC in the Kingdom of Bahrain, as a 100% subsidiary of First Kuwait Al Seef Real Estate Development Company W.L.L.

The total number of employees in the Group was 15 as at 31 December 2016 (13 employees as at 31 December 2015).

The consolidated financial statements were authorized for issue by the Board of Directors on 22 March 2017 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. 1 of 2016 and its Executive regulations, the Company's memorandum and articles of association and the Ministerial Order No. 18 of 1990.

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.

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 set out below have been applied consistently to all periods presented in these financial statements, except the changes in accounting policies described in note (3n).

a) Basis of consolidation
The consolidated financial statements for the year ended 31 December 2016 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 audited financial statements for the year ended 31 December 2016. Total assets, liabilities and net profit of the subsidiaries as per these financial statements (after eliminations) amounted to KD 35,720,297, KD 5,867,919 and KD 1,223,964 respectively.

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

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

The functional currency of each subsidiary of the Group is Bahraini Dinars. The presentation currency of the Group is Kuwaiti Dinars. When translating from Bahraini Dinar to Kuwaiti Dinar, movement during the period in the exchange rate between the two currencies creates a variance which is presented in the foreign currency translation reserve in the consolidated statement of changes in equity. This translation is measured against the value of all of the Group's assets, liabilities, equity, revenue and expenses.

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 3h). Depreciation is calculated to write off the cost of furniture and equipment by equal instalments 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 3h). The Group's receivables include trade and other receivables and Islamic finance facilities.

f) Investments at fair value through profit or loss

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

The amounts of each class of investments that has been designated at fair value through profit or loss are described in note 8.

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.

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h) Impairment

Financial assets

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

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

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

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

Non-financial assets

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

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

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

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

i) Payables

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

j) Provisions

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

k) Provision for employees' end of service indemnity

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

l) Revenue recognition

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

m) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the company has not early applied the following new or amended standards in preparing these financial statements. The management believes that the extent of the impact may not be significant to the Group.

Disclosure Initiative (Amendments to IAS 7)

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

IFRS 9 Financial Instruments

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16. There may be a significant impact on the financial position of the Group on initial application of this standard and the Group is currently in the process of determining the financial impact.

Other amendments

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).

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

n) Changes in accounting policies

The Group has adopted the following amendments to the standards effective current year.

- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38);
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards;
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1).

The implementation of the above amendments to standards had no significant financial impact on the consolidated financial statements.

4. Use of estimates and judgments

Key sources of estimation uncertainty

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

Valuations of property

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

The continuing volatility in the global financial system is reflected in the turbulence in commercial real estate markets across the world. The significant reduction in transaction volumes continued this year. Therefore, in arriving at their estimates of market values as at 31 December 2016, 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		Land held for capital appreciation	Building held for rental income and capital appreciation		
	Commercial-Zoned Properties KD	Residential-Zoned Properties KD	Commercial-Zoned Properties KD	Commercial-Zoned Properties KD	Industrial-Zoned Properties KD	Total KD
At 1 January 2015	–	3,944,279	13,700,330	–	12,255,722	29,900,331
Transfers	1,523,588	(1,523,588)	–	–	–	–
Additions during the year	1,067,457	–	4,055	–	–	1,071,512
Change in fair value	466,930	80,146	–	–	(328,600)	218,476
Foreign currency translation differences	64,298	94,299	528,314	–	468,707	1,155,618
Balance at 31 December 2015	3,122,273	2,595,136	14,232,699	–	12,395,829	32,345,937
At 1 January 2016	3,122,273	2,595,136	14,232,699	–	12,395,829	32,345,937
Transfers	(3,122,273)	(418,487)	–	3,122,273	–	(418,487)
Additions during the year	–	369,261	1,348	352,782	–	723,391
Change in fair value	–	–	–	561,160	(46,373)	514,787
Foreign currency translation differences	–	14,010	91,612	28,085	79,128	212,835
Balance at 31 December 2016	–	2,559,920	14,325,659	4,064,300	12,428,584	33,378,463

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

Murabaha payable is secured on investment property and developing properties to the value of KD 19,545,904 (2015: KD 12,395,829) (see note 12).

The Group's investment properties were revalued at 31 December 2016 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 14,325,659 was not in use as of 31 December 2016 (2015: KD 19,950,108), 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 2016 was reliably determinable on a continuing basis.

6. Developing properties

Developing Properties represents work in progress in FB Janabiya Residential Development Company W.L.L., for booked residential villas under constructions adjacent to the retail centre on multiple plots covering 1,636 square meters in total.

	2016 KD
Balance at 1 January	–
Transfer from Investment Property	418,487
Additions during the year	71,919
Foreign currency translation reserve	2,694
At 31 December	493,100

Murabaha payable is secured on investment property and developing properties to the value of KD 19,545,904 (2015: KD 12,395,829) (see note 12).

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7. Trade and other receivables

	2016 KD	2015 KD
Accrued income	123,250	71,707
Deferred rental receivables	218,811	88,130
Prepaid expenses & other receivables	39,178	47,254
Other receivables	28,681	37,248
	409,920	244,339

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

Deferred rental receivables is recognized due to the straight-line treatment of operating lease income less the costs of any free periods or incentives offered to secure new tenants, spread across the entire lease term, as per IAS 17.

Accrued income and Advance payments from tenants are presented as a net position in the Statement of financial position for 2016.

Aging analysis

Below is the detailed summary for Majaal Warehouse Company (MWC) and FB Janabiya Residential Development Company (FBJ)

	MWC KD	FBJ KD	2016 KD	2015 KD
Accrued income	96,574	35,746	132,320	71,707
Advance payments from tenants	(1,068)	(8,002)	(9,070)	(83,657)
Net position of tenant receivables	95,506	27,744	123,250	(11,950)
Deferred rental receivables	47,034	171,777	218,811	88,130
Net receivables	142,540	199,521	342,061	76,180

An age analysis of the carrying amounts of accrued income and deferred rental income is presented as follows:

	Accrued income 2016 KD	Deferred rental receivable 2016 KD	Trade receivables 2015 KD	Deferred rental receivable 2015 KD
Not due as of 31 December:				
MWC	–	47,034	–	75,528
FBJ	–	171,777	–	12,602
	–	218,811	–	88,130
Between 0 and 2 Month:				
MWC	42,373	–	24,533	–
FBJ	19,226	–	–	–
More than 2 months:				
MWC	53,133	–	47,174	–
FBJ	8,518	–	–	–
	123,250	218,811	71,707	88,130

The below is the summary of future expected lease receivables from existing leases. The calculations does not include the service and marketing charges as these two items are not part of lease income straight-line calculation.

	Future Undiscounted Operating Lease Payments					
	Gross Receivables			Deferred rental receivable		
	MWC KD	FBJ KD	Total KD	MWC KD	FBJ KD	Total KD
Within 1 year	1,034,800	450,492	1,485,292	17,956	43,029	60,985
Between 1 to 5 years	1,653,424	1,159,866	2,813,290	22,339	88,397	110,736
Greater than 5 years	738,167	901,480	1,639,647	6,739	40,351	47,090
	3,426,391	2,511,838	5,938,229	47,034	171,777	218,811

8. Investments at fair value through profit or loss

	2016 KD	2015 KD
Unquoted funds	4,563	4,880

A three percent increase in stock prices at the reporting date would have increased profit or loss and equity by KD 137 (2015: an increase of KD 146); an equal change in the opposite direction would have decreased profit or loss and equity by KD 137 (2015: KD 146). The analysis is performed on the same basis for 2015.

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

9. Cash and cash equivalents

	2016 KD	2015 KD
Wekala deposit	287,182	430,166
Cash on hand and at banks	209,598	486,845
Escrow Account - FBJ	1,029,886	–
	1,526,666	917,011

Wekala deposit carry effective average annual profit rate of 1.71% (2015: 1.92%).

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

FB Janabiya Residential Development Co. WLL established an Escrow account for the El Mercado Village project in compliance with the Development Law (28) of 2014 in Kingdom of Bahrain, depositing the required 20% of the project value in the account. The funds in the account are dedicated exclusively to the completion of the project, as administered by the Escrow Agent, Kuwait Finance House - Bahrain, under the instruction of the Project Engineering Consultant. All funds from the sale of units must be deposited in the Escrow account. Excess funds, less 5% of the sale value of each unit, may be released to the Company following unit handover, anticipated in March 2018. The 5% retention will be released to the Company one year after unit handover.

10. Share capital

The Company's authorized, issued and paid up share capital amounted to KD 23,330,960 distributed over 233,309,600 shares of 100 fils each paid in cash (31 December 2015: KD 23,330,960 distributed over 233,309,600 shares).

11. Statutory reserve

In accordance with the Companies' Law No. 1 of 2016 and its Executive Regulations, 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.

12. Murabaha payable

Murabaha payable represents the value of commodities purchased on a deferred settlement basis and bear average profit rate of 6.10% per annum (2015: 5.1% per annum) for Majaal Warehouse Company W.L.L. (MWC) and 5.50% per annum (2015: 5.50% per annum) for FB Janabiya Residential Development Company W.L.L. (FBJ).

Principal payments for MWC's murabaha are due on quarterly basis from 20 May 2015 through 20 February 2022.

FBJ's murabaha is divided into two phases. Principal payments for the first phase will commence on 7 September 2017 and continue through 7 June 2022. The outstanding principal of the murabaha used to construct the homes will be payable in full on 6 October 2018. The Company has the option to extend repayment for five years on the value of any homes which are not sold prior to that date.

The murabaha is secured over investment property and developing properties with a carrying amount of KD 19,545,904 (2015: KD 12,395,829) which represent the total of properties under development and buildings held for rental income and capital appreciation. (see notes 5 and 6).

	MWC KD	FBJ KD	2016 KD	2015 KD
Murabaha in repayment	3,015,406	–	3,015,406	3,566,811
Murabaha in grace period	–	2,591,403	2,591,403	572,876
Total murabaha outstanding	3,015,406	2,591,403	5,606,809	4,139,687
Long-term murabaha payable	2,441,043	2,464,226	4,905,269	3,568,997
Short-term murabaha payable	574,363	127,177	701,540	570,690

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

13. Trade and other payables

	2016 KD	2015 KD
Trade payables	366,646	594,824
Accrued expenses	37,882	31,374
Due to KFAS and Zakat	16,932	6,801
Board remuneration	37,000	9,925
	458,460	642,924

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

14. Net rental income

Rental income is generated from properties developed by wholly owned subsidiaries Majaal Warehouse Co. (MWC) and FB Janabiya Residential Development Co. (FBJ). MWC operates seven industrial buildings occupied by a diverse mix of small to medium sized enterprises. FBJ is developing a neighbourhood retail centre, branded as El Mercado Janabiya. All of these rental properties are located within the Kingdom of Bahrain.

	2016 KD	2015 KD
Industrial Properties (MWC)		
Occupancy rate at 31 December	97%	97%
Total leasable area 31 December	37,654	37,654
Gross rental revenue	1,139,686	1,128,692
Costs of revenue	(161,771)	(158,468)
Allowance for doubtful receivables	(30,151)	(34,356)
Net industrial rental income	947,764	935,868
Commercial Properties (FBJ)		
Occupancy rate at 31 December	100%	47%
Total leasable area at 31 December	4,683	4,683
Gross rental revenue	366,048	12,454
Costs of revenue	(46,506)	-
Net commercial rental income	319,542	12,454
Total net rental income	1,267,306	948,322

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

Costs of revenue for FBJ include brokerage commissions on new leases along with insurance, security, landscaping, maintenance, direct marketing support and other expenses required to run the facility.

The gross rental income grew from KD 1,141,146 in 2015 to KD 1,505,734 in 2016 due to the return and lease back of a non- performing space at MWC the new leases under FBJ. The neighbourhood retail centre began operations during June 2016 and as of 31 December 2016, 100% of the units were leased.

15. Basic and diluted earnings (loss) per share

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

	2016 KD	2015 KD
Profit for the year	831,759	335,825
Weighted average number of outstanding and paid shares	233,309,600	233,309,600
Basic and diluted earnings per share (fils)	3.57	1.44

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 2016.

The only related party transactions during the year is the compensation provided to key management personnel detailed below.

Compensation to key management personnel:

	2016 KD	2015 KD
Salaries and other short-term benefits	219,013	192,061
Post-employment benefits	8,143	8,088
	227,156	200,149

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.

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.

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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.

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 Wekala deposit at the reporting date by geographic region was:

	2016 KD	2015 KD
State of Kuwait	6,441	8,024
Kingdom of Bahrain	690,661	666,481
	697,102	674,505

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

	2016 KD	2015 KD
Past due 0-30 days	122,938	78,120
Past due 31-120 days	574,164	596,385
	697,102	674,505

No provision for Wekala deposit was required in 2016 (2015: KD Nil).

Doubtful receivables of rental income, as detailed in note 14, were provided for in 2016, as part of trade and other receivables, in the amount of KD 30,151 (2015: KD 34,356).

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 2016			
Financial liabilities			
Murabaha payable	5,606,809	701,540	4,905,269
Trade and other payables	458,460	458,460	–
	6,065,269	1,160,000	4,905,269

	Carrying amount KD	One year or less KD	One to five years KD
31 December 2015			
Financial liabilities			
Murabaha payable	4,139,687	570,690	3,568,997
Trade and other payables	642,924	642,924	–
	4,782,611	1,213,614	3,568,997

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 36,532,622 (2015: BHD 35,475,752).

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 2,981,793 (2015: KD 2,877,013). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2015.

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 price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at measurement date.

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 2016				
Investments at fair value through profit or loss	–	4,563	–	4,563
	–	4,563	–	4,563

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
31 December 2015				
Investments at fair value through profit or loss	–	4,880	–	4,880
	–	4,880	–	4,880

During the year ended 31 December 2016, there have been no transfers between fair value levels.

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 2016 is as follows:

	Real estate activities KD	Non-real estate activities KD	Total KD
Segment revenues	1,817,756	11,258	1,829,014
Segment expenses	(997,225)	–	(997,255)
Segment results	820,501	11,258	831,759
Segment assets	34,403,752	1,531,229	35,934,981
Segment liabilities	6,136,073	–	6,136,073
Capital expenditure	764,734	–	764,734

Financial information on reportable segments for the year ended 31 December 2015 is as follows:

	Real estate activities KD	Non-real estate activities KD	Total KD
Segment revenues	1,219,941	(75,505)	1,144,436
Segment expenses	(808,611)	–	(808,611)
Segment results	411,330	(75,505)	335,825
Segment assets	32,691,284	921,891	33,613,175
Segment liabilities	4,843,051	–	4,843,051
Capital expenditure	1,074,273	–	1,074,273

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 KD	Non-current assets KD
31 December 2016		
Inside Kuwait	11,601	3,199
Outside Kuwait	1,817,413	33,990,633
	1,829,014	33,993,832

	Revenues KD	Non-current assets KD
Inside Kuwait	7,814	4,649
Outside Kuwait	1,136,622	32,442,296
	1,144,436	32,446,945

During 2016 and 2015, 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 of Directors remuneration

On 22 March 2017 the Board of Directors proposed remuneration of KD 37,000 for the Company's Board of Directors for the year ended 31 December 2016 (2015: KD 9,925), subject to the approval of the shareholders' general assembly.

21. Proposed dividends

The board of directors proposed a cash dividend of 5% for the year ended 31 December 2016 amounting to 5 fils per share (2015: Nil), subject to the approval of the shareholders' general assembly.