



**YOUR DESTINATION
TO REAL ESTATE
INVESTMENT**

Annual Report 2013

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Reef Real Estate Finance Co. B.S.C (C)

Building 483, Rouad 1010
Block 410
P.O.Box 18599
Manama - Kingdom Of Bahrain
Tel: +973 17558080
Fax: +973 17556333
www.reef.bh



**His Royal Highness Prince
Khalifa Bin Salman Al Khalifa**

The Prime Minister



**His Majesty King
Hamad Bin Isa Al Khalifa**

The King of Kingdom of Bahrain



**His Royal Highness Prince
Salman Bin Hamad Al Khalifa**

The Crown Prince and Deputy
Supreme Commander
and First Deputy Prime Minister

VISION, MISSION STATEMENT & OUR VALUES

VISION

Reef is the premier financing house in the Kingdom of Bahrain, differentiated by its superiority in providing tailor-made financing solutions, quality customer service and respect to strategic partners.



MISSION STATEMENT

We :

Extend financing facilities to customers residing in the GCC for their real estate and other personal investments in the Kingdom of Bahrain;

Make certain that our products fit and address the needs of individual customers;

Share risks with our customers by offering Islamic Shar'ia compliance products;

Provide simple, flexible and reliable processes to make sure best turn-around times;

Select dependable strategic partners that add value and provide opportunities to our customers;

Make every effort to provide unmatched customer service by ensuring that our staff are continuously trained and motivated with a smile and pleasure.

OUR VALUES

Reef believes in value rich business. Everything we do and say is inspired by our beliefs and principles - we translate these concepts into development initiatives and programs.

INSPIRING EXCELLENCE

Our dedication to quality is evident in all we do - from products and services to processes. Our employees are enlightened and empowered to embody excellence and inspire it around them.

PARTNERSHIP

We believe the greatest and most durable results are achieved through partnership and value sharing across sectors and on all levels.

INNOVATION AND ORIGINALITY

As a sector catalyst we are committed to an innovative business approach - whether in designing products and services or responding to opportunities with the flexibility to realize the greatest results.

ACCOMPLISHMENT

Our commitment to accomplishment is based on effective goal implementation. We are driven to be the 'best of breed' - and dedicate ourselves to realizing every goal we set.

CHAIRMAN'S MESSAGE



In the name of Allah, most gracious and merciful

Dear Shareholders, may Allah's peace, mercy and blessings be upon you.

It is my great pleasure to present to you our annual report for the year 2013, praying to almighty Allah that our pledge to you shall be renewed and you are living a life bursting with health, wellness and happiness.

I am glad to report that the company achieved a net profit of BD 1.3 million with growth rate of 207% compared to BD 426 thousand in 2012, This impressive growth reflects our diversified initiatives that the company has implemented by investing its capital in well selected investment opportunities as described further below.

The reader of our financials will notice a slight drop in the size of the company's assets and shareholder equity, while the increase will be evident in the overall income increasing by 38% higher than last year.

Similarly, it applies to other financial indicators showing an increase to last year by different percentages.

After the successful implementation of cost management strategies, these transitional years can be best summarized as one that was intended to do what is necessary for the uninterrupted and sound continuation of the company's activities at the lowest possible cost while achieving maximal results for shareholders, this was achieved as a result of the combined cooperation of both the company's executive management and the support and guidance of the distinguished Board of Directors. We have succeeded in achieving our objectives for the year of the 2012 and the company began 2013 with its sights on achieving the following key strategic objectives.

First continuation of the company's conservative approach to preserve the interests of our shareholders and its growth where possible given the current economic constraints.

Second, was to serve to the best of our abilities the remaining customer despite the continuing decrease in customer numbers as a result of the early settlements of IJARAH contracts resulting from intense competition from retail banks operating in the Kingdom of Bahrain. The banks' increased appetite and continued success to attract large number of customers, noting that the finance industry has witnessed a large reduction in interest rates charged that reached between 4 to 5 percent during the previous years. The company has failed to keep pace with retail banks because of the small size of its capital on one hand, and on the other hand its inability to accept deposits from customers

prohibiting us from reducing the cost of financing.

Third and most important among these goals was to maximize the return of shareholder equity by investing in carefully selected projects that are high yielding yet with little risk associated with them. The success of our investment projects is a testament to the experience of the Board members, especially in the field of real estate investment.

Board's experience has clearly contributed to the selection success of our projects that varied in nature. Some of the diversified projects include a multi purpose center development in London, to affordable residential project development in Riyadh, and Business Bay in the Emirate of Dubai, noting that the company is expected to receive investment returns from the abovementioned projects which will not be less than 12% to 15% with Allah's willing.

In the Kingdom of Bahrain, the company built a diversified investment portfolio as it continued its management of a range of its own apartments in Tala Island in Amwaj. In addition to this, it has started work on two projects, one of which is a development of a residential building in Saar area expected to be sold during the first half of 2014. The company has also started executing another high-rise residential tower development in Jufair, consisting of 25 levels and contains 147 apartments, which is expected to start sales in early 2015.

My trust in Allah is so great, and so is my trust in my fellow respected board members, who spared no effort to support and enhance the development of the company to a better future, hoping that they will continue such efforts with Allah's willing. I am also sure that the executive management and all staff in the company will continue to do their best so we can together achieve better results for the coming years.

And here, I wish to extend my sincere thanks and personal appreciation to the distinguished shareholders for their patience, confidence and support to the company, hoping that, with Allah's willing, we keep meeting their expectation and exceed them in the future

I would also like to thank with immense appreciation and gratitude all the official bodies in the beloved kingdom of Bahrain, in particular the Central Bank of Bahrain, Ministry of Industry and Commerce, and the Survey and Land Registration Bureau for the continuous support they are providing to create and maintain healthy and friendly business environments to do business in the kingdom of Bahrain.



ALI AHMED AL BAGHLI
Chairman of the Board of Directors

BOARD OF DIRECTORS



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1. Mr. Ali Ahmed Al Baghli Chairman

Experience: Over 40 Years

Mr. Ali Al Baghli is holding a wide range of professional expertise in the fields of Law, Legal Consultancies and Business also he held many Governmental and Parliament positions. He holds a Master Degree in Comparative Law from Brunel University, United Kingdom. Mr. Al Baghli was the Minister of Oil during the period from 1992 to 1994 as well as a member of the Kuwaiti Parliament during the period from 1992 to 1996. In addition to Chairmanship in Reef Real Estate Finance Company, Mr. Al Baghli sat on the Chairman position of National International Holding Company till 2013 and he is currently the Vice Chairman.

2. Mr. Saud Kanoo Vice Chairman

Experience: Over 30 Years

Mr. Saud Kanoo is a pioneer in the real estate investment and development market and the leader of many successful real estate projects. He is the Deputy Chairman of Property Co. YBA Kanoo WLL and the Chairman of Ossis BSC (c), Marsa Project Services Co WLL, Marsa Leisure Co. (Holdings) WLL, Dragon Resort WLL, Jenina Real Estate Holding WLL, Marsa Health & Sports Club Co. WLL, Marsa Hotels Co BSC (c), Chairman - Al Saraya Properties, SAJAN Properties, Chairman – Uicom Graphics WLL and various other Board Memberships. Mr. Saud Kanoo is a B.E. in Civil Engineer/Arch. Engineer from Georgia Institute of Technology, Georgia, USA and MBA holder from Mercer University, Atlanta, Georgia, USA.

3. Mr. Faisal Al Matrook
Board Member
Experience: Over 40 Years

Mr. Faisal Al Matrook is the Executive Chairman of Contech Group and Jasaf Building Technology Company in the United Arab Emirates, also Vice Chairman and Head of the Executive Committee at Noor Capital (Abu Dhabi) and Member of the Board of DEPA Group (Dubai), the largest company in the region with various activities in the field of interiors and hotel fit out & furnishings.

In the Kingdom of Bahrain, Mr. Al Matrook is Chairman of the following companies: Al Matrook Group; Kingdom Group of Companies; Amwaj Education Company; Arabian Dredging; Bahrain Mineral Company; Nardin Real Estate Developers; and Dana Company. In addition, he is an Executive Director of Osis Real Estate (developer of Amwaj Islands in Bahrain), and director of Al Sharif Group, Al Ahlia shipping company and Meritas Investments.

At Reef, Mr. Al Matrook currently serves as the chairman of the executive committee and a member of the Nomination and remuneration committee.

4. Mr. Nasser Al Gharibah
Board Member
Experience: Over 35 Years

Mr. Nasser Al Gharibah is a BA holder from Mercer University, USA. He is having more than 35 years of professional experience in the financial sector ranging from insurance to investment banking combining in both of the regional and international markets. Currently Mr. Al Gharibah is the General Manager of Global Investment House – Bahrain.

5. Mr. Samer Abbouchi
Board Member
Experience: Over 10 Years

Mr. Samer Abbouchi holding a diversified working experience in the financial services sector, internal audit organization structuring and restructuring, Risk Management, investment and assets management. He is a Graduate in Business Administration from the American University of Beirut. Samer is a Certified Internal Auditor, a Chartered Financial Analyst and an MBA graduate from London Business School. In addition to Reef Real Estate Finance Company, Mr. Abbouchi is serving many boards in the State of Kuwait and abroad including FinaCorp Investment Company (Tunisia) (Jordan), National International Holding Company (Kuwait), Global Jordan.

His previous Board memberships include: Societe Generale de Banque de Jordanie, Jordan Islamic Bank, Buraq Investment Company (Kuwait), Al Ekhlas Holding Company (Kuwait), Elite Educational Company (Kuwait), First Jordan Investment Company (Jordan).

6. Mr. Mohammed A. Khaliq
Board Member
Experience: 18 Years

Mr. Mohammed A. Khaliq started his professional career in 1995 with Bahrain Kuwait Insurance Company holding a number of managerial positions. Currently, he is an Executive Director, Business Development in Inovent BSC. He is currently a board member in Bahrain Investment Wharf Company (BIW) and Bahrain Water Tech. (BWTC). Mr. A. Khaliq is an Associate of the Chartered Insurance Institute (ACII), UK and holds a B.Sc. degree in Civil Engineering from the University of Bahrain, and a member of Bahrain Society of Engineers.

7. Mr. Mohammed A. Dossary
Board Member
Experience: 15 Years

Mr. Mohammed Dossary is an active member of many investment, real estate development and charitable organizations in the Kingdom of Saudi Arabia and Bahrain. He is currently the Chairman of Al Bait Al Mal Al Khaleji and a Board Member of Jubail Development Company and member of the Saudi Lebanese Business Council and the Saudi Management Board. He is also a Board Member of some Bahraini companies such as Saudi Investment House. Mr. Mohammad Al Dossary graduated from King Fahad University of Petroleum and Minerals in Saudi Arabia with a Bachelor in Industrial Management. He has taken many courses in finance and banking which have strengthened his management capabilities.

MANAGEMENT TEAM



Mr. Mahmood Al Koofi
Chief Executive Officer
Experience: Over 30 Years

Mr. Al Koofi is the Chief Executive Officer of Reef Real Estate Finance Company, Chairman of First Reef Company and Chairman of Reef Investment UK Company, Board member in Amwaj Property Limited and Board member of Manazel Qurtba Fund 2 in the Kingdom of Saudi Arabia. Mr. Al Koofi possesses over 30 years executive banking experience and was the pioneer in the Payment Services Businesses in Bahrain and the Arab World. Previously he held several senior positions including Chief Executive Officer of Arab Financial Services. He is an MBA holder in Business Administration from University of Hull, UK, an executive leadership and strategic management certificate (Columbia School of Business, USA), and engineering diploma from Universitc du Caen, France and advanced management diploma (University of Bahrain).



Mr. Hasan Dhaif
CFO & HR
Experience: 18 Years

Mr. Hasan Dhaif has over 18 years experience in financial control, auditing and HR and Admin. He is also a Board member in First Reef Company and Reef Investment UK Company. Before joining Reef Real Estate Finance Company in 2008, he served in Al Baraka Banking Group as Assistance Vice President - Financail Control, BCFC, Zain Telecommunications, National Bank of Bahrain and Anderson. Mr. Dhaif is a Certified Public Accountant (CPA) from the state of Michigan, USA and a holder of B.Sc in Accounting from the University of Bahrain.



Mr. Ali Salem
Head of Operations

Experience: Over 29 Years

Mr. Ali Salem is holder of Master in Business Administration from University of Hull, UK and Diploma in Business Study from University of Bahrain. He has banking experience over 29 years in retail banking and credit cards. Before joining Reef, Mr. Ali was holding senior positions in Bahraini Saudi Bank, Ithmaar Bank and Arab Financial Services. He is also the Secretary of Shari'a Advisory.



Mr. Eyad Al Sammak
Compliance Manager and MLRO

Experience: 17 Years

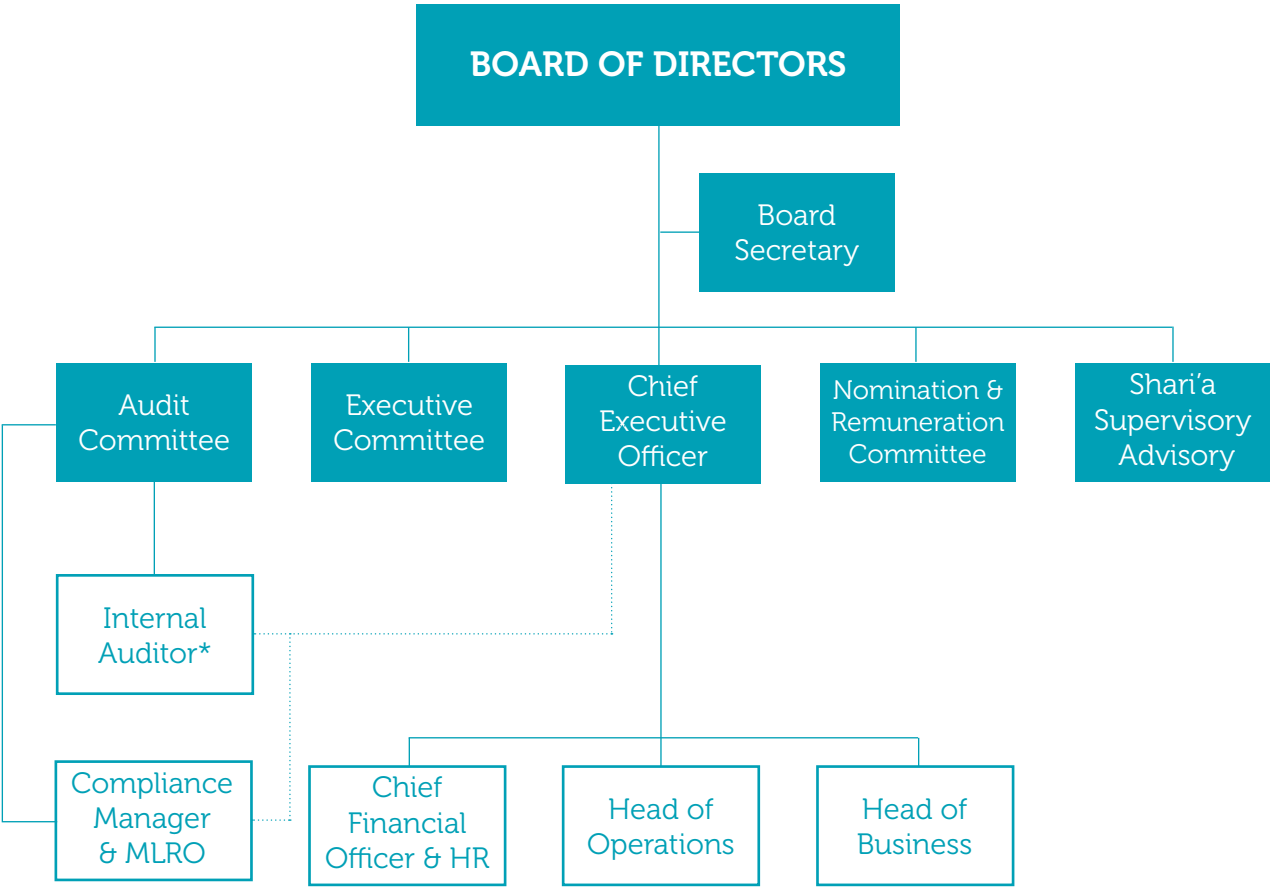
Mr. Eyad Al Sammak is holding BSc in accounting from University of Bahrain. He holds 17 years of experience in retail banking services, finance, operations and Compliance and the Anti Money Laundering. Before joining Reef he was working in Bahraini Saudi Bank and Ahli United Bank.

CORPORATE SOCIAL RESPONSIBILITY

"We embrace and support partnerships of mutual benefits; this has always lead us to better serve our organisation as well as our community"

Reef - Real Estate Finance Company adopts a Shar'ia compliant business model, our financing terms, are supported by a set of rules, policies and procedures and take into consideration the interest of our shareholders, our customers and other stakeholders.

ORGANISATION CHART



* KPMG Fakhro



CORPORATE GOVERNANCE

Corporate Governance Philosophy

The corporate governance framework is aiming to establish a sound of good corporate governance environments at all the time to meet its strategic objectives of safeguarding and maintaining a steady growth of the shareholders interest. Reef is dedicated to adopt the highest standards of corporate governance. The Company seeks to balance entrepreneurship, compliance and industry best practices, while creating value for all stakeholders. This includes, but is not limited to, conducting the policy and affairs of Reef in compliance with regulatory requirements. It also involves having the right checks and balances in place throughout the organization to ensure that the right things are always done in the right way.

This section is designed in accordance to the "High-level control module" and the "Public Disclosure Module" of the CBB rulebook – volume 5. The CBB rulebook Volume 5 was

designed, tailored, and introduced for the Financing Companies in January 2014, where previously, the company was implementing the Corporate Governance Law in compliance with the requirements of the 'High Level Control Module of the CBB Rulebook (Volume 2)'.

Governance Framework

Reef Real Estate Finance Company B.S.C. (c) is a Bahraini closed Shareholding Company operates as an Islamic financing Company and licensed and regulated by the Central Bank of Bahrain. The Company has only one class of ordinary share and the holders of shares have equal voting rights.

During the year, National International Holding K.S.C. (c), Global Investment House K.S.C. (c) and Safi Financial Services transferred their holding in the Company to Gimbal Holding Co. S.P.C. As a result, Gimbal Holding Co. S.P.C. became 47% shareholder of the Group effective from 7 October 2013. Distributions of Shareholders as the closing of 31st December 2013 were as follows:

Name	Nationality	Number of Shares	Share %
Gimbal Holding Co S.P.C	Bahraini	113,001,630	47%
Ossis Property Developers B.S.C.(c)	Bahraini	24,042,900	10%
Inovest B.S.C.	Bahraini	24,042,900	10%
Sh. Sultan Bin Khalifa Al Nahyan	Emirati	13,223,595	5.5%
Al Dammam Development Company	Saudi	11,600,699	4.825%
Other Shareholders	Multiple	54,517,276	22.675%
Total		240,429,000	100%

Distribution of ownership by shares and nationality:

Nationality	No. of Shareholders	No. of Shares	Share %
Bahraini	57	188,436,228	78.375%
Saudi	28	26,988,155	11.225%
Emirati	7	21,277,967	8.85%
Omani	2	3,606,435	1.5%
Qatari	1	120,215	0.05%
Total	95	240,429,000	100%

Distribution of ownership by size of shareholders:

Categories	No. of shareholders	Number of shares	% of total issued shares
Less than %1	81	28,190,300	11.72%
%1 to less than %5	10	37,927,675	15.78%
%5 to less than %10	1	13,223,595	5.5%
%10 and above	3	161,087,430	67%
Total	95	240,429,000	100%

Board of Directors

The Articles of Association of Reef stipulate the responsibilities of the Chairman and members of the BOD as well as the guidelines of corporate governance with respect to the distribution of responsibilities between the Board of Directors and executive management. The BOD oversees all the business activities in consultation with the executive management team. The BOD also discusses and agrees Reef's business strategy. Additionally, the BOD is responsible for risk management and the preparation of financial statements and corporate governance issues. The matters which require the approval of the Board include, for example, among other things, acquisitions and exit from companies. This is along with the main role of the Board which is to ensure adherence to the values of Reef, including the values set forth in its internal regulations.

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 and financial and compliance affairs as well as corporate governance controls in Reef. The corporate governance framework allows a member of the BOD to seek independent advice when necessary.

With respect to the channels of communication between the BOD 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 organizational structure is appropriate for the Company's business and associated risks. The Board also ensure that collectively 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 (with particular regard to anti-money laundering measures).
- The control environment maintains necessary client confidentiality and ensures that the privacy of the Company is not violated, and ensures that clients' rights and assets are properly safeguarded; and
- Where the Board has identified any significant issues related to the Company's adopted governance framework, appropriate and timely action is taken to address any adverse deviation from the requirements stated in the High Level Controls Rulebook of the CBB.

In their strategy review process, 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 17th May 2012 and in compliance with the terms stipulated in the Article of Association, Shareholders approved the re-election of the current member of the Board of Directors for a period of three years ending 17th May 2015. Directors are elected by the shareholders at the Annual General Meeting. Candidates for the Board shall be selected by the Nomination & Remuneration Committee and

recommended to the Board of Directors and CBB 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 that new Board members might be able to offer.

Board Composition

Reef Board of Directors comprises of a combination of experience including real estate investment and development and provides valuable directives in meeting Company objectives. The Board consists of seven non-executive Directors including the two independent Directors.

As for attending Board meeting, all Board members must attend at least %75 of all Board meetings within a calendar year and Board members will step down if they are unable to attend four consecutive Board 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.

Board membership and committees:

Director Name	Nationality	Type of Membership	Position	Committee Membership		
				Nomination & Remuneration	Executive	Audit
Ali Al Baghli	Kuwaiti	Non-independent	Chairman	Chairman		
Saud Kanoo	Bahraini	Independent	Vice Chairman		Member	
Faisal Al Matrook	Bahraini	Non-independent	Member	Member	Chairman	
Nasser Al Gharibah	Kuwaiti	Non-independent	Member		Member	
Samer Abbouchi	Lebanese	Non-independent	Member	Member		Chairman
Mohammed A. Khaliq	Bahraini	Non-independent	Member			Member
Mohammed Al Dosari	Saudi	Independent	Member			Member

Board meeting attendance

As per the Board Charter, Board members are required to meet at least four meetings per calendar year. Details of member attendance during the year 2013 as follows:

Director Name	No of Meetings attended	Dates of Meetings	Attendance %
Ali Al Baghli	4		100%
Saud Kanoo	3		75%
Faisal Al Matrook	4	21st March 2013	100%
Nasser Al Gharibah	4	30th April 2013	100%
Samer Abbouchi	4	30th Sep 2013	100%
Mohammed A. Khaliq	4	28th Nov 2013	100%
Mohammed Al Dosari	2		50%

Performance Evaluation

In compliance with the Company Corporate Governance as well as CBB guidelines, Board carried out a formal performance evaluation for all Board of Directors members. The evaluation is aimed to assess Board effectiveness and support in identifying the need for creating an effective Board, strategic foresight, stewardship, performance evaluation, professional development, engage with Management and performance of Individual Board Members.

in remunerating Board of Directors members and Management. Board of Directors' remuneration takes into consideration the performance of the Company as well as an assessment of compliance of individual members with their performance agreement and individual responsibilities. Sharia'a Advisor is paid for the services provided and is not linked to the Company performance. The form and amount of Director compensation is determined by the Board based upon the recommendation of the Nomination and Remuneration Committee ("NRC").

Remuneration

The Company adopts a transparent procedure

During the year ended 31st December 2013, the aggregate amount paid to the Board of Directors was BD 23,950 as compensation for attending Board and Committees meeting. In addition, the Company has paid BHD 33,430 being a one month salary bonus paid to all staff including Senior Management

Board Committees

The BOD has established three subordinate committees and has delegated specific powers to each committee as follows:

1. Nomination & Remuneration Committee

The Nomination & Remuneration Committee is a newly established committee to comply with the Corporate Governance requirements. It is responsible to identify persons qualified to become members of the Board or Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and other officers of the Company considered appropriate by the Board, with the exception of the appointment of the internal auditor which shall be the responsibility of the Audit 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 the Board and senior

management which should be approved by the shareholders in the AGM meetings. The committee will make recommendations regarding remuneration policies and amounts for specific persons to the whole board considering the total remuneration including salaries, fees, expenses and employee benefits as well as evaluate and remunerate board members based on their attendance and performance. The Committee must meet at least two times a year.

No meeting was conducted in 2013 for the Nomination & Remuneration Committee.

2. Executive Committee

The Executive Committee is delegated with a define scope of duties and authorities with the objective of assisting the Board in fulfilling its corporate governance responsibilities, to oversee the management of the Company's balance sheet from risk and return prospective and to increase the Company's income. In Addition, the committee is required to act on behalf of the Board on urgent matters when a meeting of the Board is not possible or practical, as well as undertaking other tasks as may be entrusted to it by the Board from time to time. The Committee must meet at least four times a year.

The Committee held four meeting during the fiscal year 2013.

Director's Name	Position	Dates of Meetings	Number of Meetings Attended
Faisal Al Matrook	Chairman	16 th Jan 2013	4
Saud Kanoo	Member	19 th May 2013	4
Nasser Al Gharibah	Member	30 th July 2013 30 th Sep 2013	2

3. Audit Committee

Audit Committee is responsible for following up on the internal and external audit, as well as compliance and anti-money laundering. The Committee must meet at least four times a year.

The Committee held four meeting during the fiscal year 2013.

Director's Name	Position	Dates of Meetings	Number of Meetings attended
Samer Abbouchi	Chairman	11 th Feb 2013	4
Mohammed Al Dosari	Member	6 th Aug 2013	1
Mohammed A. Khaliq	Member	30 th Sep 2013 12 th Dec 2013	4

The AGM approved reappointing M/S BDO to conduct the review and audit of the Company financial statements for the year ended 31st December 2013. Total fees paid to the external auditors were BD 7,500.

The Company engaged M/S KPMG Fahkro to conduct the internal audit functions.

Ethics and Conflicts of Interest

As per Board of Directors Charter, all Directors and employees will act ethically at all times and adhere to the Company's Code of Conduct. Where a potential conflict of interest arises for a Director, the Director shall promptly inform the Board for deliberation and resolution.

In addition, conflict of interest would arise where any member of Senior Management,

Officer or employee, has a personal interest - financial or otherwise, in a client, counterparty, borrower, supplier, or other person or company dealing with the Company. Company staffs is expected to manage his/her personal and business affairs so as to avoid situations that might lead to a conflict, or even the appearance of a conflict, between the staff's self-interest and his/her duty to the Company, its clients and its shareholders. All Staff and Directors are expected to behave professionally such that they do not:

1. Enter into competition with the Company
2. Demand/accept substantial gifts from the Company for himself or his associates.
3. Misuse the Company's assets
4. Use Reef privileged information to take advantage of business opportunities to which the Company is entitled for himself or his associates.

In any such situation, the person concerned must absent himself/herself from any discussions or decision making that involves a subject where they are incapable of providing objective advice, or which involves a subject or (proposed) transaction, where a conflict of interest exists. Any staff member who has a conflict of interest shall inform the CEO immediately of the same and disclose all material facts in the case of a contract or transaction involving him or her. The CEO and Directors must inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to other organizations as they arise.

Transactions with Related Parties

Details of related parties' transactions are presented in note 17 in the financial statements.

Penalties

During 2013, the Company was subject to financial penalties by the CBB totaling BD 600 due to systematic reporting failure and delay in reporting to the CBB.

Confidentiality

The Company adopts privacy and confidentiality for protecting sensitive information of all matters, including customer information. Conformity with these principles is applicable to its Directors, Senior Management, Officers and all employees of the Company. Maintaining the confidentiality of the Company's information is a must to continue employment with Reef. The Company's client's confidential information is treated as "private and confidential" and to be used for the purposes obtained. Access to client's confidential information is restricted to the concerned employees of the Company

only. Company's information is considered as "private and confidential" unless it is been clearly confirmed it is not. Access to confidential information is not given to persons outside the Company, unless it is mandated by the regulator or by the applicable laws. The Company's financial information and data, including but not limited to, contracts, client lists, policies and procedures, management reports, marketing strategies, and other information should be treated as private and confidential and should not be disclosed, discussed or made available to anyone outside the Company. The Company's employees are bound by their contracts of employment to continue to observe this level of confidentiality regarding the Company's information. The Company's information in hard copy or soft copy formats, considered assets of the Company and may not be retained for use nor removed from the Company at the time employment ceases.

Review of internal control and processes

Internal control is a process affected by the Board of Directors, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the Company. The Board of Directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on an ongoing basis; however, each individual within an organization must participate in the process.

The main objectives of the internal control process can be categorized as follows:

1. Efficiency and effectiveness of activities (performance objectives);
2. Reliability, completeness and timeliness of financial and management information (information objectives); and
3. Compliance with applicable laws and regulations (compliance objectives).

Also, the internal control system of the Company consists of the following elements:

- Management oversight and the control culture;
- Risk recognition and assessment;
- Control activities and segregation of duties;
- Information and communication; and
- Monitoring activities and correcting deficiencies.

SHARI'A SUPERVISORY ADVISOR REPORT

For the period from 1st January 2013 to 31st December 2013



Shaikh Dr. Osama Mohammed Bahar
Shari'a Supervisory Advisor

Praise be to Allah, prayer and peace upon our master Muhammad the Imam of the Prophets and Messengers and his family and companions and allies.

It has been submitted to the Company's Shari'a Supervisory Advisor the investment and financing operations as well as the activities done by the Company. The Shari'a Supervisory Advisor as well reviewed the audited financial statements for the period from 1st January 2013 to 31st December 2013.

The review was commissioned to issue an opinion on whether the Company had followed the principles and provisions of the Islamic Shari'a and fatwa issued by the Shari'a Advisor of the Company. Where the responsibility lies with the Company to ensure that its operations are in compliance with the issued Shari'a legitimate, our responsibility is limited to express an independent opinion on the Company's operations done during the current year, and therefore decides the following:

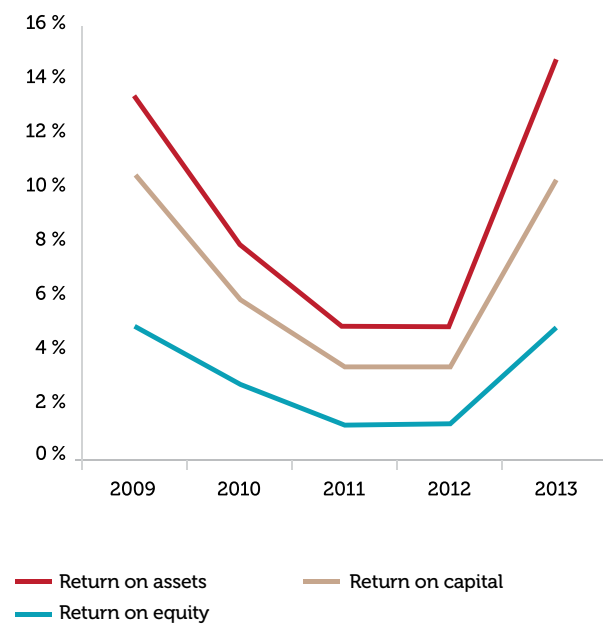
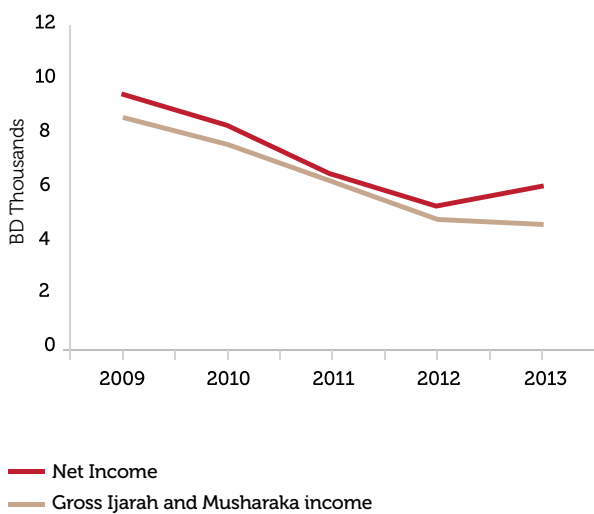
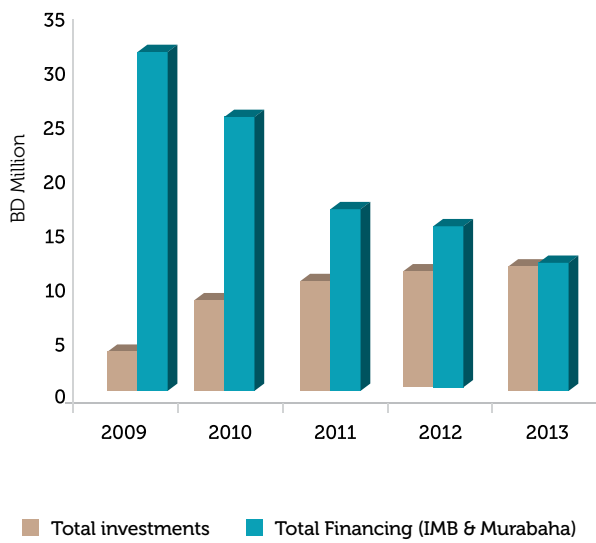
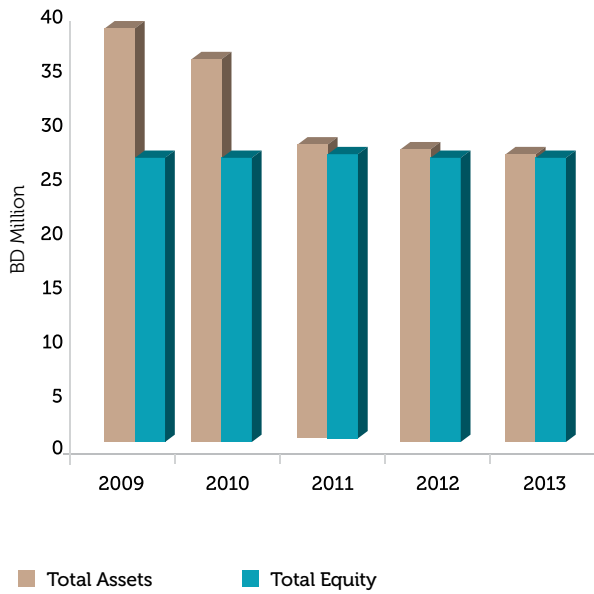
1. The Company's contracts, transactions and operations for the year ended 31st December 2013 are in compliance with the provisions and principles of Islamic Shari'a.
2. The calculation of the Company's profits and the losses charged to its investment operations are in compliance with the provisions and principles of the Islamic Shari'a.
3. The realized earnings from sources that are not compatible with the principles and provisions of Shari'a have been donated for charitable purposes.
4. The Zakah has been donated for charitable purposes.

And Allaah is the Source of Successes.

A handwritten signature in black ink, enclosed in a hand-drawn oval.

Shaikh Dr. Osama Mohammed Bahar
Shari'a Supervisory Advisor

FINANCIAL HIGHLIGHTS



FINANCIAL STATEMENTS

For the year ended 31 December 2013

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INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF

Reef Real Estate Finance B.S.C. (c)



Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Reef Real Estate Finance Co. B.S.C. (c) ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statement of income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

The management of the Group is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a advisor of the Company. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Islamic Financial Institution and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013, and the consolidated results of its operations, the consolidated changes in shareholders' equity and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a advisor of the Company.

Report on other legal and regulatory requirements

As required by the Bahrain Commercial Companies Law, Decree Number 21 of 2001 and the Central Bank of Bahrain (CBB) Rule Book Volume 5, we report that: the Group has maintained proper accounting records and the financial statements are in agreement therewith; the financial information contained in the chairman's statement is consistent with the consolidated financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 5 and applicable provision of volume 2) and CBB directives, or the terms of the Company's license, Memorandum and Articles of Association having occurred during the year that might have had a material adverse effect on the business of the Group or on its consolidated financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.


Manama - Kingdom of Bahrain
19 February 2014

Consolidated statement of financial position

as at 31 December 2013 (Expressed in Bahraini Dinars)

	Notes	31 December 2013	31 December 2012
ASSETS			
Cash and bank balances		1,368,833	559,012
Investment in an associate	4	-	512,139
Investment securities	5	2,111,508	3,543,000
Mudaraba investments	6	5,850,869	7,484,905
Murabaha financing	7	4,813,008	-
Ijarah Muntahia Bittamleek and Musharaka	8	7,878,433	12,259,502
Properties-under-development	9	1,363,397	-
Investment in real estate	10	3,233,209	3,359,401
Receivables and prepayments	11	1,328,623	651,615
Property and equipment	12	19,848	33,282
Total assets		27,967,728	28,402,856
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Islamic financing		-	421,156
Other liabilities	13	510,899	623,394
		510,899	1,044,550
Shareholders' Equity			
Share capital	14	24,042,900	24,042,900
Statutory reserve	15(i)	1,039,512	908,652
Properties fair value reserve	15(ii)	1,078,825	1,078,825
Charity reserve		2,770	10,704
Retained earnings		1,292,822	1,317,225
		27,456,829	27,358,306
Total liabilities and Shareholders' equity		27,967,728	28,402,856

These financial statements and notes from 1 to 20, set out on pages 23 to 45, were approved for issue by the Board of Directors on 19 February 2014 and signed on their behalf by:


Ali Ahmed Al Baghli
Chairman


Mahmood Al Koofi
Chief Executive Officer

Consolidated statement of income

for the year ended 31 December 2013 (Expressed in Bahraini Dinars)

	Notes	31 December 2013	31 December 2012
Income			
Gross Ijarah and Musharaka income		2,113,144	2,931,764
Less: Depreciation on Ijarah			
Muntahia Bittamleek	8	1,196,218	1,621,052
		916,926	1,310,712
Profit from Mudaraba investments		198,420	210,276
Profit from Murabaha financing		911,968	-
Fees income from Ijarah Muntahia Bittamleek		35,901	111,632
Gain on settlement of due to exiting shareholder	4	242,216	-
Rental Income from investment in real estate		126,300	172,699
Income from investment securities		2,881	-
Net foreign exchange gains		56,011	-
		2,490,623	1,805,319
Expenses			
Staff costs		423,926	409,303
Finance costs		19,154	105,824
General and administrative expenses		395,814	387,302
Depreciation of property and equipment	12	18,790	19,812
Depreciation on investment in real estate	10	538	502
Impairment on properties-under-development		85,238	-
Share of net loss from investment in an associate		-	410
Allowances and provisions		238,561	456,304
		1,182,021	1,379,457
Net profit for the year		1,308,602	425,862
Basic and diluted earnings per share	16	Fils5.4	Fils1.8

Consolidated statement of changes in shareholders' equity

for the year ended as at 31 December 2013 (Expressed in Bahraini Dinars)

	Notes	Share Capital	Statutory Reserve	Properties Fair Value Reserve	Charity Reserve	Retained Earnings	Total
At 31 December 2011		24,042,900	866,066	1,078,825	8,314	2,136,094	28,132,199
Dividend for the year 2011		-	-	-	-	(1,202,145)	(1,202,145)
Charity reserve movement		-	-	-	2,390	-	2,390
Total net profit for the year		-	-	-	-	425,862	425,862
Transferred to statutory reserve	15(i)	-	42,586	-	-	(42,586)	-
At 31 December 2012		24,042,900	908,652	1,078,825	10,704	1,317,225	27,358,306
Dividend for the year 2012	14	-	-	-	-	(1,202,145)	(1,202,145)
Charity reserve movement		-	-	-	(7,934)	-	(7,934)
Total net profit for the year		-	-	-	-	1,308,602	1,308,602
Transferred to statutory reserve	15(i)	-	130,860	-	-	(130,860)	-
At 31 December 2013		24,042,900	1,039,512	1,078,825	2,770	1,292,822	27,456,829

Consolidated statement of Cash Flow

for the year ended as at 31 December 2013 (Expressed in Bahraini Dinars)

	Notes	31 December 2013	31 December 2012
Operating activities			
Net profit for the year		1,308,602	425,862
Adjustments for:			
Depreciation on property and equipment	12	18,790	19,812
Depreciation on Ijarah Muntahia Bittamleek	8	1,196,218	1,621,052
Depreciation on investment in real estate	10	538	502
Realised loss on sale of investment in real estate		10,446	-
Impairment loss on property-under –development		85,238	-
Share of net loss from an associate		-	410
Loss on investment in securities	5	2,856	-
Transfer to charity reserve		-	5,000
Finance costs		19,154	105,824
Changes in operating assets and liabilities:			
Receivables and prepayments		(677,009)	(51,958)
Other liabilities		(112,494)	(127,457)
Net cash provided by operating activities		1,852,339	1,999,047
Investing activities			
Net movement in Murabaha financing		(1,624,308)	-
Additions in investment securities		(1,760,064)	(3,543,000)
Net movement in properties-under-development		(1,448,635)	-
Net Movement in investment in an associate	4	512,139	-
Purchase of property and equipment	12	(5,356)	(25,084)
Addition in investment in real estate	10	(376,643)	(522,917)
Net Movement in Mudaraba investments		1,634,036	(722,436)
Net movement in Ijarah Muntahia Bittamleek and Musharaka		3,184,851	3,621,776
Net movement in Musharaka financing		-	5,937
Proceeds from sale of investment in real estate		491,852	-
Net cash provided by/(used in) investing activities		607,872	(1,185,724)
Financing activities			
Islamic financing repaid, net		(421,156)	(849,800)
Charity reserve movement		(7,934)	(2,610)
Dividends paid	14	(1,202,145)	(1,202,145)
Finance costs paid		(19,154)	(105,824)
Net cash used in financing activities		(1,650,389)	(2,160,379)
Net increase/(decrease) in cash and cash equivalents		809,821	(1,347,056)
Cash and cash equivalents, beginning of the year		559,012	1,906,068
Cash and cash equivalents, end of the year		1,368,833	559,012

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

1. Organisation and principal activities

Reef Real Estate Finance Co. B.S.C. (c) ("the Company") and its subsidiary comprise "the Group". The Company is a closed shareholding company and operates as an Islamic financing company under license number 58073 granted by the Ministry of Commerce and Central Bank of Bahrain ("CBB") license number FC/001 obtained on 5 May 2005. The Company commenced commercial operations on 10 September 2005.

The principal activities of the Group include:

- granting short and long-term financing facilities to consumers to finance the purchase and construction of real estate;
- providing leasing facilities with an option to buy;
- investing in real estate, industrial, agricultural and other economic sectors and dealing in shares of established companies;
- buying and selling of properties, developing residential and commercial land, building residential and commercial units with the intent of their subsequent sale or lease.

The Company's activities are regulated by the CBB and supervised by a Shari'a Supervisory Advisor whose role has been defined by the Board of Directors.

The registered office of the Group is in the Kingdom of Bahrain.

The structure of the Group is as follows:

Subsidiaries

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2013	Effective ownership interest 2012
First Reef B.S.C. (c)*	Kingdom of Bahrain	Buying and selling of properties	99.9%	45%
Reef Investment UK B.S.C (c)	Kingdom of Bahrain	To Issue Funds	99.9%	99.9%

As the Company now exercises significant influence over First Reef B.S.C. (c), the investment has been accounted for as an subsidiary as at 31 December 2013.

* Refer to note 4

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

2. Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, modified by the valuation of investment in real estate and investments in securities which are measured at their fair values. The consolidated financial statements of Group have been prepared on a going concern basis as at 31 December 2013.

(a) Statement of Compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Advisor of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law and the CBB Rule Book (Volume 5 and applicable provision of volume 2) and CBB directives, regulations and associated resolutions, rules and procedures of the Company's memorandum and articles of association in accordance with the requirements of AAOIFI. For matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ('the IFRS') issued by International Accounting Standards Board.

(b) Shari'a rules and principles

The Group has appointed a Shari'a Supervisory Advisor in accordance with the terms of its Articles of Association. The Shari'a Supervisory Advisor reviews the Group's compliance with general Shari'a principles and issues fatwa, rulings and guidelines on specific matters. The review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

The Group is committed to avoid recognising any income generated from non-Islamic sources. Any earnings prohibited by Shari'a are set aside for charitable purposes or otherwise dealt with in accordance with the directions of the Shari'a Supervisory Advisor.

(c) Functional and presentation currency

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), being the functional currency of the Group's operations.

(d) Adoption of new and/or amended standard

During 2012, AAOIFI issued a new Financial Accounting Standard (FAS 26) "Investments in real estate", which is effective as of 1 January 2013.

Financial Accounting Standard (FAS 26) "Investment In Real Estate"

The Group has adopted FAS 26 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation or both.

The adoption of FAS 26 had an effect on the classification and measurement of the Group's direct investment in real estate rather than investment in shares and other financial instruments providing indirect exposure to investment in real estate. The Group has accounted for such other investments under other standards issued by AAOIFI. As a result of the application of this new standard, the Group revisited the classification of the investment portfolio and changes, if any, were made in these classification in line with FAS 26. The Group investments in real estate for comparative period are in the nature of held-for-use and have always been fair valued in the prior year therefore there is no need for adjustment in opening retained earnings as of 1 January 2012. As of 31 December 2013, "Property fair value reserve" amounts to BD1,078,825.

Before the adoption of FAS 26, the Group was following FAS 17 'investments' and measured its investment in real estate at fair value and this measurement continues to be followed under FAS 26.

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

2. Basis of preparation (continue)

(e) Basis of consolidation

The consolidated financial statements incorporate financial statements of the Company and its subsidiary from the date that control effectively commenced until the date that control effectively ceased. Control is achieved when the company has the power to govern the financial and operational policies of an entity so as to obtain benefits from its activities. All intergroup balances, transactions and unrealised profits and losses are eliminated in full on consolidation.

(f) Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Impairment

The Group assesses at each consolidated statement of financial position date whether there is objective evidence that a specific asset or a group of assets may be impaired. An asset or a group of assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event(s) have an impact on the estimated future cash flows of the asset or the group of the assets that can be reliably estimated.

Fair valuation of investments

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of the consolidated financial statements. The valuation of such investments is based on the fair value as explained in policy note. Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Valuation of investment in real estate

The Group obtains valuations performed by external independent property evaluator in order to determine the fair value of its investment properties. These valuations are based upon assumptions including future rental income, anticipated maintenance costs and the appropriate discount rate. The independent property evaluator also make reference to market evidence of transaction prices for similar properties.

Classification of investments

In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

Legal proceedings

The Group reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the consolidated financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

3. Significant accounting policies

A summary of the significant accounting policies adopted in the preparation of these consolidated financial statements is set out below:

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and bank balances.

Investment in an associate

The Group's investment in its associate is accounted under the equity method of accounting. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture. The financial statements of the associate are used by the Company to apply the equity method. The reporting dates of the associate and the Company are identical and both use consistent accounting policies.

The investment in associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The statement of income reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the associates' equity, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in shareholders' equity.

Investment in securities

Investments in securities comprise of both equity and debt type instruments.

The equity type instruments are further classified as investment at fair value through consolidated statement of income. and investment carried at fair value through equity. Also the debt type instruments are further classified as investment at fair value through consolidated statement of income. and investment carried at amortised cost. The group investments in securities consist of debt and equity instruments classified as fair value through consolidated statement of income.

The Group's had acquired investments principally for the purpose of generating a profit from short term fluctuations in price or dealers margin, accordingly the instrument are carried at fair value through consolidated statement of income.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. At the end of each reporting period, investments shall be re-measured at their fair value and the gain/loss shall be recognised in the consolidated statement of income.

Mudaraba investments

Mudaraba investments are carried at historical cost less provision for impairment in value.

Murabaha financing

The Group finances these transactions through buying the commodity which represents the object of the Murabaha contract and then resells this commodity to the Murabaha (beneficiary) at a profit. The sale price (cost plus profit margin) is repaid in instalments by the Murabaha over the agreed period. The transactions are secured at times by the object of the Murabaha contract (in case of real estate finance) and other times by a total collateral package securing the facilities given to the Murabaha.

Murabaha financing is stated at cost less allowance for doubtful receivables.

Profit in respect of Group share in Murabaha financing shall be recognised on proportionate basis over the period of credit.

Musharaka financing

Musharaka financing is recorded on the basis of the Group's contribution to the Musharaka transaction. Musharaka is carried at historical cost less provision for impairment in value.

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

3. Significant accounting policies (continue)

Ijarah Muntahia Bittamleek

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are stated at historical cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis over the period of the lease term (except for land, which is deemed to have an indefinite life).

The Group assesses at each financial position date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying value of the asset and the estimated recoverable amount as per contractual terms. Impairment losses, if any, are recognised in the statement of income.

Property-under-development

Property-under-development represents properties held for sale in the ordinary course of business or in the process of construction and development for future sale. Property-under-development are valued at cost less impairment if any and include expenditure incurred in the normal course of developing and constructing the property, such as materials, labour and directly attributable overheads.

Properties-under-development are derecognised when they have either been disposed-off or when the property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on derecognition of a property under development are recognised in the consolidated statement of income in the year of derecognition.

Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as Investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in shareholders' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period's unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed-off the cumulative gains previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

Receivables and prepayments

Receivables and prepayments are carried at their anticipated realisable values. An allowance is made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off during the year in which they are identified.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use.

Depreciation is calculated on the straight-line method to write-off the cost of property and equipment to their estimated residual values over their expected economic useful lives as follows:

Leasehold improvements	5 years
Furniture and fixtures	5 years
Office equipment	5 years
Computer hardware and software	2-3 years
Motor vehicles	3 years

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

3. Significant accounting policies (continue)

Property and equipment (continue)

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining net profit.

Repairs and renewals are charged to the consolidated statement of income when the expenditure is incurred.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amounts, the property and equipment are written-down to their recoverable amounts.

Islamic financing

Islamic financing liabilities comprise Murabaha and Wakalah financing and are stated at amortised cost.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

Employee benefits

Employee benefits and entitlements to annual leave, holiday and other short-term benefits are recognised as they accrue to the employees. The Group contributes to the pension scheme for Bahraini nationals administered by the Social Insurance Organisation in the Kingdom of Bahrain.

This is a defined contribution pension plan and the Group's contributions are charged to the consolidated statement of income in the period to which they relate. In respect of this plan, the Group has a legal obligation to pay the contributions as they fall due and no obligation exists to pay the future benefits.

The expatriate employees of the Group are paid leaving indemnity in accordance with the provisions of the Bahrain Labour Law. The Group accrues for its liability in this respect on an annual basis.

Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of comprehensive income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the right to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

3. Significant accounting policies (continue)

Financial assets (continue)

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting

Financial assets and financial liabilities are only offsetted and the net amount reported in the consolidated statement of financial position when there is a legal or religious enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition

a) Income from Ijarah Muntahia Bittamleek

Revenue from assets acquired for Ijarah Muntahia Bittamleek (leasing) contracts are recognised proportionately over the terms of the lease.

b) Profit from Musharaka contracts

Profit from Musharaka contracts that continue for more than one financial period are recognised when a partial or final settlement takes place and the share of losses are recognised to the extent that such losses are deducted from the Group's share of the Musharaka capital.

c) Income from Mudaraba contracts

Income from Mudaraba contracts is recognised to the extent profits are declared by the Mudarib.

Dividends

Dividends to shareholders are recognised as liabilities in the year in which they are declared.

Foreign exchange transactions

Foreign currency transactions are recorded at the rates of exchange prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. Any translation differences are taken to the consolidated statement of income.

Zakah

The responsibility of payment of Zakah is on the shareholders. Zakah payable is computed by the Group on the basis of the method prescribed by the Company's Shari'a Supervisory Advisor and in line with AAOIFI standards.

4. Investment in an associate

During the year, the shareholders of the associate company at their meeting held on 8 April 2013 approved the transfer of shares held by Kooheji Contractors W.L.L. and Mohammed Rahma Mohsin Al Tajer in favour of Reef Real Estate Finance Co B.S.C. (c). As a result, Reef Real Estate Finance Co B.S.C. (c) hold 99.9% of the First Reef B.S.C (c) as of 31 December 2013.

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

4. Investment in an associate (continue)

Further, on settlement of dues to former shareholders of the subsidiary company, the subsidiary has made a gain amounting to BD242,216 which is shown in the consolidated statement of income. In summary, the share of net worth for existing shareholders was BD625,880 and exit consideration paid by subsidiary company for settling the dues amounted to BD383,664 thereby resulting in a net gain of BD242,216. The existing shareholders relinquished the amounts due from the subsidiary including both receivables and their equity stake.

5. Investment securities

Investment at fair value through consolidated statement of income	31 December 2013	31 December 2012
Investment in equity-type instruments – Unquoted	1,360,157	3,543,000
Investment in debt-type instruments- Quoted	751,351	-
	2,111,508	3,543,000

Investment in equity-type instruments

	31 December 2013	31 December 2012
Opening balance	3,543,000	-
Additions during the year	1,008,713	3,543,000
Less: unrealised fair value loss for the year	(2,856)	-
Less :Transferred to Murabaha financing	(3,188,700)	-
	1,360,157	3,543,000

During the year 2012, the Group has invested BD3,543,000 in acquiring 9.52% of the share capital of the Amwaj Property Limited (APL), incorporated in British Virgin Islands. The main objective of APL is to develop a property in London, England ("the Project"). During the year, APL converted 90% of its equity as murabaha financing accordingly the 90% of carrying value transferred to Murabaha financing (Note 7) and recorded an accrued profit of BD792,703 on murabaha financing up to 31 December 2013.

During the year 2013, the Group has invested BD1,008,713 in acquiring shares in Manazel Qurtoba 2 fund, floated by MEFIC Capital in Kingdom of Saudi Arabia. The main objective of Fund is to develop a property in Northern Riyadh, Kingdom of Saudi Arabia.

Investment in debt-type instruments

During the year 2013, the Group has invested BD751,351 in acquiring units in sukuk "CBB International Sukuk", floated by Central Bank of Bahrain. These units are listed. The fair value of this units are not materially different from the carrying value as the units are bought by the Group closer to year ended 31 December 2013.

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

5. Investment securities (continue)

Investment securities are denominated in the following currencies:

Currency	2013	2012
Great Britain Pound	354,300	3,543,000
United States Dollar	751,351	-
Saudi Riyal	1,005,857	-
	2,111,508	3,543,000

6. Mudaraba investments

	31 December 2013	31 December 2012
Ithmaar Bank	2,500,000	3,396,761
Ahli United Bank	524,390	1,516,619
Kuwait Finance House	1,500,000	1,502,713
Bahrain Islamic Bank	507,667	-
Al-Baraka Islamic Bank	750,000	1,000,000
Khaleeji Commercial Bank	68,812	68,812
	5,850,869	7,484,905

Mudaraba and Murabaha investments represent amounts placed with financial institutions, which have maturity periods ranging between 30 to 150 days, and earn market rates of profit per annum receivable on maturity.

7. Murabaha financing

		31 December 2013	31 December 2012
Amwaj Property Limited (APL)	(a)	3,188,700	-
Amwaj Property Limited (APL) – Mezzanine	(b)	596,233	-
Omniyat Properties Six Limited	(c)	1,028,075	-
		4,813,008	-

- a) The Murabaha financing with Amwaj Property Limited (APL) is unsecured, bears a compounded quarterly profit of 12.5% per annum and an arrangement fee of 1% and is not expected to be repaid within one year from the financial position date.

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

7. Murabaha financing (continue)

- b) The Murabaha financing with Amwaj Property Limited (APL) mezzanine is unsecured, bears compounded quarterly profit of 12.5% per annum and is expected to be early repaid in the first quarter of 2014.
- c) The Omniyat Properties Six Limited (OPUS Project) is secured, bears a profit of 15% per annum and is expected to be repaid at the end of two years from the date of investment. This project is based in Dubai, UAE.

8. Ijarah Muntahia Bittamleek and Musharaka

	Lands	Buildings	Total
Cost			
At 31 December 2011	6,714,566	17,656,421	24,370,987
Additions	599,515	661,935	1,261,450
Transferred to receivables	-	(350,000)	(350,000)
Payment received/disposals	(2,560,127)	(3,766,666)	(6,326,793)
At 31 December 2012	4,753,954	14,201,690	18,955,644
Additions	-	154,215	154,215
Payment received/disposals	(1,679,685)	(3,292,267)	(4,971,952)
At 31 December 2013	3,074,269	11,063,638	14,137,907
Depreciation			
At 31 December 2011	-	(6,522,568)	(6,522,568)
Charged for the year	-	(1,621,052)	(1,621,052)
Transferred to receivables	-	188,462	188,462
Disposals	-	1,577,288	1,577,288
At 31 December 2012	-	(6,377,870)	(6,377,870)
Charged for the year	-	(1,196,218)	(1,196,218)
Disposals	-	1,752,886	1,752,886
At 31 December 2013	-	(5,821,202)	(5,821,202)
Impairment provision			
At 31 December 2011	(5,071)	(335,081)	(340,152)
Transferred to receivables	-	141,880	141,880
Increase in provision	-	(120,000)	(120,000)
At 31 December 2012	(5,071)	(313,201)	(318,272)
Increase in provision	-	(120,000)	(120,000)
At 31 December 2013	(5,071)	(433,201)	(438,272)
Net book value			
At 31 December 2013	3,069,198	4,809,235	7,878,433
At 31 December 2012	4,748,883	7,510,619	12,259,502

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

8. Ijarah Muntahia Bittamleek and Musharaka (continue)

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are leased under contracts that conclude with the transfer of the legal title (ownership) in the leased asset to the lessee at the end of the lease period for a token consideration.

The Ijarah Muntahia Bittamleek contracts outstanding at 31 December 2013 have lease terms of up to 20 years.

9. Properties-under-development

During 2013, the Group has invested BD224,160 in developing a three storey building at Shakhoora, Bahrain. The Group holds 90.4% share in the project.

Further, investment in "Le Papillon Project" in Juffair amounts to BD1,139,237.

Both of these constitute properties are under development as at 31 December 2013.

10. Investment in real estate

	Investment Properties for capital Appreciation	Investment properties for periodical consideration	Total
Cost/Revalued			
As at 31 December 2011	2,019,308	817,832	2,837,140
Transfer from investment properties for capital appreciation to periodical consideration	(2,019,308)	2,019,308	-
Additions	502,297	20,620	522,917
As at 31 December 2012	502,297	2,857,760	3,360,057
Additions during the year	376,208	435	376,643
Disposals	(502,297)	-	(502,297)
As at 31 December 2013	376,208	2,858,195	3,234,403
Depreciation			
As at 31 December 2011	-	154	154
Charge for the year	-	502	502
As at 31 December 2012	-	656	656
Charge for the year	-	538	538
As at 31 December 2013	-	1,194	1,194
Net book value			
At 31 December 2013	376,208	2,857,001	3,233,209
At 31 December 2012	502,297	2,857,104	3,359,401

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

10. Investment in real estate (continue)

Included in investment properties for periodical consideration is the net book value of furniture and fixtures of BD31,190 (2012:31,293) which is depreciated over their useful life.

During December 2013, the Group obtained an open market valuation of its investment in real estate from an independent real estate valuer, which reflected the total fair value of the properties at BD3,352,002 resulting in an unrealised fair value gain amounting to BD118,793 (2012: BD1,299). However, on a conservative basis, the management of the Group has taken a decision not to include the current year's unrealised fair value gain in the consolidated statement of changes in equity.

11. Receivables and prepayments

	31 December 2013	31 December 2012
Ijarah Muntahia Bittamleek rental receivables	733,011	904,019
Allowance for doubtful Ijarah Muntahia Bittamleek rental receivables	(606,654)	(593,592)
Other receivables	731,365	681,156
Allowance for other receivables	(476,036)	(384,173)
Accrued profit on Murabaha financing	916,968	-
Accrued profit on Mudaraba investments	29,969	44,205
	1,328,623	651,615

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

12. Property and equipment

	Leasehold improvements	Furniture and fixtures	Office equipment	Computer hardware and software	Motor vehicles	Total
Cost						
At 31 December 2011	154,280	47,190	46,615	129,567	36,880	414,532
Additions	-	-	-	25,084	-	25,084
Disposal	-	-	(699)	-	-	(699)
At 31 December 2012	154,280	47,190	45,916	154,651	36,880	438,917
Additions	-	-	-	5,356	-	5,356
At 31 December 2013	154,280	47,190	45,916	160,007	36,880	444,273
Accumulated depreciation						
At 31 December 2011	144,093	44,126	43,923	117,500	36,880	386,522
Charge for the year	8,844	2,808	2,364	5,796	-	19,812
Disposal	-	-	(699)	-	-	(699)
At 31 December 2012	152,937	46,934	45,588	123,296	36,880	405,635
Charge for the year	726	256	175	17,633	-	18,790
At 31 December 2013	153,663	47,190	45,763	140,929	36,880	424,425
Net book value						
At 31 December 2013	617	-	153	19,078	-	19,848
At 31 December 2012	1,343	256	328	31,355	-	33,282

The Group operates from premises leased at a monthly rental of BD6,000 (2012: BD6,000) per month.

13. Other liabilities

	31 December 2013	31 December 2012
Ijarah Muntahia Bittamleek payables	447,716	136,898
Other payables	3,523	429,437
Accrued expenses	59,660	57,059
	510,899	623,394

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

14. Share capital

	31 December 2013	31 December 2012
Authorised		
400,000,000 (2012: 400,000,000) ordinary shares of 100 Fils each	40,000,000	40,000,000
Issued and fully paid-up		
240,429,000 (2012: 240,429,000) ordinary shares of 100 Fils each	24,042,900	24,042,900

The Group has only one class of equity shares and the holders of the shares have equal voting rights.

The names and nationalities of the major shareholders, holding shareholding interest of 5% or more and the number of shares at 31 December 2013 and 2012 are as follows:

	Nationality	31 December 2013	
		Number of shares	Percentage of shareholding interest
Gimbal Holding Co. S.P.C	Bahraini	113,001,630	47%
Inovent B.S.C.	Bahraini	24,042,900	10%
Ossis Property Developers B.S.C.(c)	Bahraini	24,042,900	10%
Sh. Sultan Bin Khalifa Al Nahyan	Emirati	13,223,595	5.5%
		174,311,025	72.50%
	Nationality	31 December 2012	
		Number of shares	Percentage of shareholding interest
National International Holding K.S.C.(c)	Kuwaiti	48,085,800	20%
Global Investment House K.S.C.(c)	Kuwaiti	40,872,930	17%
Inovent B.S.C.	Bahraini	24,042,900	10%
Ossis Property Developers B.S.C.(c)	Bahraini	24,042,900	10%
Safi Financial Services	Kuwaiti	24,042,900	10%
Sh. Sultan Bin Khalifa Al Nahyan	Emirati	13,223,595	5.5%
		174,311,025	72.50%

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

14. Share capital (continue)

During the year, National International Holding K.S.C.(c), Global Investment House K.S.C.(c) and Safi Financial Services transferred their holding in the Group to Gimbal Holding Co. S.P.C. As a result, Gimbal Holding Co. S.P.C. became 47% shareholder of the Group as of 31 December 2013.

Details of the Directors' interests in the Group's shares as at 31 December 2013 and 31 December 2012 are as follows:

Name of the directors	2013	2012
	Number of shares	Number of shares
Saud Kanoo	2,404,290	2,404,290
Faisal Al Matrook	2,404,290	2,404,290
	4,808,580	4,808,580

In accordance with resolutions passed at the Annual General Meeting held on 30 April 2013 cash dividend of 5 fils per share, amounting to a total dividend of BD1,202,145(2012:BD1,202,145) were approved by the shareholders and Central Bank of Bahrain.

15. Reserves

(i) Statutory reserve

Under the provisions of the Bahrain Commercial Companies Law, Decree no.21 of 2001 an amount equivalent to 10% of the Group's net profit before appropriations is required to be transferred to a non-distributable reserve account until such time as a minimum of 50% of the issued share capital is set aside. During the year, an amount of BD130,860 has been transferred to the statutory reserve (2012: BD42,586).

(ii) Investment property fair value

The revaluation reserve represents the net surplus arising on revaluation of investment in real estate (Note 10). This reserve is not available for distribution.

16. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued during the period.

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

16. Earnings per share (continue)

	31 December 2013	31 December 2012
Net profit attributable to the shareholders	BD1,308,602	BD425,862
Weighted average number of ordinary shares	240,429,000	240,429,000
Basic and diluted earnings per share	Fils5.4	Fils1.8

The earnings per share have been computed on the basis of net profit for the year divided by the number of shares outstanding for the year. There is no difference between the basic and diluted earnings per share.

17. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Related parties consist of the shareholders and directors and their close family members, and businesses under their control. The Group's transactions with related parties are authorised by the management.

A summary of the transaction and amounts due from related parties is as follows:

Related party relationship	Transaction type	For the year ended Transaction amount		Amounts due from related parties	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
Shareholder's and immediate family members	Ijarah Muntahia Bittamleek	461,390	483,943	127,353	299,613

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For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

18. Maturity profile

Maturity profile of assets and liabilities is as follows:

	At 31 December 2013				
	Carrying amount	Up to 6 months	6-12 months	1-5 years	5 years & above
Assets					
Cash and bank balances	559,012	559,012	-	-	-
Investment in an associate	512,139	-	-	512,139	-
Available-for-sale investment	3,543,000	-	-	3,543,000	-
Mudaraba investments	7,484,905	7,484,905	-	-	-
Musharaka financing	68,455	-	-	-	68,455
Ijarah Muntahia Bittamleek & Musharka	12,191,047	42,525	35,709	1,471,376	10,641,437
Investment properties	3,359,401	-	-	3,359,401	-
Receivables and prepayments	651,615	154,172	44,346	453,007	90
Property and equipment	33,282	146	27,243	5,894	-
Total assets	28,402,856	8,240,759	107,298	9,344,817	10,709,982
Equity and liabilities					
Share capital	24,042,900	-	-	-	24,042,900
Statutory reserve	908,652	-	-	-	908,652
Investment property fair value					
Reserve	1,078,825	-	-	1,078,825	-
Charity reserve	10,704	-	10,704	-	-
Retained earnings	1,317,225	-	-	-	1,317,225
Islamic financing	421,156	421,156	-	-	-
Other liabilities	623,394	623,394	-	-	-
Total equity and liabilities	28,402,856	1,044,550	10,704	1,078,825	26,268,777

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

18. Maturity profile (continue)

	At 31 December 2012				
	Carrying amount	Up to 6 months	6-12 months	1-5 years	5 years & above
Assets					
Cash and bank balances	559,012	559,012	-	-	-
Investment in an associate	512,139	-	-	512,139	-
Available-for-sale investment	3,543,000	-	-	3,543,000	-
Mudaraba investments	7,484,905	7,484,905	-	-	-
Ijarah Muntahia Bittamleek & Musharaka	12,259,502	42,525	35,709	1,471,376	10,709,892
Investment properties	3,359,401	-	-	3,359,401	-
Receivables and prepayments	651,615	154,172	44,346	453,007	90
Property and equipment	33,282	146	27,243	5,894	-
Total assets	28,402,856	8,240,759	107,298	9,344,817	10,709,982
Equity and liabilities					
Share capital	24,042,900	-	-	-	24,042,900
Statutory reserve	908,652	-	-	-	908,652
Investment property fair value					
Reserve	1,078,825	-	-	1,078,825	-
Charity reserve	10,704	-	10,704	-	-
Retained earnings	1,317,225	-	-	-	1,317,225
Islamic financing	421,156	421,156	-	-	-
Other liabilities	623,394	623,394	-	-	-
Total equity and liabilities	28,402,856	1,044,550	10,704	1,078,825	26,268,777

19. Financial assets and liabilities and risk management

Financial assets and liabilities carried on the statement of financial position include cash and bank balances, Mudaraba investments, Ijarah Muntahia Bittamleek, Musharaka financing, receivables and prepayments, Islamic financing and other liabilities. The specific recognition methods adopted are disclosed in the individual policy statements associated with each item.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made to the objectives, policies and processes during the years ended 31 December 2013 and 2012.

Notes to the consolidated financial statements

For The Year Ended 31 December 2013 (Expressed in Bahraini Dinars)

19. Financial assets and liabilities and risk management (continue)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt Islamic financing and other liabilities less cash and bank balances. Capital includes shareholders' capital and reserves attributable to the shareholders of the Group.

Since the Group does not have any net debt as at 31 December 2013 and 2012, the calculation of gearing ratio has not been presented.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Cash is placed with national and multinational banks with good credit ratings. The Group's credit risk arises mainly from the Mudaraba investments and receivables of future Ijarah rentals and Musharaka financing.

Mudaraba investments are placed with highly reputed and credit worthy financial institutions. In case of Ijarah rentals and Musharaka financing, the Group has well defined policies for managing credit risk to ensure that risks are accurately assessed, properly approved and regularly monitored. Formal credit limits are applied at counterparty and single obligor level. Overall exposures are also evaluated to ensure a broad diversification of risk by setting concentration limits by geographical regions and industrial sectors.

Currency rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's foreign currency transactions are predominantly in GCC currencies which are effectively pegged to the Bahraini Dinar. Accordingly, the management does not consider the Group to have a significant currency rate risk.

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing geographic, industry and customer-wise concentration limits.

Profit rate risk arises due to different timing of re-pricing of the Group's assets and liabilities. The Group's profit rate sensitive assets are mainly Murabaha receivables and assets acquired for leasing. The Group's exposure to profit rate risk is considered to be limited due to the short-term nature of Murabaha receivables and the terms of lease payments for assets acquired for leasing are such that they can be re-priced periodically.

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group's management rigorously monitors liquidity requirements on a regular basis to help ensure that sufficient funds are available, including unutilised credit facilities with banks, to meet its liabilities as they fall due.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair values of the Group's financial assets and liabilities are not materially different from their carrying dividends declared and paid by the Group.

20. Subsequent events

There were no significant events subsequent to 31 December 2013 and occurring before the date of signing of the financial statements that would have a significant impact on these consolidated financial statements.