



**Your Destination
To Real Estate
Investment**

Annual Report 2014

Contents

| | |
|---------|-------------------------------------|
| 04 - 05 | OUR VISION AND MISSION |
| 06 | CHAIRMAN'S MESSAGE |
| 08 | BOARD OF DIRECTORS |
| 10 | MANAGEMENT TEAM |
| 12 | CORPORATE SOCIAL RESPONSIBILITY |
| 13 | ORGANISATION CHART |
| 14 - 20 | CORPORATE GOVERNANCE |
| 21 | SHARI'A SUPERVISORY ADVISORY REPORT |
| 22 | FINANCIAL HIGHLIGHTS |
| 23 - 53 | FINANCIAL STATEMENTS |



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**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

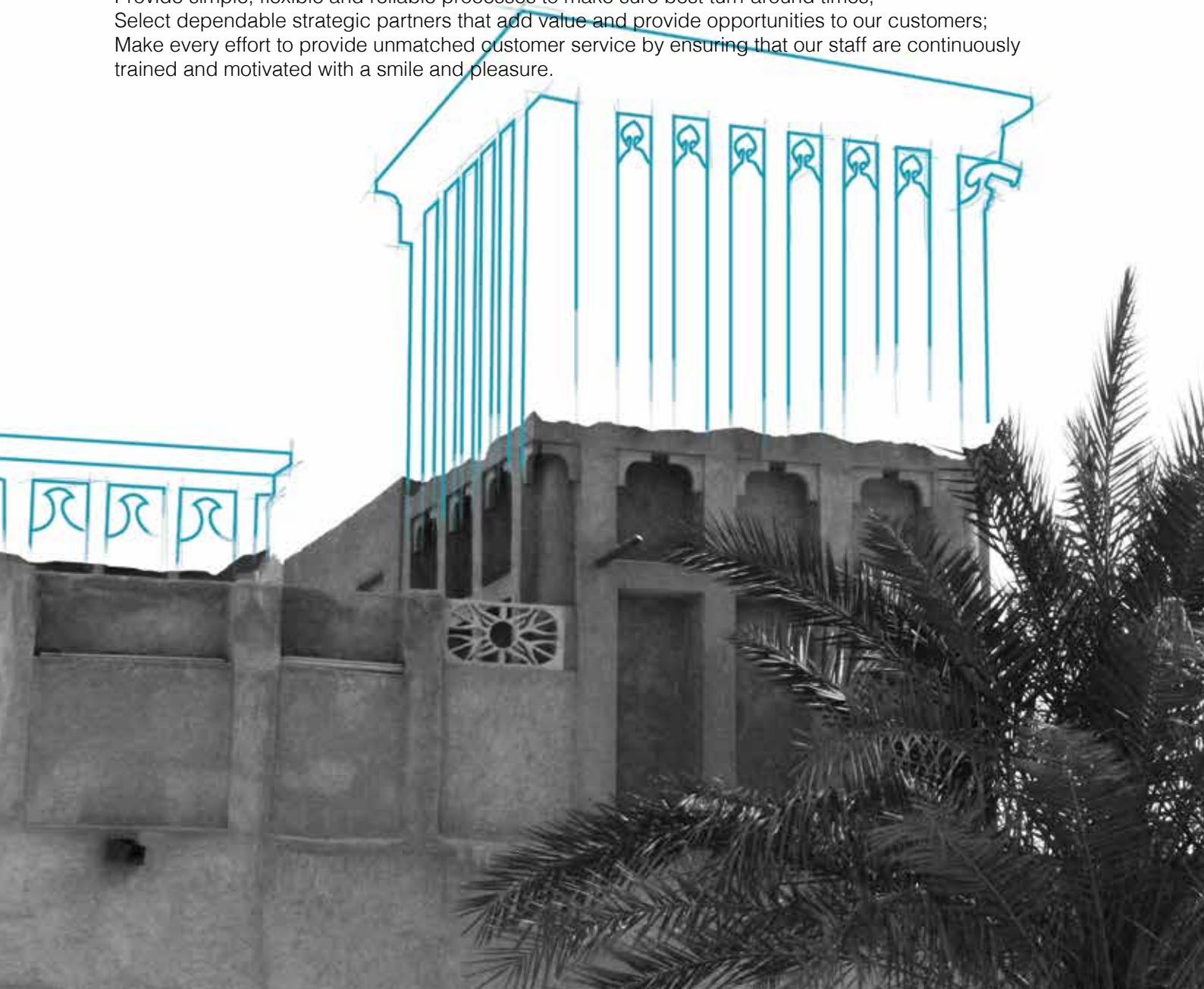
Vision

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 the Merciful the Compassionate

Dear valued shareholders,

On behalf of the Board of Directors and myself, I greet you with the best wishes and offer our sincere thanks and appreciation for your continuous support towards the company's journey since its incorporation and during the globally, regionally, and locally challenging economic periods. By virtue of your support, the company has over passed the challenging years and proudly stands today to announce its financial results for the period ended 31 December 2014.



North Wharf Gardens project located in Paddington in central London.

The company achieved net profits of about 3\$ million which is %15 less than previous year's earnings. This was due to the decline in returns from the retail financing portfolio "Ijarah Muntahia Bittamleek", mainly caused by the reduction in its size by end of the year 2014 as presented in the accompanying consolidated financial statements.

It is important to inform our valued shareholders that the reduction in the earning from our portfolio of Ijarah Muntahia Bittamleek was accompanied by a gradual increase in the investments securities, which will result in an evident decrease in speculative accounts (fixed deposits-Mudaraba) and increase in those investments that

will provide unprecedented returns in the near future.

It is worth noting that the company invested its surplus liquidity in two main investment areas, the first is concentrated in investment in selective real estate projects most of which are located in foreign countries, such as the United Kingdom, United Arab Emirates, and Kingdom of Saudi Arabia. The second is an investment in Ijara Islamic Sukuks issued by the Kingdom of Bahrain comprising of liquid investments that offer better returns than the speculative Mudaraba accounts.

During the year, the executive management were able to sell a portion of the non-performing assets which were collected from its customers which has naturally has resulted in some allowances/provisions being no longer required and subsequently portion of such allowances was written back. The other portion of these non-performing assets are expected to be recovered during the year 2015.



OPUS project is an icon of architectural distinction in downtown Dubai and a destination in its own right within the Burj Khalifa district.

Although the shareholders approved the company's purchase of treasury shares, the share capital in 2014 and 2013 remains the same as shown on the consolidated financial statements. This was mainly due to the delay in executing

and finalizing the legal procedures, which are expected to be completed in 2015. The executive management will later reflect the changes in 2015's consolidated financial statements. Further, the increase in retained earnings was due to adding 2014's net profit.

Noticeably during 2014, the company has relocated its headquarters to the recently built YBA Kanoo Tower situated in the entrance of the Diplomatic Area, which in return helped in decreasing the company's administrative expenses significantly. It is also nice to report that the new location of the company's offices is located near to many official authorities such as the Central Bank of Bahrain, Ministry of Industry and Commerce, Ministry of Justice, and other vital institutions and five star hotels in the Kingdom of Bahrain.



Manazel Qurtoa 2 is located behind SABIC headquarters building in Riyadh.

during 2014, the executive management has given serious attention to the compliance towards all compliance framework requirements as set by the Central Bank of Bahrain and all relevant corporate governance fundamentals. We believe in the global advancement in these frameworks and fundamentals, and in the efforts contributed by the Central Bank of Bahrain to ensure the compliance with all the applicable rules and regulations. In this respect therefore, the Board has formed a Corporate Governance Committee that was integrated with the Audit Committee after the Central Bank of Bahrain's approval.

Dear valued shareholders,

As the tenure of the Board of Directors is near its end, we would like to give our sincere thanks and gratitude for the trust you have kindly given to us throughout the past three years and we hope that our performance has met your satisfaction, after Almighty Allah, as he said "Work and Allah will surely see you work, and his prophet, and the believers".

The performance of the company would have not reached this level without the patience and efforts of the Board members in supporting the company in spite of the difficult challenges it had faced previously. Therefore, I would like to thank all my colleagues in the respectful Board for their dedicated efforts and perseverance.



Blue Diamond building is a multi-level modernized residential building in Saar - Kingdom of Bahrain..

In this context, I would also like to thank all official institutions and authorities in the kingdom of Bahrain which has sponsored our beloved company during the past decade, as they offered unprecedented support to the company's Board and executive management. Moreover, I would like to specially thank all the officials in the Central Bank of Bahrain, the Ministry of Industry and Commerce, and the Survey and Land registration Bureau, May Allah bless their ongoing efforts to elevate and prosper the institutions in our beloved Kingdom.

And finally, may Peace, Mercy, and Blessings of Allah be upon you all

Ali Ahmed Al Baghli

Chairman of the Board of Directors

Board Of Directors



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 Ossid 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 – Unicom 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 Ossid 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 has more than 35 years of professional experience in the financial sector ranging from insurance to investment banking 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 Ekhlis Holding Company (Kuwait), Elite Educational Company (Kuwait), First Jordan Investment Company (Jordan).

6. Mr. Mohammed A. Khaliq

Board Member - Experience: 19 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 Inovest 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 (Till 21 July 2014) - Experience: 17 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. Hassan Dhaif
CFO & HR

Experience: Over 19 Years

Mr. Hasan Dhaif has over 19 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 30 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 30 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: 18 Years

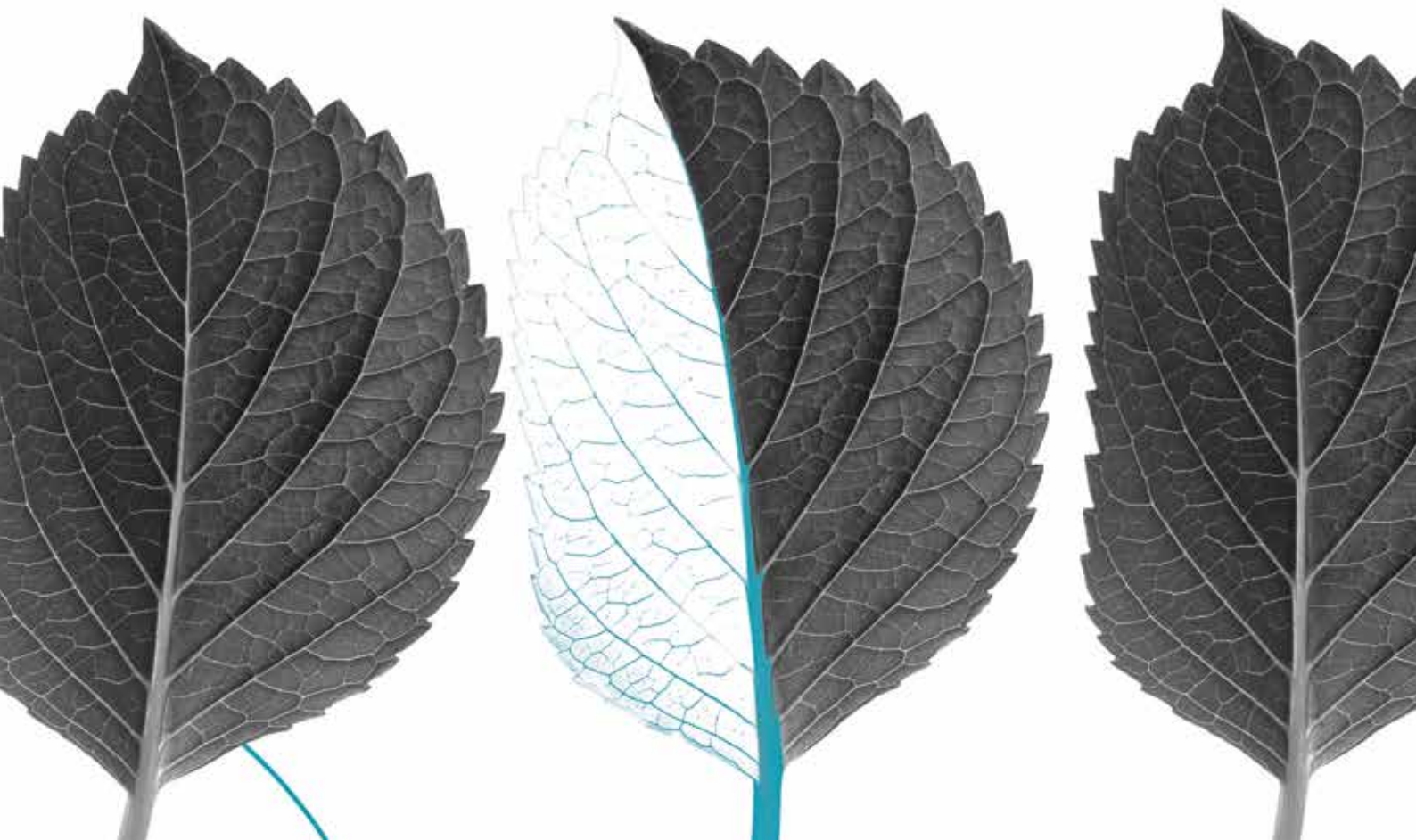
Mr. Eyad Al Sammak is holding BSc in Accounting from University of Bahrain. He holds 18 years of experience in retail banking services, finance, operations, Compliance and the Anti Money Laundering. Before joining Reef he was working in Bahraini Saudi Bank and Ahli United Bank.



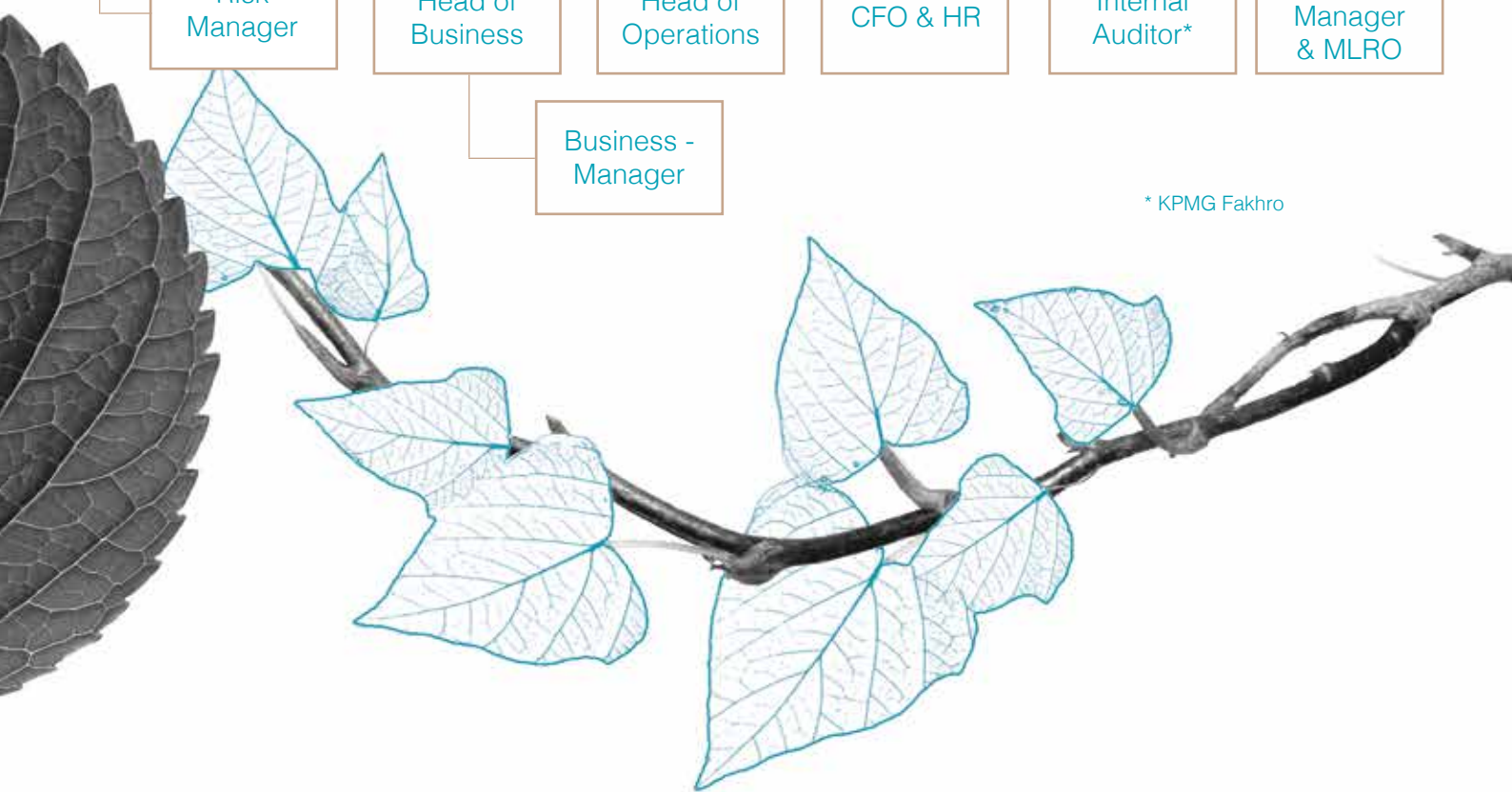
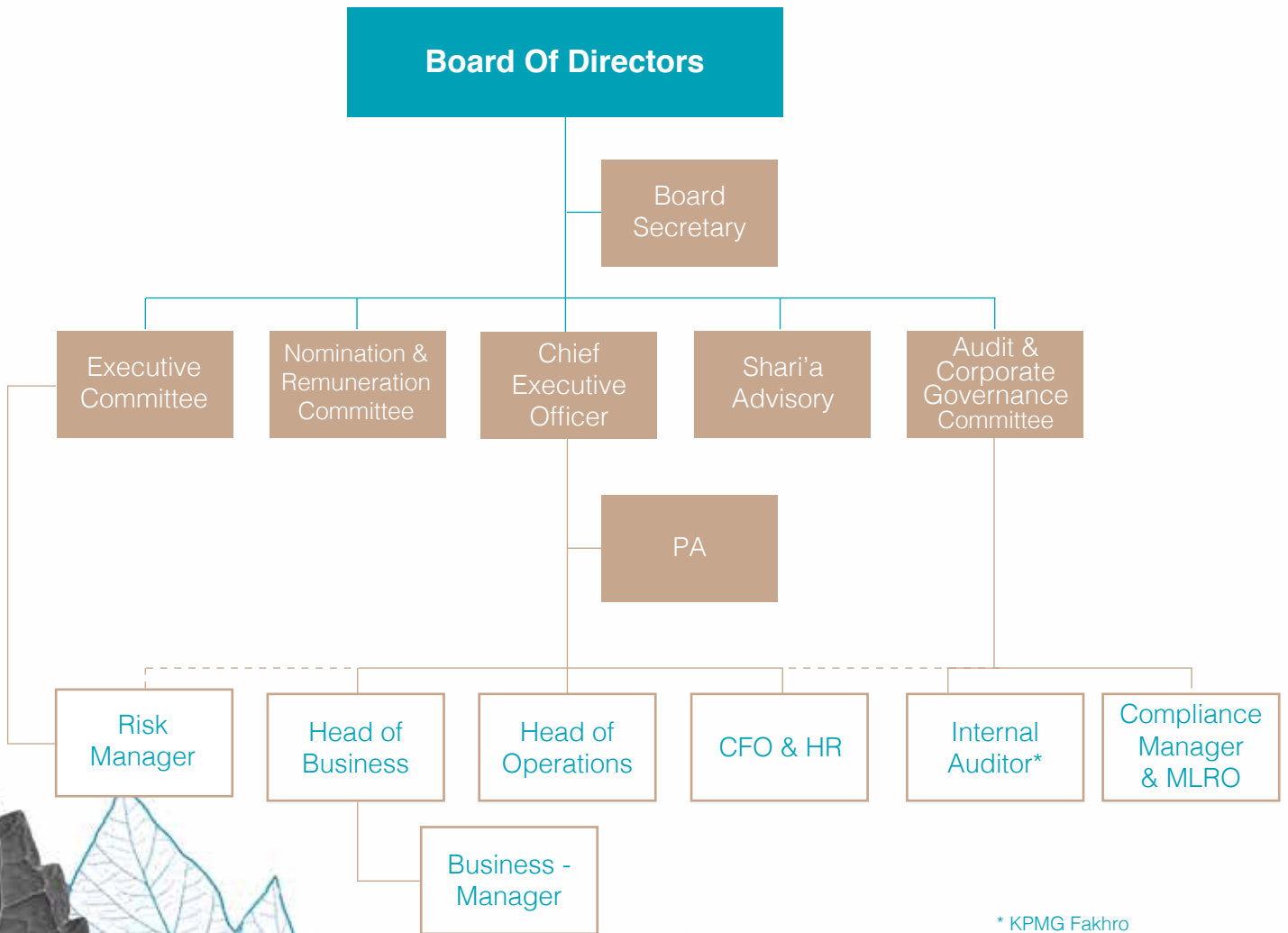
Corporate Social Responsibility

"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.

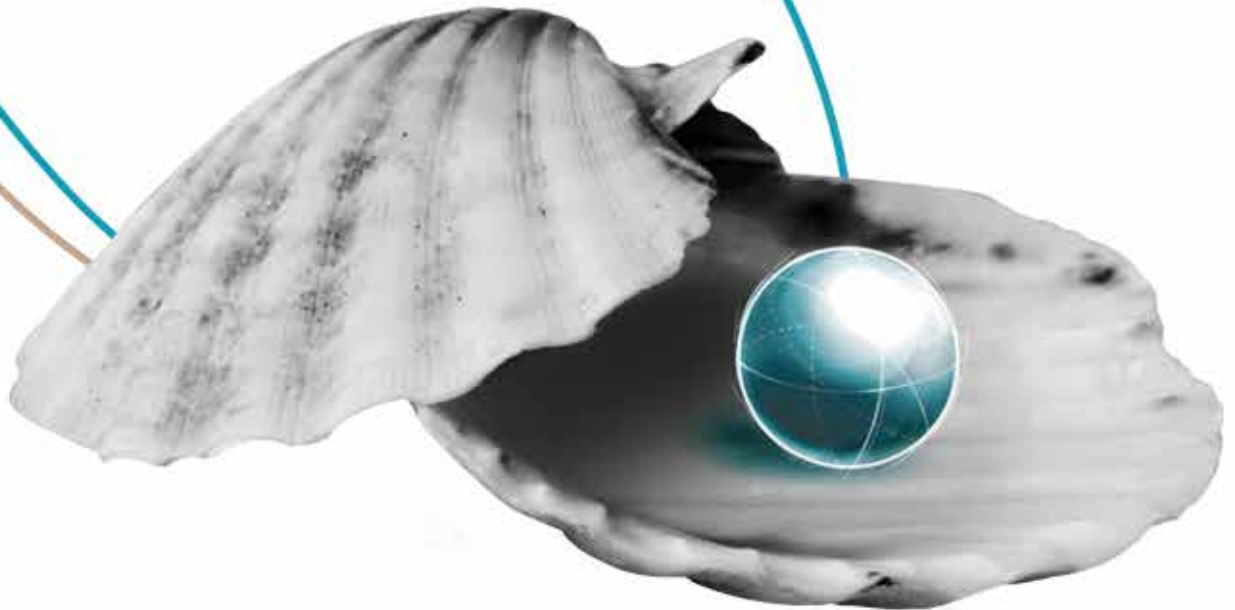


Organisation Chart





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 Volume 5 CBB rulebook 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 (Vol.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.

Distributions of Shareholders as the closing of 31st December 2014 were as follows:

| Name | Nationality | Number of Shares | Share % |
|--|-------------|--------------------|-------------|
| Gimbal Holding Co S.P.C | Bahraini | 113,001,630 | 47% |
| Ossis B.S.C.(c) | Bahraini | 24,042,900 | 10% |
| Inoest B.S.C. | Bahraini | 24,042,900 | 10% |
| H. E. 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 | Number of Shareholders | Number 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 | 1.50% |
| Qatari | 1 | 120,215 | 0.05% |
| Total | 95 | 240,429,000 | 100% |

Distribution of ownership by size of shareholders:

| Categories | Number of shareholders | Number of shares | Share % |
|---------------------|------------------------|--------------------|-------------|
| Less than 1% | 81 | 28,190,300 | 11.73% |
| 1% to less than 5% | 10 | 37,927,675 | 15.77% |
| 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, the board approve financing activitise for limit above BD 200,000, 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 NRC, 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.

Induction and training of Directors

The company makes sure that all its members have the knowledge, ability and experience to perform the functions required of a Director. Hence, an awareness program is conducted for the new and existing board members.

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 six (2013: seven) non-executive Directors comprising including the one (2013: two) independent Director(s).

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 & Corporate Governance |
| Ali Al Baghli | Kuwaiti | Non-independent | Chairman | Chairman | | |
| Saud Kanoo | Bahraini | Independent | Vice Chairman | | Member | 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 |

* Till 21st July 2014.

Board Meeting Attendance

As per the Board Charter, Board Members are required to attend at least four meetings per calendar year. Details of member attendance during the year 2014 as follows:

| Director Name | No of Meetings attended | Attendance % | Dates of Meetings |
|---------------------|-------------------------|--------------|-------------------|
| Ali Al Baghli | 4 | 100% | |
| Saud Kanoo | 4 | 100% | 19 Feb 2014 |
| Faisal Al Matrook | 4 | 100% | 24 April 2014 |
| Nasser Al Gharibah | 4 | 100% | 20 July 2014 |
| Samer Abbouchi | 4 | 100% | 15 Oct 2014 |
| Mohammed A. Khaliq | 4 | 100% | |
| Mohammed Al Dosari* | 0 | 0% | |

* Till 21st July 2014

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 on their individual performance & another on their committees performance. 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.

Remuneration

The Company adopts a transparent procedure 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").

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 established to comply with the Corporate Governance requirements. It is responsible to identify persons qualified to become members of the Board, 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 & Corporate Governance 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.

| Director’s Name | Position | Number of Meetings Attended | Dates of Meetings |
|-------------------|----------|-----------------------------|-------------------|
| Ali Al Baghli | Chairman | 2 | 19 Feb 2014 |
| Faisal Al Matrook | Member | 2 | 15 Oct 2014 |
| Samer Abbouchi | Member | 2 | |

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 three meeting during the fiscal year 2014.

| Director’s Name | Position | Number of Meetings attended | Dates of Meetings |
|--------------------|----------|-----------------------------|-------------------|
| Faisal Al Matrook | Chairman | 3 | 12 Feb 2014 |
| Saud Kanoo | Member | 3 | 3 July 2014 |
| Nasser Al Gharibah | Member | 3 | 15 Oct 2014 |

3. Audit & Corporate Governance Committee

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

The Committee held four meeting during the fiscal year 2014.

| Director’s Name | Position | Number of Meetings attended | Dates of Meetings |
|---------------------|----------|-----------------------------|-------------------|
| Samer Abbouchi | Chairman | 4 | 5 Feb 2014 |
| Saud Kanoo | Member | 1 | 8 Jun 2014 |
| Mohammed A. Khaliq | Member | 4 | 15 Oct 2014 |
| Mohammed Al Dosari* | Member | 1 | 21 Dec 2014 |

* Till 21st July 2014

The AGM approved reappointing M/S BDO to conduct the review and audit of the Company financial statements for the year ended 31st December 2014. Total fees paid to the external auditors were BD 8,500 (2013: BD 7,500).

The Company engaged M/S KPMG Fakhro to conduct the internal audit functions. Total fees paid to the internal auditors were BD 8,000 (2013: BD 8,000).

Managerial structure

The group has established two Managerial Committee and has delegated specific powers to each committee as follows:

1. Management Committee: Management Committee consists of three Executive Management Members and is responsible for the timely follow up of the Company's strategies, business targets and regular problem solving. This Committee also performs the work of credit and risk function as and when necessary.

2. Remedial Committee consists of a minimum of three Members from the Department Heads. The Committee Members reporting all the matters to CEO. Committee shall be responsible for meeting the Company's remedial targets and reports, make recommendations on changes in existing remedial strategies or policies and reviews, discuss and provide guidance on monthly remedial reports.

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 staff 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. It is reiterated that they should refrain from being involved in any decisions or transactions concerning the conflicting interests.

Transactions with Related Parties

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

Penalties

During 2014, the Company was subject to a financial penalty by the CBB amounting BD150/- due to delay in submitting of financial report.

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 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:

1. Management oversight and the control culture;
2. Risk recognition and assessment;
3. Control activities and segregation of duties;
4. Information and communication; and
5. Monitoring activities and correcting deficiencies.

SHARI'A SUPERVISORY ADVISOR REPORT

For the period from 1st January 2014 to 31st December 2014



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 2014 to 31st December 2014.

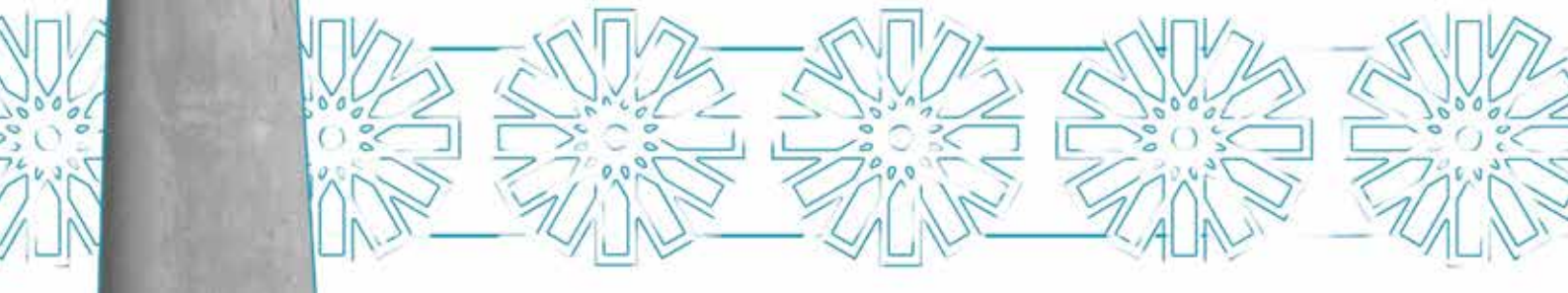
The review was commissioned to issue an opinion on whether the Company had followed the principles and provisions of the Islamic Shari'a and fatwa issued by the Shari'a Advisor of the Company. Where the responsibility lies with the Company to ensure that its operations are in compliance with the issued 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:

The Company's contracts, transactions and operations for the year ended 31st December 2014 are in compliance with the provisions and principles of Islamic Shari'a.

1. 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.
2. The realized earnings from sources that are not compatible with the principles and provisions of Shari'a have been donated for charitable purposes.
3. The Zakah has been donated for charitable purposes.

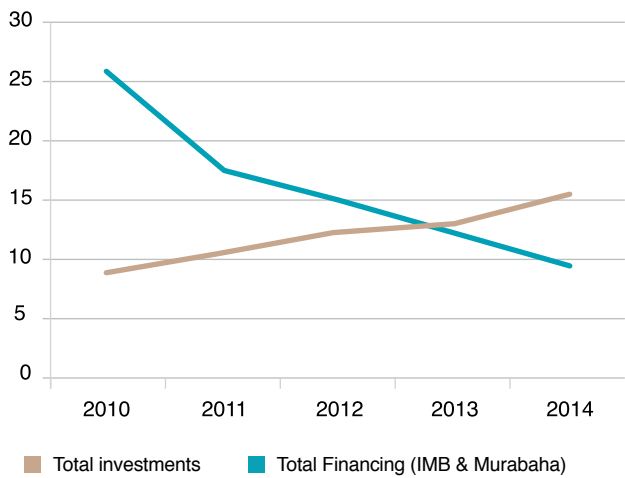
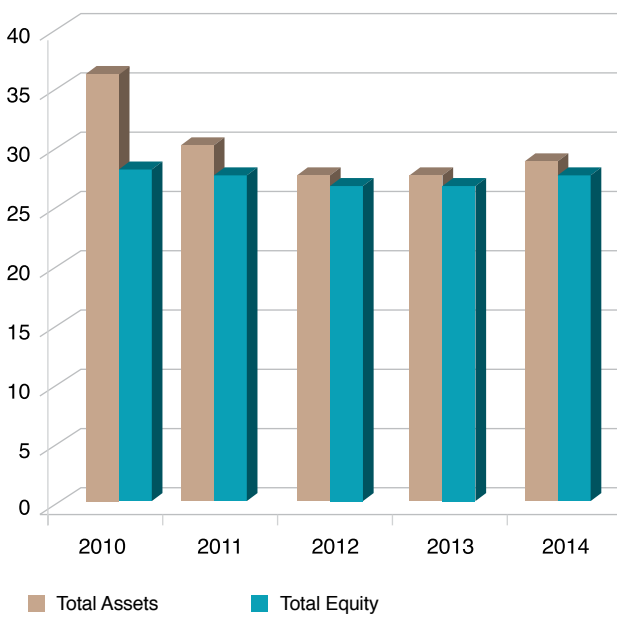
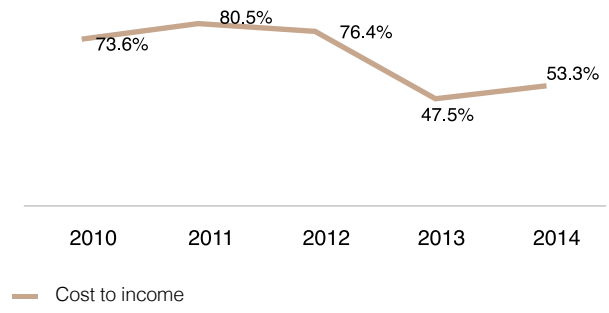
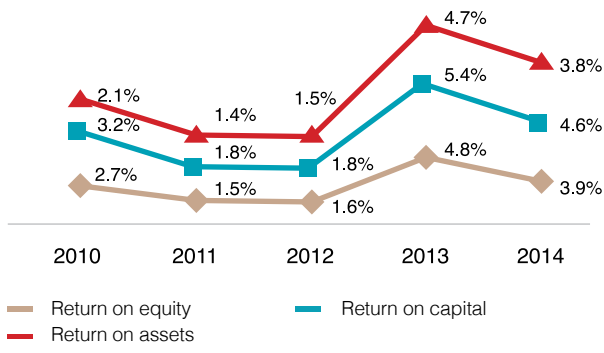
And Allaah is the Source of Successes.

Shaikh Dr. Osama Mohammed Bahar
Shari'a Supervisory Advisor





Financial Highlights





Financial Statements For The Year Ended 31 December 2014

| | |
|---------|---|
| 24 | Independent auditor's report |
| 25 | Consolidated statement of financial position |
| 26 | Consolidated statement of income |
| 27 | Consolidated statement of changes in owners' equity |
| 28 | Consolidated statement of cash flows |
| 29 - 53 | Notes to the consolidated financial statements |



Independent auditor's report to the Shareholders of Reef Real Estate Finance Co. 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 2014, the consolidated statement of income, the consolidated statement of changes in Owners' 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 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 2014, and the consolidated results of its operations, the consolidated changes in Owners' 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 Company 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 Company 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.



BDO

Manama - Kingdom of Bahrain
29 January 2015

Consolidated statement of financial position as at 31 December 2014

(Expressed in Bahraini Dinars)

25

| | Notes | 31 December 2014 | 31 December 2013 |
|---|--------|---------------------|---------------------|
| ASSETS | | | |
| Cash and bank balances | | 1,693,092 | 1,368,833 |
| Investment securities | 5 | 6,001,439 | 2,111,508 |
| Mudaraba investments | 6 | 4,568,812 | 5,850,869 |
| Murabaha financing | 7 | 5,976,938 | 4,813,008 |
| Ijarah Muntahia Bittamleek and Musharaka | 8 | 3,645,072 | 7,878,433 |
| Properties-under-development | 9 | 1,529,920 | 1,363,397 |
| Investment in real estate | 10 | 3,214,889 | 3,233,209 |
| Receivables and prepayments | 11 | 2,367,025 | 1,328,623 |
| Property and equipment | 12 | 66,802 | 19,848 |
| Total assets | | 29,063,989 | 27,967,728 |
| LIABILITIES AND OWNERS' EQUITY | | | |
| Liabilities | | | |
| Other liabilities | 13 | 501,215 | 510,899 |
| Owners' Equity | | | |
| Share capital | 14 | 24,042,900 | 24,042,900 |
| Statutory reserve | 15(i) | 1,150,154 | 1,039,512 |
| Properties fair value reserve | 15(ii) | 1,078,825 | 1,078,825 |
| Charity reserve | | 2,294 | 2,770 |
| Retained earnings | | 2,288,601 | 1,292,822 |
| | | 28,562,774 | 27,456,829 |
| Total liabilities and Owners' equity | | 29,063,989 | 27,967,728 |

These consolidated financial statements and notes from 1 to 22, set out on pages 25 to 53, were approved and authorised for issue by the Board of Directors on 29 January 2015 and signed on their behalf by:



Ali Ahmed Al Baghli
Chairman



Faisal Al Matrook
Director

Consolidated statement of income for the year ended 31 December 2014

(Expressed in Bahraini Dinars)

26

| | Notes | 31 December 2014 | 31 December 2013 |
|---|--------|---------------------|---------------------|
| Income | | | |
| Gross Ijarah and Musharaka income | | 1,284,306 | 2,113,144 |
| Less: Depreciation on Ijarah Muntahia Bittamleek | 8 | 641,628 | 1,196,218 |
| | | 642,678 | 916,926 |
| Profit from Mudaraba investments | 6 | 151,393 | 198,420 |
| Profit from Murabaha financing | 7 | 931,232 | 911,968 |
| Fees from financing activities | | 44,582 | 35,901 |
| Gains on settlement of due to subsidiary owners | 4 | - | 242,216 |
| Rental income from investment in real estate | 10 | 163,175 | 126,300 |
| Income from debt-type investment securities | 5 | 110,063 | 2,881 |
| Gains on sale of investment in real estate | 10 | 92,398 | - |
| Gains on sale of property and equipment | | 9,500 | - |
| Allowances no longer required for Ijarah Muntahia Bittamleek rental receivables | 19(vi) | 222,177 | - |
| Net foreign exchange gains | | - | 56,011 |
| | | 2,367,198 | 2,490,623 |
| Expenses | | | |
| Staff costs | | 427,322 | 423,926 |
| Finance costs | | - | 19,154 |
| General and administrative expenses | | 439,568 | 382,512 |
| Depreciation of property and equipment | 12 | 28,631 | 18,790 |
| Depreciation on investment in real estate | 10 | 19,767 | 538 |
| Impairment on properties-under-development | | - | 85,238 |
| Losses on sale of investment in real estate | | - | 10,446 |
| Net foreign exchange losses | | 190,066 | - |
| Unrealised fair value losses on valuation of investment in securities | 5 | 43,694 | 2,856 |
| Allowances and provision on Ijarah Muntahia Bittamleek rental and other receivables | 19(vi) | 111,729 | 238,561 |
| | | 1,260,777 | 1,182,021 |
| Net profit for the year | | 1,106,421 | 1,308,602 |
| Basic and diluted earnings per share | 16 | Fils 4.6 | Fils 5.4 |

Consolidated statement of changes in Owners' equity for the year ended 31 December 2014

(Expressed in Bahraini Dinars)

27

| | Notes | Share capital | Statutory reserve | Properties fair value reserve | Charity reserve | Retained earnings | Total |
|----------------------------------|-------|---------------|-------------------|-------------------------------|-----------------|-------------------|-------------|
| At 31 December 2012 | | 24,042,900 | 908,652 | 1,078,825 | 10,704 | 1,317,225 | 27,358,306 |
| Cash dividend for the year 2012 | 15 | - | - | - | - | (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 |
| Charity reserve movement | | - | - | - | (476) | - | (476) |
| Total net profit for the year | | - | - | - | - | 1,106,421 | 1,106,421 |
| Transferred to statutory reserve | 15(i) | - | 110,642 | - | - | (110,642) | - |
| At 31 December 2014 | | 24,042,900 | 1,150,154 | 1,078,825 | 2,294 | 2,288,601 | 28,562,774 |

Consolidated statement of cash flows for the year ended 31 December 2014

(Expressed in Bahraini Dinars)

| | Notes | 31 December 2014 | 31 December 2013 |
|---|-------|---------------------|---------------------|
| Operating activities | | | |
| Net profit for the year | | 1,106,421 | 1,308,602 |
| Adjustments for: | | | |
| Depreciation on property and equipment | 12 | 28,631 | 18,790 |
| Depreciation on Ijarah Muntahia Bittamleek | 8 | 641,628 | 1,196,218 |
| Depreciation on investment in real estate | 10 | 19,767 | 538 |
| Gain on sale of property and equipment | | (9,500) | - |
| Realised (gains)/losses on sale of investment in real estate | | (92,398) | 10,446 |
| Impairment on property-under-development | 9 | - | 85,238 |
| Unrealised fair value losses on valuation of investment in securities | 5 | 43,694 | 2,856 |
| Exchange losses on translation of investment in securities | 5 | 2,040 | - |
| Finance costs | | - | 19,154 |
| Changes in operating assets and liabilities: | | | |
| Receivables and prepayments | | (1,038,402) | (677,009) |
| Other liabilities | | (9,684) | (112,494) |
| Net cash provided by operating activities | | 692,197 | 1,852,339 |
| Investing activities | | | |
| Net movement in Murabaha financing | | (1,163,930) | (1,624,308) |
| Additions in investment securities | 5 | (3,935,665) | (1,760,064) |
| Net movement in properties-under-development | | (166,523) | (1,448,635) |
| Net movement in investment in an associate | 4 | - | 512,139 |
| Purchase of property and equipment | 12 | (75,585) | (5,356) |
| Addition in investment in real estate | 10 | (421,849) | (376,643) |
| Net movement in Mudaraba investments | | 1,282,057 | 1,634,036 |
| Net movement in Ijarah Muntahia Bittamleek and Musharaka | | 3,591,733 | 3,184,851 |
| Proceeds from sale of property and equipment | | 9,500 | - |
| Proceeds from sale of investment in real estate | | 512,800 | 491,851 |
| Net cash (used in)/provided by investing activities | | (367,462) | 607,871 |
| Financing activities | | | |
| Islamic financing repaid, net | | - | (421,156) |
| Charity reserve movement | | (476) | (7,934) |
| Dividends paid | | - | (1,202,145) |
| Finance costs paid | | - | (19,154) |
| Net cash used in financing activities | | (476) | (1,650,389) |
| Net increase in cash and cash equivalents | | 324,259 | 809,821 |
| Cash and cash equivalents, beginning of the year | | 1,368,833 | 559,012 |
| Cash and cash equivalents, end of the year | | 1,693,092 | 1,368,833 |

1) Organisation and principal activities

Reef Real Estate Finance Co. B.S.C. (c) ("the Company") and its subsidiaries (collectively referred as "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 Industry 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; and
- 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 Group'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 Company 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 2014 | Effective ownership interest 2013 |
|------------------------------|--------------------------|----------------------------------|-----------------------------------|-----------------------------------|
| First Reef B.S.C. (c) | Kingdom of Bahrain | Buying and selling of properties | 99.9% | 99.9% |
| Reef Investment UK B.S.C (c) | Kingdom of Bahrain | To issue funds | 99.9% | 99.9% |

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 2014.

(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, 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.

2) Basis of preparation - continue

(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 issued fatwas, 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) Standards issued and effective in 2014 but not relevant

The following new standards is mandatory for accounting periods beginning on or after 1 January 2014 or subsequent periods, but are not relevant to the Group's operations:

| Standard or Interpretation | Title | Effective for annual periods beginning on or after |
|----------------------------|---------------------|--|
| FAS 27 | Investment Accounts | 1 January 2014 |

(e) Basis of consolidation

The consolidated financial statements incorporate financial statements of the Company and its subsidiaries 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

2) Basis of preparation - continue

(f) Critical accounting estimates and judgements (continued)

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 valuers 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 valuers 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 consolidated 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.

3) Significant accounting policies

A summary of the significant accounting policies adopted in the preparation of these consolidated financial statements is set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

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 consolidated 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 consolidated statement of changes in Owners' equity.

3) Significant accounting policies - continue

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 investments carried at amortised cost. The Group's investments in securities consist of debt and equity instruments both types of securities designated as fair value through 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 gains/losses 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.

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 consolidated 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.

3) Significant accounting policies - continue

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. The Group investments in real estate are classified as held-for-use in accordance with FAS 26 "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 owners' 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 gains 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 |

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.

3) Significant accounting policies - continue

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

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post-employment benefits

Employee benefits and entitlements to annual leave, holiday, air passage 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 year 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 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

3) Significant accounting policies - 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 owners 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 financial position date. Any translation differences are taken to the consolidated statement of income.

4) Investment in an associate

During the year 2013, 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.

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 exiting 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 exiting shareholders relinquished the amounts due from the subsidiary including both receivables and their equity stake.

5) Investment securities

| | 31 December 2014 | 31 December 2013 |
|---|---------------------|---------------------|
| Opening balance | 2,111,508 | 3,543,000 |
| Additions | 3,935,665 | 1,760,064 |
| Foreign exchange losses on translation of investment securities | (2,040) | - |
| Unrealised fair value losses for the year | (43,694) | (2,856) |
| Transferred to Murabaha financing | - | (3,188,700) |
| | 6,001,439 | 2,111,508 |

| | 31 December 2014 | 31 December 2013 |
|--|---------------------|---------------------|
| Investment in equity-type instruments – Unquoted | | |
| <i>Equity investments</i> | 352,260 | 354,300 |
| <i>Private equity</i> | 2,508,713 | 1,005,857 |
| Investment in debt-type instruments- Quoted | 3,140,466 | 751,351 |
| | 6,001,439 | 2,111,508 |

Investment – securities-wise analysis:

| | | 31 December 2014 | 31 December 2013 |
|--|-----|---------------------|---------------------|
| <i>Equity-type instruments</i> | | | |
| Amwaj Property Limited | (a) | 352,260 | 354,300 |
| Manazel Qurtoba 2 fund | (b) | 1,008,713 | 1,005,857 |
| Jenina Real Estate Development Co. Ltd | (c) | 1,500,000 | - |
| | | 2,860,973 | 1,360,157 |
| <i>Debt-type instruments</i> | | | |
| CBB sukuk | (d) | 3,140,466 | 751,351 |
| | | 6,001,439 | 2,111,508 |

- (a) During the year 2013, APL converted 90% of its equity as murabaha financing accordingly the 90% of carrying value transferred to Murabaha financing (Note 7).
- (b) 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.

5) Investment securities - continue

- (c) During the year 2014, the Group has invested BD1,500,000 in Sky palaces project, Business Bay Dubai through an SPV "Jenina Real Estate Development Co. Ltd".

Unquoted equity securities at fair value through statement of income comprise investments in closed companies, companies managed by external investment managers or represent investments in projects. The management calculates fair values of these investments using various sources of information including investment managers' reports and audited financial statements, wherever available. Although all of these investments have shown improvement in fair values due to various reasons such as expected project completion timeline and exits strategy, market liquidity, lock-in periods, and availability of ready buyer the management has considered cost to be the best proximity of the fair value. Management will continue reassessing the fair values of these unquoted investments at each reporting date.

- (d) During the year 2014, the Group has invested BD2,435,665 in acquiring units in Sukuk "CBB International Sukuk", floated by Central Bank of Bahrain. These units are listed. The Group has valued the Sukuk at 31 December 2014 and the resulted losses reported on the fair value recorded in the consolidated statement of income. During 2014, the Group has earned including accrued income on Sukuk amounting to BD110,063 (2013: BD2,881).

Investment securities are denominated in the following currencies:

| Currency | 2014 | 2013 |
|----------------------|------------------|------------------|
| Great Britain Pound | 352,260 | 354,300 |
| United States Dollar | 3,140,466 | 751,351 |
| Saudi Riyal | 1,008,713 | 1,005,857 |
| Arab Emirates Dirham | 1,500,000 | - |
| | <u>6,001,439</u> | <u>2,111,508</u> |

6) Mudaraba investments

| | 31 December 2014 | 31 December 2013 |
|--------------------------|---------------------|---------------------|
| Ithmaar Bank | 2,500,000 | 2,500,000 |
| Al Salam Bank | 2,000,000 | - |
| Khaleeji Commercial Bank | 68,812 | 68,812 |
| Ahli United Bank | - | 524,390 |
| Kuwait Finance House | - | 1,500,000 |
| Bahrain Islamic Bank | - | 507,667 |
| Al-Baraka Islamic Bank | - | 750,000 |
| | <u>4,568,812</u> | <u>5,850,869</u> |

Mudaraba and Murabaha investments represent amounts placed with financial institutions, which have maturity periods ranging between 90 days to 150 days, and earn market rates of profit per annum receivable on maturity. During the year, the earned including accrued on mudaraba investment amounted to BD151,393 (2013:BD198,420).

7) Murabaha financing

| | | 31 December 2014 | 31 December 2013 |
|--|-----|---------------------|---------------------|
| Amwaj Property Limited (APL) | (a) | 3,170,340 | 3,188,700 |
| Amwaj Property Limited (APL) – Mezzanine 2 | (b) | 1,778,523 | - |
| Omniyat Properties Six Limited | (c) | 1,028,075 | 1,028,075 |
| Amwaj Property Limited (APL) – Mezzanine | (d) | - | 596,233 |
| | | <u>5,976,938</u> | <u>4,813,008</u> |

- 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 expected to be received on 15 March 2015. The accrued profit on murabaha financing with Amwaj Property Limited (APL) for the year amounting to BD546,726 (2013:BD792,703).
- b) The Murabaha financing Mezzanine 2 with Amwaj Property Limited (APL) is unsecured, bears a compounded quarterly profit of 12.5% per annum and is expected to be received on April 2015. The accrued profit on murabaha financing with Amwaj Property Limited (APL) for the year amounting to BD230,295 (2013: BDNil).
- c) The Omniyat Properties Six Limited (OPUS Project) is secured, bears a profit of 15% per annum and is expected to be received at the end of two and half years from the date of investment i.e. 16 June 2013. This project is based in Dubai, UAE. The accrued profit on murabaha financing with Omniyat Properties Six Limited for the year amounting to BD154,211 (2013: BD70,762).
- d) The Murabaha financing Mezzanine with Amwaj Property Limited (APL) is unsecured, bears a compounded quarterly profit of 12.5% per annum and was settled on 29 January 2014. The accrued profit on murabaha financing for the year 2013 amounting to BD48,539.

8) Ijarah Muntahia Bittamleek and Musharaka

| | Lands | Buildings | Total |
|------------------------------|-------------|-------------|-------------|
| Cost | | | |
| 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 |
| Additions* | 44,975 | - | 44,975 |
| Payment received/disposals | (2,698,270) | (1,778,894) | (4,477,164) |
| At 31 December 2014 | 420,974 | 9,284,744 | 9,705,718 |
| Depreciation | | | |
| 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) |
| Charged for the year | - | (641,628) | (641,628) |
| Disposals | - | 840,456 | 840,456 |
| At 31 December 2014 | - | (5,622,374) | (5,622,374) |
| Impairment provision | | | |
| At 31 December 2012 | (5,071) | (313,201) | (318,272) |
| Increase in provision | - | (120,000) | (120,000) |
| At 31 December 2013 and 2014 | (5,071) | (433,201) | (438,272) |
| Net book value | | | |
| At 31 December 2014 | 415,903 | 3,229,169 | 3,645,072 |
| At 31 December 2013 | 3,069,198 | 4,809,235 | 7,878,433 |

* Additions relate to rescheduling of financing deals. During the year, a financing deal was rescheduled (2013: two deals were rescheduled).

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 2014 have lease terms of up to 19 years.

9) Properties under development

| | 31 December 2014 | 31 December 2013 |
|----------------------------|---------------------|---------------------|
| Opening balance | 1,363,397 | 1,113,238 |
| Additions during the year | 166,523 | 335,397 |
| Impairment during the year | - | (85,238) |
| Closing balance | <u>1,529,920</u> | <u>1,363,397</u> |

Properties under development represent “First Reef” in Juffair and “Blue Diamond” in Shakhooora. During the year, the Group invested BD128,386 in developing a three storey building at Shakhooora, Bahrain and a further BD38,138 in “First Reef” in Juffair. The Company holds 100% share in Shakhooora’s project.

An independent valuation at 31 December 2014 concludes that the fair value of “First Reef” in Juffair amounts to BD 1,434,495 and three storey building “Blue Diamond” at Shakhooora, Building amounting to BD316,757. As per the policy of the Group, the properties under development is recorded at cost less impairment, hence the uplift in the fair value has not been accounted for.

10) Investment in real estate

| | Investment Properties for capital appreciation | Investment properties for periodical consideration | Total |
|---------------------------|---|---|------------------|
| Cost/Revalued | | | |
| 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 |
| Additions during the year | 420,402 | 1,447 | 421,849 |
| Disposals | (420,402) | - | (420,402) |
| As at 31 December 2014 | <u>376,208</u> | <u>2,859,642</u> | <u>3,235,850</u> |
| Depreciation | | | |
| As at 31 December 2012 | - | 656 | 656 |
| Charge for the year | - | 538 | 538 |
| As at 31 December 2013 | - | 1,194 | 1,194 |
| Charge for the year | - | 19,767 | 19,767 |
| As at 31 December 2014 | <u>-</u> | <u>20,961</u> | <u>20,961</u> |
| Net book value | | | |
| At 31 December 2014 | <u>376,208</u> | <u>2,838,681</u> | <u>3,214,889</u> |
| At 31 December 2013 | <u>376,208</u> | <u>2,857,001</u> | <u>3,233,209</u> |

Included in investment properties for periodical consideration is the net book value of furniture and fixtures of BD12,870 (2013:BD31,190) which is depreciated over their useful lives.

During the year, the earned including accrued periodical consideration on investment in real estate amounted to BD163,175 (2013:BD126,300).

During the year, the Group has made a profit on sale of investment properties amounted to BD92,398 (2013:Nil)

During December 2014, the Group obtained an open market valuation of its investment in real estate

10) Investment in real estate - continue

from an independent real estate valuer, which calculated the total fair value of the properties at BD3,418,000 resulting in an unrealised fair value gain amounting to BD203,111 (2013: BD118,793). 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 Owners' equity.

11) Receivables and prepayments

| | 31 December 2014 | 31 December 2013 |
|---|---------------------|---------------------|
| Ijarah Muntahia Bittamleek rental receivables | 372,684 | 733,011 |
| Allowance for doubtful Ijarah Muntahia Bittamleek rental receivables | (286,693) | (606,654) |
| Other receivables | 837,343 | 689,837 |
| Allowance for other receivables | (389,873) | (476,036) |
| Prepayments | 24,753 | 36,337 |
| Accrued arrangement fee on Murabaha financing | 31,699 | - |
| Accrued profit on investment in sukuk | 18,728 | 5,191 |
| Accrued profit on Murabaha financing (Note 7) | 1,742,980 | 916,968 |
| Accrued profit on Mudaraba investments | 15,404 | 29,969 |
| | <u>2,367,025</u> | <u>1,328,623</u> |

12) Property and equipment

| | Leasehold improvements | Furniture and fixtures | Office equipment | Computer hardware and software | Motor vehicles | Total |
|---------------------------------|---------------------------|------------------------------|---------------------|---|-------------------|----------|
| <u>Cost</u> | | | | | | |
| 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 |
| Additions | 15,583 | - | 3,786 | 5,216 | 51,000 | 75,585 |
| Disposal | (1,850) | - | (180) | - | (28,500) | (30,530) |
| At 31 December 2014 | 168,013 | 47,190 | 49,522 | 165,223 | 59,380 | 489,328 |
| <u>Accumulated depreciation</u> | | | | | | |
| 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 |
| Charge for the year | 2,201 | - | 399 | 11,809 | 14,222 | 28,631 |
| Disposal | (1,850) | - | (180) | - | (28,500) | (30,530) |
| At 31 December 2014 | 154,014 | 47,190 | 45,982 | 152,738 | 22,602 | 422,526 |
| <u>Net book value</u> | | | | | | |
| At 31 December 2014 | 13,999 | - | 3,540 | 12,485 | 36,778 | 66,802 |
| At 31 December 2013 | 617 | - | 153 | 19,078 | - | 19,848 |

The Group operates from premises leased at a monthly rental of BD2,628 (2013: BD6,000) per month.

13) Other liabilities

| | 31 December 2014 | 31 December 2013 |
|-------------------------------------|---------------------|---------------------|
| Ijarah Muntahia Bittamleek payables | 416,411 | 447,716 |
| Other payables | 13,016 | 3,523 |
| Accrued expenses | 71,788 | 59,660 |
| | <u>501,215</u> | <u>510,899</u> |

14) Share capital

| | 31 December 2014 | 31 December 2013 |
|---|---------------------|---------------------|
| Authorised | | |
| 400,000,000 (2013: 400,000,000) ordinary shares of 100 Fils each | 40,000,000 | 40,000,000 |
| Issued and fully paid-up | | |
| 240,429,000 (2013: 240,429,000) ordinary shares of 100 Fils each | 24,042,900 | 24,042,900 |

Treasury Shares:

The owners has decided in the Annual General Meeting held on 24 April 2014 to purchase the 12,021,450 shares of 100 Fils each, worth BD1,202,145, which represents 5% of the share capital. It was agreed in the meeting that Group will obtain the approval from Ministry of Industry and Commerce and Central Bank of Bahrain. The Group has obtained the approval from Ministry of Industry and Commerce on 28 May 2014 and from Central Bank of Bahrain on 2 July 2014. The Group has also obtained consent from the owners to sell their share to Reef Real Estate Financing Co B.S.C.(c). However the consent obtained is still in the process of getting approved by Ministry of Industry and Commerce to buy back shares from the shareholders.

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 2014 and 2013 are as follows:

| | 31 December 2014 | | |
|---------------------------------------|-------------------------|-----------------------------|--|
| | Nationality | Number of shares | Percentage of shareholding interest |
| Gimbal Holding Co. S.P.C | Bahraini | 113,001,630 | 47% |
| Inovest B.S.C. | Bahraini | 24,042,900 | 10% |
| Ossis B.S.C.(c) | Bahraini | 24,042,900 | 10% |
| H.E. Sh. Sultan Bin Khalifa Al Nahyan | Emirati | 13,223,595 | 5.5% |
| | | 174,311,025 | 72.50% |
| | 31 December 2013 | | |
| | Nationality | Number of shares | Percentage of shareholding interest |
| Gimbal Holding Co. S.P.C | Bahraini | 113,001,630 | 47% |
| Inovest B.S.C. | Bahraini | 24,042,900 | 10% |
| Ossis B.S.C.(c) | Bahraini | 24,042,900 | 10% |
| H.E. Sh. Sultan Bin Khalifa Al Nahyan | Emirati | 13,223,595 | 5.5% |
| | | 174,311,025 | 72.50% |

During 2013, National International Holding K.S.C.(c), Global Investment House K.S.C.(c) and Safi Holding Co. 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 as at 31 December 2013 and 2014.

14) Share capital - continue

Details of the Directors' interests in the Company's shares as at 31 December 2014 and 31 December 2013 are as follows:

| <u>Name of the directors</u> | 2014 Number of shares | 2013 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 |

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 BD110,642 has been transferred to the statutory reserve (2013: BD130,860).

(ii) Properties fair value reserve

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 owners by the weighted average number of ordinary shares issued during the period.

| | 31 December 2014 | 31 December 2013 |
|--|-----------------------------|-----------------------------|
| Net profit attributable to the owners | BD1,106,421 | BD1,308,602 |
| Weighted average number of ordinary shares | 240,429,000 | 240,429,000 |
| Basic and diluted earnings per share | Fils 4.6 | Fils 5.4 |

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 and balances

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 2014 | 31 December 2013 | 31 December 2014 | 31 December 2013 |
| Owner's and immediate family members | Ijarah Muntahia Bittamleek | 182,540 | 461,390 | 35,669 | 127,353 |
| Directors | Directors remuneration | 35,000 | - | - | - |
| Subsidiary | Expenditures | 166,850 | 691,875 | - | - |
| Directors | Board member fees and allowances | 23,120 | 23,950 | - | - |
| Key management personnel * | Salaries and other short-term benefits | 280,125 | 264,958 | - | - |

* Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

18) Maturity profile

Maturity profile of assets and liabilities is as follows:

| | Carrying amount | Up to 6 months | 6-12 months | At 31 December 2014 | |
|---|--------------------|-------------------|----------------|---------------------|----------------------|
| | | | | 1-5 years | 5 years and above |
| Assets | | | | | |
| Cash and bank balances | 1,693,092 | 1,693,092 | - | - | - |
| Investment securities | 6,001,439 | - | - | 6,001,439 | - |
| Mudaraba investments | 4,568,812 | 4,568,812 | - | - | - |
| Murabaha financing | 5,976,938 | 4,948,863 | - | 1,028,075 | - |
| Ijarah Muntahia Bittamleek and Musharaka | 3,645,072 | 8,958 | 12,197 | 1,407,172 | 2,216,745 |
| Properties-under-development | 1,529,920 | - | - | - | 1,529,920 |
| Investment in real estate | 3,214,889 | - | - | - | 3,214,889 |
| Receivables and prepayments | 2,367,025 | 1,598,471 | 352,219 | 416,335 | - |
| Property and equipment | 66,802 | - | 6,271 | 60,531 | - |
| Total assets | 29,063,989 | 12,818,196 | 370,687 | 8,913,552 | 6,961,554 |
| Equity and liabilities | | | | | |
| Share capital | 24,042,900 | - | - | - | 24,042,900 |
| Statutory reserve | 1,150,154 | - | - | - | 1,150,154 |
| Property fair value reserve | 1,078,825 | - | - | - | 1,078,825 |
| Charity reserve | 2,294 | - | 2,294 | - | - |
| Retained earnings | 2,288,601 | - | - | - | 2,288,601 |
| Other liabilities | 501,215 | 2,000 | 95,026 | 404,189 | - |
| Total equity and liabilities | 29,063,989 | 2,000 | 97,320 | 404,189 | 28,560,480 |

18) Maturity profile - continue

| | At 31 December 2013 | | | | |
|--|---------------------|------------------|----------------|-------------------|-------------------|
| | Carrying amount | Up to 6 months | 6-12 months | 1-5 years | 5 years & above |
| Assets | | | | | |
| Cash and bank balances | 1,368,833 | 1,368,833 | - | - | - |
| Investment securities | 2,111,508 | - | - | 2,111,508 | - |
| Mudaraba investments | 5,850,869 | 5,850,869 | - | - | - |
| Murabaha financing | 4,813,008 | - | - | 4,813,008 | - |
| Ijarah Muntahia Bittamleek and Musharaka | 7,878,433 | - | 26,024 | 1,098,661 | 6,753,748 |
| Properties-under-development | 1,363,397 | - | - | 1,363,397 | - |
| Investment in real estate | 3,233,209 | - | 376,207 | 2,857,002 | - |
| Receivables and prepayments | 1,328,623 | 80,241 | 36,337 | 1,212,045 | - |
| Property and equipment | 19,848 | - | 16,094 | 3,754 | - |
| Total assets | 27,967,728 | 7,299,943 | 454,662 | 13,459,375 | 6,753,748 |
| Equity and liabilities | | | | | |
| Share capital | 24,042,900 | - | - | - | 24,042,900 |
| Statutory reserve | 1,039,512 | - | - | - | 1,039,512 |
| Property fair value reserve | 1,078,825 | - | - | 1,078,825 | - |
| Charity reserve | 2,770 | - | 2,770 | - | - |
| Retained earnings | 1,292,822 | - | - | - | 1,292,822 |
| Other liabilities | 510,899 | - | 3,524 | 507,375 | - |
| Total equity and liabilities | 27,967,728 | - | 6,294 | 1,586,200 | 26,375,234 |

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 2014 and 2013.

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 external debt as at 31 December 2014 and 2013, the calculation of gearing ratio has not been presented.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Currency rate risk
- Profit rate risk
- Liquidity risk
- Fair value risk
- Operational risk

19) Financial assets and liabilities and risk management - continue

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 losses. 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.

i. Credit risk exposure relating to financial position assets are as follows:

| | 2014 | 2013 |
|--|------------------------------|------------------------------|
| | Gross credit exposure | Gross credit exposure |
| Cash and bank balances | 1,693,092 | 1,368,833 |
| Investment securities | 6,001,439 | 2,111,508 |
| Mudaraba investments | 4,568,812 | 5,850,869 |
| Murabaha financing | 5,976,938 | 4,813,008 |
| Ijarah Muntahia Bittamleek | 3,645,072 | 7,878,433 |
| Property under development | 1,529,920 | 1,363,397 |
| Investment in real estate | 3,214,889 | 3,233,209 |
| Receivables and prepayments | 2,367,025 | 1,328,623 |
| Property and equipment | 66,802 | 19,848 |
| Total balance sheet credit exposure | 29,063,989 | 27,967,728 |

The average gross exposure has not been disclosed separately given that the yearend positions as disclosed above are representative of the risk positions during the year.

ii. Geographical distribution of credit exposure

| | 31 December 2014 | | | |
|----------------------------------|-------------------------|----------------------------|------------------|-------------------|
| | Bahrain | Other GCC countries | Europe | Total |
| Financial position items | | | | |
| Cash and bank balances | 1,693,092 | - | - | 1,693,092 |
| Investment securities | 3,140,466 | 2,508,713 | 352,260 | 6,001,439 |
| Mudaraba investments | 4,568,812 | - | - | 4,568,812 |
| Murabaha financing | - | 1,028,075 | 4,948,863 | 5,976,938 |
| Ijarah Muntahia Bittamleek | 3,645,072 | - | - | 3,645,072 |
| Property under development | 1,529,920 | - | - | 1,529,920 |
| Investment in real estate | 3,214,889 | - | - | 3,214,889 |
| Receivables and prepayments | 592,346 | 224,937 | 1,549,742 | 2,367,025 |
| Property and equipment | 66,802 | - | - | 66,802 |
| Total balance sheet items | 18,451,399 | 3,761,725 | 6,850,865 | 29,063,989 |

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

19) Financial assets and liabilities and risk management - continue

iii. Industrial distribution of credit exposures

| | 31 December 2014 | | | |
|----------------------------------|--|-------------------|----------------|-------------------|
| | Banks and financial institutions | Real estate | Others | Total |
| Balance sheet items | | | | |
| Cash and bank balances | 1,693,092 | - | - | 1,693,092 |
| Investment securities | 3,140,466 | 2,508,713 | 352,260 | 6,001,439 |
| Mudaraba investments | 4,568,812 | - | - | 4,568,812 |
| Murabaha financing | - | 5,976,938 | - | 5,976,938 |
| Ijarah Muntahia Bittamleek | - | 3,645,072 | - | 3,645,072 |
| Property under development | - | 1,529,920 | - | 1,529,920 |
| Investment in real estate | - | 3,214,889 | - | 3,214,889 |
| Receivables and prepayments | 15,404 | 1,774,679 | 576,942 | 2,367,025 |
| Property and equipment | - | - | 66,802 | 66,802 |
| Total balance sheet items | 9,417,774 | 18,650,211 | 996,004 | 29,063,989 |

iv. Maturity breakdown of credit exposures

| | With in 1 year | 1-5 years | 5 -10 years | 10-20 years | Total |
|----------------------------------|-------------------|------------------|------------------|----------------|-------------------|
| Balance sheet items | | | | | |
| Cash and bank balances | 1,693,092 | - | - | - | 1,693,092 |
| Investment securities | - | 6,001,439 | - | - | 6,001,439 |
| Mudaraba investments | 4,568,812 | - | - | - | 4,568,812 |
| Murabaha financing | 4,948,863 | 1,028,075 | - | - | 5,976,938 |
| Ijarah Muntahia Bittamleek | 21,155 | 1,407,172 | 1,653,681 | 563,064 | 3,645,072 |
| Property under development | - | - | 1,529,920 | - | 1,529,920 |
| Investment in real estate | - | - | 3,214,889 | - | 3,214,889 |
| Receivables and prepayments | 1,950,689 | 416,336 | - | - | 2,367,025 |
| Property and equipment | 6,271 | 60,531 | - | - | 66,802 |
| Total balance sheet items | 13,188,882 | 8,913,553 | 6,398,490 | 563,064 | 29,063,989 |

v. Related party balances under credit exposures

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 owners and directors and their close family members, and businesses under their control. The Group's transactions with related parties on arm's length basis and are authorised by the management.

19) Financial assets and liabilities and risk management - continue

A summary of balances with the related parties is as follows:

| Related party Relationship | Transaction type | Due as at 31 December 2014 |
|---|----------------------------|-----------------------------------|
| Owners & their immediate family members | Ijarah Muntahia Bittamleek | 35,669 |

A summary of the Company's significant transactions with related party is as follows:

| Related party relationship | Transaction type | Year ended 31 December 2014 |
|-----------------------------------|-------------------------|------------------------------------|
| Subsidiary | Expenditure incurred | 166,850 |

Concentration of risk to individual counterparties where the credit exposure in excess of the 15% individual obligor limit:

| Counterparty | Exposure type | Total exposure | Exposure as a % of eligible capital | Capital deduction amount |
|---------------------|----------------------|-----------------------|--|---------------------------------|
| Real estate entity | Financing | 4,948,863 | 17% | 571,255 |

vi. Past due and impaired financings and related provisions for impairment**Analysis by industry**

| Specific provision | Gross exposure | Impairment provisions | Net exposure |
|---------------------------|-----------------------|------------------------------|---------------------|
| Personal | 966,706 | 676,566 | 290,140 |

Ageing analysis

| Specific provision | Gross exposure | Impairment provisions | Net exposure |
|----------------------------|-----------------------|------------------------------|---------------------|
| Over 3 months up to 1 year | 163,956 | 148,477 | 15,479 |
| Over 1 year up to 3 years | 63,496 | 16,680 | 46,816 |
| Over 3 years | 739,254 | 511,409 | 227,845 |

Impairment provisions**Analysis by industry****General provision**

| | |
|-------------|---------|
| Real estate | 438,272 |
|-------------|---------|

Movement in impairment provisions

| | |
|---|-----------|
| At 1 January | 1,082,690 |
| Charge for the year | 111,729 |
| Transferred/reallocated | (205,913) |
| Written off | (89,763) |
| Allowances no longer required for Ijarah Muntahia Bittamleek rental receivables | (222,177) |
| At 31 December 2014 | 676,566 |

No change in general provision as compared to 31 December 2013.

19) Financial assets and liabilities and risk management - continue

vii. Past due and impaired financings by geographical areas

Analysis by geography

| Specific provision | Gross exposure | Impairment provisions | Net exposure |
|--------------------|----------------|-----------------------|--------------|
| Bahrain | 966,706 | 676,566 | 290,140 |

Analysis by geography

| General provision | Impairment provision |
|-------------------|----------------------|
| Bahrain | 438,272 |

Details of credit facilities outstanding that they have been restructured during the year:

| Analysis industry | Original value | Restructured finance |
|-------------------|----------------|----------------------|
| Personal | 88,772 | 44,975 |

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, United States Dollars (USD) and British Pounds (GBP) of which Group's significant transactions are in United States Dollars (USD) and other GCC currencies. The Bahraini Dinars is effectively pegged to the United States Dollar and other GCC currencies and therefore management considers the currency rate risk as minimal. The Group limits their currency rate risk by entering in the forward contract mainly to mitigate the currency exposure in GBP investments. The Group limits their currency rate risk by proactively monitoring the key factors that affect the foreign currency fluctuations.

Foreign exchange sensitivity analysis is as follows:

| Currency | Change | Impact on profit | Change | Impact on profit |
|----------------|--------|------------------|--------|------------------|
| Sterling Pound | +/-5% | +/-167,165 | +/-3% | +/-100,299 |

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 fixed profit rate 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.

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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

19) Financial assets and liabilities and risk management - continue

Fair values of quoted securities/Sukuk are derived from quoted market prices in active markets, if available. For unquoted securities, fair value is estimated using certain valuation techniques.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2013 and 31 December 2014:

Investments designated at fair value through statement of income

| | Level 1 | Level 2 | Level 3 | Total |
|--|------------------|----------|------------------|------------------|
| <i>For the year ended 31 December 2014</i> | | | | |
| <i>Quoted Securities</i> | | | | |
| Sukuk | 3,140,466 | - | - | 3,140,466 |
| <i>Unquoted Securities</i> | | | | |
| Equity | - | - | 352,260 | 352,260 |
| Private Equities | - | - | 2,508,713 | 2,508,713 |
| | <u>3,140,466</u> | <u>-</u> | <u>2,860,973</u> | <u>6,001,439</u> |

For the year ended 31 December 2013

| | | | | |
|----------------------------|----------------|----------|------------------|------------------|
| <i>Quoted Securities</i> | | | | |
| Sukuk | 751,351 | - | - | 751,351 |
| <i>Unquoted Securities</i> | | | | |
| Equity | - | - | 354,300 | 354,300 |
| Private Equities | - | - | 1,005,857 | 1,005,857 |
| | <u>751,351</u> | <u>-</u> | <u>1,360,157</u> | <u>2,111,508</u> |

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2014 there were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3.

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) Capital commitments

Commitments on capital work-in-progress at the end of the year were as follows:

| | 31 December 2014 | 31 December 2013 |
|---|---------------------|---------------------|
| Capital expenditure on property under development | 74,145 | 50,845 |

21) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

| | 31 December 2014 | 31 December 2013 |
|--|---------------------|---------------------|
| Not later than 1 year | 25,977 | 30,000 |
| Later than 1 year but not later than 5 years | 8,659 | - |
| Later than 5 years | - | - |
| | 34,636 | 30,000 |

22) Subsequent events

There were no events subsequent to 31 December 2014 and occurring before the date of signing of the financial statements that would have a significant impact on these consolidated financial statements.