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

Consolidated financial statements for the year ended 31 December 2014

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Reef Real Estate Finance Co. B.S.C. (c)
Administration and contact details as at 31 December 2014

Commercial registration no.	58073 obtained on 10 September 2005	
CBB license	FC/001 obtained on 3 May 2005	
Board of Directors	Mr Ali Ahmed Al Baghli	(Chairman)
	Mr Saud Kanoo	(Vice-Chairman)
	Mr Faisal Al Matrook	
	Mr Nasser Abdulhadi Al Gharibah	
	Mr Samer Abbouchi	
	Mr Mohamed A.Khaliq	
	Mr Mohammed Al Dosari (Till 21 July 2014)	
Chief Executive Officer	Mr Mahmood Al Koofi	
Executive Committee	Mr Faisal Al Matrook	(Chairman)
	Mr Saud Kanoo	
	Mr Nasser Abdulhadi Al Gharibah	
Nomination and remuneration committee	Mr Ali Ahmed Al Baghli	(Chairman)
	Mr Faisal Al Matrook	
	Mr Samer Abbouchi	
Audit Committee	Mr Samer Abbouchi	(Chairman)
	Mr Mohamed A.Khaliq	
	Mr Saud Kanoo	
	Mr Mohammed Al Dosari (Till 21 July 2014)	
Sharia'a Supervisory Advisor	Shaikh Dr. Osama Bahar	
Registered office	YBA Kanoo Tower Flat 114, Building 155 Road 1703, Block 317 PO Box 18599 Diplomatic Area, Manama Kingdom of Bahrain	
Bankers	Ithmaar Bank Ahli United Bank Kuwait Finance House Al Baraka Islamic Bank Khaleeji Commercial Bank BMI Bank Bahrain Islamic Bank Al Salam Bank Citi Bank	
Auditors	BDO 17th Floor Diplomat Commercial Office Tower PO Box 787 Manama Kingdom of Bahrain	

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.

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 Bittalmleek 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.

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.

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.

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

Sheikh Dr. Osama Mohamed Bahar
Sharia'a Advisor

فضيلة الشيخ الدكتور / أسامة محمد بحر
المستشار الشرعي

Shari'ah Supervisory Advisor Report on Reef Real Estate Finance Co. BSC (c)

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'ah Supervisory Advisor the investment and financing operations as well as the activities done by the Company. The Shari'ah 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'ah and fatwas issued by the Shari'ah Advisor of the Company. Where the responsibility lies with the Company to ensure that its operations are in compliance with the issued Shari'ah legitimate, our responsibility is limited to express an independent opinion on the Company's operations done during the current year, and therefore decides the following:

1. The Company's contracts, transactions and operations for the year ended 31st December 2014 are in compliance with the provisions and principles of Islamic Shari'ah.
2. The calculation of the Company's profits and the losses charged to its investment operations are in compliance with the provisions and principles of the Islamic Shari'ah.
3. The realized earnings from sources that are not compatible with the principles and provisions of Shari'ah have been donated for charitable purposes.
4. The Zakaha has been calculated in accordance with the Shari'ah Principles.

And Allaah is the Source of Successes.

Shaikh Dr. Osama Mohammed Bahar

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Independent auditor's report to the shareholders of Reef Real Estate Finance B.S.C. (c)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Reef Real Estate Finance Co. B.S.C. (c) ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 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, in respect of the Company, 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

BDO Public Accountants Reg. No. 196 Arshad Gadit

Manama, Kingdom of Bahrain
29 January 2015

Reef Real Estate Finance Co. B.S.C. (c)
Consolidated statement of financial position as at 31 December 2014
(Expressed in Bahraini Dinars)

	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 SHAREHOLDERS' 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 7 to 36, 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

Reef Real Estate Finance Co. B.S.C. (c)
Consolidated statement of income for the year ended 31 December 2014
(Expressed in Bahraini Dinars)

	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	Fils4.6	Fils5.4

Reef Real Estate Finance Co. B.S.C. (c)
Consolidated statement of changes in Owners' equity for the year ended 31 December 2014
(Expressed in Bahraini Dinars)

	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

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

(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

2 Basis of preparation (continue)

(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 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.

2 Basis of preparation (continue)

(f) Critical accounting estimates and judgements (continued)

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.

3 Significant accounting policies (continue)

Property-under-development

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

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

Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. 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

3 Significant accounting policies (continue)

Property and equipment (continued)

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

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

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

Islamic financing

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

Provisions

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

Employee benefits

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.

3 Significant accounting policies (continue)

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

- 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.

3 Significant accounting policies (continue)

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.

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		
Equity investments	352,260	354,300
Private equity	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
Equity-type instruments			
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
Debt-type instruments			
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.

(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.

5 Investment securities (continued)

(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	-
	6,001,439	2,111,508

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
	4,568,812	5,850,869

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: 198,420).

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
		5,976,938	4,813,008

a) The Murabaha financing with Amwaj Property Limited (APL) is unsecured, bears a compounded quarterly profit of 12.5% per annum and an arrangement fee of 1% and is 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: 792,703).

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).

7 Murabaha financing (continued)

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 loan 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	1,529,920	1,363,397

Properties under development represent "First Reef" in Juffair and "Blue Diamond" in Shakhoora. During the year, the Group invested BD128,386 in developing a three storey building at Shakhoora, Bahrain and a further BD38,138 in "First Reef" in Juffair. The Company holds 100% share in Shakhoora'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 Shakoora, 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	376,208	2,859,642	3,235,850
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	-	20,961	20,961
Net book value			
At 31 December 2014	376,208	2,838,681	3,214,889
At 31 December 2013	376,208	2,857,001	3,233,209

10 Investment in real estate (continued)

Included in investment properties for periodical consideration is the net book value of furniture and fixtures of BD12,870 (2013:31,190) 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: 126,300).

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 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
	2,367,025	1,328,623

12 Property and equipment

	Leasehold improvements	Furniture and fixtures	Office equipment	Computer hardware and software	Motor vehicles	Total
Cost						
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
Accumulated depreciation						
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
Net book value						
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
	501,215	510,899

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 (continued)

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

Name of the directors	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	Fils4.6	Fils5.4

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:

		For the year ended Transaction amount		Amounts due from related parties	
Related party relationship	Transaction type	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:

	At 31 December 2014				
	Carrying amount	Up to 6 months	6-12 months	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 (continued)

	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 Owner's 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.

19 Financial assets and liabilities and risk management (continued)

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

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 Gross credit exposure	2013 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.

19 Financial assets and liabilities and risk management (continued)

ii. *Geographical distribution of credit exposure*

	31 December 2014			
	Bahrain	Other GCC countries	Europe	Total
Financial posiiton 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.

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

19 Financial assets and liabilities and risk management (continued)

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.

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

19 Financial assets and liabilities and risk management (continued)

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

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Specific provision			
Personal	966,706	676,566	290,140

	Gross exposure	Impairment provisions	Net exposure
Ageing analysis			
Specific provision			
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)
Writen 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.

vii. *Past due and impaired financings by geographical areas*

	Gross exposure	Impairment provisions	Net exposure
Analysis by geography			
Specific provision			
Bahrain	966,706	676,566	290,140

	Impairment provision
Analysis by geography	
General provision	
Bahrain	438,272

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

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

19 Financial assets and liabilities and risk management (continued)

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.

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.

19 Financial assets and liabilities and risk management (continue)

Fair value hierarchy (continued)

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
For the year ended 31 December 2014				
Quoted Securities				
Sukuk	3,140,466	-	-	3,140,466
Unquoted Securities				
Equity	-	-	352,260	352,260
Private equities	-	-	2,508,713	2,508,713
	3,140,466	-	2,860,973	6,001,439
For the year ended 31 December 2013				
Quoted Securities				
Sukuk	751,351	-	-	751,351
Unquoted Securities				
Equity	-	-	354,300	354,300
Private equities	-	-	1,005,857	1,005,857
	751,351	-	1,360,157	2,111,508

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.