



شركة التمويل العقاري
Real Estate Finance Company

ANNUAL REPORT 2009



Fresh investors

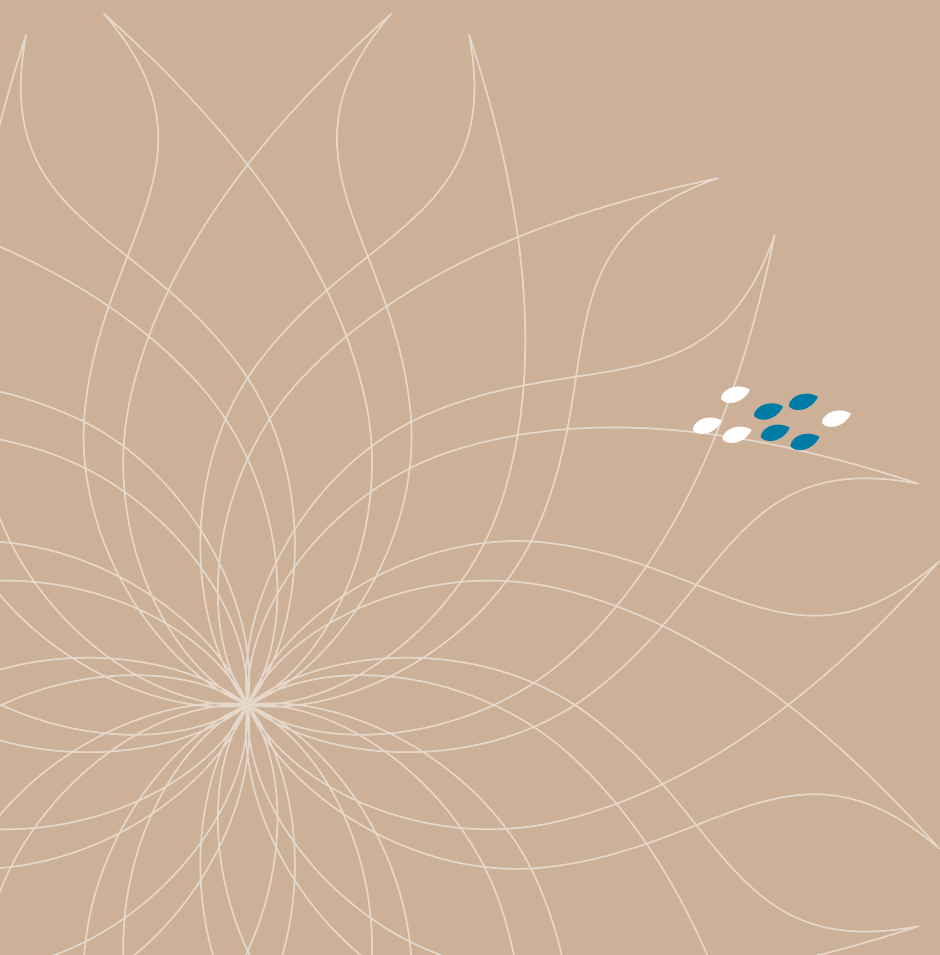


Thinking
ahead



Diverse investments







**H.R.H. Prince Khalifa
Bin Salman Al Khalifa**

The Prime Minister of
the Kingdom of Bahrain



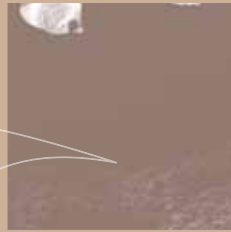
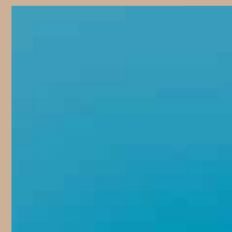
**H.M. King Hamad
Bin Isa Al Khalifa**

The King of the
Kingdom of Bahrain



**H.R.H. Prince Salman
Bin Hamad Al Khalifa**

The Crown Prince & Deputy
Supreme Commander





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Our Vision & Mission





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 compliant products;
- Provide simple, flexible and reliable process 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

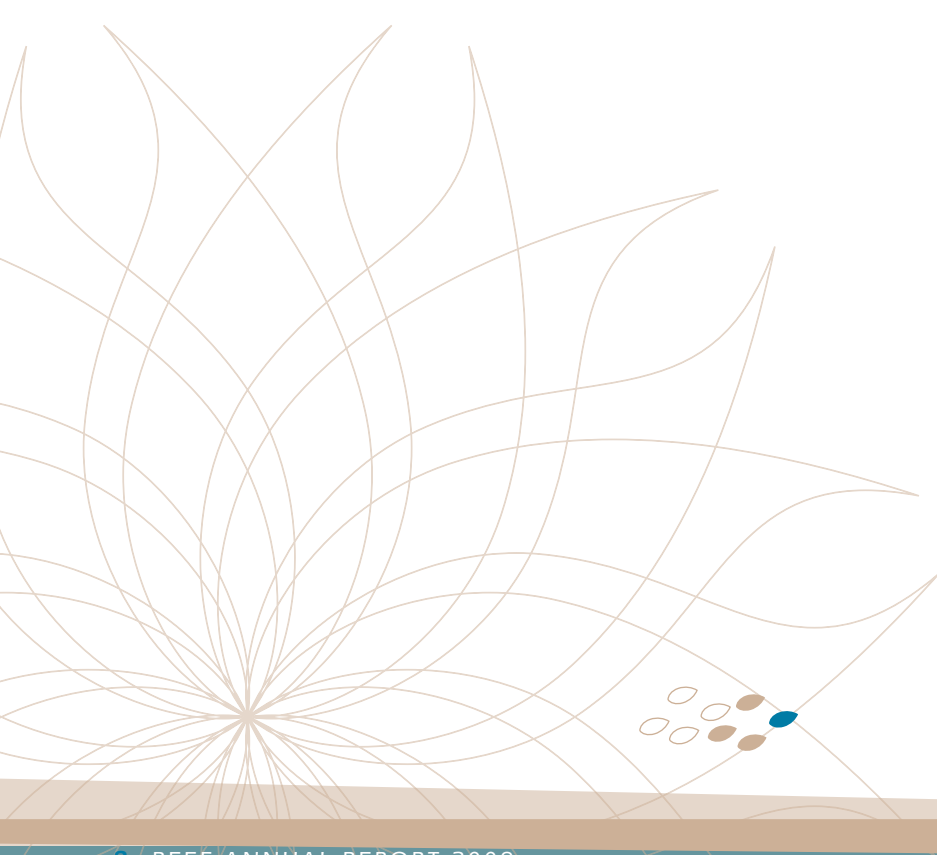
We believe the greatest and most durable results are achieved through partnership and value sharing across sectors and on all levels.

Innovation & 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.

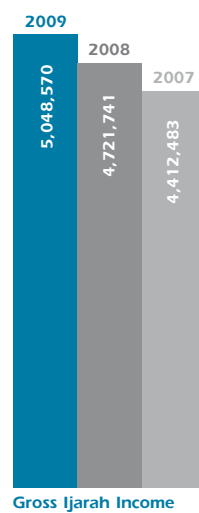
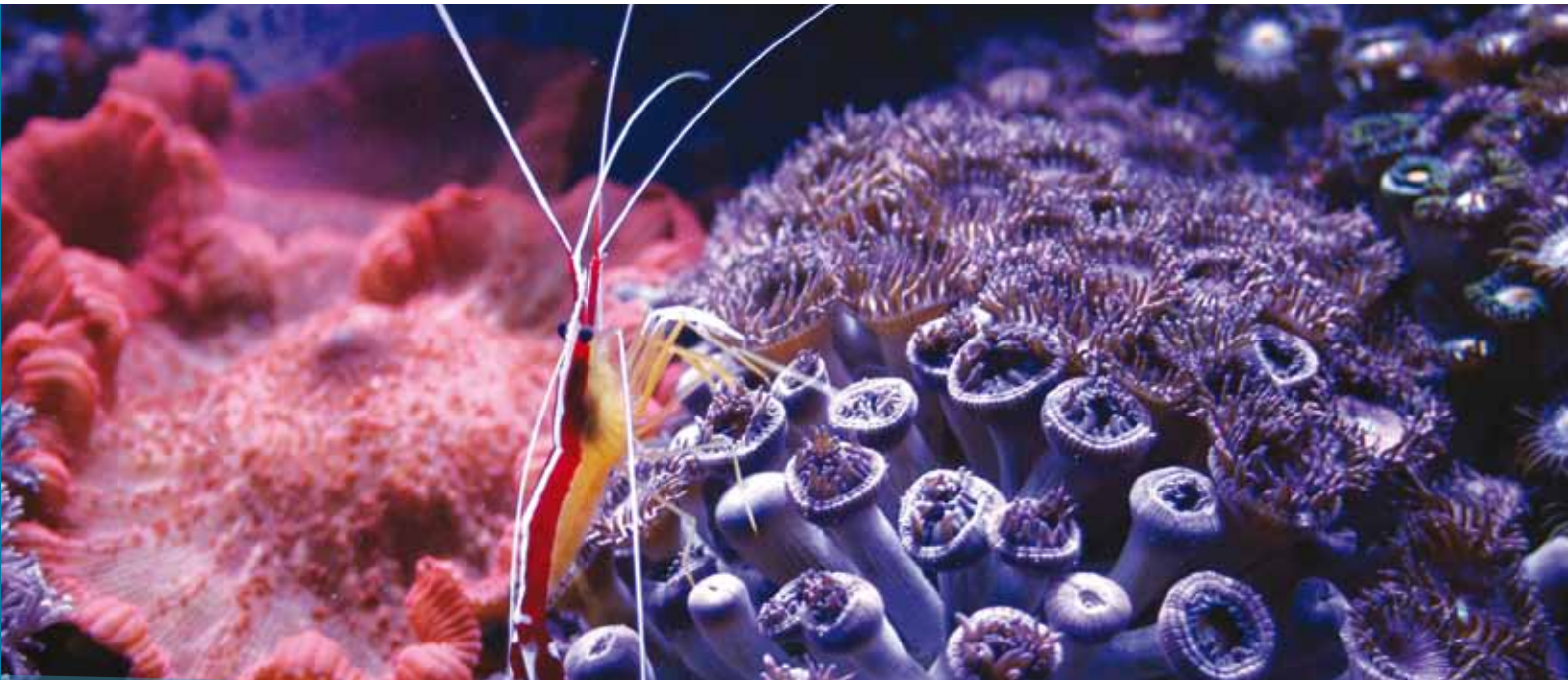
Accomplishment

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.





Financial Highlights



Chairman's Message



On behalf of the Board of Directors of Reef- Real Estate Finance Company, I am pleased to present the fourth Annual Report which highlights the Company's management and financial performance for the year ended 31st December 2009.

The Company achieved a net profit of BD1,321,280 in 2009, despite the adverse consequences of the global financial crisis and its negative impacts on the performance of financial institutions operating in the region in particular and globally.

Such positive results reflect the continuous management's efforts to constantly control the Company's overheads and working expenses as well as the continuous follow-up of the Board of Directors and its support and guidance to the Company's executive management team.

In 2009, the majority of the region's financial institutions was hit by 2008 events and incurred financial losses which made them allocate large provisions to overcome such losses which had adversely affected their net income at the end of year 2009. The impact of the financial crisis was also reflected in the decline of the market value of assets purchased by such institutions for investment or financing purposes.

In this context, the situation was more difficult for real estate companies and for all their business activities: development, marketing, financing and investment.

Generally speaking, the increase of supply in the real estate sector such as the case in the Bahraini market, has led to a decrease in the prices by a rate not less than 25% during 2009. It is also worth to mention that potential purchasers have been reluctant to buy properties because banks limited granting financial facilities and finance in the view of aggravating worries that real estate market value would further decline, in addition to the new regulations issued by the Central Bank of Bahrain and its continuous control over real estate lending exposures by the banks.

As speculators whose transactions reached 45% of the total transactions volume in the real estate sector, left the market, the pessimistic view of all the real estate stakeholders increased, and most purchasers, sellers and financiers became no longer looking forward to investing in the sector.

Some reports have also shown that many of the real estate projects have changed their strategies and decided to lease the property's units instead of selling them due to the decline of the demand by potential purchasers. Consequently, this had led to stopping real estate projects financing by banks and financial institutions, along with the evidenced decline in purchasing residential units, this became eventually the two main factors undoubtedly affecting the performance of real estate retail finance institutions, especially in the





Looking forward for our effective participation and contribution in financing the residential housing projects



markets that allow expatriates property ownership or what is called the free hold system.

Our Company was naturally, one of such institutions that were negatively affected by this situation as we encountered extreme difficulties in obtaining new funds from the banks during 2009 in addition to the company being also negatively affected by the significant decrease in demand of residential units as part of the change in the real estate market behavior in the Kingdom of Bahrain and other Gulf markets.

We are confident that positive economic indicators denote the beginning of a comprehensive economic improvement process and the beginning of the recovery from the past stagnation which, despite its short period it was the toughest since a century, most indicators have also become more positive about the beginning of growth stage in US economy and most major European countries. Accordingly, we are hopeful that this will also be reflected positively on the economies of our Arab Gulf states.

We, as a member of the banking community operating in the Kingdom of Bahrain, expect and look forward for our effective participation and contribution in financing the residential housing projects which the government has recently announced.

In believing in the necessity and importance of such contribution, the Board of Directors proceeded towards increasing the Company's paid up capital by establishing direct communication with some investors including banks, companies and businessmen in the Arab Gulf states. We hope that this will be achieved during the early months of 2010 as the Company aspires to increase its paid up capital to BD40 million, which is the Company's authorized capital at present.

Finally, I am pleased to express my appreciation and gratitude to the executive management and all the Company's employees for achieving such good results and wish them all the best. I would like also to thank all the official authorities in the Kingdom of Bahrain who have supported the company and contributed to its success. In particular, we would like to extend our appreciation to the Central Bank of Bahrain, Ministry of Industry & Commerce and Land Registration Bureau.

Ali Ahmed Albaghli
Chairman

Board of Directors



Ali Ahmed Albaghli
Chairman



Saud Kanoo
Vice Chairman



Faisal Matrook
Board Member

Members of the Executive Committee

Faisal Al Matrook
Chairman

Saud Kanoo
Member

Nasser Al Gharibah
Member



Dr. Khalid Abdulla
Board Member



Mohamed Al Dossari
Board Member



Nasser Al Gharibah
Board Member



Samer Abbouchi
Board Member

Members of the Audit Committee

Dr. Khalid Abdulla
Chairman

Mohammed Al Dossari
Member

Samer Abbouchi, CFA
Member

Management Review



The closing accounts demonstrated an increase in the Company's revenues achieved from the Ijarah Muntahia Bittamlik portfolio amounting to BD3.1 Million during the fiscal year ending on 31st December 2009 compared to BD2.9 Million revenues over the same period last year. The Company achieved a net profit of BD1.3 Million compared to BD1.5 Million at the end of year 2008. Such result, achieved despite difficulties facing financial and real estate sectors simultaneously since mid 2008 till present, is an obvious evidence of the strength of the business model on which the Company was founded.

It is notable that 2009 net profits were exclusively achieved from the Company's Ijarah Muntahia Bittamlik operation which is the company's core business activity.

The year 2009 was an exceptional year as the Company faced tough times as felt by most financial and real estate establishments worldwide. The continuous decline in real estate prices resulted from the decline of the demand on residential units in most markets. On the other hand, the increase in supply became the prevailing factor leading to the reluctance of many purchasers or potential buyers to risk investing their funds or seek to obtain financial facilities for fear of continuance of prices decline. Moreover, the difficulty escalated as banks and financing institutions were reluctant to grant new financial/credit facilities to the projects relating to real estate sector. Hence, consequences of the financial crisis that first hit the real-estate mortgage market in the

United States were the biggest challenge for the Company and its capability to sustain its market position. We are happy to report that the Company managed to stand against such crisis and survived through the difficult times.

The Company's ability to obtain new financing facilities in 2009 while fulfilling its obligations toward its creditors is a proof of the strength of above-mentioned business model. We thank all banks and financial institutions that have supported us to fulfill all our obligations without affecting the progress of the Company's operations.

The main reason for achieving low net profit this year compared to 2008 with a decline of 13% and the decrease of the Company's assets by 15% was the Company's freeze of its lending activities during the year. The early settlements contributed positively to increasing the Company's liquidity level which helped provide additional necessary funds for fulfilling the Company's repayments of its financing obligations, which in turn decreased from BD17 Million at the end of 2008 to BD10 Million at the end of 2009. At the same time, the value of Ijarah Muntahia Bittamlik portfolio fell by 22% from BD38 Million to BD31 Million accordingly.

The shareholders equity has recorded a growth of 4.7%, an increase from BD26 Million to BD27 Million resulting in the positive growth of the book value per share from 114 Fils per share to 119 Fils. The Company has re-arranged the financial statements as a result of recalculating the depreciation



Our results evidence the strength of the business model

method for the Ijarah Muntahia Bittamlik portfolio, leading to the recalculation and representing of 2008 financial statements in accordance and compliance with the accounting standards issued by The Accounting and Auditing Organization for Islamic Financial Institutions, (AAOIFI).

Operation expenses were reduced by 30% amounting to BD2 Million in 2009 compared to BD2.6 Million over the same period last year. Operation expenses include cost of funds as well as other administrative and general expenses.

During 2009, the Company has made provisions to meet the requirements of possible potential losses in its portfolio of Ijarah Muntahia Bittamlik amounting to BD233,000 .

The Company has recently completed preparing all the internal policies and procedures as well as corporate governance requirements in cooperation with one of the international consulting firms. The executive management is grateful to the Board of Directors for their support in reviewing and approving all new policies and procedures.

Future business strategy has been planned to advance to the next phase that should commence with the increase of the Company's paid up capital and the penetration into new Arab markets in addition to providing new services and products in the local market as part of its future diversification plan.

With reference to human resources the Company was able to optimize the use of its qualified and experienced staff through a multi skilled job rotation program. This exercise helped us

achieve a major cost control and avoid new recruitment during the year. Reef continued training and developing its employees through the effective use of Bahrain Institute of Banking and Finance (BIBF) programs.

Finally, we would like to extend our gratitude to the Chairman and Board members for their continuous support to the management team as well as members of the Executive and Audit committees.

Our thanks to the Central Bank of Bahrain, especially the Directorates of Islamic Financial Institutions and Banking Supervision that had spared no effort over the previous period to support and back up the Company's management. We appreciate the efforts of the Ministry of Industry and commerce, our external auditor, BDO Jawad Habib, our internal auditor, Grant Thornton-Abdulaal Gulf Audit and the Company's Shariaa adviser, Mr. Osama Mohammed Bahar, for their continuous support, cooperation and guidance.

We ask Allah, Almighty, to direct us to good path and keep us faithful as long as we live. He is the Almighty and the Great.

Peace and Allah mercy and blessings may be upon you.

Mahmood Al-Koofi
Chief Executive Officer

Management Team



Mahmood Al Koofi
Chief Executive Officer



Hassan Dhaif
Chief Financial Officer



Ali Salem
Head of Operations

MBA in Business Administration (Hull University, UK), an executive leadership and strategic management certificate (Columbia School of Business, USA), and engineering diploma (University de Caen, France) and advanced management diploma (Bahrain University). More than 26 years of strategic management, consultancy and business development experience.

CPA from the (AICPA, USA), B.S.c accounting from the University of Bahrain. Over 14 years of audit, telecom, finance and banking experience.

MBA in Business Administration (University of Hull, UK) and Diploma in Business study from University of Bahrain. Over 20 years in operations, retail, customer services, product development in the banking industry



Fadhel Mansour
Head of Business



Fathia Al Awadhi
Head of HR & Administration



Eyad A. Aziz Al-Sammak
Manager - Risk, Compliance,
& Anti-Money Laundering

More than 24 years banking experience, mainly in Relationship Management, Business Development, Structured Finance and Investment Banking. Held senior positions and worked with prime international and regional banks, such as Chemical Bank, Standard Chartered, ABN AMRO, Kuwait International Bank and Rasameel Structured Finance. Was member in ALCO, Credit and Investment Committee and Executive Management. Has MBA in Business Administration.

ACCA Diploma in Accounting & Finance (The Association of Chartered Certified Accountants) and Associate from University of Bahrain. More than 12 years HR and accounting and financial control experience in the financial sector. Member of Institute of Administrative Management and Bahrain Society for Training and Development.

B.S.c in Accounting (University of Bahrain). Over 13 years experience in compliance, anti-money laundering, finance, and retail banking experience.

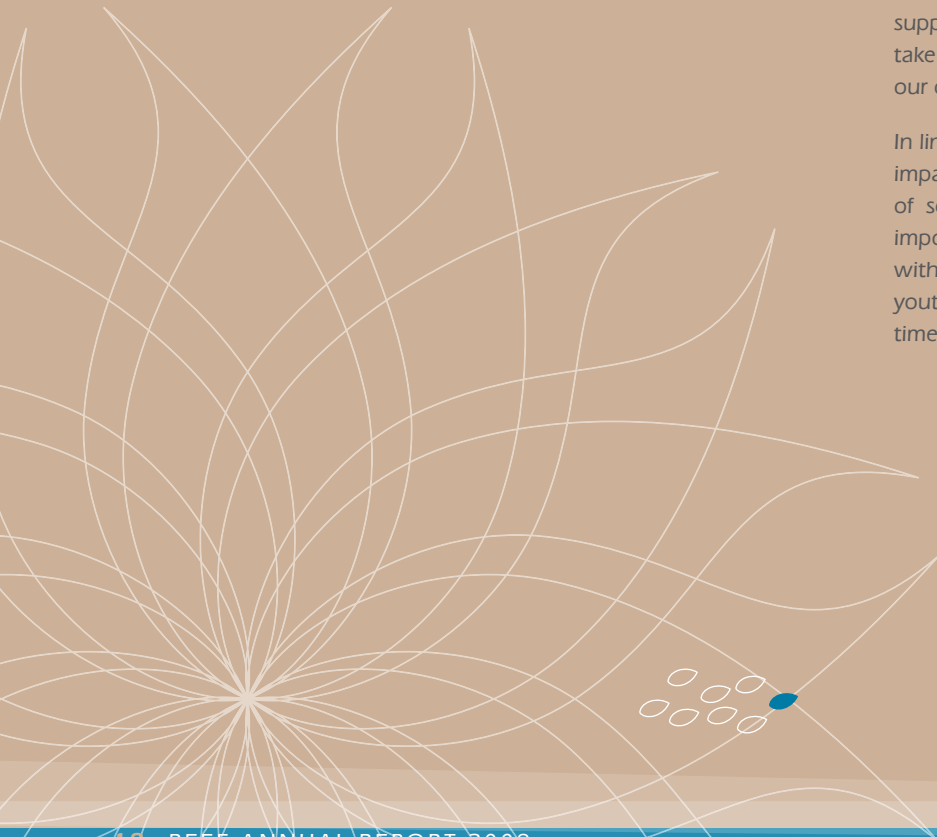
Corporate Social Responsibility



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

Reef - Real Estate Finance Company adopts a Sharia 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.

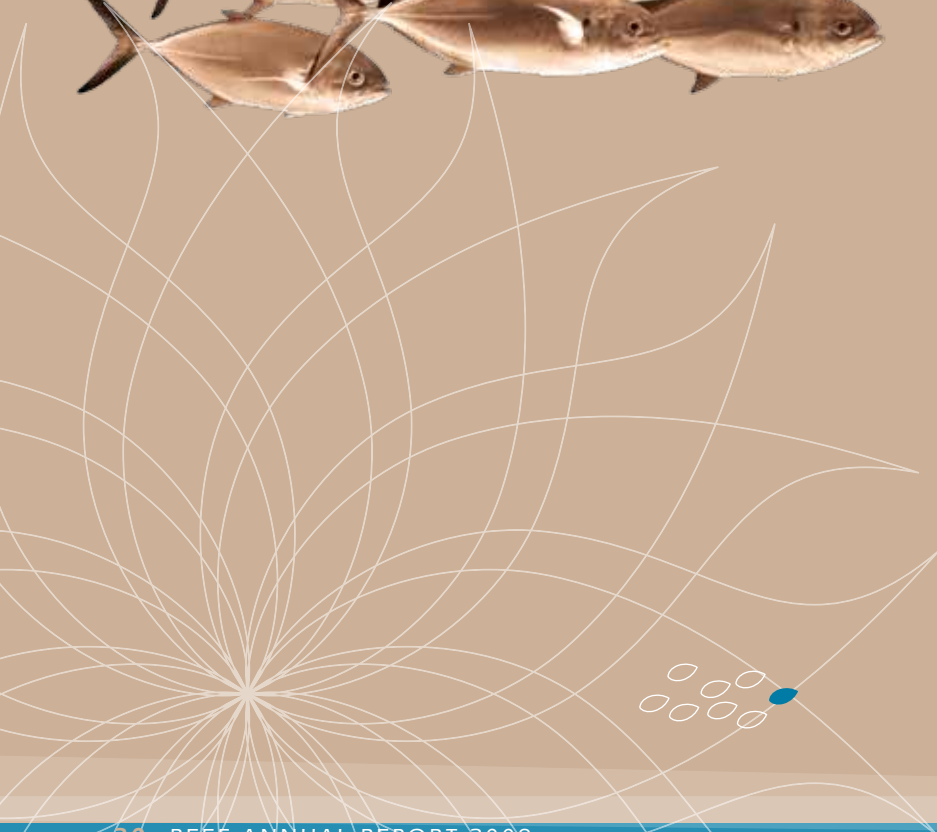
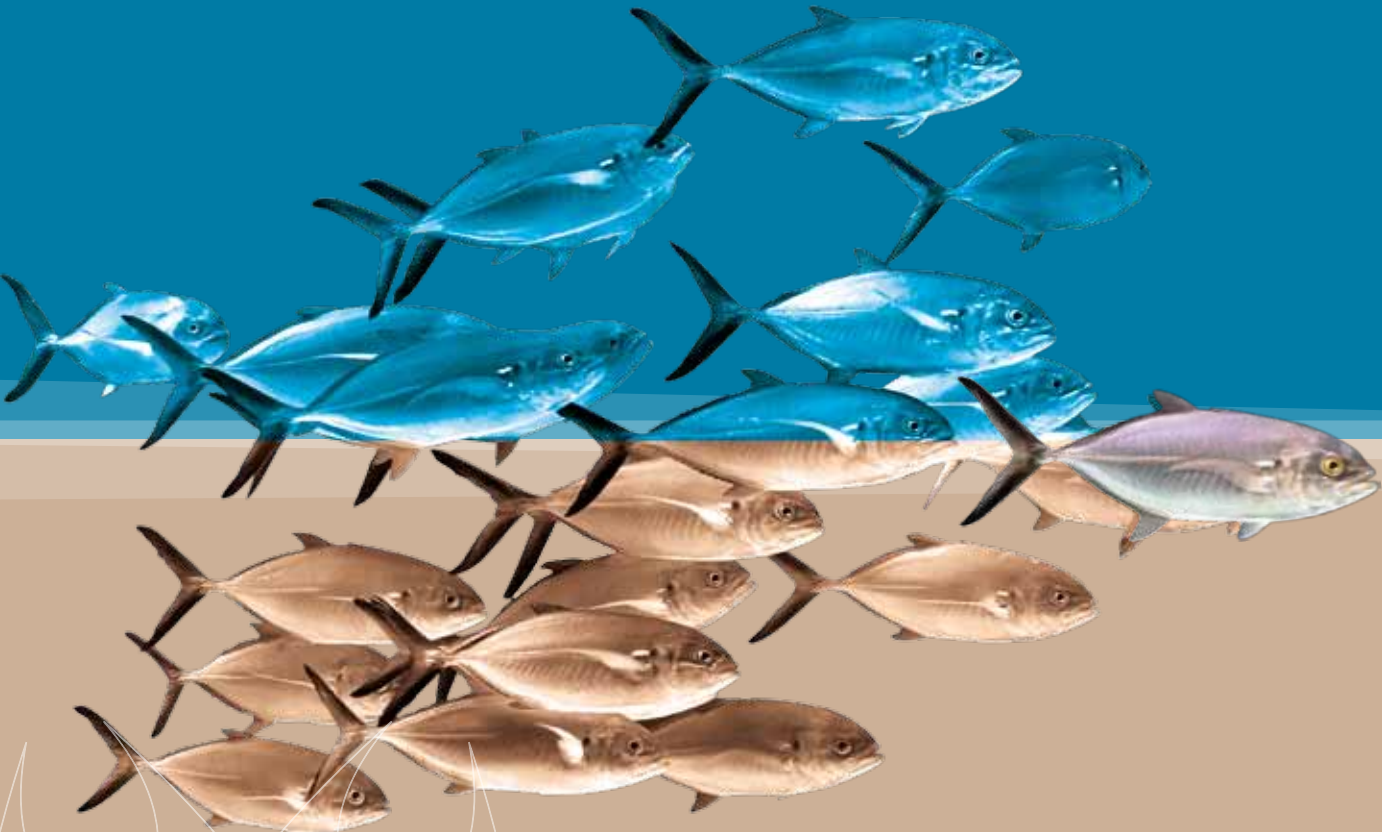
In line with its social responsibility in making a positive impact on society, REEF contributed to a number of social initiatives during the year 2009, the most important and active participation was in partnership with the Al-Eslah Organisation, which targeted the youth sector in the Kingdom of Bahrain during summer time was only an example.

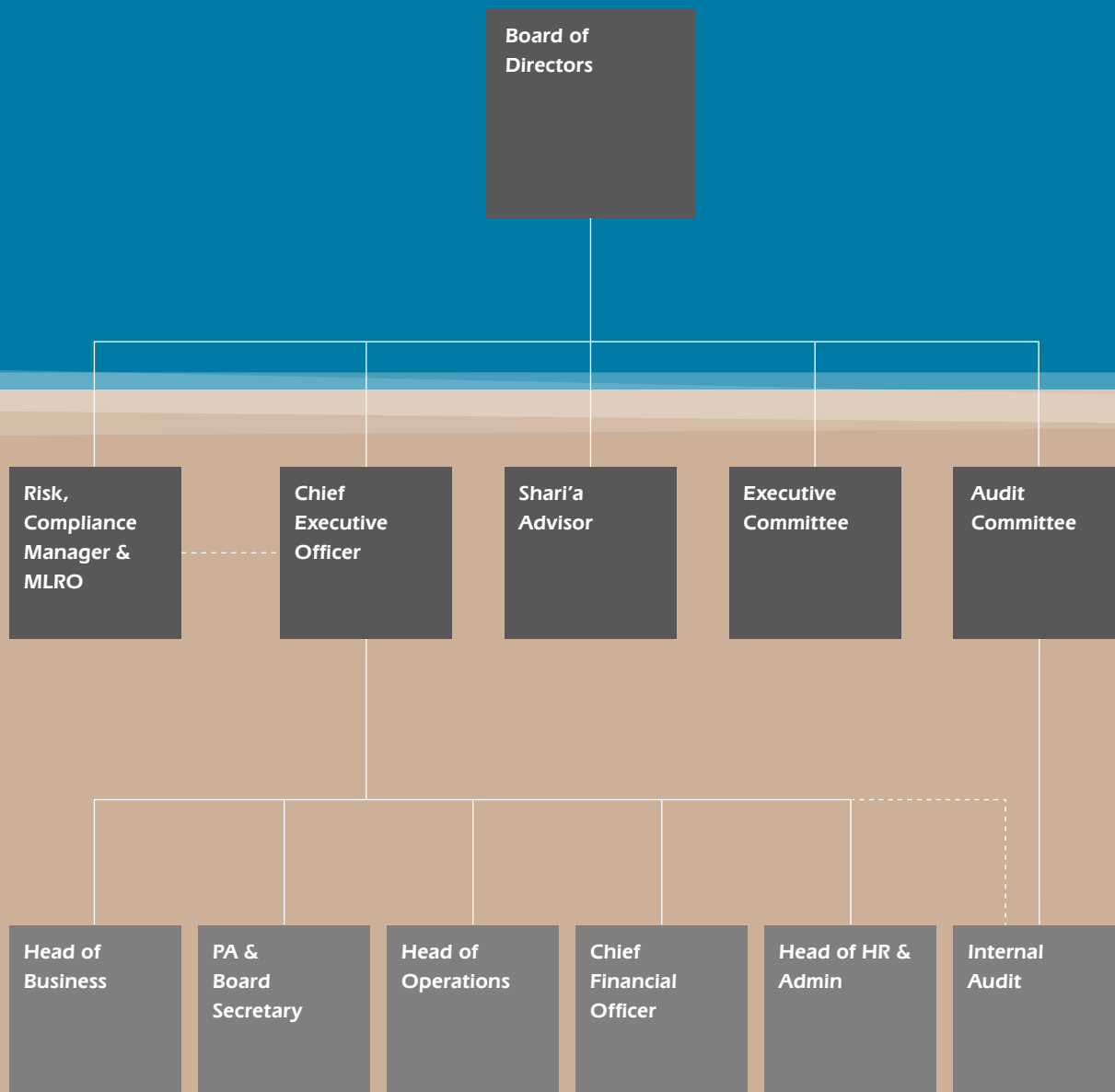




Our belief in social responsibility stems from our philosophy of Islamic principles, a true expression of our deep commitment to the values of honesty, truthfulness and community participation.

Organisation Chart





Corporate Governance

Corporate Governance

Reef is committed to upholding 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.

Responsibilities

The Board of Directors is accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value through strategic initiatives. The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management, and maintaining a dialogue with the Group's shareholders. The Board has appointed two committees to assist it in carrying out its responsibilities. The Internal Audit function reports directly to the Board through the Audit Committee. The Board delegates the authority for management of the business to the Chief Executive Officer, who is supported by a Management Committee.

Board of Directors

Ali Al Baghli
Chairman

Saud Kanoo
Vice Chairman

Faisal Al Matrook
Board Member

Nasser Al Gharibah
Board Member

Samer Abbouchi, CFA
Board Member

Dr. Khalid Abdulla
Board Member

Mohamed Al Dossari
Board Member

Mrs. Ranya Albaker
PA & Board Secretary

Executive Committee

Faisal Al Matrook
Chairman

Saud Kanoo
Member

Nasser Al Gharibah
Member

Audit Committee

Dr. Khalid Abdulla
Chairman

Samer Abbouchi, CFA
Member

Mohamed Aldousari
Member

Management Committee

Mahmood Al Koofi
Chief Executive Officer

Hassan Dhaif
Chief Financial Officer

Ali Salem
Head of Operations

Fadhel Mansour
Head of Business

Fatima Al Awadhi
Head of HR &
Administration

Frame Work

Reef's corporate governance framework comprises a code of business conduct; operational policies and procedure; internal controls and risk management systems; internal and external audit and compliance procedures; effective communications and transparent disclosure; and measurement and accountability.

Code of Business Conduct

Reef conducts itself in accordance with the highest standards of ethical behaviour. A Code of Business Conduct has been developed to govern the personal and professional conduct of all stakeholders.

Compliance

Reef has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain, including appropriate anti-money laundering procedures.

Communications

Reef conducts all Communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communication channels include an annual report, corporate brochure, website and regular announcements in the appropriate local media.



Shari'ah Supervisory Board Report



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 2009 to 31st December 2009.

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 2009 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.

And Allah is the Source of Successes.

Shaikh Osama Mohammed Bahar
Shari'ah Supervisory Advisory

An underwater scene featuring a variety of fish swimming over a coral reef. The water is a deep blue, and the coral is a lighter, textured blue. A prominent yellow fish is in the center, surrounded by several white and grey fish. In the upper right, a large black and white striped fish is visible. The overall composition is dynamic and colorful.

Financial Statements

Diversification will
generate wealth
from fresh income
streams.

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Administration & Contact Details as at 31 December 2009



Commercial registration no.	58073 obtained on 10 September 2005
CBB license	FC/001 obtained on 7 November 2007
Board of Directors	Mr. Ali Ahmed Al Baghli (Chairman) Mr. Saud Kanoo (Vice-Chairman) Mr. Faisal Al-Matrook Dr. Khalid Abdulla Mr. Nasser Abdulhadi Al Gharibah Mr. Samer Abbouchi, CFA Mr. Mohammed Al Dossari
Chief Executive Officer	Mr. Mahmood Al Koofi
Executive Committee	Mr. Faisal Al-Matrook (Chairman) Mr. Saud Kanoo Mr. Nasser Abdulhadi Al Gharibah
Audit Committee	Dr. Khalid Abdulla (Chairman) Mr. Samer Abbouchi, CFA Mr. Mohammed Al Dosari Dr. Jassim Alajmi (Independent member until 29 October 2009)
Shari'a Supervisory Advisor	Dr. Fareed Hadi until 31 July 2009 Shaikh Osama Bahar from 1 August 2009
Registered office	Building 483, Road 1010 Block 410, PO Box 18599 Manama, Kingdom of Bahrain
Bankers	Shamil Bank of Bahrain Kuwait Finance House Al Baraka Islamic Bank Future Bank Calyon Bank Bahrain Islamic Bank Khaleeji Commercial Bank Emirates Islamic Bank
Auditors	BDO PO Box 787, 5th Floor, UGB Tower Diplomatic Area, Kingdom of Bahrain



Independent Auditors' Report to the Shareholders



Tel: +973 1753 0077, Fax: +973 17530088
P.O.Box 787 Manama, Kingdom of Bahrain

Report on the financial statements

We have audited the accompanying financial statements of Reef Real Estate Finance Co. BSC (c) ("the Company"), which comprise the statement of financial position as at 31 December 2009, the statement of income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

These financial statements and the Company's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the Directors of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

Auditor's responsibility

We conducted our audit in accordance with the Auditing Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2009, and the results of its operations, the changes in shareholders' equity and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a Rules and Principles as determined by the Shari'a Advisor of the Company.

Report on other legal and regulatory requirements

Further, as required by the Bahrain Commercial Companies Law, Decree Number 21 of 2001 and the Central Bank of Bahrain and Financial Institutions Law 2006, we report that:

- (1) we have obtained all the information we considered necessary for the purpose of our audit;
- (2) the Company has maintained proper books of account and the financial statements are in agreement therewith; and
- (3) the financial information included in the Chairman's report is consistent with the books of account of the Company.

In addition, we report that, nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the Bahrain Commercial Companies Law, Decree Number 21 of 2001 or the Central Bank of Bahrain and Financial Institutions Law 2006, or the terms of the Company's license, or its Memorandum and Articles of Association, which would materially affect its activities, or its financial position as at 31 December 2009.

BDO


Manama, Kingdom of Bahrain
04 March 2010

Statement of financial position

At 31 December 2009 (Expressed in Bahraini Dinars)

	Notes	31 Dec 2009	Restated 31 Dec 2008	Restated 1 Jan 2008
ASSETS				
Cash and bank balances	6	2,820,266	939,031	1,200,106
Investments:				
Investment in an associate	7	397,109	397,750	270,000
Investment in property funds	8	-	-	2,000,000
Mudaraba investments	9	75,400	1,575,400	2,079,291
Musharaka financing	10	383,509	553,009	3,468,865
Ijarah Muntahia Bittamleek	11	31,265,291	37,876,408	29,574,919
Investment properties	12	3,497,743	3,750,980	3,750,980
Receivables and prepayments	13	454,034	329,812	491,059
Property and equipment	14	146,443	241,357	298,597
Total assets		39,039,795	45,663,747	43,133,817
LIABILITIES AND EQUITY				
Liabilities				
Islamic financing	15	10,476,438	16,775,989	13,771,650
Other liabilities	16	1,358,389	2,885,033	4,824,426
		11,834,827	19,661,022	18,596,076
Equity				
Share capital	17	22,898,000	21,400,000	20,000,000
Statutory reserve	18	747,337	615,209	428,598
Investment property fair value reserve	19	1,347,193	1,444,730	1,444,730
Retained earnings		2,212,438	2,542,786	2,664,413
		27,204,968	26,002,725	24,537,741
Total liabilities and equity		39,039,795	45,663,747	43,133,817

These financial statements, set out on pages 28 to 48, were approved for issue by the Board of Directors on 04 March 2010 and signed on their behalf by:



Ali Ahmed Al Baghli
Chairman



Mahmood Al Koofi
Chief Executive Officer



Statement of Income

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

	Notes	2009	Restated 2008
Income			
Gross Ijarah revenue		5,048,570	4,721,741
Less: Depreciation on Ijarah Muntahia Bittamleek	11	1,917,595	1,861,156
		3,130,975	2,860,585
Profit from Musharaka financing		38,992	117,440
Profit from Mudaraba investments		11,349	123,554
Fees income from Ijarah Muntahia Bittamleek		81,446	379,438
Realised gains on investment in property funds	8	-	644,500
Realised gains on sale of investment properties		120,731	-
Other income		-	6,400
		3,383,493	4,131,917
Expenses			
Staff costs		395,562	697,287
Finance costs	20	1,066,463	1,130,139
General and administrative expenses	21	425,941	475,585
Depreciation of property and equipment	14	94,947	93,520
Provision for impairment of Ijarah			
Muntahia Bittamleek and Musharaka	11	78,659	113,152
Share of net loss from investment in an associate	7	641	97,250
		2,062,213	2,606,933
Net profit for the year transferred to retained earnings		1,321,280	1,524,984
Basic and diluted earnings per share	22	5.8 Fils	6.7 Fils

These financial statements, set out on pages 28 to 48, were approved for issue by the Board of Directors on 04 March 2010 and signed on their behalf by:

Ali Ahmed Al Baghli
Chairman

Mahmood Al Koofi
Chief Executive Officer

Statement of changes in equity

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

	Notes	Share capital	Statutory reserve	Investment property fair value reserve	Retained earnings	Total
At 31 December 2007 (as previously reported)		20,000,000	428,598	1,444,730	1,773,014	23,646,342
Adjustments due to change in accounting policy	3	-	-	-	891,399	891,399
At 1 January 2008 - restated		20,000,000	428,598	1,444,730	2,664,413	24,537,741
Bonus shares issued		1,400,000	-	-	(1,400,000)	-
Charity	23	-	-	-	(20,000)	(20,000)
Directors' remuneration	23	-	-	-	(40,000)	(40,000)
Net profit for the year		-	-	-	1,524,984	1,524,984
Transferred to statutory reserve	18	-	186,611	-	(186,611)	-
At 31 December 2008		21,400,000	615,209	1,444,730	2,542,786	26,002,725
Bonus shares issued	17	1,498,000	-	-	(1,498,000)	-
Charity	23	-	-	-	(6,500)	(6,500)
Directors' remuneration	23	-	-	-	(15,000)	(15,000)
Net movement in fair Value reserve	19	-	-	(97,537)	-	(97,537)
Net profit for the year		-	-	-	1,321,280	1,321,280
Transferred to statutory reserve	18	-	132,128	-	(132,128)	-
At 31 December 2009		22,898,000	747,337	1,347,193	2,212,438	27,204,968



Statement of cash flows

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

	Notes	2009	Restated 2008
Operating activities			
Net profit for the year		1,321,280	1,524,984
Adjustments for:			
Depreciation on property and equipment	14	94,947	93,520
Depreciation on Ijarah Muntahia Bittamleek assets	11	1,917,595	1,861,156
Realised gains on investment in property funds		-	(644,500)
Realised gains on sale of investment properties		(124,300)	-
Loss on sale of properties and equipment		693	-
Share of net loss from an associate	7	641	97,250
Finance costs	20	1,066,463	1,130,139
Changes in operating assets and liabilities:			
Receivables and prepayments		(124,221)	161,246
Other liabilities		(1,519,645)	(1,886,132)
Net cash provided by operating activities		2,633,453	2,337,663
Investing activities			
Purchase of property and equipment	14	(726)	(36,280)
Proceeds from sale of investment property fund	8	-	2,644,500
Proceeds from sale of investment properties		280,000	-
Net movement in Ijarah Muntahia Bittamleek		4,693,522	(10,162,645)
Net movement in Musharaka financing	10	169,500	2,915,856
Investments in an associate	7	-	(225,000)
Net cash provided by/(used in) investing activities		5,142,296	(4,863,569)
Financing activities			
Islamic financing (repaid)/received, net		(6,299,551)	3,004,339
Charity payment		(13,500)	(73,260)
Directors' remuneration paid	23	(15,000)	(40,000)
Finance costs paid	20	(1,066,463)	(1,130,139)
Net cash (used in)/provided by financing activities		(7,394,514)	1,760,940
Net increase/(decrease) in cash and cash equivalents		381,235	(764,966)
Cash and cash equivalents, beginning of the year		2,514,431	3,279,397
Cash and cash equivalents, end of the year		2,895,666	2,514,431
Comprising:			
Cash and bank balances	6	2,820,266	939,031
Mudaraba investments	9	75,400	1,575,400
		2,895,666	2,514,431

Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

1. Organisation and principal activities

Reef Real Estate Finance Co. BSC (c) ("the Company") is a closed shareholding company and operates as an Islamic financing company under license number 58073 granted by the Ministry of Commerce and Central Bank of Bahrain ("CBB") license number FC/001 obtained on 7 November 2007. The Company commenced commercial operations on 10 September 2005.

The principal activities of the Company include:

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

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

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

2. Basis of preparation

These financial statements have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as the Company has been licensed by the CBB as an Islamic financing company. However, in accordance with the requirements

of AAOIFI, for matters for which no AAOIFI standards exist, the Company uses the relevant International Financial Reporting Standards ("IFRS").

These financial statements have been prepared under the historical cost convention, modified by the valuation of investment properties which are measured at their fair values.

3. Change in accounting policy

Previously and as was a generally acceptable practice, the Company was applying the amortization table to the periodical collected rental for the recognition of its revenue on one hand, and to write down its investment in the Ijarah Muntahia Bittamleek assets on the other hand.

The company decided to change its accounting policy to be fully compliant with FAS Number 8, the Shari'a Supervisory Board's rules and regulations and their own lease agreements. Ijarah Muntahia Bittamleek revenue is recognized as gross rentals received over the term of the lease and the Ijarah assets are recognized upon acquisition as assets at historical cost and depreciated over the term of the lease on a straight line basis.



Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

3. Change in accounting policy (cont.)

The retrospective impact and effect of the change in accounting policy on 31 December 2008 is as follows:

	Previously Reported	Re-stated	Difference
At 1 January 2008			
Statement of financial position only			
Ijarah Muntahia Bittamleek	28,725,448	30,851,882	2,126,434
Accumulated depreciation	(776,347)	(1,235,034)	(458,687)
Ijara Muntahia Bittamleek receivables	776,347	-	(776,347)
Retained earnings	(1,773,014)	(2,664,413)	(891,399)
At 31 December 2008			
Statement of financial position			
Ijarah Muntahia Bittamleek	37,430,809	40,262,311	2,831,502
Accumulated depreciation	(1,509,685)	(2,230,822)	(721,137)
Ijara Muntahia Bittamleek receivables	1,560,091	-	(1,560,091)
Retained earnings	(1,992,513)	(2,542,786)	(550,273)
Statement of income			
Gross Ijarah revenue	(4,412,483)	(4,721,741)	(309,258)
Depreciation of Ijarah Muntahia Bittamleek	1,210,772	1,861,156	650,384

Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

4. Significant accounting policies

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

Property and equipment and accumulated depreciation

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 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.

Investment in an associate

An associate is an entity over which the company exercises significant influence, but not control, through participation in financing and operating policy decisions, and in which the company normally owns between 20% and 50% of the voting equity.

Investments in associates are carried at cost, including goodwill, as adjusted for the company's share of post-acquisition changes in associates retained earnings and other movements in reserve. The carrying value of investment in associate is reviewed on a regular basis and if any impairment in value has occurred, the value is written down in the period in which these circumstances are identified. Associates are equity accounted for from the date significant influence commenced until the date that significant influence effectively ceased. The results of associates are equity accounted for based on their most recent audited financial statements.

Losses of an associate are recorded in the financial statements until the investment in such associate is written down to nil value. Thereafter losses are only accounted for to the extent that company is committed to provide the financial support to such associate.

Profit and losses resulting from transactions with an associate are eliminated to the extent of the company's interest in the relevant associate.

Investment in property funds

Investment in property funds are initially recorded at cost, being the fair value of the consideration given, including acquisition charges associated with the investment. Investment in property funds are subsequently stated at their fair values. In the absence of active markets or other appropriate methods from which to derive reliable fair values, any unquoted funds are stated at cost. All related realised gains or losses on disposal are included in the statement of income; unrealised gains or losses are taken to the fair value reserve in the statement of changes in equity.

All purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.



Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

4. Significant accounting policies (cont.)

Fair value of investments listed on active markets is determined by reference to the quoted market prices. The fair value of unquoted securities, where available, is the Company's proportionate share of the net assets of the investee company.

Mudaraba investments

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

Musharaka financing

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

Investment properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties are measured at their fair values and changes in fair value are recognised in the statement of changes in shareholders equity. In accordance with AAOIFI, such gains or losses are transferred to an investment property fair value reserve at the year-end. Upon realisation of these gains/losses, these are transferred from the investment property fair value reserve to the statement of income.

Investment properties are derecognised when they have either been disposed-off, or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on derecognition of an investment property are recognised in the statement of income in the period of derecognition.

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.

Islamic financing

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

Provisions

Provisions are recognised when the company has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation in future, and the amount of the obligations can be reliably estimated.

Employee benefits

Employee benefits and entitlements to annual leave, holiday and other short-term benefits are recognised as they accrue to the employees. The Company 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 Company's contributions are charged to the statement of income in the period to which they relate. In respect of this plan, the Company 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 Company are paid leaving indemnity in accordance with the provisions of the Bahrain Labour Law. The Company accrues for its liability in this respect on an annual basis.

Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

4. Significant accounting policies (cont.)

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 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.

For investment in property funds, reversal of impairment losses is recorded as increases in cumulative changes in fair value through statement of changes in equity.

Revenue recognition

- a) **Income from Ijarah Muntahia Bittamleek**
venue 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 Company'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.

Earnings prohibited by Shari'a

The Company 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.

Foreign exchange transactions

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

Zakah

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

Cash and cash equivalents

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

5. Critical accounting judgments, estimates and assumptions

The preparation of the financial statements in accordance with AAOIFI standards requires the company's management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reporting period. The determination of the estimates requires judgments which are based on the historical experience, current and expected economic conditions, and all other available information. Actual result could differ from those estimates.

The most significant area requiring the use of the management estimates and assumptions relate to

- fair valuation of investment properties;
- economic useful lives of property and equipment;
- allowances; and
- contingencies.



Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

5. Critical accounting judgments, estimates and assumptions (cont.)

Fair valuation of investment properties

The company obtains annual, independent property valuations from independent property valuers, covering all the investment properties. The management exercises their judgment in selecting one of these independent valuations, depending on the current overall economic conditions. Due to the current economic climate the independent valuations differ significantly and are changing over a relatively short period of time.

Useful economic lives of property and equipment

The company's property and equipment are depreciated on a straight-line basis over their economic useful lives.

Useful economic lives of property and equipment are reviewed by management periodically. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Company.

Allowances

The company creates allowances for doubtful receivables relating to Ijarah Muntahia Bittamleek and Musharaka to account for estimated losses resulting from the inability of customers to make the required payments. When evaluating the adequacy of an allowance for doubtful receivables relating to Ijarah Muntahia Bittamleek and Musharaka, management takes into account the current overall economic conditions, ageing of the receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

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 judgement and estimates of the outcome of future events.

6. Cash and bank balances

	31 Dec 2009	31 Dec 2008
Cash on hand	500	930
Current account balances with banks	2,819,766	938,101
	2,820,266	939,031

The current account balances with banks are non-profit bearing.

7. Investment in an associate

	31 Dec 2009	31 Dec 2008
Investment		
Opening balance	15,250	112,500
Share of net loss for the year	(641)	(97,250)
Closing balance	14,609	15,250
Advance to an associate		
Opening balance	382,500	157,500
Paid during the year	-	225,000
Closing balance	382,500	382,500
Total	397,109	397,750

The Company's investment in an associate represents 45% of the issued share capital in First Reef Company BSC(c). The Company's share of loss in the associate has been ascertained based on audited accounts as at 31 December 2009.

It is Management's intention to utilize the advance to increase the share capital of the associate during 2010.

Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

8. Investment in property funds

	31 Dec 2009	31 Dec 2008
Opening balance	-	2,000,000
Realised gains on sales transferred to the statement of income	-	644,500
Disposals during the year	-	(2,644,500)
Closing balance	-	-

The Company, in accordance with a commitment letter dated 28 February 2006, agreed to participate in the Special Purpose Vehicle ("SPV") of Bahrain Investment Wharf BSC(c) (BIW), as one of BIW's strategic investors. During the 2008, the investment in the SPV has been disposed-off.

9. Mudaraba investments

	31 Dec 2009	31 Dec 2008
Calyon Bank	-	1,500,000
Khaleeji Commercial Bank	75,400	75,400
	75,400	1,575,400

Mudaraba investments represent amounts placed with financial institutions. Profit from Mudaraba investments are recognised over the period of the related investment.

10. Musharaka financing

	31 Dec 2009	31 Dec 2008
Opening balance	558,080	3,468,865
Additions during the year	-	38,207
Repayments during the year	(169,500)	(2,948,992)
	388,580	558,080
Less: Provision for impairment	5,071	5,071
Closing balance	383,509	553,009



Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

11. Ijarah Muntahia Bittamleek

	Land	Buildings	Total
Cost			
At 31 December 2007 (restated)	11,805,753	19,046,129	30,851,882
Additions during the year	9,889,119	13,831,411	23,720,530
Repayments/ disposals during the year	(8,027,335)	(6,282,766)	(14,310,101)
At 31 December 2008	13,667,537	26,594,774	40,262,311
Additions during the year	479,307	189,358	668,665
Repayments/ disposals during the year	(2,916,616)	(2,923,419)	(5,840,035)
At 31 December 2009	11,230,228	23,860,713	35,090,941
Depreciation			
At 31 December 2007 (restated)	-	(1,235,034)	(1,235,034)
Charges for the year	-	(1,861,156)	(1,861,156)
Disposal during the year	-	865,368	865,368
At 31 December 2008	-	(2,230,822)	(2,230,822)
Charged for the year	-	(1,917,595)	(1,917,595)
Disposal during the year	-	556,507	556,507
At 31 December 2009	-	(3,591,910)	(3,591,910)
Impairment provision			
At 31 December 2007	-	(41,929)	(41,929)
Provided during the year	-	(113,152)	(113,152)
At 31 December 2008	-	(155,081)	(155,081)
Provided during the year	-	(78,659)	(78,659)
At 31 December 2009	-	(233,740)	(233,740)
Net book value			
At 31 December 2008	13,667,537	24,208,871	37,876,408
At 31 December 2009	11,230,228	20,035,063	31,265,291

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

The lease contracts outstanding at 31 December 2009 have lease terms of up to 25 years.

Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

12. Investment properties

	31 Dec 2009	31 Dec 2008
Opening balance	3,750,980	3,750,980
Disposals during the year	(253,237)	-
Closing balance	3,497,743	3,750,980

In December 2009, the Company obtained a valuation of its investment properties from an independent real estate valuer, which reflected the total value of the properties at BD3,920,650, resulting in an unrealised fair value gain amounting to BD422,907 (2008: BD262,820). However, on a conservative basis, the management of the Company has taken a decision not to include the current years unrealised fair value gain in the statement of changes in equity.

13. Receivables and prepayments

	31 Dec 2009	31 Dec 2008
Other receivables	284,710	180,799
Ijarah Muntahia Bittamleek rental receivables	168,805	146,803
Accrued profit on Mudaraba investments	519	2,210
	454,034	329,812



Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

14. Property and equipment

	Leasehold improvements	Furniture & fixtures	Office equipment	Computer hardware & software	Motor vehicles	Total
Cost						
At 31 December 2007	148,867	43,503	44,373	97,865	36,880	371,488
Additions during the year	3,562	2,961	1,907	27,850	-	36,280
At 31 December 2008	152,429	46,464	46,280	125,715	36,880	407,768
Additions during the year	-	726	-	-	-	726
Disposal during the year	-	-	-	(1,780)	-	(1,780)
At 31 December 2009	152,429	47,190	46,280	123,935	36,880	406,714
Accumulated depreciation						
At 31 December 2007	22,012	7,519	8,106	26,686	8,568	72,891
Charge for the year	30,130	9,037	10,021	32,039	12,293	93,520
At 31 December 2008	52,142	16,556	18,127	58,725	20,861	166,411
Charge for the year	30,486	9,595	10,005	32,800	12,061	94,947
Disposal during the year	-	-	-	(1,087)	-	(1,087)
At 31 December 2009	82,628	26,151	28,132	90,438	32,922	260,271
Net book value						
At 31 December 2008	100,287	29,908	28,153	66,990	16,019	241,357
At 31 December 2009	69,801	21,039	18,148	33,497	3,958	146,443

The Company operates from premises leased at a monthly rental of BD8,500 (2008: BD8,500) per month.

15. Islamic financing

	31 Dec 2009	31 Dec 2008
Future Bank	3,017,540	-
Bahrain Islamic Bank	2,079,167	2,000,000
Kuwait Finance House	2,011,290	2,510,151
Shamil Bank of Bahrain	1,848,400	2,047,639
Emirates Islamic Bank	1,133,641	3,750,000
Al Baraka Islamic Bank	283,529	1,151,183
Calyon Bank	102,871	5,317,016
	10,476,438	16,775,989

The financing from Future Bank, Al Baraka Islamic Bank and Calyon Bank are secured by way of a mortgage against Ijarah Muntahia Bittamleek agreements entered into by the Company. The financing of the Company bears an average profit rate of 8.9% (2008: 7.4%) per annum.

Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

16. Other liabilities

	31 Dec 2009	31 Dec 2008
Musharaka financing and Ijarah Muntahia Bittamleek payables	708,156	1,985,978
Other payables	606,918	721,626
Accrued expenses	43,315	177,429
	1,358,389	2,885,033

17. Share capital

	31 Dec 2009	31 Dec 2008
Authorised		
400,000,000 (2008: 400,000,000) ordinary shares of 100 Fils each	40,000,000	40,000,000
Issued and fully paid-up		
228,980,000 (2008: 214,000,000) ordinary shares of 100 Fils each	22,898,000	21,400,000

The Company has only one class of equity shares and the holders of the shares have equal voting rights. During the year, the Annual General Meeting of the shareholders held on 25 June 2009 approved the issue of 14,980,000 as bonus shares to the shareholders. Accordingly, the issued and fully paid-up share capital has increased from 214,000,000 to 228,980,000.

Additional information on shareholding pattern

The names and nationalities of the major shareholders, holding shareholding interest of 5% or more and the number of shares at 31 December 2009 and 2008 are as follows:

	31 Dec 2009		
	Nationality	Number of shares	Percentage of share holding interest
National International Holding KSC(c)	Kuwaiti	45,796,000	20%
Global Investment House KSC(c)	Kuwaiti	38,926,600	17%
Inovent BSC	Bahraini	22,898,000	10%
Ossis Property Developers BSC(c)	Bahraini	22,898,000	10%
Safi Financial Services	Kuwaiti	22,898,000	10%
Sh. Sultan Bin Khalifa Al Nahyan	Emirati	12,593,900	5.5%
		166,010,500	72.50%



Notes to the financial statements

for the year ended 31 December 2009

17. Share capital (continued)

	31 Dec 2008		
	Nationality	Number of shares	Percentage of share holding interest
National International Holding KSC(c)	Kuwaiti	42,800,000	20%
Global Investment House KSC(c)	Kuwaiti	36,380,000	17%
Inovent BSC	Bahraini	21,400,000	10%
Ossis Property Developers BSC(c)	Bahraini	21,400,000	10%
Safi Financial Services	Kuwaiti	21,400,000	10%
Sh. Sultan Bin Khalifa Al Nahyan	Emirati	11,770,000	5.5%
		155,150,000	72.50%

18. Statutory reserve

	31 Dec 2009	31 Dec 2008
Opening balance	615,209	428,598
Transfer from net profits	132,128	186,611
Closing balance	747,337	615,209

Under the provisions of the Bahrain Commercial Companies Law, an amount equivalent to 10% of the Company'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 share capital is set aside.

19. Investment property fair value reserve

	31 Dec 2009	31 Dec 2008
Opening balance	1,444,730	1,444,730
Realized profit transferred to statement of income	(97,537)	-
Closing balance	1,347,193	1,444,730

20. Finance costs

	Year ended 31 Dec 2009	Year ended 31 Dec 2008
Wakalah financing costs	212,119	304,308
Murabaha financing costs	854,344	825,831
	1,066,463	1,130,139

Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

21. General and administrative expenses

	Year ended 31 Dec 2009	Year ended 31 Dec 2008
Premises expenses	122,728	124,467
Business development	50,559	101,753
Professional fees	96,647	77,050
Communication expenses	37,912	29,897
System expenses	34,645	30,865
Exchange loss	31,574	14,117
Other general expenses	48,183	91,413
Directors' attendance fees	3,693	6,023
	425,941	475,585

22. Earnings per share

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

	31 Dec 2009	31 Dec 2008
Net profit attributable to the shareholders	BD1,321,280	BD1,524,985
Weighted average number of ordinary shares	228,980,000	228,980,000
Basic and diluted earnings per share	5.8 Fils	6.7 Fils

The total number of ordinary shares as at 31 December 2008 has been calculating as if the bonus issue occurred at the year end.

23. Directors' remuneration and charity contributions

The shareholders have approved at the Annual General Meeting held on 25 June 2009, of BD6,500 (2008: BD20,000) for charity contributions and BD15,000 (2008: BD40,000) for directors' remuneration.



Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

24. Related party transactions

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

A summary of the significant transactions with related parties included in Ijarah Muntahia Bittamleek is as follows:

	31 Dec 2009	31 Dec 2008
Shareholders, directors and immediate family members	54,753	76,944

A summary of the amounts due from related parties included in Ijarah Muntahia Bittamleek is as follows:

	31 Dec 2009	31 Dec 2008
Amounts due from related parties		
Shareholders, directors and immediate family members	1,117,560	1,442,725

25. Maturity profile

Maturity profile of assets and liabilities is as follows:

	At 31 Dec 2009				
	Carrying amount	Up to 6 months	6-12 months	1-5 years	5 years & above
Assets					
Cash and cash equivalents	2,820,266	2,820,266	-	-	-
Investment in an associate	397,109	-	-	397,109	-
Mudaraba investments	75,400	75,400	-	-	-
Musharaka financing	383,509	-	-	34,762	348,747
Ijarah Muntahia Bittamleek	31,265,291	-	12,623	8,914,727	22,337,940
Investment properties	3,497,743	-	-	3,497,743	-
Receivables and prepayments	454,034	188,135	88,562	177,337	-
Property and equipment	146,443	-	-	146,443	-
Total assets	39,039,795	3,083,801	101,185	13,168,123	22,686,687
Equity and liabilities					
Share capital	22,898,000	-	-	-	22,898,000
Statutory reserve	747,337	-	-	-	747,337
Investment property fair value					
Reserve	1,347,193	-	-	1,347,193	-
Retained earnings	2,212,438	-	-	-	2,212,438
Islamic financing	10,476,438	386,400	7,072,498	3,017,540	-
Other liabilities	1,358,389	795,159	140,179	423,051	-
Total equity and liabilities	39,039,795	1,181,559	7,212,677	4,787,784	25,857,775

Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

25. Maturity profile (cont.)

	At 31 Dec 2008				
	Carrying amount	Up to 6 months	6-12 months	1-5 years	5 years & above
Assets					
Cash and cash equivalents	939,031	939,031	-	-	-
Investment in an associate	397,750	-	397,750	-	-
Mudaraba investments	1,575,400	-	1,500,000	75,400	-
Musharaka financing	553,009	-	-	-	553,009
Ijarah Muntahia Bittamleek	37,876,408	-	-	-	37,876,408
Investment properties	3,750,980	-	3,750,980	-	-
Receivables and prepayments	329,812	241,743	88,069	-	-
Property and equipment	241,357	-	-	241,357	-
Total assets	45,663,747	1,180,774	5,736,799	316,757	38,429,417
Equity and liabilities					
Equity	26,002,725	-	-	-	26,002,725
Islamic financing	16,775,989	4,901,183	11,874,806	-	-
Other liabilities	2,885,033	167,806	2,694,040	23,187	-
Total equity and liabilities	45,663,747	5,068,989	14,568,846	23,187	26,002,725

The distribution of assets and liabilities by geographic and industry sectors is as follows:

	At 31 Dec 2009		At 31 Dec 2008	
	Assets	Liabilities and equity	Assets	Liabilities and equity
Geographic sector				
Gulf Co-operation Council (GCC)	39,039,795	39,039,795	45,663,747	45,663,747
Industry sector				
Bank and financial institutions	2,997,608	25,818,098	2,658,648	31,113,989
Individuals	31,851,406	1,710,600	38,590,403	3,686,138
Real estate	4,007,360	2,152,458	4,149,030	1,555,974
Others	183,421	9,358,639	265,666	9,307,646
	39,039,795	39,039,795	45,663,747	45,663,747



Notes to the financial statements

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26. Compliance with Shari'a rules and principles

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

27. Social responsibility

The Company discharges its social responsibilities through donations to charitable causes and organizations (Note 23).

28. Concentration of assets and liabilities

Industry sector

The Company's assets acquired for leasing have exposures to the real estate sector. Bank balances and Mudaraba investments are placed with banks and financial institutions. Other assets, equipment and liabilities are within other sectors.

Geographic sector

The majority of the Company's assets and liabilities are concentrated in the Kingdom of Bahrain.

29. 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, trade and other receivables, Islamic financing and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Cash is placed with national and multinational banks with good credit ratings. The Company'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 Company has well defined policies for managing credit risk to ensure that risks are accurately assessed, properly approved and regularly monitored. Formal credit limits are applied at counterparty and single obligor level. Overall exposures are also evaluated to ensure a broad diversification of risk by setting concentration limits by geographical regions and industrial sectors.

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

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

Notes to the financial statements

for the year ended 31 December 2009 (Expressed in Bahraini Dinars)

29. Financial assets and liabilities and risk management (continued)

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

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

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

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

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

30. Zakah

The shareholders of the Company will be liable for the payment of zakah.

31. Commitments

The company has no capital commitment at 31 December 2009.

32. Contingent liabilities

The company is involved in two legal cases and it is not possible to predict the eventual outcome of such legal actions. The Directors have not made any provision for any of these claims.

33. Subsequent events

There were no significant events subsequent to 31 December 2009 and occurring before the date of signing of the financial statements that would have a significant impact on these financial statements.

34. Comparative balances

Certain comparative balances have been reclassified, wherever necessary to conform with the presentation adopted at 31 December 2009.