



YOUR DESTINATION TO REAL ESTATE INVESTMENT...



Annual Report 2012

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



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**His Royal Highness Prince
Khalifa Bin Salman Al Khalifa**
The Prime Minister



**His Majesty King
Hamad Bin Isa Al Khalifa**
The King of Kingdom of Bahrain



**His Royal Highness Prince
Salman Bin Hamad Al Khalifa**
The Crown Prince and Deputy
Supreme Commander
and First Deputy Prime
Minister



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■ 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 processes to make sure best turn-around times;

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

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

■ OUR VALUES

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

INSPIRING EXCELLENCE

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

PARTNERSHIP

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

INNOVATION AND ORIGINALITY

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

ACCOMPLISHMENT

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



CHAIRMAN'S MESSAGE

ALI AHMED AL BAGHLI CHAIRMAN

The year 2012 witnessed a major transformation in the Company's business strategy, business in real estate finance continued to slide to an unprecedented level as a result of the downturn in the real estate market and cut-throat (pricing) competition by commercial banks operating in the Kingdom of Bahrain. With their ability to provide low-cost finance, these banks entered into a stiff competition to attract the largest number of customers possible, whether new customers or those shifting from other financing companies and banks due to the low interest rates on loans which dropped to all time low levels in the history of banks in Bahrain.

At these difficult times, and under the current economic and political circumstances, the Company adopted a flexible strategic thinking concept, or what is commonly called the "wait and see approach". With the support of the Company's Board of Directors, the executive management continued to serve its existing customers in the Ijarah Muntahia betamleek 'financing' portfolio with utmost dedication, at the same time, the Company began to utilize the liquidity available to enter into selective investment projects selected with due care and diligence. For example, the Company invested BD 3.5 million in one of the major and highly promising projects in the center of London, the United Kingdom, with the participation of a group of distinguished Bahraini investors with high repute and renown in their ability to select highly economically viable projects.

On the other hand, the company is still assessing and gauging some other major projects in the Kingdom of Bahrain and abroad, and the Board of Directors, through its Executive committee, has become an active player in adopting decisions of strategic investment nature, attesting to the Board's full commitment to support the company to enable it to pay acceptable returns to our esteemed shareholders.

In respect of the company's financial results for the year 2012, the Company recorded a net profit of BD 426 thousand for the period ended 31 December 2012, which is almost the same achieved at the end of the year 2011, despite the drastic drop in the Company's financing portfolio. The lease to own (Ijarah Muntahia Bittamleek) contracts portfolio recorded a drop of 30% against the same period of last year, naturally as a result of the increasing number of early settlements of these contracts mainly due to lower cost financing alternatives available through commercial banks, as we have mentioned above.

The same is true to other financial indicators. The Company's assets dropped by 6%, while shareholders' equity fell by 3%. On the other hand, total revenue dropped by 18% compared to the same period of last year.

We also observed a drop in operating expenses during the year 2012. This drop reached 22%, as well as financing taken by the Company from other banks, which fell by 67%, due to the fall in the demand for financing offered by the Company. This is mainly due to rise in the profit rates charged by the company to customers and partly due to the drop in the demand for real estate financing in general.

It should also be noted that the Company's management continued to let its flats in Tala-Amwaj Islands at the time when the management is making all efforts possible to sell these flats in the future, if and when it becomes possible.

“ At these difficult times, and under the current economic and political circumstances, the Company adopted a flexible strategic thinking concept “

By the end of the year 2012, provisions stood at BD 1.3 million, including general and special provisions allocated for specific purposes, according to the situation of insolvent customers and the progress made in the legal proceedings, It should also be noted that the Company has the right to recover the funded properties, according to the Ijara contracts, and sell them and claim the balance from the customer in case the sale proceeds are less than the book value of the financing transaction.

Finally, we are looking to the future with full enthusiasm that peace and security will prevail in all our Arab societies particularly our beloved Kingdom, which we have full confidence in the ability of its judicious government to put the economic situation back on track as it was before, and indeed better, Inshallah.

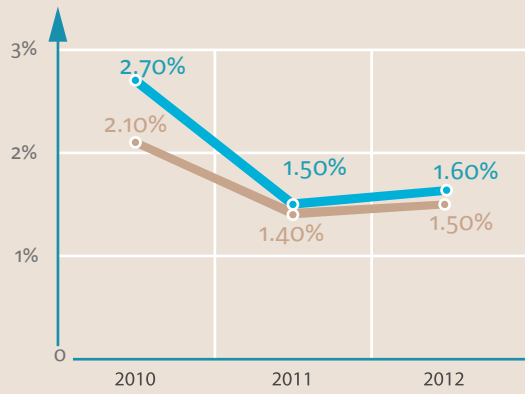
In this respect, we would like to express our deep thanks and appreciation to all government authorities in the Kingdom of Bahrain, mainly the Central Bank of Bahrain, the Ministry of Industry and Commerce and the Survey and Land Registration Bureau, who all let no stone unturned to provide support and extend assistance to the company's management last year. The support and backing of these authorities deserve all appreciation and gratitude from all of us including members of the Board of Directors and senior executives. Thanks should also go to all stakeholders who are an authority for the Company in all accounting, advisory and legal matters, namely the external auditor (BDO) Jawad Habib and the internal auditor (Ernest & Young), the Shari'a supervisor and the legal advisors, who have also been supporting the company during these difficult times of its history. We pray to Allah for our relationship to continue with these authorities and organizations for the mutual benefit of all parties involved.

Last but not least, we would like to express special thanks to the esteemed shareholders for their continued support and backing to us all these years, as well as my colleagues the directors and employees, for all the efforts they make for the progress and success for our valued company.

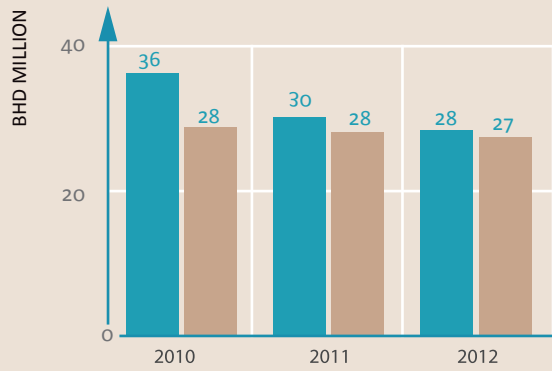


Ali Ahmed Al Baghli
Chairman of the Board of Directors

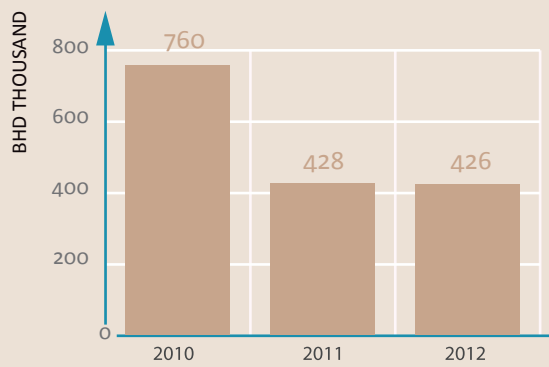
FINANCIAL HIGHLIGHTS 2012



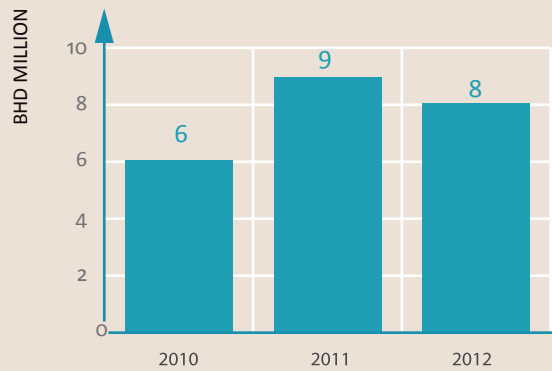
RETURN ON EQUITY
RETURN ON ASSETS



TOTAL ASSETS
TOTAL EQUITY



NET PROFIT



LIQUIDITY POSITION

BOARD OF DIRECTORS



Ali Ahmed Albaghli
Chairman



Saud Kanoo
Vice Chairman



Faisal Al Matrook
Board Member



Nasser Al Gharibah
Board Member



Samer Abbouchi
Board Member



Mohamed A. Khaliq
Board Member



Mohamed Al Dossari
Board Member

Members of the Executive Committee

Faisal Al Matrook
Chairman

Saud Kanoo
Member

Nasser Al Gharibah
Member

Members of the Audit Committee

Samer Abbouchi
Chairman

Mohamed A. Khaliq
Member

Mohamed Al Dossery
Member

Dr. Khalid Abdulla
Chairman

From 17 May 2012

Up to 17 May 2012

MANAGEMENT TEAM



Mahmood Al Koofi
Chief Executive Officer

MBA in Business Administration (University of Hull, UK), an executive leadership and strategic management certificate (Columbia School of Business, USA), and engineering diploma (University de Caen, France) and advanced management diploma (University of Bahrain). More than 29 years of strategic management, consultancy and business development experience.



Hassan Dhaif, CPA
Chief Financial Officer & HR

CPA from state of Michigan, USA, B.Sc in accounting from the University of Bahrain. Over 17 years of audit, finance and banking experience.



Ali Salem
Head of Operations

MBA in Business Administration (University of Hull, UK) and Diploma in Business Study from University of Bahrain. Over 28 years in operations, retail, customer services, product development in the banking industry



Fadhel Mansour
Head of Business

More than 27 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, Has MBA in Business Administration.



Eyad Al-Sammak
Manager - Compliance
Money Laundering
Reporting Officer

BSc in Accounting from University of Bahrain. Over 16 years experience in compliance , anti-money laundering , finance and reatail banking .

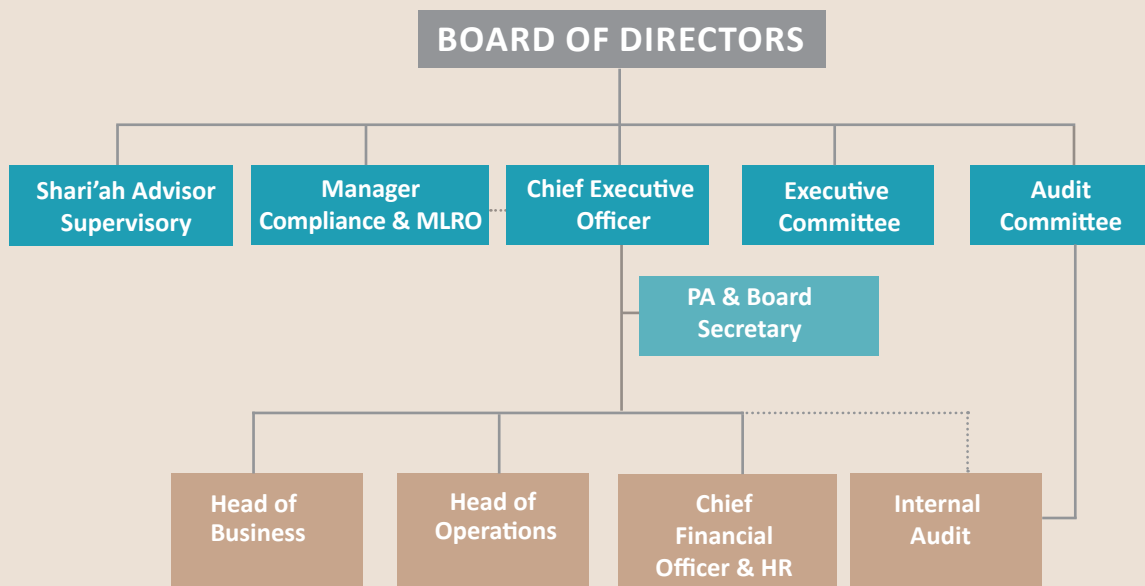


CORPORATE SOCIAL RESPONSIBILITY

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

Reef - Real Estate Finance Company adopts a 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.

ORGANISATION CHART



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.

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.

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.

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.

Board of Directors	Management Committee	Executive Committee
<p>Ali Al Baghli Chairman</p> <p>Saud Kanoo Vice Chairman</p> <p>Faisal Al Matrook Board Member</p> <p>Nasser Al Gharibah Board Member</p> <p>Samer Abbouchi, CFA Board Member</p> <p>Mohamed Al Dossari Board Member</p> <p>Mohamed A.Khaliq Board Member</p>	<p>Mahmood Al Koofi Chief Executive Officer</p> <p>Hassan Dhaif, CPA Chief Financial Officer & HR</p> <p>Ali Salem Head of Operations</p> <p>Fadhel Mansour Head of Business</p> <p>Eyad Al-Sammak Manager -Compliance & Money Laundering Reporting Officer</p>	<p>Faisal Al Matrook Chairman</p> <p>Saud Kanoo Member</p> <p>Nasser Al Gharibah Member</p>
		Audit Committee
		<p>Samer Abbouchi, CFA Chairman</p> <p>Mohamed A.Khaliq Member</p> <p>Mohamed Al Dossari Member</p>



SHARI'AH REPORT

Shaikh Dr. Osama Mohammed Bahar
Shari'ah Supervisory Advisor

SHARI'AH SUPERVISORY ADVISOR REPORT

For the period from 1st January 2012 to 31st December 2012

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 2012 to 31st December 2012.

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 2012 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 Allaah is the Source of Successes.

Shaikh Dr Osama Mohammed Bahar
Shari'ah Supervisory Advisor

FINANCIAL STATEMENTS

For the year ended 31 December 2012

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF REEF REAL ESTATE FINANCE CO. B.S.C. (C)



Report on the financial statements

We have audited the accompanying financial statements of Reef Real Estate Finance Co. B.S.C. (c) ("the Company"), which comprise the statement of financial position as at 31 December 2012, the statement of income, the statement of comprehensive income, the **statement of changes in** shareholders' equity and the 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Islamic Shari'a rules and principles. This responsibility includes: designing, implementing and maintaining internal controls 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 financial statements based on our audit. We conducted our audit in accordance with 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, 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.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF REEF REAL ESTATE FINANCE CO. B.S.C. (C)

Report on Other Legal and Reulatory Requirements

As required by the Bahrain Commercial Companies Law, Decree Number 21 of 2001 and the Central Bank of Bahrain (CBB) Rule Book Volume 5, we report that: the Company has maintained proper accounting records and the financial statements are in agreement therewith; the financial information contained in the chairman's report is consistent with the 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 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 financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

BDO

Manama,
Kingdom of Bahrain

14 February 2013

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

	Notes	31 December 2012	31 December 2011
Assets			
Cash and bank balances	5	559,012	1,906,068
Investments:			
Investment in an associate	6	512,139	512,549
Available for sale investments	7	3,543,000	-
Mudaraba investments	8	7,484,905	6,762,469
Musharaka financing	9	68,455	74,392
Ijarah Muntahia Bittamleek	10	12,191,047	17,433,875
Investment properties	11	3,359,401	2,836,986
Receivables and prepayments	12	651,615	599,657
Property and equipment	13	33,282	28,010
Total assets		28,402,856	30,154,006
Liabilities & Equity			
Islamic financing	14	421,156	1,270,956
Other liabilities	15	623,394	750,851
		1,044,550	2,021,807
Equity			
Share capital	16	24,042,900	24,042,900
Statutory reserve	17(i)	908,652	866,066
Investment property fair value reserve	17(ii)	1,078,825	1,078,825
Charity reserve		10,704	8,314
Retained earnings		1,317,225	2,136,094
		27,358,306	28,132,199
Total liabilities and equity		28,402,856	30,154,006

These financial statements, set out on pages 17 to 34 , were approved for issue by the Board of Directors on 14 February 2013 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 2012 (EXPRESSED IN BAHRAINI DINARS)

	Notes	31 December 2012	31 December 2011
Income			
Gross Ijarah revenue		2,924,880	3,962,675
Less: Depreciation on Ijarah Muntahia Bittamleek	10	1,621,052	2,291,115
		1,303,828	1,671,560
Profit from Musharaka financing		6,884	22,236
Profit from Mudaraba investments		210,276	263,114
Fee income from Ijarah Muntahia Bittamleek and Musharaka financing		111,632	76,319
Rental income from investment properties		172,699	50,990
Realised gain on sale of investment properties		-	112,505
		1,805,319	2,196,724
Expenses			
Staff costs		409,303	432,993
Finance costs		105,824	481,607
General and administrative expenses		387,302	378,744
Depreciation of property and equipment	13	19,812	54,919
Allowances and provisions		456,304	420,146
Depreciation on investment properties		502	154
Share of net loss from investment in an associate	6	410	541
		1,379,457	1,769,104
Net profit for the year		425,862	427,620
Basic and diluted earnings per share	18	Fils 1.8	Fils 1.8

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

	31 December 2012	31 December 2011
Net profit for the year	425,862	427,620
Net movement in the fair value reserve on the sale of investment properties	-	(105,994)
Total comprehensive income for the year	425,862	321,626

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEAR 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

	Share capital	Statutory reserve	Investment property fair value reserve	Charity reserve	Retained earnings	Total
At 31 December 2010	24,042,900	823,304	1,184,819	9,710	1,751,236	27,811,969
Charity reserve movement	-	-	-	(1,396)	-	(1,396)
Total comprehensive income	-	-	(105,994)	-	427,620	321,626
Transferred to statutory reserve	-	42,762	-	-	(42,762)	-
At 31 December 2011	24,042,900	866,066	1,078,825	8,314	2,136,094	28,132,199
Dividend for 2011	-	-	-	-	(1,202,145)	(1,202,145)
Charity reserve movement	-	-	-	2,390	-	2,390
Total comprehensive income	-	-	-	-	425,862	425,862
Transferred to statutory reserve	-	42,586	-	-	(42,586)	-
At 31 December 2012	24,042,900	908,652	1,078,825	10,704	1,317,225	27,358,306

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AT 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

	Notes	31 December 2012	31 December 2011
Operating activities			
Net profit for the year		425,862	427,620
Adjustments for:			
Depreciation on property and equipment	13	19,812	54,919
Depreciation on Ijarah Muntahia Bittamleek	10	1,621,052	2,291,115
Depreciation on investment properties		502	154
Realised gains on sale of investment properties		-	(112,505)
Share of net loss from an associate	6	410	541
Transfer to charity		5,000	3,300
Finance costs		105,824	481,607
Changes in operating assets and liabilities:			
Receivables and prepayments		(51,958)	140,791
Other liabilities		(127,457)	(243,910)
Net cash provided by operating activities		1,999,047	3,043,632
Investing activities			
Available-for-sale investments		(3,543,000)	-
Addition in investment properties	11	(522,917)	(36,164)
Purchase of property and equipment	13	(25,084)	(155)
Proceeds from sale of investment properties		-	281,705
Net Movement in Mudaraba investments		(722,436)	(1,656,082)
Net movement in Ijarah Muntahia Bittamleek		3,621,776	5,546,429
Net movement in Musharaka financing		5,937	156,705
Net cash (used in)/provided by investing activities		(1,185,724)	4,292,438
Financing activities			
Net movement in Islamic financing		(849,800)	(6,178,608)
Charity payment		(2,610)	(4,696)
Dividend paid for 2011		(1,202,145)	-
Finance costs paid		(105,824)	(481,607)
Net cash used in financing activities		(2,160,379)	(6,664,911)
Net (decrease)/increase in cash and cash equivalents		(1,347,056)	671,159
Cash and cash equivalents, beginning of the year		1,906,068	1,234,909
Cash and cash equivalents, end of the year	5	559,012	1,906,068

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

1. Organisation and principal activities

Reef Real Estate Finance Co. B.S.C. (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 5 May 2005.

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. 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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

3. Significant accounting policies (continued)

Property and equipment (continued)

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

The Company'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 Company's share of net assets of the associate, less any impairment in value. The statement of income reflects the Company's share of the results of operations of the associate. Where there has been a change recognised directly in the associates' equity, the Company recognises its share of any changes and discloses this, when applicable, in the statement of changes in shareholders' equity.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

3. Significant accounting policies (continued)

Investment properties (continued)

Investment properties and property fair value reserve 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. The investment properties include furniture and fixtures which have estimated useful lives are 5 years.

Available-for-sale investment

Available for sale investment comprise of unquoted equity type investment. Equity type instrument carried at fair value and carried at fair value through statement of income.

Subsequent to acquisition, equity type instruments are remeasured at fair value, with unrealised gains and losses recognised in a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously recorded in equity is recognised in the consolidated statement of income for the year.

Impairment losses on equity type instruments carried at fair value through equity are not reversed through the consolidated statement of income and increases in their fair value after impairment are recognised directly in owners' equity.

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 settled 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 2012 (EXPRESSED IN BAHRAINI DINARS)

3. Significant accounting policies (continued)

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

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 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.

Compliance with Shari'a rules and principles

The Company has appointed a Shari'a Supervisory Advisor in accordance with the terms of its Articles of Association. The Shari'a Supervisory 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.

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 Supervisory Advisor and in line with AAOIFI standards.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

3. Significant accounting policies (continued)

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.

4. Critical accounting judgments, estimates and assumptions

The preparation of the financial statements in accordance with AAOIFI 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 areas requiring the use of the management estimates and assumptions relate to

- fair valuation of investment properties;
- allowances; and
- contingencies.

Fair valuation of investment properties

The company obtains annually, several 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.

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. At 31 December 2012, the provision for impaired receivables amounted to BD906,793 (2011: BD846,224). 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.

5. Cash and bank balances

	31 December 2012	31 December 2011
Current account balances with banks	558,512	1,905,658
Cash on hand	500	500
	559,012	1,906,068

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

6. Investment in an associate

	31 December 2012	31 December 2011
Investment		
Opening balance	14,045	14,586
Shares in reserve	-	(270)
Share of net loss for the year	(410)	(271)
Closing balance	13,635	14,045
Advance to an associate		
As at 31 December	498,504	498,504
Total	512,139	512,549

The Company's investment in an associate represents 45% of the issued share capital in First Reef Company B.S.C.(c). The Company's share of loss in the associate has been ascertained based on unaudited management accounts for the year ended 31 December 2012.

The advance to the associates will be used to purchase additional share capital to be issued during 2013. The Company's holding will remain at 45% of the issued share capital of the associate after this transaction is complete.

7. Available-for-sale investment

During the year, the Company has invested BD3,543,000 in acquiring 9.52% of the share capital of the Amwaj Property Limited (APL), incorporated in British Virgin Islands. These shares are not listed. The main objective of APL is to develop a property in London, England ("the project"). As at 31 December 2012 this investment is valued at cost less impairment, which is tested using information on the project returns. The management believes that the current market value of the project shows that no impairment has occurred.

8. Mudaraba investments

	31 December 2012	31 December 2011
Ithmaar Bank	3,396,761	6,691,892
Ahli United Bank	1,516,619	-
Kuwait Finance House	1,502,713	-
Al-Baraka Islamic Bank	1,000,000	-
Khaleeji Commercial Bank	68,812	70,577
	7,484,905	6,762,469

Mudaraba investments represent amounts placed with financial institutions.

Profit from Mudaraba investments are recognised over the period of the related investment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

9. Musharaka financing

	31 December 2012	31 December 2011
Opening balance	79,463	236,168
Payment received during the year	(5,937)	(156,705)
	73,526	79,463
Provision for impairment	(5,071)	(5,071)
Closing balance	68,455	74,392

10. Ijarah Muntahia Bittamleek

	Land	Buildings	Total
Cost			
At 31 December 2010	8,769,231	22,242,334	31,011,565
Additions during the year	492,301	769,269	1,261,570
Provision utilized	-	(120,000)	(120,000)
Payment received/disposals during the year	(2,626,429)	(5,235,182)	(7,861,611)
At 31 December 2011	6,635,103	17,656,421	24,291,524
Additions during the year	599,515	661,935	1,261,450
Transferred to receivables (Note 12)	-	(350,000)	(350,000)
Payment received/disposals during the year	(2,554,190)	(3,766,666)	(6,320,856)
At 31 December 2012	4,680,428	14,201,690	18,882,118
Depreciation			
At 31 December 2010	-	(5,405,065)	(5,405,065)
Charged for the year	-	(2,291,115)	(2,291,115)
Disposal during the year	-	1,173,612	1,173,612
At 31 December 2011	-	(6,522,568)	(6,522,568)
Charged for the year	-	(1,621,052)	(1,621,052)
Transferred to receivables (Note 12)	-	188,462	188,462
Disposal during the year	-	1,577,288	1,577,288
At 31 December 2012	-	(6,377,870)	(6,377,870)
Impairment provision			
At 31 December 2010	-	(335,081)	(335,081)
Utilised during the year	-	120,000	120,000
Increase in provision	-	(120,000)	(120,000)
At 31 December 2011	-	(335,081)	(335,081)
Transferred to receivables (Note 12)	-	141,880	141,880
Increase in provision	-	(120,000)	(120,000)
At 31 December 2012	-	(313,201)	(313,201)
Net book value			
At 31 December 2011	6,635,103	10,798,772	17,433,875
At 31 December 2012	4,680,428	7,510,619	12,191,047

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

10. Ijarah Muntahia Bittamleek (continued)

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 2012 have lease terms of up to 20 years.

11. Investment properties

	Investment properties for capital appreciation	Investment properties for periodical appreciation	Total
Cost/Revalued			
As at 31 December 2010	3,076,170	-	3,076,170
Transfer from investment properties for capital appreciation to periodical consideration	(781,668)	781,668	-
Additions during the year	-	36,164	36,164
Disposals during the year	(275,194)	-	(275,194)
As at 31 December 2011	2,019,308	817,832	2,837,140
Transfer from investment properties for capital appreciation to periodical consideration	(2,019,308)	2,019,308	-
Additions during the year	502,297	20,620	522,917
As at 31 December 2012	502,297	2,857,760	3,360,057
Depreciation			
As at 31 December 2010	-	-	-
Charge for the year	-	154	154
As at 31 December 2011	-	154	154
Charge for the year	-	502	502
As at 31 December 2012	-	656	656
Net book value			
At 31 December 2011	2,019,308	817,678	2,836,986
At 31 December 2012	502,297	2,857,104	3,359,401

Included in investment properties for periodical consideration is the net book value of furniture & fixtures of BD31,293 which is depreciated over their useful life.

During December 2012, the Company obtained an open market valuation of its investment properties from an independent real estate valuer, which reflected the total value of the properties at BD3,360,700 resulting in an unrealised fair value gain amounting to BD1,299 (2011: BD22,485). However, on a conservative basis, the management of the Company has taken a decision not to include the current year's unrealised fair value gain in the statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

12. Receivables and prepayments

	31 December 2012	31 December 2011
Ijarah Muntahia Bittamleek rental receivables	904,019	762,198
Allowance for doubtful Ijarah Muntahia	(593,592)	(511,143)
Bittamleek rental receivables		
Other receivables	681,156	422,199
Allowance for other receivables	(384,173)	(100,428)
Accrued profit on Mudaraba investments	44,205	26,831
	651,615	599,657

Other receivable includes an asset of BD384,173(2011:100,428) which are considered not to be recoverable and has been fully provided.

13. Property and equipment

	Leasehold Improvements	Furniture And Fixtures	Office Equipment	Computer Hardware & Software	Motor Vehicles	Total
Cost						
At 31 December 2010	154,280	47,190	46,280	130,697	36,880	415,327
Reclasificaton	-	-	180	(180)	-	-
Additions	-	-	155	-	-	155
Disposal	-	-	-	(950)	-	(950)
At 31 December 2011	154,280	47,190	46,615	129,567	36,880	414,532
Additions	-	-	-	25,084	-	25,084
Disposal	-	-	(699)	-	-	(699)
At 31 December 2012	154,280	47,190	45,916	154,651	36,880	438,917
Accumulated depreciation						
At 31 December 2010	113,114	35,579	36,934	110,046	36,880	332,553
Charge for the year	30,979	8,547	6,989	8,404	-	54,919
Disposal	-	-	-	(950)	-	(950)
At 31 December 2011	144,093	44,126	43,923	117,500	36,880	386,522
Charge for the year	8,844	2,808	2,364	5,796	-	19,812
Disposal	-	-	(699)	-	-	(699)
At 31 December 2012	152,937	46,934	45,588	123,296	36,880	405,635
Net book value						
At 31 December 2011	10,187	3,064	2,692	12,067	-	28,010
At 31 December 2012	1,343	256	328	31,355	-	33,282

The Company operates from premises leased at a monthly rental of BD6,000 (2011: BD6,000) per month.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

14. Islamic financing

	31 December 2012	31 December 2011
Al Baraka Islamic Bank	421,156	1,270,956
	<u>421,156</u>	<u>1,270,956</u>

The financing from Al Baraka Islamic Bank is 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 7% (2011: 7.7%) per annum.

15. Other liabilities

	31 December 2012	31 December 2011
Musharaka financing and Ijarah Muntahia Bittamleek payables	136,898	215,042
Other payables	429,437	480,309
Accrued expenses	57,059	55,500
	<u>623,394</u>	<u>750,851</u>

16. Share capital

	31 December 2012	31 December 2011
Authorised		
400,000,000 (2011: 400,000,000) ordinary shares of 100 Fils each	40,000,000	40,000,000
Issued and fully paid-up		
240,429,000 (2011: 240,429,000) ordinary shares of 100 Fils each	24,042,900	24,042,900

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 2012 and 2011 are as follows:

31 December 2012			
	Nationality	Number of shares	Percentage of share holding Interest
National International Holding K.S.C.(c)	Kuwaiti	48,085,800	20%
Global Investment House K.S.C.(c)	Kuwaiti	40,872,930	17%
Inovest B.S.C.	Bahraini	24,042,900	10%
Ossis Property Developers B.S.C.(c)	Bahraini	24,042,900	10%
Safi Financial Services	Kuwaiti	24,042,900	10%
Sh. Sultan Bin Khalifa Al Nahyan	Emirati	13,223,595	5.5%
		174,311,025	72.50%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

16. Share capital (continued)

31 December 2011

	Nationality	Number of shares	Percentage of share holding Interest
National International Holding K.S.C.(c)	Kuwaiti	48,085,800	20%
Global Investment House K.S.C.(c)	Kuwaiti	40,872,930	17%
Inovent B.S.C.	Bahraini	24,042,900	10%
Ossis Property Developers B.S.C.(c)	Bahraini	24,042,900	10%
Safi Financial Services	Kuwaiti	24,042,900	10%
Sh. Sultan Bin Khalifa Al Nahyan	Emirati	13,223,595	5.5%
		174,311,025	72.50%

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

In accordance with resolutions passed at the Annual General Meeting held on 17 May 2012, cash dividends of 5 fils per share, amounting to a total dividend of BD1,202,145 and charity reserve amounting to BD5,000 in respect of 2011 were approved by the shareholders

17. Reserves

(i) Statutory reserve

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 issued share capital is set aside. During the year, an amount of BD42,586 has been transferred to the statutory reserve (2011: BD42,762).

(ii) Investment property fair value

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

18. Earnings per share

	31 December 2012	31 December 2011
Net profit attributable to the shareholders	BD 425,862	BD 427,620
Weighted average number of ordinary shares	240,429,000	240,429,000
Basic and diluted earnings per share	1.8 Fils	1.8 Fils

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

19. 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 transaction & amounts due from related parties is as follows:

Related Party relationship	Transaction Type	For the year ended Transaction amount		Amount due from related parties	
		31 December 2012	31 December 2011	31 December 2012	31 December 2011
Shareholder's and immediate family members	Ijarah Muntahia Bittamleek	483,943	143,515	299,613	783,556

20. Maturity profile

Maturity profile of assets and liabilities as follows :

	Carrying Amount	Up to 6 Months	6-12 Months	At 31 December 2012	
				1-5 years	5 years & above
Assets					
Cash and bank balances	559,012	559,012	-	-	-
Investment in an associate	512,139	-	-	512,139	-
Available-for-sale investment	3,543,000	-	-	3,543,000	-
Mudaraba investments	7,484,905	7,484,905	-	-	-
Musharaka financing	68,455	-	-	-	68,455
Ijarah Muntahia Bittamleek	12,191,047	42,525	35,709	1,471,376	10,641,437
Investment properties	3,359,401	-	-	3,359,401	-
Receivables and prepayments	651,615	154,172	44,346	453,007	90
Property and equipment	33,282	146	27,243	5,894	-
Total assets	28,402,856	8,240,759	107,298	9,344,817	10,709,982
Equity and liabilities					
Share capital	24,042,900	-	-	-	24,042,900
Statutory reserve	908,652	-	-	-	908,652
Investment property fair value reserve	1,078,825	-	-	1,078,825	-
Charity reserve	10,704	-	10,704	-	-
Retained earnings	1,317,225	-	-	-	1,317,225
Islamic financing	421,156	421,156	-	-	-
Other liabilities	623,394	623,394	-	-	-
Total equity and liabilities	28,402,856	1,044,550	10,704	1,078,825	26,268,777

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

21. 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

Capital comprises shareholders' capital and reserves attributable to the shareholders of the Company.

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

The Company 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 2012 and 2011.

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

Since the company does not have any net debt as at 31 December 2012 and 2011, there is no gearing ratio.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012 (EXPRESSED IN BAHRAINI DINARS)

21. 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 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.

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.

22. Subsequent events

There were no significant events subsequent to 31 December 2011 and occurring before the date of signing of the financial statements that would have a significant impact on these financial statements.