

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

Consolidated condensed interim
financial information for the quarter and
the six months ended 30 June 2014
(Unaudited)

Reef Real Estate Finance Co. B.S.C. (c)
Financial information for the quarter and the six months ended 30 June 2014

Index	Page
1. Administration and contact details	2
2. Review report by the independent auditor's	3
3. Consolidated condensed interim statement of financial position	4
4. Consolidated condensed interim statement of income	5
5. Consolidated condensed interim statement of changes in equity	6
6. Consolidated condensed interim statement of cash flows	7
7. Selected explanatory notes to the consolidated condensed interim financial information	8 - 14

Reef Real Estate Finance Co. B.S.C. (c)
Administration and contact details as at 30 June 2014

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



Tel : +973 1753 0077
Fax: +973 1753 0088
www.bdo.bh

17th Floor
Diplomat Commercial Office Tower
PO Box 787
Manama
Kingdom of Bahrain

Review report by the independent auditor to the Board of Directors of Reef Real Estate Finance B.S.C. (c)

Introduction

We have reviewed the accompanying consolidated condensed interim statement of financial position of Reef Real Estate Finance B.S.C. (c) ("the Company") and its subsidiary ("the Group") as at 30 June 2014, the consolidated condensed interim statement of income, the consolidated condensed interim statement of changes in equity, the consolidated condensed interim statement of cash flows for the quarter and the six months then ended, and selected explanatory notes. The Company's Board of Directors is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Sharia'a Rules and Principles as determined by the Sharia'a Supervisory Advisor of the Company. Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information does not present fairly, in all material respects, the financial position of the Group as at 30 June 2014, and of its financial performance and its cash flows for the quarter and the six months then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Sharia'a Rules and Principles as determined by the Sharia'a Supervisory Advisor of the Company.


BDO


Manama, Kingdom of Bahrain
20 July 2014

Reef Real Estate Finance Co. B.S.C. (c)
 Consolidated condensed interim statement of financial position as at 30 June 2014
 (Unaudited)
 (Expressed in Bahraini Dinars)

	Notes	30 June 2014 (Unaudited)	31 December 2013 (Audited)
ASSETS			
Cash and bank balances		347,953	1,368,833
Investment securities	3	4,057,592	2,111,508
Mudaraba investments	4	6,846,989	5,850,869
Murabaha financing	5	6,162,736	4,813,008
Ijarah Muntahia Bittamleek and Musharaka	6	4,562,340	7,878,433
Property under development		1,457,084	1,363,397
Investment in real estate	7	3,436,440	3,233,209
Receivables and prepayments	8	1,737,872	1,328,623
Property and equipment		<u>69,717</u>	<u>19,848</u>
Total assets		<u>28,678,723</u>	<u>27,967,728</u>
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities		<u>518,329</u>	<u>510,899</u>
		<u>518,329</u>	<u>510,899</u>
Equity			
Share capital	9	24,042,900	24,042,900
Statutory reserve		1,039,512	1,039,512
Investment property fair value reserve		1,078,825	1,078,825
Charity reserve		2,777	2,770
Retained earnings		<u>1,996,380</u>	<u>1,292,822</u>
		<u>28,160,394</u>	<u>27,456,829</u>
Total liabilities and equity		<u>28,678,723</u>	<u>27,967,728</u>

The unaudited consolidated condensed interim financial information, set out on pages 4 to 14, were approved for issue by the Board of Directors on 20 July 2014 and signed on their behalf by:


 Ali Ahmed Al Baghli
 Chairman


 Mahmood Al Koofi
 Chief Executive Officer

Reef Real Estate Finance Co. B.S.C. (c)
 Consolidated condensed interim statement of income
 for the quarter and the six months ended 30 June 2014
 (Unaudited)
 (Expressed in Bahraini Dinars)

	Notes	Six months ended 30 June 2014	Six months ended 30 June 2013	Quarter ended 30 June 2014	Quarter ended 30 June 2013
Income					
Gross Ijarah and Musharaka revenue		705,898	1,133,489	308,556	607,666
Less: Depreciation on Ijarah Muntahia Bittamleek	6	<u>333,639</u>	<u>567,346</u>	<u>161,081</u>	<u>259,619</u>
		372,259	566,143	147,475	348,047
Profit from Mudaraba investments		89,463	110,209	45,507	54,951
Profit from Murabaha financing		449,964	202,312	236,220	202,312
Fees income from Ijarah Muntahia Bittamleek		11,328	18,247	5,035	9,520
Gain on settlement of due to exiting shareholder		-	242,216	-	242,216
Rental Income from investment properties		81,200	61,370	45,800	26,870
Income from investment securities		33,756	-	23,385	-
Net foreign exchange gains		117,498	-	44,198	-
Profit on sale of property and equipment		9,500	-	-	-
Unrealised fair value gain on investment securities		<u>14,945</u>	<u>-</u>	<u>10,118</u>	<u>-</u>
		<u>1,179,913</u>	<u>1,200,497</u>	<u>557,738</u>	<u>883,916</u>
Expenses					
Staff costs		204,198	205,678	107,645	106,452
Finance costs		-	19,154	-	4,900
General and administrative expenses		172,430	194,189	101,997	105,797
Depreciation of property and equipment		12,388	9,927	7,263	4,970
Depreciation on investment properties		16,381	268	1,624	135
Impairment on property under development		-	85,238	-	85,238
Investment fees & charges		14,796	-	14,796	-
Allowances and provisions		<u>56,162</u>	<u>145,581</u>	<u>26,098</u>	<u>79,990</u>
		<u>476,355</u>	<u>660,035</u>	<u>259,423</u>	<u>387,482</u>
Net profit for the period		<u>703,558</u>	<u>540,462</u>	<u>298,315</u>	<u>496,434</u>
Basic and diluted earnings per share	10	<u>fi1s2.93</u>	<u>fi1s2.25</u>	<u>Fi1s1.24</u>	<u>fi1s2.1</u>

Reef Real Estate Finance Co. B.S.C. (c)
 Consolidated condensed interim statement of changes in equity for the six months ended 30 June 2014
 (Unaudited)
 (Expressed in Bahraini Dinars)

	Share capital	Statutory reserve	Properties fair value reserve	Charity reserve	Retained earnings	Total
At 31 December 2012 (Audited)	24,042,900	908,652	1,078,825	10,704	1,317,225	27,358,306
Dividend for the year 2012	-	-	-	-	(1,202,145)	(1,202,145)
Charity reserve movement	-	-	-	(7,934)	-	(7,934)
Net profit for the year	-	-	-	-	1,308,602	1,308,602
Transferred to statutory reserve	-	130,860	-	-	(130,860)	-
At 31 December 2013 (Audited)	24,042,900	1,039,512	1,078,825	2,770	1,292,822	27,456,829
Charity reserve movement	-	-	-	7	-	7
Net profit for the period	-	-	-	-	703,558	703,558
At 30 June 2014 (Unaudited)	24,042,900	1,039,512	1,078,825	2,777	1,996,380	28,160,394

Reef Real Estate Finance Co. B.S.C. (c)
Consolidated condensed interim statement of cash flows
for six months ended 30 June 2014
(Unaudited)
(Expressed in Bahraini Dinars)

	Six months ended 30 June 2014	Six months ended 30 June 2013
Operating activities		
Net profit for the period	703,558	540,463
Adjustments for:		
Depreciation on property and equipment	12,388	9,927
Depreciation on Ijarah Muntahia Bittamleek	333,639	567,346
Depreciation on investment properties	16,381	268
Realised loss on sale of investment properties	-	10,010
Unrealised fair value gain on investment securities	(14,945)	-
Impairment loss on property under development	-	85,238
Profit on sale of property and equipment	(9,500)	-
Finance costs	-	19,154
Changes in operating assets and liabilities:		
Receivables and prepayments	(409,249)	(24,514)
Other liabilities	7,430	161,210
Net cash provided by operating activities	<u>639,702</u>	<u>1,369,102</u>
Investing activities		
Net movement in Murabaha financing	(996,120)	(774,272)
Additions in investment securities	(1,931,139)	(1,008,713)
Net movement in properties under development	(93,687)	(1,289,766)
Net Movement in investment in associates	-	512,139
Purchase of property and equipment	(62,257)	(1,830)
Addition in investment in real estate	(219,612)	-
Net Movement in Mudaraba investments	(1,349,728)	491,919
Net movement in Ijarah Muntahia Bittamleek and Musharaka	2,982,454	1,960,677
Proceeds from sale of investment properties	9,500	491,852
Net cash (used in)/provided by investing activities	<u>(1,660,589)</u>	<u>382,006</u>
Financing activities		
Islamic financing repaid, net	-	(421,156)
Charity reserve movement	7	2,528
Dividend paid	-	(1,202,145)
Finance costs paid	-	(19,154)
Net cash provided/(used in) financing activities	<u>7</u>	<u>(1,639,927)</u>
Net (decrease)/increase in cash and cash equivalents	(1,020,880)	111,181
Cash and cash equivalents, beginning of the period	<u>1,368,833</u>	<u>559,012</u>
Cash and cash equivalents, end of the period	<u>347,953</u>	<u>670,193</u>
Comprising:		
Cash and bank balances	347,953	1,688,655
Temporary book overdrawn	-	(1,018,462)
	<u>347,953</u>	<u>670,193</u>

Reef Real Estate Finance Co. B.S.C. (c)
 Selected explanatory notes to the consolidated condensed interim financial information for the
 quarter and the six months ended 30 June 2014
 (Unaudited)
 (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

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

The condensed interim financial information have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). 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").

Therefore, in the absence of relevant standards in AAOIFI relating interim financial statements, the guidance from International Accounting Standard 34 - "Interim Financial Reporting" is used in preparation of these interim condensed consolidated financial information for the quarter and the six months then ended 30 June 2014. The condensed interim financial information should therefore be read in conjunction with the annual audited financial statements of the Company for the year ended 31 December 2013.

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

The functional and presentation currency of the Company is Bahrain Dinars (BD).

The structure of the Group is as follows:

Subsidiaries

<u>Name of subsidiary</u>	<u>Country of Incorporation</u>	<u>Principal activities</u>	<u>Effective ownership Interest 2014</u>	<u>Effective ownership interest 2013</u>
First Reef B.S.C. (c)*	Kingdom of Bahrain	Buying and selling of properties	99.9%	99.9%
Reef Investment UK B.S.C (c)	Kingdom of Bahrain	To Issue Funds	99.9%	99.9%

Reef Real Estate Finance Co. B.S.C. (c)
 Selected explanatory notes to the consolidated condensed interim financial information
 for the quarter and the six months ended 30 June 2014
 (Unaudited)
 (Expressed in Bahraini Dinars)

3 Investment securities

<u>Investment at fair value through statement of income</u>	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Investment in equity-type instruments - Unquoted	1,360,157	1,360,157
Investment in debt-type instruments- Quoted	<u>2,697,435</u>	<u>751,351</u>
	<u>4,057,592</u>	<u>2,111,508</u>

Investment in debt-type instruments

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Opening balance	751,351	-
Additions during the period/year	1,931,139	751,351
Add: Unrealised fair value gain for the period/year	<u>14,945</u>	-
	<u>2,697,435</u>	<u>751,351</u>

Investment securities are denominated in the following currencies:

Currency	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Great Britain Pound	354,300	354,300
United States Dollar	2,697,435	751,351
Saudi Riyal	<u>1,005,857</u>	<u>1,005,857</u>
	<u>4,057,592</u>	<u>2,111,508</u>

4 Mudaraba investments

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Ithmaar Bank	3,000,000	2,500,000
Ahli United Bank	528,177	524,390
Khaleeji Commercial Bank	68,812	68,812
Al Salam Bank	1,750,000	-
BMI Bank	1,500,000	-
Kuwait Finance House	-	1,500,000
Bahrain Islamic Bank	-	507,667
Al-Baraka Islamic Bank	-	<u>750,000</u>
	<u>6,846,989</u>	<u>5,850,869</u>

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

Reef Real Estate Finance Co. B.S.C. (c)
 Selected explanatory notes to the consolidated condensed interim financial information
 for the quarter and the six months ended 30 June 2014
 (Unaudited)
 (Expressed in Bahraini Dinars)

5 Murabaha financing

		30 June 2014 (Unaudited)	31 December 2013 (Audited)
Amwaj Property Limited (APL)	(a)	3,188,700	3,188,700
Amwaj Property Limited (APL) - Mezzanine	(b)	-	596,233
Amwaj Property Limited (APL) - Mezzanine 2	(c)	1,945,961	-
Omniyat Properties Six Limited	(d)	<u>1,028,075</u>	<u>1,028,075</u>
		<u>6,162,736</u>	<u>4,813,008</u>

- a) The Murabaha financing with Amwaj Property Limited (APL) is unsecured, bears a compounded quarterly profit of 12.5% per annum and an arrangement fee of 1% and is expected to be repaid on 15 March 2015.
- b) The Murabaha financing Mezzanine with Amwaj Property Limited (APL) is unsecured, bears a compounded quarterly profit of 12.5% per annum and was settled on 29 January 2014.
- c) The Murabaha financing Mezzanine 2 with Amwaj Property Limited (APL) is unsecured, bears a compounded quarterly profit of 12.5% per annum and is expected to be repaid on 29 January 2015.
- d) The Omniyat Properties Six Limited (OPUS Project) is secured, bears a profit of 15% per annum and is expected to be repaid at the end of two years from the date of investment. This project is based in Dubai, UAE.

Reef Real Estate Finance Co. B.S.C. (c)
 Selected explanatory notes to the consolidated condensed interim financial information
 for the quarter and the six months ended 30 June 2014
 (Unaudited)
 (Expressed in Bahraini Dinars)

6 Ijarah Muntahia Bittamleek and Musharaka

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost			
At 31 December 2012	4,753,954	14,201,690	18,955,644
Additions during the year	-	154,215	154,215
Payment received/disposals during the year	<u>(1,679,685)</u>	<u>(3,292,267)</u>	<u>(4,971,952)</u>
At 31 December 2013	3,074,269	11,063,638	14,137,907
Payment received/disposals during the period	<u>(2,298,337)</u>	<u>(1,201,604)</u>	<u>(3,499,941)</u>
At 30 June 2014	<u>775,932</u>	<u>9,862,034</u>	<u>10,637,966</u>
Depreciation			
At 31 December 2012	-	(6,377,870)	(6,377,870)
Charged for the year	-	(1,196,218)	(1,196,218)
Disposals during the year	<u>-</u>	<u>1,752,886</u>	<u>1,752,886</u>
At 31 December 2013	-	(5,821,202)	(5,821,202)
Charged for the period	-	(333,639)	(333,639)
Disposals during the period	<u>-</u>	<u>517,487</u>	<u>517,487</u>
At 30 June 2014	<u>-</u>	<u>(5,637,354)</u>	<u>(5,637,354)</u>
Impairment provision			
At 31 December 2012	(5,071)	(313,201)	(318,272)
Increase in provision	<u>-</u>	<u>(120,000)</u>	<u>(120,000)</u>
At 31 December 2013 & 30 June 2014	<u>(5,071)</u>	<u>(433,201)</u>	<u>(438,272)</u>
Net book value			
At 30 June 2014 (unaudited)	<u>770,861</u>	<u>3,791,479</u>	<u>4,562,340</u>
At 31 December 2013 (audited)	<u>3,069,198</u>	<u>4,809,235</u>	<u>7,878,433</u>

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 30 June 2014 have lease terms of up to 19 years.

Reef Real Estate Finance Co. B.S.C. (c)
 Selected explanatory notes to the consolidated condensed interim financial information
 for the quarter and the six months ended 30 June 2014
 (Unaudited)
 (Expressed in Bahraini Dinars)

7 Investment in real estate

	Investment properties for capital appreciation	Investment properties for periodical consideration	<u>Total</u>
Cost/Revalued			
As at 31 December 2012	502,297	2,857,760	3,360,057
Additions during the year	376,208	435	376,643
Disposals	<u>(502,297)</u>	-	<u>(502,297)</u>
As at 31 December 2013	376,208	2,858,195	3,234,403
Additions during the period	<u>219,612</u>	-	<u>219,612</u>
As at 30 June 2014	<u>595,820</u>	<u>2,858,195</u>	<u>3,454,015</u>
<u>Depreciation</u>			
As at 31 December 2012	-	656	656
Charge for the year	<u>-</u>	<u>538</u>	<u>538</u>
As at 31 December 2013	-	1,194	1,194
Adjustment	-	13,138	13,138
Charge for the period	<u>-</u>	<u>3,243</u>	<u>3,243</u>
As at 30 June 2014	<u>-</u>	<u>17,575</u>	<u>17,575</u>
Net book value			
At 30 June 2014 (unaudited)	<u>595,820</u>	<u>2,840,620</u>	<u>3,436,440</u>
At 31 December 2013 (audited)	<u>376,208</u>	<u>2,857,001</u>	<u>3,233,209</u>

Although the investments in real estate carried at their fair values for periodical consideration includes net book value of furniture & fixtures of BD15,018 (2013: BD31,190) which have been depreciated over their useful life.

Reef Real Estate Finance Co. B.S.C. (c)
 Selected explanatory notes to the consolidated condensed interim financial information
 for the quarter and the six months ended 30 June 2014
 (Unaudited)
 (Expressed in Bahraini Dinars)

8 Receivables and prepayments

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Ijarah Muntahia Bittamleek rental receivables	603,788	733,011
Allowance for doubtful Ijarah Muntahia Bittamleek rental receivables	(492,079)	(606,654)
Other receivables	753,135	731,365
Allowance for other receivables	(477,836)	(476,036)
Accrued profit on Murabaha financing	1,313,447	916,968
Accrued profit on Mudaraba investments	<u>37,417</u>	<u>29,969</u>
	<u>1,737,872</u>	<u>1,328,623</u>

9 Share capital

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Authorised 400,000,000 (2013: 400,000,000) ordinary shares of 100 Fils each	<u>40,000,000</u>	<u>40,000,000</u>
Issued and fully paid-up 240,429,000 (2013: 240,429,000) ordinary shares of 100 Fils each	<u>24,042,900</u>	<u>24,042,900</u>

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

10 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.

	Six months Ended 30 June 2014	Six months ended 30 June 2013	Quarter ended 30 June 2014	Quarter ended 30 June 2013
Net profit attributable to the shareholders	<u>703,558</u>	<u>540,463</u>	<u>298,315</u>	<u>496,435</u>
Number of ordinary shares	<u>240,429,000</u>	<u>240,429,000</u>	<u>240,429,000</u>	<u>240,429,000</u>
Basic and diluted earnings per share	<u>fils2.93</u>	<u>fils2.25</u>	<u>Fils1.24</u>	<u>fils2.10</u>

Reef Real Estate Finance Co. B.S.C. (c)
 Selected explanatory notes to the consolidated condensed interim financial information
 for the quarter and the six months ended 30 June 2014
 (Unaudited)
 (Expressed in Bahraini Dinars)

11 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties consist of the shareholders and directors and their close family members, and businesses under their control. The Group's transactions with related parties are authorised by the management.

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

Related party relationship	Transaction type	For the period ended transaction amount		Amounts due from related parties	
		30 June 2014 (Unaudited)	30 June 2013 (Unaudited)	30 June 2014 (Unaudited)	31 December 2013 (Audited)
Shareholders and their immediate family members	Ijarah Muntahia Bittamleek	<u>301,826</u>	<u>461,390</u>	<u>68,373</u>	<u>127,353</u>

12 Interim financial information

The interim net profit for the six months ended 30 June 2014 may not represent a proportionate share of the annual net income due to the variability in the receipt of income.