

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

**Financial statements for the  
year ended 31 December 2012**

**Reef Real Estate Finance Co. B.S.C. (c)**  
**Administration and contact details as at 31 December 2012**

---

<b>Commercial registration no.</b>	58073 obtained on 10 September 2005
<b>CBB license</b>	FC/001 obtained on 3 May 2005
<b>Board of Directors</b>	Mr Ali Ahmed Al Baghli (Chairman) Mr Saud Kanoo (Vice-Chairman) Mr Faisal Al Matrook Mr Nasser Abdulhadi Al Gharibah Mr Samer Abbouchi Mr Mohammed Al Dosari Mr Mohamed A.Khaliq (From 17 May 2012) Dr Khalid Abdulla (Up to 17 May 2012)
<b>Chief Executive Officer</b>	Mr Mahmood Al Koofi
<b>Executive Committee</b>	Mr Faisal Al Matrook (Chairman) Mr Saud Kanoo Mr Nasser Abdulhadi Al Gharibah
<b>Audit Committee</b>	Mr Samer Abbouchi (Chairman) Mr Mohammed Al Dosari Mr. Mohamed A.Khaliq (From 17 May 2012) Dr Khalid Abdulla (Up to 17 May 2012)
<b>Sharia'a Supervisory Advisor</b>	Shaikh Dr. Osama Bahar
<b>Registered office</b>	Building 483, Road 1010 Block 410 PO Box 18599 Manama Kingdom of Bahrain
<b>Bankers</b>	Ithmaar Bank Ahli United Bank Kuwait Finance House Al Baraka Islamic Bank Khaleeji Commercial Bank
<b>Auditors</b>	BDO 17 <sup>th</sup> Floor Diplomatic Commercial Office Tower PO Box 787 Manama Kingdom of Bahrain

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 Ijara 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.

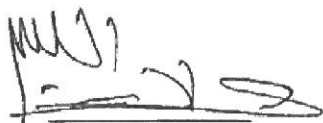
It should also be noted that the company's management continued to let its flats in (Tala-Amwaj Islands) at the time when the management is making all efforts possible to sell these flats in the future, if and when it becomes possible.

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 (Ernst & 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 of our valued company.



Ali Ahmed Al Baghli  
Chairman of the Board of Directors

**Shari'ah Supervisory Advisor Report on Reef Real Estate Finance Co. BSC (c)**  
**For the period from 1<sup>st</sup> January 2012 to 31<sup>st</sup> 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 1<sup>st</sup> January 2012 to 31<sup>st</sup> 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 31<sup>st</sup> 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 Advisory

## **Independent auditor's 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**

The management of the Company 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.

### **Report on other legal and regulatory requirements**

As required by the Bahrain Commercial Companies Law, Decree Number 21 of 2001 and the Central Bank of Bahrain (CBB) Rule Book Volume 5, we report that: the Company has maintained proper accounting records and the financial statements are in agreement therewith; the financial information contained in the chairman's 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.




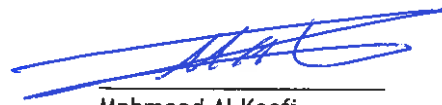
Manama, Kingdom of Bahrain  
14 February 2013

Reef Real Estate Finance Co. B.S.C. (c)  
Statement of financial position at 31 December 2012  
(Expressed in Bahraini Dinars)

	Notes	31 December 2012	31 December 2011
<b>ASSETS</b>			
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
<b>Total assets</b>		<b><u>28,402,856</u></b>	<b><u>30,154,006</u></b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Islamic financing	14	421,156	1,270,956
Other liabilities	15	623,394	750,851
		<u>1,044,550</u>	<u>2,021,807</u>
<b>Equity</b>			
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		<u>1,317,225</u>	<u>2,136,094</u>
		<u>27,358,306</u>	<u>28,132,199</u>
<b>Total liabilities and equity</b>		<b><u>28,402,856</u></b>	<b><u>30,154,006</u></b>

These financial statements, set out on pages 7 to 26, 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

Reef Real Estate Finance Co. B.S.C. (c)  
Statement of income for the year ended 31 December 2012  
(Expressed in Bahraini Dinars)

	<u>Notes</u>	<u>31 December 2012</u>	<u>31 December 2011</u>
<b>Income</b>			
Gross Ijarah revenue		2,924,880	3,962,675
Less: Depreciation on Ijarah Muntahia Bittamleek	10	<u>1,621,052</u>	<u>2,291,115</u>
		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		<u>-</u>	<u>112,505</u>
		<u>1,805,319</u>	<u>2,196,724</u>
<b>Expenses</b>			
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	<u>410</u>	<u>541</u>
		<u>1,379,457</u>	<u>1,769,104</u>
<b>Net profit for the year</b>		<u><u>425,862</u></u>	<u><u>427,620</u></u>
<b>Basic and diluted earnings per share</b>	18	<u><u>fil\$1.8</u></u>	<u><u>fil\$1.8</u></u>



Reef Real Estate Finance Co. B.S.C. (c)  
Statement of comprehensive income for the year ended 31 December 2012  
(Expressed in Bahraini Dinars)

---

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

Reef Real Estate Finance Co. B.S.C. (c)  
Statement of changes in shareholders' equity for the year ended 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

Reef Real Estate Finance Co. B.S.C. (c)  
Statement of cash flows for the year ended 31 December 2012  
(Expressed in Bahraini Dinars)

	<u>Notes</u>	31 December <u>2012</u>	31 December <u>2011</u>
<b>Operating activities</b>			
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		<u>(127,457)</u>	<u>(243,910)</u>
Net cash provided by operating activities		<u>1,999,047</u>	<u>3,043,632</u>
<b>Investing activities</b>			
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		<u>5,937</u>	<u>156,705</u>
Net cash (used in)/provided by investing activities		<u>(1,185,724)</u>	<u>4,292,438</u>
<b>Financing activities</b>			
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		<u>(105,824)</u>	<u>(481,607)</u>
Net cash used in financing activities		<u>(2,160,379)</u>	<u>(6,664,911)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,347,056)</b>	<b>671,159</b>
Cash and cash equivalents, beginning of the year		<u>1,906,068</u>	<u>1,234,909</u>
Cash and cash equivalents, end of the year	5	<u>559,012</u>	<u>1,906,068</u>

## 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 (volume 5) 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.

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

## 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
	2-3 years
Computer hardware and software	
Motor vehicles	3 years

### 3 Significant accounting policies (continued)

#### *Property and equipment*

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*

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.

### 3 Significant accounting policies (continued)

#### *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 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.

### 3 Significant accounting policies (continued)

#### *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.

#### *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.

**3 Significant accounting policies (continued)**

***Revenue recognition (continued)***

**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.

***Cash and cash equivalents***

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

**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.



4 Critical accounting judgments, estimates and assumptions (continued)

*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 <u>2012</u>	31 December <u>2011</u>
Current account balances with banks	558,512	1,905,568
Cash on hand	<u>500</u>	<u>500</u>
	<u><u>559,012</u></u>	<u><u>1,906,068</u></u>

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

6 Investment in an associate

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

Reef Real Estate Finance Co. B.S.C. (c)  
Notes to the financial statements for the year ended 31 December 2012  
(Expressed in Bahraini Dinars)

**6 Investment in an associate (continued)**

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 <u>2012</u>	31 December <u>2011</u>
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	<u>68,812</u>	<u>70,577</u>
	<u><b>7,484,905</b></u>	<u><b>6,762,469</b></u>

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

**9 Musharaka financing**

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

Reef Real Estate Finance Co. B.S.C. (c)  
Notes to the financial statements for the year ended 31 December 2012  
(Expressed in Bahraini Dinars)

10 Ijarah Muntahia Bittamleek

Cost	Land	Buildings	Total
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	<u>(2,626,429)</u>	<u>(5,235,182)</u>	<u>(7,861,611)</u>
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	<u>(2,554,190)</u>	<u>(3,766,666)</u>	<u>(6,320,856)</u>
At 31 December 2012	<u>4,680,428</u>	<u>14,201,690</u>	<u>18,882,118</u>
<b>Depreciation</b>			
At 31 December 2010	-	(5,405,065)	(5,405,065)
Charged for the year	-	(2,291,115)	(2,291,115)
Disposal during the year	-	<u>1,173,612</u>	<u>1,173,612</u>
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	-	<u>1,577,288</u>	<u>1,577,288</u>
At 31 December 2012	-	<u>(6,377,870)</u>	<u>(6,377,870)</u>
<b>Impairment provision</b>			
At 31 December 2010	-	(335,081)	(335,081)
Utilised during the year	-	120,000	120,000
Increase in provision	-	<u>(120,000)</u>	<u>(120,000)</u>
At 31 December 2011	-	(335,081)	(335,081)
Transferred to receivables (Note 12)	-	141,880	141,880
Increase in provision	-	<u>(120,000)</u>	<u>(120,000)</u>
At 31 December 2012	-	<u>(313,201)</u>	<u>(313,201)</u>
<b>Net book value</b>			
At 31 December 2011	<u>6,635,103</u>	<u>10,798,772</u>	<u>17,433,875</u>
At 31 December 2012	<u>4,680,428</u>	<u>7,510,619</u>	<u>12,191,047</u>

Reef Real Estate Finance Co. B.S.C. (c)  
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 consideration	Total
<b>Cost/Revalued</b>			
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	<u>(275,194)</u>	<u>-</u>	<u>(275,194)</u>
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	<u>502,297</u>	<u>20,620</u>	<u>522,917</u>
As at 31 December 2012	<u>502,297</u>	<u>2,857,760</u>	<u>3,360,057</u>
<b>Depreciation</b>			
As at 31 December 2010	-	-	-
Charge for the year	<u>-</u>	<u>154</u>	<u>154</u>
As at 31 December 2011	-	154	154
Charge for the year	<u>-</u>	<u>502</u>	<u>502</u>
As at 31 December 2012	<u>-</u>	<u>656</u>	<u>656</u>
<b>Net book value</b>			
At 31 December 2011	<u>2,019,308</u>	<u>817,678</u>	<u>2,836,986</u>
At 31 December 2012	<u>502,297</u>	<u>2,857,104</u>	<u>3,359,401</u>

Included in investment properties for periodical consideration is the net book value of furniture & fixtures of BD 31,293 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 BD 3,360,700 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.

Reef Real Estate Finance Co. B.S.C. (c)  
Notes to the financial statements for the year ended 31 December 2012  
(Expressed in Bahraini Dinars)

12 Receivables and prepayments

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

Other receivable includes an asset of BD384,173(2011:100,428) which are considered to be doubtful and has been fully provided.

13 Property and equipment

	Leasehold improvements	Furniture And Fixtures	Office equipment	Computer hardware and software	Motor vehicles	Total
<u>Cost</u>						
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	<u>154,280</u>	<u>47,190</u>	<u>45,916</u>	<u>154,651</u>	<u>36,880</u>	<u>438,917</u>
<u>Accumulated depreciation</u>						
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	<u>152,937</u>	<u>46,934</u>	<u>45,588</u>	<u>123,296</u>	<u>36,880</u>	<u>405,635</u>
<u>Net book value</u>						
At 31 December 2011	<u>10,187</u>	<u>3,064</u>	<u>2,692</u>	<u>12,067</u>	<u>-</u>	<u>28,010</u>
At 31 December 2012	<u>1,343</u>	<u>256</u>	<u>328</u>	<u>31,355</u>	<u>-</u>	<u>33,282</u>

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

Reef Real Estate Finance Co. B.S.C. (c)  
Notes to the financial statements for the year ended 31 December 2012  
(Expressed in Bahraini Dinars)

14 Islamic financing

	31 December <u>2012</u>	31 December <u>2011</u>
Al Baraka Islamic Bank	<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%) per annum.

15 Other liabilities

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

16 Share capital

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

16 Share capital (continued)

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:

	<u>31 December 2012</u>		
	<u>Nationality</u>	<u>Number of shares</u>	<u>Percentage of share holding interest</u>
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	<u>13,223,595</u>	<u>5.5%</u>
		<u>174,311,025</u>	<u>72.50%</u>
	<u>31 December 2011</u>		
	<u>Nationality</u>	<u>Number of shares</u>	<u>Percentage of share holding interest</u>
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	<u>13,223,595</u>	<u>5.5%</u>
		<u>174,311,025</u>	<u>72.50%</u>

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.

Reef Real Estate Finance Co. B.S.C. (c)  
Notes to the financial statements for the year ended 31 December 2012  
(Expressed in Bahraini Dinars)

18 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 December <u>2012</u>	31 December <u>2011</u>
Net profit attributable to the shareholders	<u>BD425,862</u>	<u>BD427,620</u>
Weighted average number of ordinary shares	<u>240,429,000</u>	<u>240,429,000</u>
Basic and diluted earnings per share	<u>fi1.8</u>	<u>fi1.8</u>

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		Amounts due from related parties	
		31 December <u>2012</u>	31 December <u>2011</u>	31 December <u>2012</u>	31 December <u>2011</u>
Shareholder's and immediate family members	Ijarah Muntahia Bittamleek	<u>483,943</u>	<u>143,515</u>	<u>299,613</u>	<u>783,556</u>



Reef Real Estate Finance Co. B.S.C. (c)  
Notes to the financial statements for the year ended 31 December 2012  
(Expressed in Bahraini Dinars)

20 Maturity profile

Maturity profile of assets and liabilities is as follows:

	At 31 December 2012				
	Carrying amount	Up to 6 months	6-12 months	1-5 years	5 years & above
<b>Assets</b>					
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	-
<b>Total assets</b>	<b><u>28,402,856</u></b>	<b><u>8,240,759</u></b>	<b><u>107,298</u></b>	<b><u>9,344,817</u></b>	<b><u>10,709,982</u></b>
<b>Equity and liabilities</b>					
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	-	-	-
<b>Total equity and liabilities</b>	<b><u>28,402,856</u></b>	<b><u>1,044,550</u></b>	<b><u>10,704</u></b>	<b><u>1,078,825</u></b>	<b><u>26,268,777</u></b>

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.

## 21 Financial assets and liabilities and risk management (continued)

**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.

**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.

## 22 Subsequent events

There were no significant events subsequent to 31 December 2012 and occurring before the date of signing of the financial statements that would have a significant impact on these financial statements.