Elaf Bank B.S.C. (c)

Basel II, Pillar III Disclosures
30 June 2013

(Unaudited)

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1 INTRODUCTION

The Central Bank of Bahrain (the "CBB") Basel II Guidelines, based upon the Bank for International Settlements ("BIS") Revised Framework – 'International Convergence of Capital Measurement and Capital Standards', were introduced on 1 January 2008. Basel II is structured around three 'pillars': Pillar I - Minimum Capital Requirements; Pillar II – the Supervisory Review Process and the Internal Capital Adequacy Assessment Process ("ICAAP"); and Pillar III - Market Discipline.

The public disclosures under this section have been prepared in accordance with the CBB requirements outlined in its Public Disclosure Module ("PD"), Section PD–1: Annual Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks. Rules concerning the disclosures under this section are applicable to Elaf Bank B.S.C. (c) (the "Bank") being a locally incorporated Bank with a wholesale Islamic Investment banking license, and its branch and subsidiaries (together known as "the Group").

2 Legal Contingencies

The following are the material* current or pending legal actions which involve potential liability to the Bank:

1. Ali Iskandar Ansari and Partners - We are defendants to a claim in a private equity in Qatar whereby the local promoter is claiming approximately $1 million due as fees for establishing the joint venture. The local promoter also raised 3 other claims in court and all three cases have ended in our favour. Our expectation is this will like wise result in our favour. Additionally, we may be pursuing our own claim against the promoter in the near future to recover our investment in the joint venture.

2. Transweld - Our Libyan investment vehicle TAB Energy's subsidiary Etelaf was sued by a service provider relating to the oil rigs owned by the company. A judgment in the amount of $600,000 was obtained, and is currently in the process of being executed upon.

*materiality involves disputes involving potential liabilities in excess of $300,000, or 0.1% of our capital.

3 CAPITAL ADEQUACY

The primary objective of the Group's capital management is to ensure that the Group maintains adequate risk capital, complies with the capital requirements laid down by the CBB and maintains a healthy capital ratio in order to support its business and maximize shareholder value.

The Group manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the CBB in supervising the Bank.

Regulatory capital consists of Tier 1 capital (core capital) and Tier 2 capital (supplementary capital). The Group's Tier 1 comprises share capital, statutory reserves, retained profit/losses brought forward, current interim cumulative net losses and unrealized gross losses arising from fair valuing equity securities. Tier 2 capital includes unrealized gains arising from fair valuing equities (45% only).

Certain adjustments are made to IFRS–based results in order to comply with Capital Adequacy Module issued by the CBB. From the regulatory perspective, the significant amount of the Bank's capital is in Tier 1 form.

3 CAPITAL ADEQUACY (continued)

The Group's approach to assessing capital adequacy has been in line with its risk appetite aligned with its current and future activities. To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardized Approaches for its Credit Risk and Market Risk, and the Basic Indicator Approach for its Operational Risk.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of expectations for each business group, expected growth in future sources and uses of funds.

Further the Bank monitors the CAR against an Internal Trigger Ratio of XXX% of the CBB minimum required capital adequacy ratio of 12 % (which will currently be 20 %). If the ICAAP CAR touches the Internal Trigger Ratio, the Bank will initiate action to reduce its risk or increase capital before the Internal Target Ratio is breached.

Basis of Consolidation for Accounting and Regulatory Purposes

The Bank consolidates all subsidiaries which are fully owned or exercises significant control over them. These subsidiaries are consolidated from date of acquisition being the date on which the group obtains control and continues until the control ceases. Control is achieved when the group has the power to govern the financial and operating policy of an entity to obtain benefits from its activates. For regulatory report purposes and according to CBB rule book the Bank should consolidate all banking and other relevant financial entities which are considered to be subsidiaries of bank. However, the bank deconsolidates non financial entities for Capital adequacy ratio calculation. For Bank there are no financial or banking subsidiaries thus all subsidiaries are deconsolidated.

The bank does not hold any interest in insurance entities.

Table – 1. Capital structure (PD–1.3.12, PD–1.3.13, PD–1.3.14 and PD–1.3.15)

The following table summarizes the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation as of:

	30 June 2013	
	Tier 1	*Tier 2*
	(USD '000)	*(USD '000)*
Components of capital		
Core Capital - Tier 1		
Issued and fully paid ordinary shares	**300,000**	**-**
General reserves	**4,618**	**-**
Legal / statutory reserves	**676**	**-**
Share Premium	**16,385**	**-**
Others	**22,145**	**-**
Total Tier 1 Capital	**343,824**	**-**
Deductions from Tier 1		
Unrealized gross losses arising from fair valuing equity securities	**(775)**	**-**
Tier 1 Capital before PCD deductions	**343,049**	**-**
Supplementary Capital - Tier 2		
Current intrem profit	**-**	**1,774**
Unrealized gains arising from fair valuing equities (45% only)	**-**	**166**
Tier 2 Capital before PCD deductions	**-**	**1,940**
Total Available Capital before PCD deductions (Tier 1 and Tier 2)	**343,049**	**1,940**
Deductions		
Capital shortfall of non-consolidated entities subsidiaries *	**(2)**	**(2)**
Excess amount over maximum permitted large exposure limit **	**(5,122)**	**(5,122)**
Additional deduction from Tier 1 to absorb deficiency in Tier 2	**(3,184)**	**-**
Total Deductions	**8,308**	**5,124**
Net Available Capital	**334,741**	**-**
Total Eligible Capital		**334,741**

* This represents capital shortfall in Medical Management Group SPC.

** This represents aggregate exposure to connected counterparty exceeding 25%.

3 CAPITAL ADEQUACY (continued)

Table – 2. Capital requirement by type of Islamic financing contracts (PD - 1.3.17)

The following table summarises the capital requirements by type of Islamic financing contracts:

	30 June 2013	
	Risk Weighted Amount (USD '000)	*Capital requirements (USD '000)*
Type of Islamic financing contracts		
Notes and Coins	-	-
Claims on Sovereigns	-	-
Claims on PSE	15,604	1,872
Claim on banks	16,992	2,039
Claim on Corporations	29,633	3,556
Investment in securities	103,205	12,385
Holding of Real Estate	304,276	36,513
Other assets	85,732	10,288
	555,441	66,653

Table – 3. Capital requirement for Market risk (PD–1.3.18)

The following table summarises the amount of exposures subject to the standardized approach of market risk and related capital requirements:

	30 June 2013 (USD '000)
Market Risk - Standardised Approach	
Price Risk	-
Equity Position Risk	-
Foreign exchange risk	2,825
Total of market risk - standardised approach	2,825
Multiplier	12.5
Total Market Risk Weighted Exposures	35,311
Minimum capital requirement (12%)	4,237

Table – 4. Capital Requirements for Operational risk (PD–1.3.19 and PD–1.3.30)

The following table summarises the amount of exposures subject to the basic indicator approach of operational risk and related capital requirements:

	30 June 2013 (USD '000)
Indicators of operational risk	
Average gross income	10,520
Multiplier	12.5
	131,504
Eligible Portion for the purpose of the calculation	15%
Total operational RWE	19,726
Minimum capital requirement (12%)	2,367

3 CAPITAL ADEQUACY (continued)

Table – 5. Capital Adequacy Ratios (PD–1.3.20)

The following are capital adequacy ratios for total capital and tier 1 capital as of:

	30 June 2013	
	Total capital ratio	**Tier 1 capital ratio**
Top consolidated group in Bahrain	**54.83%**	**54.83%**

4 RISK MANAGEMENT

4.1 Credit risk

Table – 6. Credit Risk Exposure (PD–1.3.23(a))

The following table summarises the amount of gross funded and unfunded credit exposure and average gross funded and unfunded exposure as of:

	30 June 2013	
	Total gross credit exposure (USD '000)	**Average gross credit exposure over the year (USD '000)*
Funded exposure		
Balances with banks	12,115	14,185
Due from financial institutions	25,610	25,085
Financing receivables	12,232	12,232
Musharaka financing	1,122	1,323
Receivable from Ijara investors	14,801	14,801
Investment in securities	233,570	231,690
Other assets	3,808	3,681
Unfunded exposure		
Uncalled capital commitments in respect of investment	9,169	11,338
Promise to purchase foreign currency commitment	-	224
Commitment related to project developments	133	133
Operating lease commitments	110	124
	312,560	314,691

*Average balances are computed based on quarter-end balances.

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Table – 7. Credit Risk – Geographic Breakdown (PD–1.3.23(b))

The following table summarises the geographic distribution of funded and unfunded exposures, broken down into significant areas by major types of credit

	30 June 2013					
	Middle East US$ (USD '000)	*Europe US$ (USD '000)*	*Africa US$ (USD '000)*	*South East Asia US$ (USD '000)*	*Others US$ (USD '000)*	*Total US$ (USD '000)*
Funded exposure						
Balances with banks	**7,633**	**2,992**	**-**	**267**	**1,223**	**12,115**
Due from financial institutions	**25,610**	**-**	**-**	**-**	**-**	**25,610**
Financing receivables	**12,232**	**-**	**-**	**-**	**-**	**12,232**
Musharaka financing	**173**	**-**	**-**	**949**	**-**	**1,122**
Receivable from Ijara investors	**14,801**	**-**	**-**	**-**	**-**	**14,801**
Investment in securities	**184,067**	**33,017**	**16,486**	**-**	**-**	**233,570**
Other assets	**2,817**	**43**	**106**	**842**	**-**	**3,808**
Unfunded exposure						
Uncalled capital commitments in respect of investment	**9,169**	**-**	**-**	**-**	**-**	**9,169**
Promise to purchase foreign currency commitment	**-**	**-**	**-**	**-**	**-**	**-**
Commitment related to project developments	**133**	**-**	**-**	**-**	**-**	**133**
Operating lease commitments	**-**	**-**	**-**	**110**	**-**	**110**
	256,635	**36,052**	**16,592**	**2,058**	**1,223**	**312,560**

The Group allocates exposures to a particular geographical area based on the risk domicile concept, which could be either the location of the asset or on the location of the counterparty.

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Table – 8. Credit risk – Industry Sector Breakdown (PD–1.3.23(c))

The following table summarises the distribution of funded and unfunded exposure by industry type broken down by major types of credit exposure as of:

	30 June 2013				
	Trading and manufacturing (USD '000)	*Banks and financial institutions (USD '000)*	*Real Estate (USD '000)*	*Others (USD '000)*	*Total (USD '000)*
Funded exposure					
Balances with banks	-	12,114	-	1	12,115
Due from financial institutions	-	25,610	-	-	25,610
Financing receivables	-	-		12,232	12,232
Musharaka financing	-	949	-	173	1,122
Receivable from Ijara investors	-	-	-	14,801	14,801
Investment in securities	21,269	70,760	77,556	63,985	233,570
Other assets	71	393	1,500	1,844	3,808
Unfunded exposure					
Uncalled capital commitments in respect of investment	-	-	-	9,169	9,169
Promise to purchase foreign currency commitment	-	-	-	-	-
Commitment related to project developments	-	-	-	133	133
Operating lease commitments	-	-	-	110	110
	21,340	109,826	79,056	102,448	312,670

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Table – 9. Credit Risk – Concentration of Risk (PD–1.3.23(f))

The Group follows the Central Bank of Bahrain's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the Central Bank of Bahrain Rulebook for Islamic Banks.

The following are the balances representing the concentration of risk to individual counterparties as of 30 June 2013:

Counterparties	*Own capital and current account Concentration risk %*
Counterparty # 1	**12.27%**
Counterparty # 2	**11.18%**

There has not been any restructured credit facilities (according to the definition in the Prudential Information Return instructions) during the period.

The Bank does not currently have any obligations with respect to recourse transactions.

No penalties were charged to customers with regards to defaults during the period.

Table – 10. Maturity breakdown of credit exposures (PD–1.3.23(g))

The following table summarises the residual contractual maturity breakdown of the whole credit portfolio, broken down by major types of credit exposure as of 30 June 2013:

	Up to 1 month (USD '000)	*1 month to 3 months (USD '000)*	*3 months to 1 year (USD '000)*	*1 to 5 years (USD '000)*	*5 to 10 years (USD '000)*	*No fixed maturity (USD '000)*	*Total (USD '000)*
Funded exposure							
Balances with banks	**12,114**	**-**	**-**	**-**	**-**	**1**	**12,115**
Due from financial institutions	**-**	**21,077**	**4,533**	**-**	**-**	**-**	**25,610**
Financing receivables	**12,232**	**-**	**-**	**-**	**-**	**-**	**12,232**
Musharaka financing	**-**	**173**		**949**	**-**	**-**	**1,122**
Receivable from Ijara investors	**11,408**	**-**		**-**	**-**	**3,393**	**14,801**
Investment in securities	**-**	**-**	**-**	**51,271**	**26,817**	**155,482**	**233,570**
Other assets	**518**	**797**	**1,229**	**617**	**-**	**647**	**3,808**
Unfunded exposure							
Uncalled capital commitments in respect of investment	**-**	**-**	**-**	**9,169**	**-**	**-**	**9,169**
Promise to purchase foreign currency commitment	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commitment related to project developments	**-**	**-**	**-**	**133**	**-**	**-**	**133**
Operating lease commitments	**-**	**-**	**94**	**16**	**-**	**-**	**110**

36,272	**22,047**	**5,856**	**62,155**	**26,817**	**159,523**		**312,560**

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Table – 11. Breakup of provision by geographic area (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Specific impairment provision *(USD '000)*
South East Asia	**100**

Only an amount of US$ 41 thousand of musharaka financing was impaired as of 30 June 2013 (2012: Nil).

4.3 Market risk

Table – 12. Market Risk Capital Requirements

The following table summarises the capital requirement for each category of market risk as of:

	30 June 2013	
	Weighted risk exposures (USD '000)	***Market risk capital requirement (USD '000)***
Capital requirements - Price Risk, Equity Position Risk and Foreign Exchange Risk	**35,311**	**4,237**
Maximum value of RWE	44,075	5,289
Minimum value of RWE	35,311	4,237

4.4 Operational risk

4 RISK MANAGEMENT (continued)

4.5 Equity price risk (continued)

Table – 13. Equity Position Risk in the Banking Book (PD-1.3.31(b), (c) & (f))

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 30 June 2013:

	Total gross exposure (USD '000)	** Average gross exposure over the period (USD '000)*	*Publicly Traded (USD '000)*	*Privately held (USD '000)*	*Capital requirement (USD '000)*
Amortized cost	**78,089**	**76,417**	**78,089**	**-**	**8,847**
Fair value through statement of income	**135,134**	**134,925**	**10,207**	**124,927**	**5,591**
Fair value through equity	**20,348**	**20,348**	**-**	**20,348**	**26,801**
Investment in associates	**5,047**	**5,047**	**-**	**5,047**	**1,005**
	238,618	**236,737**	**88,296**	**150,322**	**42,244**

*Average balances are computed based on quarter-end balances.

Table – 14. Equity gains or losses in the Banking Book (PD-1.3.31(d) to (e))

The following table summarises the cumulative realised and unrealised gains or (losses) during the half year ended:

	30 June 2013 USD ('000)
Cumulative realised gains arising from sales or liquidations in the reporting year	**3,291**
Total unrealized gains recognised in the consolidated statement of financial positions but not through consolidated statement of income	**369**
Unrealised gross losses included in Tier 1 Capital	**(775)**
Unrealised gains included in Tier 2 Capital (45% only)	**166**

4 RISK MANAGEMENT (continued)

4.7 Liquidity risk

4.7 Liquidity risk (continued)

Table – 15. Liquidity ratios (PD-1.3.37)

The following table summarises the liquidity ratios as of:

	30 June 2013
Liquid assets to total assets	**10.24%**
Short term assets to short term liabilities	**269.06%**

Formula is as follows:

Liquid Assets to total assets = (Cash and bank balances + due from financial institutions)/total assets

Short term assets to short term liabilities = Assets with up to one year maturity/liabilities with up to one year maturity

Table – 16. Quantitative indicators of financial performance and position (PD–1.3.9)

	June 2013	*Dec 2012*	*Dec 2011**	*Dec 2010**	*Dec 2009**
Return on average equity (ROAE)	**0.62%**	**-5.14%**	-2.66%	-11.92%	-14.43%
Return on average assets (ROAA)	**0.54%**	**-4.55%**	-2.60%	-11.88%	-14.36%
Total cost to Income ratio	**77.43%**	**76.73%**	92.66%	90.39%	133.02%

* Ratios are based on pre-merger financials

Formula is as follows:
ROAE = Net Income/Average Equity
ROAA= Net profit/ Average Assets

Table – 17. Maturity Profile (PD–1.3.38)

The maturity profile of the Group's assets and liabilities are based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date. The consolidated maturity profile at 30 June 2013 was as follows:

2013	*Up to 3 month (USD '000)*	*3 months to 1 year (USD '000)*	*1 to 5 years (USD '000)*	*5 to 10 years (USD '000)*	*No fixed maturity (USD '000)*	*Total (USD '000)*
Assets						
Cash and balances with banks	12,114	-	-	-	1	12,115
Due from financial institutions	21,077	4,533	-	-	-	25,610
Financing receivable	12,232	-	-	-	-	12,232
Musharaka financing	173		949	-	-	1,122
Receivable from Ijarah investors	11,408		-	-	3,393	14,801
Investment in ijarah asset	-	4,962	-	-	-	4,962
Ijarah muntahia bittamleek	208	625	763	-	-	1,596
Investments in securities	-	-	51,271	26,817	155,482	233,570
Investment in associates	-	-	-	-	5,047	5,047
Investment in real estate	-	-	-	-	38,442	38,442
Development properties	-	-	-	-	8,976	8,976
Non-current asset held for sale	-	5,663	-	-	-	5,663
Fixed assets	-	-	-	-	593	593
Other assets	1,315	1,229	617	-	647	3,808
Total assets	58,527	17,012	53,600	26,817	212,581	368,537
Liabilities						
Due to financial institutions	16,103	4,517	11,671	-	-	32,291
Due to non financial institutions	-	434	-	-	-	434
Other liabilities	2,405	4,616	1,152		6	8,179
Total liabilities	18,508	9,567	12,823	-	6	40,904
Equity of investment accountholders	432	-	-	-	-	432
Total liabilities and equity of investment accountholders	18,940	9,567	12,823	-	6	41,336
Net liquidity gap	39,587	7,445	40,777	26,817	212,575	327,201
Cumulative net liquidity gap	39,587	47,032	87,809	114,626	327,201	
Commitments	-	94	9,318	-	-	9,412

Table – 18. Profit Rate Risk in banking books (PD–1.3.40)

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected

2013	*Up to 3 Month (USD '000)*	*3 months to 1 year (USD '000)*	*1 to 5 years (USD '000)*	*Above 5 Years (USD '000)*	*Total (USD '000)*
Assets					
Due from financial institutions	21,077	4,533	-	-	25,610
Financing receivable	12,232	-	-	-	12,232
Investments in securities	-	-	51,271	26,817	78,088
Total profit rate sensitive assets	33,309	4,533	51,271	26,817	115,930
Liabilities					
Due to financial institutions	16,103	4,517	11,671	-	32,291
Total profit rate sensitive liabilities	16,103	4,517	11,671	-	32,291
Profit rate sensitivity gap	**17,206**	**16**	**39,600**	**26,817**	**83,639**

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) on floating rate non trading financial assets and liabilities, would be an increase (decrease) of profit by US$ 111 thousand (2012:US$ 345 thousand).

4.8 Rate of return risk management

The rate of return risk is generally associated with overall balance sheet exposures where mismatches arise between assets and balances from fund providers. The Group is not exposed to any significant rate of return risk and is aware of the factors that give rise to rate of return risk. Factors that possibly will affect rate of return may include an increase in long-term fixed rates in the market. The Bank is also aware of the fact that in general, profit rates earned on assets reflect the benchmark of the previous period and do not correspond immediately to changes in increased benchmark rates.

The Bank uses a combination of mismatch gap limits to measure and control its rate of return risk. Mismatched positions are regularly monitored to ensure that mismatch is maintained within established limits.

The profit rate shock will have a negative impact in the case of a downward movement.

Displaced commercial risk (“DCR”) refers to the market pressure to pay returns that exceed the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor’s rates.

The Bank manages DCR through the Asset Liability Committee (“ALCO”). The Bank is currently in the process of developing written policies and procedures for Displaced Commercial Risk. The bank will forego its fee in case DCR arises. The bank benchmarks its rates with other leading banks in the market.