

**Elaf Bank B.S.C. (c)**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**31 MARCH 2012 (UNAUDITED)**

## REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF ELAF BANK B.S.C. (c)

### *Introduction*

We have reviewed the accompanying interim condensed consolidated financial statements of Elaf Bank B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group") as at 31 March 2012, comprising of the interim consolidated statement of financial position as at 31 March 2012 and the related interim consolidated statements of income, cash flows and changes in equity for the three month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements 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 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 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the accounting policies disclosed in note 2.

A stylized, handwritten-style signature of 'Ernst & Young' in black ink.

7 May 2012  
Manama, Kingdom of Bahrain

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2012 (Unaudited)

		<b>31 March</b>	<i>Audited</i> <b>31 December</b>
		<b>2012</b>	<b>2011</b>
	<i>Note</i>	<b>US\$</b>	<b>US\$</b>
<b>ASSETS</b>			
Cash and balances with banks		2,020,855	2,354,933
Mudaraba financing		24,223,023	14,206,052
Musharaka financing		996,357	958,810
Investment in Ijarah asset		7,544,772	7,650,409
Ijarah muntahia bittamleek		2,378,425	-
Murabaha receivable		3,013,940	3,272,458
Investment in securities	3	112,295,329	109,957,281
Investment in associate		3,444,085	3,444,085
Investment in real estate		15,842,773	15,842,773
Fixed assets		1,388,544	1,566,186
Other assets	4	4,409,738	1,704,978
<b>TOTAL ASSETS</b>		<b>177,557,841</b>	<b>160,957,965</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
Wakala payable		19,529,413	4,543,500
Other liabilities	5	2,212,261	1,646,066
<b>Total liabilities</b>		<b>21,741,674</b>	<b>6,189,566</b>
<b>Owners' equity</b>			
Share capital		200,000,000	200,000,000
Statutory reserve		676,313	676,313
Accumulated losses		(44,734,878)	(45,011,717)
Other reserves		(125,268)	(896,197)
<b>Total owners' equity</b>		<b>155,816,167</b>	<b>154,768,399</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>177,557,841</b>	<b>160,957,965</b>


Paul Mercer  
Chairman

Isa Habib  
Vice Chairman

## INTERIM CONSOLIDATED STATEMENT OF INCOME

For the period ended 31 March 2012 (Unaudited)

		<i>Three months ended</i>	
		<i>31 March</i>	
		<b>2012</b>	<b>2011</b>
		<b>US\$</b>	<b>US\$</b>
<b>INCOME</b>			
Profit from Islamic financing		<b>537,371</b>	788,381
Profit on Islamic financing		<b>(33,370)</b>	-
<b>Net income from Islamic financing</b>		<b>504,001</b>	788,381
Income from investment in securities	6	<b>2,844,524</b>	1,940,658
Income from investment banking services		<b>53,684</b>	-
Other income		<b>26,100</b>	7,416
<b>Total income</b>		<b>3,428,309</b>	2,736,455
<b>EXPENSES</b>			
Staff costs		<b>(1,725,603)</b>	(1,152,309)
Depreciation and amortisation		<b>(349,150)</b>	(276,076)
Other expenses		<b>(639,106)</b>	(618,608)
<b>Total expenses</b>		<b>(2,713,859)</b>	(2,046,993)
<b>PROFIT BEFORE MERGER EXPENSES</b>		<b>714,450</b>	689,462
Merger expenses		<b>(437,611)</b>	-
<b>NET PROFIT FOR THE PERIOD</b>		<b>276,839</b>	689,462

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.



**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

For the period ended 31 March 2012 (Unaudited)

	<i>Three months ended</i>	
	<i>31 March</i>	
	<b>2012</b>	<b>2011</b>
	<b>US\$</b>	<b>US\$</b>
<b>OPERATING ACTIVITIES</b>		
Net profit for the period	<b>276,839</b>	689,462
Adjustment for non cash items:		
Depreciation and amortisation	<b>349,150</b>	276,076
Gain on sale of investments	<b>(1,339,696)</b>	(354,523)
Net amortisation of discount/ premium	<b>(340,993)</b>	(376,901)
Dividend income	<b>-</b>	(182,000)
Operating (loss) profit before changes in operating assets and liabilities	<b>(1,054,700)</b>	52,114
Changes in operating assets and liabilities:		
Murabaha receivables	<b>258,518</b>	1,084,955
Musharaka financing	<b>(37,547)</b>	-
Ijarah muntahia bittamleek	<b>(2,378,425)</b>	-
Other assets	<b>(2,704,760)</b>	(5,140,836)
Other liabilities	<b>566,195</b>	3,201,025
Net cash used in operating activities	<b>(5,350,719)</b>	(802,742)
<b>INVESTMENT ACTIVITIES</b>		
Purchase of investment in securities	<b>(19,348,664)</b>	(10,437,325)
Proceeds from sale of investments	<b>19,462,234</b>	13,577,646
Purchase of equipment	<b>(65,871)</b>	-
Net cash from investing activities	<b>47,699</b>	3,140,321
<b>FINANCING ACTIVITY</b>		
Wakala payable	<b>14,985,913</b>	-
Net cash from financing activity	<b>14,985,913</b>	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>9,682,893</b>	2,337,579
Cash and cash equivalents at 1 January	<b>16,560,985</b>	11,317,306
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>26,243,878</b>	13,654,885
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>		
Cash and balances with banks	<b>2,020,855</b>	5,209,761
Mudaraba financing with original maturity of 90 days or less	<b>24,223,023</b>	8,445,124
	<b>26,243,878</b>	13,654,885

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.

# Elaf Bank B.S.C. (c)

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 March 2012 (Unaudited)

	Share capital US\$	Statutory reserve US\$	Accumulated losses US\$	Other reserves			Total equity US\$
				Foreign currency revaluation reserve US\$	Investment fair value reserve US\$	Other reserves US\$	
Balance at 1 January 2012	200,000,000	676,313	(45,011,717)	(751,020)	(145,177)	(896,197)	154,768,399
Net profit for the period	-	-	276,839	-	-	-	276,839
Cumulative changes in fair values	-	-	-	-	111,724	111,724	111,724
Foreign currency translation on investments	-	-	-	659,205	-	659,205	659,205
<b>Balance as at 31 March 2012</b>	<b>200,000,000</b>	<b>676,313</b>	<b>(44,734,878)</b>	<b>(91,815)</b>	<b>(33,453)</b>	<b>(125,268)</b>	<b>155,816,167</b>
Balance at 1 January 2011	200,000,000	676,313	(40,841,631)	(614,004)	(587,819)	(1,201,823)	158,632,859
Net profit for the period	-	-	689,462	-	-	-	689,462
Cumulative changes in fair values	-	-	-	-	1,310,189	1,310,189	1,310,189
Foreign currency translation on investments	-	-	-	587,792	-	587,792	587,792
<b>Balance as at 31 March 2011</b>	<b>200,000,000</b>	<b>676,313</b>	<b>(40,152,169)</b>	<b>(26,212)</b>	<b>722,370</b>	<b>696,158</b>	<b>161,220,302</b>

The attached notes 1 to 7 form part of these interim condensed consolidated financial statements.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012 (Unaudited)

## 1 INCORPORATION AND ACTIVITIES

Elaf Bank B.S.C. (c) (the "Bank"), is a closed shareholding company incorporated in the Kingdom of Bahrain on 12 June 2007 under commercial registration (CR) number 65549. The Bank operates as an Islamic Wholesale Investment Bank under a license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is at Seef district 428, street 2813, Addax Building 1006, 2 and 3 Floors, Manama, Kingdom of Bahrain.

The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association.

The principal activities of the Bank include investment advisory services and investment transactions, which comply with Islamic rules and principles according to the opinion of the Bank's Shari'a Supervisory Board.

The Bank carries out its business activities through its head office in the Kingdom of Bahrain and its branch in Malaysia. The branch was granted a license to perform Islamic Banking Business on 15 June 2011 under Islamic Banking Act 1983.

These condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 7 May 2012.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The interim condensed consolidated financial statements of the Bank and its subsidiaries (together the "Group") for the three month period ended 31 March 2012 have been prepared in accordance with the guidance given by the International Accounting Standard 34 - "Interim Financial Reporting". The interim condensed consolidated financial statements do not contain all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2011. In addition, results for the three months period ended 31 March 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

### 2.2 Accounting convention

The consolidated financial statements have been prepared on a historical cost basis, except for investment in real estate and investments classified as "fair value through equity" that have been measured at fair value.

The consolidated financial statements have been presented in United States Dollars ("US\$"), being the functional currency of the Group's operations.

### 2.3 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2011, except for the following:

#### **Ijarah muntahia bittamleek**

Assets acquired for leasing (Ijarah) are stated at cost, less accumulated depreciation.

Depreciation is provided on the straight line method over the useful life of the asset or the period of the lease, whichever is lower.

Income net of depreciation is recognised on a time-apportioned basis over the lease term.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012 (Unaudited)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Basis of consolidation

The condensed consolidated interim financial information for the period ended 31 March 2012 comprises the financial information of the Bank and its subsidiaries after eliminating inter-company transactions and balances. A subsidiary is an entity over which the Bank has control to govern its financial and operating policies in order to obtain benefits from its activities. The principal subsidiaries and associate of the Group included in this condensed consolidated interim financial information are as follows:

<i>Company</i>	<i>Country of incorporation</i>	<i>Date of incorporation</i>	<i>(%) of ownership</i>
<b>Subsidiaries</b>			
Elaf Bahrain Real Estate Company B.S.C. (c)	Kingdom of Bahrain	22 July 2008	100%
Elaf Corporate Services Limited	British Virgin Islands	21 May 2008	100%
Sokouk Exchange Centre – Tadawul Holding W.L.L.	Kingdom of Bahrain	22 July 2008	100%
<b>Associate</b>			
Alpha Lease and Finance Holding Company B.S.C. (c)	Kingdom of Bahrain	30 December 2007	30%

## 3 INVESTMENT IN SECURITIES

	<i>Amortised cost US\$</i>	<i>Fair value through equity US\$</i>	<i>Total US\$</i>
<b>Debt type</b>			
Quoted sukuk	54,973,869	-	54,973,869
Unquoted sukuk	22,144,372	-	22,144,372
<b>Equity type</b>			
Quoted shares	-	16,924,290	16,924,290
Unquoted shares	-	45,732,378	45,732,378
Impairment		(27,479,580)	(27,479,580)
<b>Total as at 31 March 2012</b>	<b>77,118,241</b>	<b>35,177,088</b>	<b>112,295,329</b>
	<i>Amortised cost US\$</i>	<i>Fair value through equity US\$</i>	<i>Total US\$</i>
<b>Debt type</b>			
Quoted sukuk	52,928,477	-	52,928,477
Unquoted sukuk	22,583,381	-	22,583,381
<b>Equity type</b>			
Quoted shares	-	16,890,195	16,890,195
Unquoted shares	-	45,034,808	45,034,808
Impairment		(27,479,580)	(27,479,580)
<b>Total as at 31 December 2011</b>	<b>75,511,858</b>	<b>34,445,423</b>	<b>109,957,281</b>



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012 (Unaudited)

## 4 OTHER ASSETS

	<i>Unaudited</i> <b>31 March</b> <b>2012</b> <b>US\$</b>	<i>Audited</i> <b>31 December</b> <b>2011</b> <b>US\$</b>
Prepaid expenses	<b>697,542</b>	190,866
Income receivable	<b>1,561,532</b>	1,315,168
Ijarah receivable	<b>157,427</b>	-
Advances to staff	<b>14,669</b>	11,514
Other receivable	<b>1,978,568</b>	187,430
	<b>4,409,738</b>	1,704,978

## 5 OTHER LIABILITIES

	<i>Unaudited</i> <b>31 March</b> <b>2012</b> <b>US\$</b>	<i>Audited</i> <b>31 December</b> <b>2011</b> <b>US\$</b>
Accounts payables	<b>44,205</b>	121,991
Provision for employee benefit	<b>231,944</b>	789,121
Directors' fee accrual	<b>565,367</b>	538,482
Sukuk Purchase	<b>911,250</b>	-
Other accruals	<b>459,495</b>	196,472
	<b>2,212,261</b>	1,646,066

## 6 INCOME FROM INVESTMENT IN SECURITIES

	<i>Unaudited</i> <b>31 March</b> <b>2012</b> <b>US\$</b>	<i>Unaudited</i> <b>31 March</b> <b>2011</b> <b>US\$</b>
Profit earned on debt-type instruments at amortised cost	<b>1,529,032</b>	1,404,135
Dividends on equity-type instruments at fair value through equity	-	182,000
Gain on disposal of debt-type instruments at amortised cost	<b>783,845</b>	354,523
Gain on disposal of equity-type instruments at fair value through equity	<b>531,647</b>	-
	<b>2,844,524</b>	1,940,658

# Elaf Bank B.S.C. (c)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### At 31 March 2012 (Unaudited)

#### 7 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence or joint control over the other party in making financial and operating decisions. Related parties comprise major shareholders, directors, shari'a supervisory board and executive management of the Group and/or entities over which they exercise control and/or significant influence.

The related party balances and transactions included in these consolidated financial statements are as follows:

	Associated companies US\$	Directors/ key management personnel Shari'a board members US\$	Major shareholders / entities in which directors are interested US\$	31 March 2012 US\$	Associated companies US\$	Directors/ key management personnel Shari'a board members US\$	Major shareholders / entities in which directors are interested US\$
<b>Assets</b>							
Cash and balances with banks	-	-	1,990	1,990	-	-	1,990
Investment in securities	-	-	9,000,000	9,000,000	-	-	9,500,000
Investment in associate	3,444,085	-	-	3,444,085	3,444,085	-	-
	<b>3,444,085</b>	<b>-</b>	<b>9,001,990</b>	<b>12,446,075</b>	<b>3,444,085</b>	<b>-</b>	<b>9,501,990</b>
							<b>12,946,075</b>
<b>Liabilities</b>							
Other liabilities	-	602,010	-	602,010	-	700,648	-
	<b>-</b>	<b>602,010</b>	<b>-</b>	<b>602,010</b>	<b>-</b>	<b>700,648</b>	<b>-</b>
							<b>700,648</b>



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel of the Bank, included in consolidated statement of income, is as follows:

Short term employee benefits