

Elaf Bank B.S.C. (c)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2011 (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 30 September 2011, comprising of the interim consolidated statement of financial position as at 30 September 2011 and the related interim consolidated statements of income, cash flows and changes in equity for the nine 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.

The corresponding amounts presented have been reviewed or audited, as applicable, by other auditors whose review opinion dated 10 November 2010 and audit opinion dated 9 March 2011 have expressed unqualified opinions on those amounts.

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.




31 October 2011
Manama, Kingdom of Bahrain

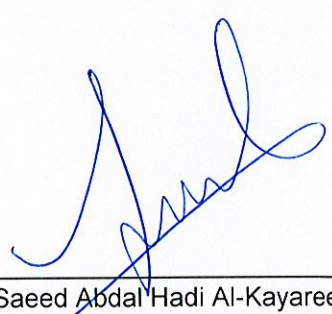
Elaf Bank B.S.C. (c)


INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2011 (Unaudited)

			(Restated)
			Audited
		30 September	31 December
		2011	2010
	Note	US\$	US\$
ASSETS			
Cash and bank balances		1,617,459	1,790,442
Mudaraba financing		16,494,785	9,526,864
Investment in Ijarah asset		7,749,856	8,045,222
Murabaha receivables		3,275,395	15,102,108
Investment in securities	3	111,132,116	98,584,366
Investment in associate		3,444,085	3,444,085
Investment in real estate		19,803,466	19,803,466
Equipment		1,299,588	1,683,710
Other assets	4	1,361,430	1,429,350
TOTAL ASSETS		166,178,180	159,409,613
LIABILITIES AND EQUITY			
Liabilities			
Wakala payable		4,500,000	-
Other liabilities	5	1,007,365	776,754
Total liabilities		5,507,365	776,754
Equity			
Share capital		200,000,000	200,000,000
Statutory reserve		676,313	676,313
Accumulated losses		(39,634,527)	(40,841,631)
Other reserves		(370,971)	(1,201,823)
Total equity		160,670,815	158,632,859
TOTAL LIABILITIES AND EQUITY		166,178,180	159,409,613


Jamal Abdullah Al Saleem
Chairman


Saeed Abdal Hadi Al-Kayareen
Vice Chairman


Dr. Jamil A K El Jaroudi
Chief Executive Officer

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the period ended 30 September 2011 (Unaudited)

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	2011	2010	2011	2010
	US\$	US\$	US\$	US\$
INCOME				
Income from mudaraba financing	138,012	122,821	288,904	293,958
Income from murabaha receivables	97,742	507,831	823,184	1,662,634
Income from ijarah asset	280,540	887,689	1,132,117	1,258,511
Income from investment in securities	1,593,164	1,459,120	5,179,957	4,117,841
Other income	127,266	90,620	133,257	52,326
Total income	2,236,724	3,068,081	7,557,419	7,385,270
EXPENSES				
Staff costs	(1,225,424)	(1,112,435)	(3,496,145)	(3,395,675)
Depreciation and amortisation	(278,111)	(654,257)	(824,263)	(1,016,743)
Other expenses	(637,809)	(672,802)	(2,029,907)	(1,928,118)
Total expenses	(2,141,344)	(2,439,494)	(6,350,315)	(6,340,536)
Net profit before unrealized re-measurement losses on investments	95,380	628,587	1,207,104	1,044,734
Unrealized re-measurement loss on investments - fair value through equity	-	-	-	(1,698,072)
Net profit / (loss) for the period	95,380	628,587	1,207,104	(653,338)

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 30 September 2011 (Unaudited)

	<i>Nine months ended 30 September</i>	
	<i>2011</i>	<i>2010</i>
	<i>US\$</i>	<i>US\$</i>
OPERATING ACTIVITIES		
Net profit / (loss) for the period	1,207,104	(653,338)
Adjustment for non cash items:		
Depreciation and amortisation	824,263	1,016,743
Gain on sale of investments	(547,504)	(354,981)
Net amortisation of income on investments	(1,089,808)	(846,304)
Unrealized re-measurement loss on investments - fair value through equity	-	1,698,072
Operating profit before changes in operating assets and liabilities	394,055	860,192
Changes in operating assets and liabilities:		
Murabaha receivables	11,826,713	2,408,468
Other assets	67,920	121,993
Other liabilities	230,611	218,209
Net cash from operating activities	12,519,299	3,608,862
INVESTMENT ACTIVITIES		
Acquisition of investments	(36,310,311)	(33,551,444)
Proceeds from sale of investments	26,230,812	36,918,915
Investment in real estate	-	(657,361)
Net purchase of equipment	(144,862)	(49,092)
Net cash (used in) from investing activities	(10,224,361)	2,661,018
FINANCING ACTIVITY		
Wakala payable	4,500,000	10,000,000
Net cash from financing activity	4,500,000	10,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,794,938	16,269,880
Cash and cash equivalents at 1 January	11,317,306	6,264,049
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	18,112,244	22,533,929
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and bank balances	1,617,459	2,119,071
Mudaraba financing with original maturity of 90 days or less	16,494,785	20,414,858
	18,112,244	22,533,929

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 30 September 2011 (Unaudited)

	Other reserves						Total equity US\$
	Share capital US\$	Statutory reserve US\$	Accumulated losses US\$	Foreign currency revaluation reserve US\$	Investment fair value reserve US\$	Other reserves US\$	
Balance at 1 January 2011	200,000,000	676,313	(40,841,631)	(578,331)	467,286	(111,045)	159,723,637
Changes due to adoption of FAS 25	-	-	-	(35,673)	(1,055,105)	(1,090,778)	(1,090,778)
Balance at 1 January 2011 (restated)	200,000,000	676,313	(40,841,631)	(614,004)	(587,819)	(1,201,823)	158,632,859
Net profit for the period	-	-	1,207,104	-	-	-	1,207,104
Cumulative changes in fair values	-	-	-	-	577,849	577,849	577,849
Foreign currency translation on investments	-	-	-	253,003	-	253,003	253,003
Balance as at 30 September 2011	200,000,000	676,313	(39,634,527)	(361,001)	(9,970)	(370,971)	160,670,815
Balance at 1 January 2010	200,000,000	676,313	(20,692,974)	169,221	(625,419)	(456,198)	179,527,141
Changes due to adoption of FAS 25	-	-	-	-	(9,275)	(9,275)	(9,275)
Balance at 1 January 2010 (restated)	200,000,000	676,313	(20,692,974)	169,221	(634,694)	(465,473)	179,517,866
Net loss for the period	-	-	(653,338)	-	-	-	(653,338)
Cumulative changes in fair values	-	-	-	-	33,637	33,637	33,637
Foreign currency translation on investments	-	-	-	(81,404)	-	(81,404)	(81,404)
Foreign currency translation relating to associate	-	-	-	(455,915)	-	(455,915)	(455,915)
Balance as at 30 September 2010 (restated)	200,000,000	676,313	(21,346,312)	(368,098)	(601,057)	(969,155)	178,360,846

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2011 (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 consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 31 October 2011.

Due to the adoption of Financial Accounting Standard 25, certain balances in the interim condensed consolidated financial statements do not correspond to the consolidated financial statements for the year ended 31 December 2010 and reflect adjustments made as detailed in note 3.

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 nine month period ended 30 September 2011 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 2010. In addition, results for the nine months period ended 30 September 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

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 2010, except for the new and amended conceptual framework financial accounting standards, which were prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Shari'a Rules and Principles, the Bahrain Commercial Companies law, Central Bank of Bahrain and Financial Institution law. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ("the IFRS") issued by International Accounting Standards Board.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2011 (Unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 Significant accounting policies (continued)****New and amended accounting standard and framework**

During 2010, AAOIFI amended its conceptual framework and issued new Financial Accounting Standard (FAS 25) "Investment in sukuk, shares and similar instruments", which is effective as of 1 January 2011.

Statement of financial accounting no.1: conceptual framework for the financial reporting by Islamic financial institutions

The amended conceptual framework provides the basis for the financial accounting standards issued by AAOIFI. The amended framework introduces the concept of substance and form compared to the concept of form over substance. The framework states that it is necessary that information, transaction and other events are accounted for and presented in accordance with its substance and economic reality as well as the legal form.

Financial accounting standard (FAS 25) "Investment in sukuk, shares and similar instruments"

The Group has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by Islamic financial institutions.

The adoption of FAS 25 had an effect on the classification and measurement of the Group's financial assets. As a result of the application of this new standard, the classification of the investment portfolio was revisited and changes were made in these classifications in line with FAS 25. The corporate sukuk held by the Group have been reclassified retrospectively from available for sale investment to investment at amortised cost. Accordingly, the fair value adjustment previously recognised on these sukuk in equity have been restated and the impact on the opening total equity as of 1 January 2011 was a reduction of US\$ 1,090,778 (1 January 2010: reduction of US\$ 9,275).

2.4 Basis of consolidation

The condensed consolidated interim financial information for the period ended 30 September 2011 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>
Subsidiaries			
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%
Associate			
Alpha Lease and Finance Holding Company B.S.C. (c)	Kingdom of Bahrain	30 December 2007	30%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2011 (Unaudited)

3 INVESTMENT IN SECURITIES

	<i>Amortised cost US\$</i>	<i>Fair value through equity US\$</i>	<i>Total US\$</i>
Debt type			
Quoted sukuk	53,899,923	-	53,899,923
Unquoted sukuk	21,340,576	-	21,340,576
Equity type			
Quoted shares	-	4,547,585	4,547,585
Unquoted shares	-	31,344,032	31,344,032
Total as at 30 September 2011	75,240,499	35,891,617	111,132,116

	<i>Amortised cost US\$</i>	<i>Fair value through equity US\$</i>	<i>Total US\$</i>
Debt type			
Quoted sukuk	38,737,572	-	38,737,572
Unquoted sukuk	25,402,001	-	25,402,001
Equity type			
Quoted shares	-	3,575,904	3,575,904
Unquoted shares	-	30,868,889	30,868,889
Total as at 31 December 2010	64,139,573	34,444,793	98,584,366

RECLASSIFICATION OF INVESTMENTS

Adoption of FAS 25 resulted in the following adjustments to the carrying values of the investments:

	<i>Before adopting FAS 25</i>		<i>On adopting FAS 25</i>		
	<i>Held to maturity US\$</i>	<i>Available for sale US\$</i>	<i>FAS 25 adjustment US\$</i>	<i>Amortised cost US\$</i>	<i>Fair value through equity US\$</i>
Debt type					
Quoted sukuk	9,500,000	29,589,227	(561,919)	38,737,572	-
Unquoted sukuk	22,306,452	3,834,672	(528,859)	25,402,001	-
Equity type					
Quoted shares	-	3,575,904	-	-	3,575,904
Unquoted shares	-	30,868,889	-	-	30,868,889
31 December 2010	31,806,452	67,868,692	(1,090,778)	64,139,573	34,444,793

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2011 (Unaudited)

4 OTHER ASSETS

	<i>Unaudited</i> 30 September 2011 US\$	<i>Audited</i> 31 December 2010 US\$
Prepaid expenses	384,897	217,099
Profit receivable	683,272	1,169,865
Dividend income receivable	54,322	-
Other	238,939	42,386
	<u>1,361,430</u>	<u>1,429,350</u>

5 OTHER LIABILITIES

	<i>Unaudited</i> 30 September 2011 US\$	<i>Audited</i> 31 December 2010 US\$
Accrued expenses	543,076	416,686
Other payables	464,289	360,068
	<u>1,007,365</u>	<u>776,754</u>

6 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise shareholders, directors, executive management of the Bank, Shari'a supervisory board members and entities over which the Bank exercises significant influence. The transactions with these parties were made on commercial terms.

The significant balances with related parties as at 30 September 2011 were as follows:

	30 September 2011		
	<i>Directors and</i> <i>key management</i> US\$	<i>Other</i> <i>parties</i> US\$	<i>Total</i> US\$
Other liabilities	386,549	13,195	399,744

The income and expenses in respect of related parties included in the interim condensed consolidated financial statement are as follows:

	30 September 2011		
	<i>Directors and</i> <i>key management</i> US\$	<i>Other</i> <i>parties</i> US\$	<i>Total</i> US\$
Income from murabaha receivables	-	24,942	24,942
Other expenses	420,992	57,231	478,223

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2011 (Unaudited)

6 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The significant balances with related parties as at 31 December 2010 were as follows:

	31 December 2010		
	<i>Directors and key management</i>	<i>Other related parties</i>	<i>Total</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Murabaha receivables	-	1,366,608	1,366,608
Other liabilities	54,172	12,975	67,147

The income and expenses in respect of related parties included in the interim condensed consolidated financial statement are as follows:

	30 September 2010		
	<i>Directors and key management</i>	<i>Other related parties</i>	<i>Total</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Income from murabaha receivables	-	178,531	178,531
Other expenses	235,961	56,872	292,833

7 COMPARATIVE FIGURES

Certain of the prior period's figures have been reclassified due to the adoption of FAS 25 to conform with the presentation adopted in the current period. Such classification did not affect previously reported net profit and details are given in note 3.