

Elaf Bank B.S.C. (c)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 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 30 September 2012, comprising of the interim consolidated statement of financial position as at 30 September 2012 and the related interim consolidated statements of income, cash flows and changes in owners' 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.

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.

8 November 2012
Manama, Kingdom of Bahrain

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2012 (Unaudited)

		<i>Unaudited</i> 30 September 2012 US\$	<i>Audited</i> 31 December 2011 US\$
	<i>Note</i>		
ASSETS			
Cash and balances with banks		2,047,481	2,354,933
Mudaraba financing	3	21,343,443	14,206,052
Musharaka financing		985,545	958,810
Investment in Ijarah asset		7,332,337	7,650,409
Ijarah muntahia bittamleek		2,063,356	-
Murabaha receivable		1,889,550	3,272,458
Investment in securities	4	112,802,560	109,957,281
Investment in associate		3,444,085	3,444,085
Investment in real estate		15,842,773	15,842,773
Fixed assets		1,242,617	1,566,186
Other assets	5	2,789,887	1,704,978
TOTAL ASSETS		171,783,634	160,957,965
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Wakala payable	6	14,041,643	4,543,500
Other liabilities	7	1,066,124	1,646,066
Total liabilities		15,107,767	6,189,566
Owners' equity			
Share capital		200,000,000	200,000,000
Statutory reserve		676,313	676,313
Accumulated losses		(43,307,357)	(45,011,717)
Other reserves		(693,089)	(896,197)
Total owners' equity		156,675,867	154,768,399
TOTAL LIABILITIES AND OWNERS' EQUITY		171,783,634	160,957,965


Paul Mercer
Chairman

Isa Habib
Vice Chairman

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the period ended 30 September 2012 (Unaudited)

	<i>Three months ended</i> <i>30 September</i>		<i>Nine months ended</i> <i>30 September</i>	
	2012	2011	2012	2011
	US\$	US\$	US\$	US\$
INCOME				
Profit from Islamic financing	547,851	516,294	1,973,132	2,244,205
Profit on Islamic financing	(35,577)	(20,500)	(116,027)	(20,500)
Net income on Islamic financing	512,274	495,794	1,857,105	2,223,705
Income from investment in securities (note 8)	2,189,944	1,593,164	7,578,667	5,179,957
Income from investment banking services	86,341	-	168,760	-
Foreign exchange (loss) gain	(13,600)	77,682	(38,628)	83,673
Other income	-	49,584	17,560	49,584
Total income	2,774,959	2,216,224	9,583,464	7,536,919
EXPENSES				
Staff costs	(672,450)	(1,225,424)	(3,365,229)	(3,496,145)
Depreciation and amortisation	(181,870)	(278,111)	(729,732)	(824,263)
Other expenses	(622,664)	(617,309)	(2,041,759)	(2,009,407)
Total expenses	(1,476,984)	(2,120,844)	(6,136,720)	(6,329,815)
PROFIT BEFORE MERGER EXPENSES, IMPAIRMENT AND PROVISION	1,297,975	95,380	3,446,744	1,207,104
Impairment and provision	(1,126,773)	-	(1,126,773)	-
Merger expenses	(88,000)	-	(615,611)	-
NET PROFIT FOR THE PERIOD	83,202	95,380	1,704,360	1,207,104



Paul Mercer
Chairman



Isa Habib
Vice Chairman

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 September 2012 (Unaudited)

	<i>Nine months ended 30 September</i>	
	2012	2011
	US\$	US\$
OPERATING ACTIVITIES		
Net profit for the period	1,704,360	1,207,104
Adjustment for:		
Depreciation and amortisation	729,732	824,263
Gain on sale of investments	(3,118,301)	(547,504)
Gain on sale of fixed assets	(17,560)	-
Impairment and provision	1,126,773	-
Net amortisation of discount/ premium	(646,980)	(1,089,808)
Operating (loss) profit before changes in operating assets and liabilities	(221,976)	394,055
Changes in operating assets and liabilities:		
Murabaha receivables	1,382,908	11,826,713
Musharaka financing	(53,508)	-
Ijarah muntahia bittamleek	(2,063,356)	-
Other assets	(1,084,909)	67,920
Other liabilities	(579,942)	230,611
Net cash (used in) from operating activities	(2,620,783)	12,519,299
INVESTMENT ACTIVITIES		
Purchase of investment in securities	(66,188,485)	(36,310,311)
Proceeds from sale of investments	66,211,594	26,230,812
Purchase of fixed assets, net	(70,530)	(144,862)
Net cash used in investing activities	(47,421)	(10,224,361)
FINANCING ACTIVITY		
Wakala payable	9,498,143	4,500,000
Net cash from financing activity	9,498,143	4,500,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,829,939	6,794,938
Cash and cash equivalents at 1 January	16,560,985	11,317,306
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	23,390,924	18,112,244
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and bank balances	2,047,481	1,617,459
Mudaraba financing with original maturity of 90 days or less	21,343,443	16,494,785
	23,390,924	18,112,244

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements.

Elaf Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the period ended 30 September 2012 (Unaudited)

	Other reserves						
	Share capital US\$	Statutory reserve US\$	Accumulated losses US\$	Foreign	Investment	Other reserves US\$	Total owners' equity US\$
currency revaluation reserve US\$				fair value reserve 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	-	-	1,704,360	-	-	-	1,704,360
Cumulative changes in fair values	-	-	-	-	(316,152)	(316,152)	(316,152)
Foreign currency translation on investments	-	-	-	519,260	-	519,260	519,260
Balance as at 30 September 2012	200,000,000	676,313	(43,307,357)	(231,760)	(461,329)	(693,089)	156,675,867
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	-	-	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

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 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 8 November 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 nine month period ended 30 September 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 nine months period ended 30 September 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

The shareholders of the Bank, in an extraordinary general meeting held on 28 June 2012, passed a resolution approving the merger of the Bank with Capinvest B.S.C. (c) ("Capinvest") and Capital Management House B.S.C. (c) ("CMH") (together the "merging entities") in accordance with the Merger Protocol signed on 3 October 2011 and subject to the approval of the Ministry of Industry and Commerce and the Central Bank of Bahrain. The merger was approved by the Central Bank of Bahrain and the Ministry of Industry and Commerce on 13 September 2012 and 11 October 2012 respectively which is subject to a 90 days no objection period.

The merging entities propose to merge their operations legally effected by means of an amalgamation of Capinvest and CMH into the Bank to form the Merged Entity in accordance with Article 312 (a) (1) of the Bahrain Commercial Companies Law. The effect of amalgamation is that all of the assets and liabilities of the merging entities (including the fiduciary relationships, commitments and contingent liabilities) will be held within the Merged Entity.

The Board of Directors of the Bank expect the completion of merger process during the fourth quarter of the financial year ending 31 December 2012.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2012 (Unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.4 Basis of consolidation

The condensed consolidated interim financial information for the period ended 30 September 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>
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%

3 MUDARABA FINANCING

These represent short term placements with financial institutions based in Kingdom of Bahrain on mudaraba basis. The expected annual yield on these outstanding balances ranges from 1.75% to 3.50% (2011: 2.25% to 4.4%).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2012 (Unaudited)

4 INVESTMENT IN SECURITIES

At 30 September 2012

	<i>Amortised cost US\$</i>	<i>Fair value through equity US\$</i>	<i>Unaudited Total US\$</i>
Debt type			
Quoted sukuk	53,822,809	-	53,822,809
Unquoted sukuk	25,470,484	-	25,470,484
Equity type			
Quoted shares	-	16,057,378	16,057,378
Unquoted shares	-	46,031,469	46,031,469
Impairment	-	(28,579,580)	(28,579,580)
	79,293,293	33,509,267	112,802,560

At 31 December 2011

	<i>Amortised cost US\$</i>	<i>Fair value through equity US\$</i>	<i>Audited Total US\$</i>
Debt type			
Quoted sukuk	52,928,477	-	52,928,477
Unquoted sukuk	22,583,381	-	22,583,381
Equity type			
Quoted shares	-	16,890,195	16,890,195
Unquoted shares	-	45,034,808	45,034,808
Impairment	-	(27,479,580)	(27,479,580)
	75,511,858	34,445,423	109,957,281

5 OTHER ASSETS

	<i>Unaudited 30 September 2012 US\$</i>	<i>Audited 31 December 2011 US\$</i>
Prepaid expenses	225,117	190,866
Income receivable	1,715,440	1,315,168
Ijarah receivable	472,599	-
Advances to staff	4,321	11,514
Other receivable	372,410	187,430
	2,789,887	1,704,978

6 WAKALA PAYABLE

These comprise placements received from financial institutions based in Malaysia on wakala basis with original maturity of less than 3 months. The expected annual yield on these outstanding balances ranges from 1.40% to 1.65% (2011: 2%).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2012 (Unaudited)

7 OTHER LIABILITIES

	<i>Unaudited</i> 30 September 2012 US\$	<i>Audited</i> 31 December 2011 US\$
Accounts payables	410,419	121,991
Provision for employee benefit	99,108	789,121
Directors' fee accrual	225,203	538,482
Other accruals	331,394	196,472
	<u>1,066,124</u>	<u>1,646,066</u>

8 INCOME FROM INVESTMENT IN SECURITIES

	<i>Unaudited</i> 30 September 2012 US\$	<i>Unaudited</i> 30 September 2011 US\$
Profit earned on debt-type instruments at amortised cost	4,356,418	4,450,453
Dividends on equity-type instruments at fair value through equity	128,152	182,000
Gain on disposal of debt-type instruments at amortised cost	1,974,486	547,504
Gain on disposal of equity-type instruments at fair value through equity	1,119,611	-
	<u>7,578,667</u>	<u>5,179,957</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2012 (Unaudited)

9 SEGMENT INFORMATION

a) Geographic sector

The geographical distribution of the Group's assets and liabilities is as follows:

30 September 2012	Middle East US\$	Europe US\$	Africa US\$	South East Asia US\$	Unaudited Total US\$
Assets					
Cash and balances with banks	2,047,481	-	-	-	2,047,481
Mudaraba financing	21,343,443	-	-	-	21,343,443
Musharaka financing	-	-	-	985,545	985,545
Investment in ijarah asset	-	-	-	7,332,337	7,332,337
Ijarah muntahia bittamleek	-	-	-	2,063,356	2,063,356
Murabaha receivable	-	1,889,550	-	-	1,889,550
Investment in securities	71,859,411	24,858,791	16,084,358	-	112,802,560
Investment in associate	3,444,085	-	-	-	3,444,085
Investment in real estate	15,842,773	-	-	-	15,842,773
Fixed assets	1,242,617	-	-	-	1,242,617
Other assets	2,317,288	-	-	472,599	2,789,887
Total assets	118,097,098	26,748,341	16,084,358	10,853,837	171,783,634
Liabilities					
Wakala payable	-	-	-	14,041,643	14,041,643
Other liabilities	1,066,124	-	-	-	1,066,124
Total liabilities	1,066,124	-	-	14,041,643	15,107,767
31 December 2011	Middle East US\$	Europe US\$	Africa US\$	South East Asia US\$	Audited Total US\$
Assets					
Cash and balances with banks	2,354,933	-	-	-	2,354,933
Mudaraba financing	14,206,052	-	-	-	14,206,052
Musharaka financing	-	-	-	958,810	958,810
Investment in ijarah asset	-	-	-	7,650,409	7,650,409
Murabaha receivable	-	3,272,458	-	-	3,272,458
Investment in securities	67,057,576	22,762,166	20,137,539	-	109,957,281
Investment in associate	3,444,085	-	-	-	3,444,085
Investment in real estate	15,842,773	-	-	-	15,842,773
Fixed assets	1,566,186	-	-	-	1,566,186
Other assets	1,704,978	-	-	-	1,704,978
Total assets	106,176,583	26,034,624	20,137,539	8,609,219	160,957,965
Liabilities					
Wakala payable	-	-	-	4,543,500	4,543,500
Other liabilities	1,646,066	-	-	-	1,646,066
Total liabilities	1,646,066	-	-	4,543,500	6,189,566

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2012 (Unaudited)

9 SEGMENTAL ANALYSIS (continued)

b) Industry sector

The industrial distribution of the Group's assets and liabilities is as follows:

30 September 2012	Trading and manufacturing US\$	Banks and financial institutions US\$	Real Estate US\$	Transport and others US\$	Unaudited Total US\$
Asset					
Cash and balances with banks	-	2,047,481	-	-	2,047,481
Mudaraba financing	-	21,343,443	-	-	21,343,443
Musharaka financing	-	985,545	-	-	985,545
Investment in ijarah asset	-	-	-	7,332,337	7,332,337
Ijarah muntahia bittamleek	-	-	-	2,063,356	2,063,356
Murabaha receivable	-	-	1,889,550	-	1,889,550
Investment in securities	14,029,889	38,727,292	39,431,840	20,613,539	112,802,560
Investment in associate	-	3,444,085	-	-	3,444,085
Investment in real estate	-	-	15,842,773	-	15,842,773
Fixed assets	-	-	-	1,242,617	1,242,617
Other assets	-	-	-	2,789,887	2,789,887
Total assets	14,029,889	66,547,846	57,164,163	34,041,736	171,783,634
Liabilities					
Wakala payable	-	14,041,643	-	-	14,041,643
Other liabilities	-	-	-	1,066,124	1,066,124
Total liabilities	-	14,041,643	-	1,066,124	15,107,767
31 December 2011					
Assets					
Cash and balances with banks	-	2,354,933	-	-	2,354,933
Mudaraba financing	-	14,206,052	-	-	14,206,052
Musharaka financing	-	958,810	-	-	958,810
Investment in ijarah asset	-	-	-	7,650,409	7,650,409
Murabaha receivable	-	-	3,272,458	-	3,272,458
Investment in securities	16,791,279	45,788,251	31,911,805	15,465,946	109,957,281
Investment in associate	-	3,444,085	-	-	3,444,085
Investment in real estate	-	-	15,842,773	-	15,842,773
Fixed assets	-	-	-	1,566,186	1,566,186
Other assets	-	-	-	1,704,978	1,704,978
Total assets	16,791,279	66,752,131	51,027,036	26,387,519	160,957,965
Liabilities					
Wakala payable	-	4,543,500	-	-	4,543,500
Other liabilities	-	-	-	1,646,066	1,646,066
Total liabilities	-	4,543,500	-	1,646,066	6,189,566

The Group's revenue and expenses are reviewed at a Group level and therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

Elaf Bank B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2012 (Unaudited)

10 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\$	Unaudited 30 September 2012 US\$	Associated companies US\$	Directors/ key management personnel Shari'a board members US\$	Major shareholders / entities in which directors are interested US\$	Audited 31 December 2011 US\$
Assets								
Cash and balances with banks	-	-	1,990	1,990	-	-	1,990	1,990
Investment in securities	-	-	9,536,945	9,536,945	-	-	9,500,000	9,500,000
Investment in associate	3,444,085	-	-	3,444,085	3,444,085	-	-	3,444,085
	<u>3,444,085</u>	<u>-</u>	<u>9,538,935</u>	<u>12,983,020</u>	<u>3,444,085</u>	<u>-</u>	<u>9,501,990</u>	<u>12,946,075</u>
Liabilities								
Other liabilities	-	250,120	-	250,120	-	700,648	-	700,648
	<u>-</u>	<u>250,120</u>	<u>-</u>	<u>250,120</u>	<u>-</u>	<u>700,648</u>	<u>-</u>	<u>700,648</u>

Elaf Bank B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2012 (Unaudited)

10 RELATED PARTY TRANSACTIONS (continued)

	30 September 2012			30 September 2011		
	Major			Major		
	Directors/ key management personnel	shareholders / entities in which directors are interested	US\$	Directors/ key management personnel	shareholders / entities in which directors are interested	US\$
	Shari'a board members	Unaudited Total	US\$	Shari'a board members	Unaudited Total	US\$
Income						
Profit from Islamic financing	-	-	-	-	-	-
Income from investment in securities	-	216,617	216,617	-	163,974	163,974
Expenses						
Staff cost	1,852,286	-	1,852,286	1,945,691	-	1,945,691
Other expenses	417,943	-	417,943	521,369	-	521,369
Compensation of key management personnel of the Bank, included in consolidated statement of income, is as follows:						
				30 September 2012	30 September 2011	
				US\$	US\$	
Short term employee benefits				1,715,708	1,863,926	
Long term employee benefits				136,578	81,765	