

Elaf Bank B.S.C. (c)
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
30 JUNE 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 June 2012, comprising of the interim consolidated statement of financial position as at 30 June 2012 and the related interim consolidated statements of income, cash flows and changes in owners' equity for the six 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.

..... 2012

Manama, Kingdom of Bahrain

Elaf Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012 (Unaudited)

	<i>Unaudited</i>	<i>Audited</i>
	30 June	31 December
	2012	2011
Note	US\$	US\$
ASSETS		
Cash and balances with banks	7,173,936	2,354,933
Mudaraba financing	26,053,392	14,206,052
Musharaka financing	1,000,665	958,810
Investment in Ijarah asset	7,439,135	7,650,409
Ijarah muntahia bittamleek	2,220,890	-
Murabaha receivable	2,450,713	3,272,458
Investment in securities	3	109,957,281
Investment in associate	3,444,085	3,444,085
Investment in real estate	15,842,773	15,842,773
Fixed assets	1,313,828	1,566,186
Other assets	4	1,704,978
TOTAL ASSETS	177,212,156	160,957,965
LIABILITIES AND OWNERS' EQUITY		
Liabilities		
Wakala payable	18,524,391	4,543,500
Other liabilities	5	1,646,066
Total liabilities	21,027,148	6,189,566
Owners' equity		
Share capital	200,000,000	200,000,000
Statutory reserve	676,313	676,313
Accumulated losses	(43,390,559)	(45,011,717)
Other reserves	(1,100,746)	(896,197)
Total owners' equity	156,185,008	154,768,399
TOTAL LIABILITIES AND OWNERS' EQUITY	177,212,156	160,957,965

Paul Mercer
Chairman

Isa Habib
Vice Chairman

The attached notes 1 to 8 form part of these interim condensed consolidated financial statements.

Elaf Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the period ended 30 June 2012 (Unaudited)

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	2012	<i>2011</i>	2012	<i>2011</i>
	US\$	<i>US\$</i>	US\$	<i>US\$</i>
INCOME				
Profit from Islamic financing	887,910	939,530	1,425,281	1,727,911
Profit on Islamic financing	(47,080)	-	(80,450)	-
Net income on Islamic financing	840,830	939,530	1,344,831	1,727,911
Income from investment in securities (note 6)	2,544,199	1,646,135	5,388,723	3,586,793
Income from investment banking services	28,735	-	82,419	-
Foreign exchange (loss) gain	(35,213)	(1,425)	(25,028)	5,991
Other income	1,645	-	17,560	-
Total income	3,380,196	2,584,240	6,808,505	5,320,695
EXPENSES				
Staff costs	(967,176)	(1,118,412)	(2,692,779)	(2,270,721)
Depreciation and amortisation	(198,712)	(270,076)	(547,862)	(546,152)
Other expenses	(779,989)	(773,490)	(1,419,095)	(1,392,098)
Total expenses	(1,945,877)	(2,161,978)	(4,659,736)	(4,208,971)
PROFIT BEFORE MERGER EXPENSES	1,434,319	422,262	2,148,769	1,111,724
Merger expenses	(90,000)	-	(527,611)	-
NET PROFIT FOR THE PERIOD	1,344,319	422,262	1,621,158	1,111,724

 Paul Mercer
 Chairman

 Isa Habib
 Vice Chairman

The attached notes 1 to 8 form part of these interim condensed consolidated financial statements.

Elaf Bank B.S.C. (c)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2012 (Unaudited)

	<i>Six months ended</i>	
	<i>30 June</i>	
	2012	2011
	US\$	US\$
OPERATING ACTIVITIES		
Net profit for the period	1,621,158	1,111,724
Adjustment for:		
Depreciation and amortisation	547,862	546,152
Gain on sale of investments	(2,203,472)	(519,215)
Gain on sale of fixed assets	(17,560)	-
Net amortisation of discount/ premium	(615,674)	(739,099)
Operating (loss) profit before changes in operating assets and liabilities	(667,686)	399,562
Changes in operating assets and liabilities:		
Murabaha receivables	821,745	11,924,455
Musharaka financing	(41,855)	-
Ijarah muntahia bittamleek	(2,220,890)	-
Other assets	(887,341)	(662,925)
Other liabilities	856,691	70,511
Net cash (used in) from operating activities	(2,139,336)	11,731,603
INVESTMENT ACTIVITIES		
Purchase of investment in securities	(46,073,426)	(32,222,190)
Proceeds from sale of investments	50,964,884	20,633,216
Purchase of fixed assets	(66,670)	(119,642)
Net cash from (used in) investing activities	4,824,788	(11,708,616)
FINANCING ACTIVITY		
Wakala payable	13,980,891	-
Net cash from financing activity	13,980,891	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,666,343	22,987
Cash and cash equivalents at 1 January	16,560,985	11,317,306
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	33,227,328	11,340,293
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and bank balances	7,173,936	1,172,150
Mudaraba financing with original maturity of 90 days or less	26,053,392	10,168,143
	33,227,328	11,340,293

The attached notes 1 to 8 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 June 2012 (Unaudited)

	Share capital US\$	Statutory reserve US\$	Accumulated losses US\$	Other reserves			Total owners' 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	-	-	1,621,158	-	-	-	1,621,158
Cumulative changes in fair values	-	-	-	-	(285,602)	(285,602)	(285,602)
Foreign currency translation on investments	-	-	-	81,053	-	81,053	81,053
Balance as at 30 June 2012	200,000,000	676,313	(43,390,559)	(669,967)	(430,779)	(1,100,746)	156,185,008
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	-	-	1,111,724	-	-	-	1,111,724
Cumulative changes in fair values	-	-	-	-	1,026,169	1,026,169	1,026,169
Foreign currency translation on investments	-	-	-	847,662	-	847,662	847,662
Balance as at 30 June 2011	200,000,000	676,313	(39,729,907)	233,658	438,350	672,008	161,618,414

The attached notes 1 to 8 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 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 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 six month period ended 30 June 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 six months period ended 30 June 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 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.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2012 (Unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)**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 June 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

<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 INVESTMENT IN SECURITIES

At 30 June 2012

	<i>Amortised cost US\$</i>	<i>Fair value through equity US\$</i>	<i>Unaudited Total US\$</i>
Debt type			
<i>Quoted sukuk</i>	49,079,422	-	49,079,422
<i>Unquoted sukuk</i>	24,399,389	-	24,399,389
Equity type			
<i>Quoted shares</i>	-	8,533,730	8,533,730
<i>Unquoted shares</i>	-	45,116,218	45,116,218
<i>Impairment</i>	-	(19,448,339)	(19,448,339)
	73,478,811	34,201,609	107,680,420

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2012 (Unaudited)

3 INVESTMENT IN SECURITIES (continued)

At 31 December 2011

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

4 OTHER ASSETS

	<i>Unaudited 30 June 2012 US\$</i>	<i>Audited 31 December 2011 US\$</i>
Prepaid expenses	485,216	190,866
Income receivable	1,264,522	1,315,168
Ijarah receivable	314,962	-
Advances to staff	13,447	11,514
Other receivable	514,172	187,430
	<u>2,592,319</u>	<u>1,704,978</u>

5 OTHER LIABILITIES

	<i>Unaudited 30 June 2012 US\$</i>	<i>Audited 31 December 2011 US\$</i>
Accounts payables	2,247	121,991
Provision for employee benefit	67,798	789,121
Directors' fee accrual	112,810	538,482
Sukuk Payables	1,884,242	-
Other accruals	435,660	196,472
	<u>2,502,757</u>	<u>1,646,066</u>

6 INCOME FROM INVESTMENT IN SECURITIES

	<i>Unaudited 30 June 2012 US\$</i>	<i>Unaudited 30 June 2011 US\$</i>
Profit earned on debt-type instruments at amortised cost	2,974,251	2,885,578
Dividends on equity-type instruments at fair value through equity	211,000	182,000
Gain on disposal of debt-type instruments at amortised cost	1,408,243	519,215
Gain on disposal of equity-type instruments at fair value through equity	795,229	-
	<u>5,388,723</u>	<u>3,586,793</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2012 (Unaudited)

7 SEGMENT INFORMATION

a) Geographic sector

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

	<i>Middle East US\$</i>	<i>Europe US\$</i>	<i>Africa US\$</i>	<i>South East Asia US\$</i>	<i>Unaudited Total US\$</i>
30 June 2012					
Assets					
Cash and balances with banks	7,173,936	-	-	-	7,173,936
Mudaraba financing	26,053,392	-	-	-	26,053,392
Musharaka financing	-	-	-	1,000,665	1,000,665
Investment in ijarah asset	-	-	-	7,439,135	7,439,135
Ijarah muntahia bittamleek	-	-	-	2,220,890	2,220,890
Murabaha receivable	-	2,450,713	-	-	2,450,713
Investment in securities	67,375,945	22,924,684	17,379,791	-	107,680,420
Investment in associate	3,444,085	-	-	-	3,444,085
Investment in real estate	15,842,773	-	-	-	15,842,773
Equipment	1,313,828	-	-	-	1,313,828
Other assets	2,277,357	-	-	314,962	2,592,319
Total assets	123,481,316	25,375,397	17,379,791	10,975,652	177,212,156
Liabilities					
Wakala payable	-	-	-	18,524,391	18,524,391
Other liabilities	2,502,757	-	-	-	2,502,757
Total liabilities	2,502,757	-	-	18,524,391	21,027,148
	<i>Middle East US\$</i>	<i>Europe US\$</i>	<i>Africa US\$</i>	<i>South East Asia US\$</i>	<i>Audited Total US\$</i>
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	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
Equipment	1,566,186	-	-	-	1,566,186
Other assets	1,704,978	-	-	-	1,704,978
Total assets	104,471,605	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 June 2012 (Unaudited)

7 SEGMENTAL ANALYSIS (continued)

b) Industry sector

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

	<i>Trading and manufacturing US\$</i>	<i>Banks and financial institutions US\$</i>	<i>Real Estate US\$</i>	<i>Transport and others US\$</i>	<i>Unaudited Total US\$</i>
30 June 2012					
Asset					
Cash and balances with banks	-	7,173,936	-	-	7,173,936
Mudaraba financing	-	26,053,392	-	-	26,053,392
Musharaka financing	-	1,000,665	-	-	1,000,665
Investment in ijarah asset	-	-	-	7,439,135	7,439,135
Ijarah muntahia bittamleek	-	-	-	2,220,890	2,220,890
Murabaha receivable	-	-	2,450,713	-	2,450,713
Investment in securities	14,033,714	35,730,355	34,276,027	23,640,324	107,680,420
Investment in associate	-	3,444,085	-	-	3,444,085
Investment in real estate	-	-	15,842,773	-	15,842,773
Equipment	-	-	-	1,313,828	1,313,828
Other assets	-	-	-	2,592,319	2,592,319
Total assets	14,033,714	73,402,433	52,569,513	37,206,496	177,212,156
Liabilities					
Wakala payable	-	18,524,391	-	-	18,524,391
Other liabilities	-	-	-	2,502,757	2,502,757
Total liabilities	-	18,524,391	-	2,502,757	21,027,148
	<i>Trading and manufacturing US\$</i>	<i>Banks and financial institutions US\$</i>	<i>Real Estate US\$</i>	<i>Transport and others US\$</i>	<i>Audited Total US\$</i>
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
Equipment	-	-	-	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 June 2012 (Unaudited)

8 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:

	<i>Associated companies</i>	<i>Directors/ key management personnel Shari'a board members</i>	<i>Major shareholders / entities in which directors are interested</i>	<i>Unaudited 30 June 2012</i>	<i>Associated companies</i>	<i>Directors/ key management personnel Shari'a board members</i>	<i>Major shareholders / entities in which directors are interested</i>	<i>Audited 31 December 2011</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Assets								
Cash and balances with banks	-	-	1,990	1,990	-	-	1,990	1,990
Investment in securities	-	-	9,000,000	9,000,000	-	-	9,500,000	9,500,000
Investment in associate	3,444,085	-	-	3,444,085	3,444,085	-	-	3,444,085
	3,444,085	-	9,001,990	12,446,075	3,444,085	-	9,501,990	12,946,075
Liabilities								
Other liabilities	-	133,181	-	133,181	-	700,648	-	700,648
	-	133,181	-	133,181	-	700,648	-	700,648

Elaf Bank B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2012 (Unaudited)

8 RELATED PARTY TRANSACTIONS (continued)

	30 June 2012			30 June 2011		
	<i>Directors/ key management personnel Shari'a board members</i>	<i>Major shareholders / entities in which directors are interested</i>	<i>Unaudited Total</i>	<i>Directors/ key management personnel Shari'a board members</i>	<i>Major shareholders / entities in which directors are interested</i>	<i>Unaudited Total</i>
	US\$	US\$	US\$	US\$	US\$	US\$
Income						
Profit from Islamic financing	-	-	-	-	24,942	24,942
Income from investment in securities	-	134,717	134,717	-	109,870	109,870
Expenses						
Staff cost	1,643,966	-	1,643,966	1,449,711	-	1,449,711
Other expenses	250,508	-	250,508	348,714	-	348,714

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

	30 June 2012	30 June 2011
	US\$	US\$
Short term employee benefits	1,616,228	1,418,398
Long term employee benefits	27,737	31,313