

ALUBAF Arab International Bank B.S.C. (c)

**INTERIM CONDENSED
FINANCIAL STATEMENTS**

31 MARCH 2017 (Reviewed)

REVIEW REPORT TO THE BOARD OF DIRECTORS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

Introduction

We have reviewed the accompanying interim condensed financial statements of ALUBAF Arab International Bank B.S.C. (c) (the "Bank") as at 31 March 2017, comprising the interim statement of financial position and the related interim statements of profit or loss, comprehensive income, cash flows and changes in equity for the three-month period then ended and explanatory notes. The Bank's Board of Directors is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* ('IAS 34'). Our responsibility is to express a conclusion on these interim condensed 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

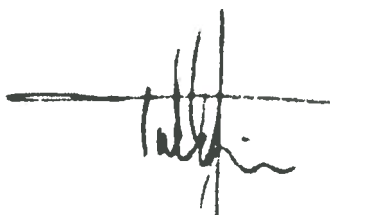
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.




11 May 2017
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)
INTERIM STATEMENT OF FINANCIAL POSITION
 At 31 March 2017 (Reviewed)

		<i>(Reviewed)</i> 31 March 2017 US\$'000	<i>(Audited)</i> 31 December 2016 US\$'000
ASSETS			
Cash and balances with Central banks and other banks		342,790	289,802
Deposits with banks and other financial institutions		415,939	437,992
Investments held for trading	3	22,831	22,413
Non-trading investments	4	206,666	203,767
Loans and advances	5	184,466	208,041
Property, equipment and software		10,921	11,149
Interest receivable		5,604	6,134
Other assets		1,626	1,638
TOTAL ASSETS		1,190,843	1,180,936
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions		584,443	586,824
Due to banks and other financial institutions		169,467	156,315
Due to customers		124,468	129,755
Interest payable		2,651	981
Other liabilities		5,727	4,784
Total liabilities		886,756	878,659
Equity			
Share capital		250,000	250,000
Statutory reserve		20,174	20,174
Retained earnings		35,900	35,652
Fair value reserve		(1,987)	(3,549)
Total equity		304,087	302,277
TOTAL LIABILITIES AND EQUITY		1,190,843	1,180,936


 Talal Al Zain
 Director


 Hasan Khalifa Abulhasan
 Chief Executive Officer


 Moraja G. Solaiman
 Chairman

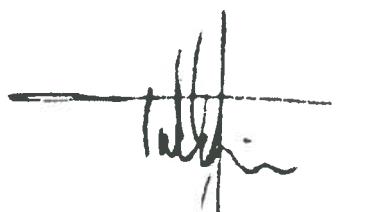
The attached notes 1 to 8 form part of these interim condensed financial statements.

ALUBAF Arab International Bank B.S.C. (c)


INTERIM STATEMENT OF PROFIT OR LOSS

Three months ended 31 March 2017 (Reviewed)

		(Reviewed)	
		Three months ended	
		31 March	
		2017	2016
Note		US\$'000	US\$'000
	Interest and similar income	8,858	9,487
	Interest expense	(2,375)	(2,205)
	Net interest income	6,483	7,282
	Fee and commission income	1,278	1,175
	Trading income - net	14	(48)
	Gain on non-trading investments - net	75	-
	Foreign exchange gain - net	364	303
	Other income	23	7
	Operating income	8,237	8,719
	Provision for credit losses - net	5 (5,239)	(2,074)
	Net operating income	2,998	6,645
	Staff costs	1,891	2,018
	Depreciation	268	250
	Other operating expenses	591	600
	Operating expenses	2,750	2,868
	NET PROFIT FOR THE PERIOD	248	3,777


 Talal Al Zain
 Director


 Hasan Khalifa Abulhasan
 Chief Executive Officer


 Moraja G. Solaiman
 Chairman

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

ALUBAF Arab International Bank B.S.C. (c)

INTERIM STATEMENT OF COMPREHENSIVE INCOME

Three months ended 31 March 2017 (Reviewed)

	(Reviewed)	
	Three months ended	
	31 March	
	2017	2016
	US\$'000	US\$'000
NET PROFIT FOR THE PERIOD	248	3,777
Other comprehensive income:		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Unrealised fair value gain on available-for-sale investments	1,562	119
Other comprehensive income for the period	1,562	119
Total comprehensive income for the period	1,810	3,896

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

ALUBAF Arab International Bank B.S.C. (c)

INTERIM STATEMENT OF CASH FLOWS

Three months ended 31 March 2017 (Reviewed)

Note	(Reviewed)	
	Three months ended	
	31 March	
	2017	2016
	US\$'000	US\$'000
OPERATING ACTIVITIES		
Net profit for the period	248	3,777
Adjustments for:		
Provision for credit losses - net	5,239	2,074
Depreciation	268	250
Amortisation of non-trading investments	134	135
Unrealised loss on held for trading securities	7	80
Amortisation of assets reclassified as "loans and advances" from trading investments	(195)	(179)
Operating profit before changes in operating assets and liabilities	5,701	6,137
Changes in operating assets and liabilities:		
Deposits with banks and other financial institutions	54,702	73,336
Loans and advances	18,531	40,363
Investments held for trading	(425)	(1,256)
Interest receivable and other assets	542	(2,274)
Deposits from banks and other financial institutions	(2,381)	55,466
Due to banks and other financial institutions	13,152	(7,950)
Due to customers	(5,287)	2,840
Interest payable and other liabilities	2,613	938
Net cash from operating activities	87,148	167,600
INVESTING ACTIVITIES		
Purchase of non-trading investments	(1,471)	(86,021)
Purchase of property, equipment and software	(40)	(48)
Net cash used in investing activities	(1,511)	(86,069)
NET INCREASE IN CASH AND CASH EQUIVALENTS	85,637	81,531
Cash and cash equivalents at beginning of the period	651,092	699,092
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	736,729	780,623
Cash and cash equivalents comprise:		
Cash and balances with Central Bank and other banks	342,790	286,017
Deposits with banks and other financial institutions with original maturity of ninety days or less	393,939	494,606
	736,729	780,623

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

ALUBAF Arab International Bank B.S.C. (c)

INTERIM STATEMENT OF CHANGES IN EQUITY

Three months ended 31 March 2017 (Reviewed)

	<i>(Reviewed)</i>				
	<i>Share capital US\$'000</i>	<i>Statutory reserve US\$'000</i>	<i>Retained earnings US\$'000</i>	<i>Fair value reserve US\$'000</i>	<i>Total US\$'000</i>
Balance as at 1 January 2017	250,000	20,174	35,652	(3,549)	302,277
Net profit for the period	-	-	248	-	248
Other comprehensive income for the period	-	-	-	1,562	1,562
At 31 March 2017	250,000	20,174	35,900	(1,987)	304,087
Balance as at 1 January 2016	250,000	20,174	62,837	(3,241)	329,770
Net profit for the period for the period	-	-	3,777	-	3,777
	-	-	-	119	119
At 31 March 2016	250,000	20,174	66,614	(3,122)	333,666

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

At 31 March 2017 (Reviewed)

1 CORPORATE INFORMATION

ALUBAF Arab International Bank B.S.C. (c) (the "Bank") is a closed Bahraini joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is Building 854, Road 3618, Avenue 436, Alubaf Tower, Al-Seef District, PO Box 11529, Manama, Kingdom of Bahrain.

The interim condensed financial statements of the Bank for the three-month period ended 31 March 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 11 May 2017.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements of the Bank for the three month period ended 31 March 2017 are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2016. In addition, results for the three-month period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

New standards, interpretations and amendments adopted by the Bank

The interim condensed financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017.

The below new standards and amendments were effective for annual financial periods commencing 1 January 2017 and therefore apply for the first time in 2017. However, they had no impact on the Bank's accounting policies, financial position or performance.

- *IFRS 7 Financial Instruments: Disclosures*
- *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*
- *Amendments to IAS 27: Equity Method in Separate Financial Instruments*
- *Amendments to IAS 1: Disclosure Initiative*

The Bank has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

3 INVESTMENTS HELD FOR TRADING

	(Reviewed) 31 March 2017 US\$'000	(Audited) 31 December 2016 US\$'000
<i>Quoted:</i>		
- Debt	22,377	22,203
- Equity	454	210
	22,831	22,413

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2017 (Reviewed)

4 NON-TRADING INVESTMENTS

	<i>(Reviewed)</i> 31 March 2017 US\$'000	<i>(Audited)</i> 31 December 2016 US\$'000
Held-to-maturity:		
Debt securities		
- Sovereign	45,606	45,677
- Banks and Corporate	62,838	62,902
Wakala units	3,000	3,000
Total held-to-maturity	111,444	111,579
Available-for-sale:		
Debt securities		
- Sovereign	83,148	82,061
- Banks and Corporate	12,074	10,127
Total available-for-sale	95,222	92,188
Total non-trading investments	206,666	203,767

5 LOANS AND ADVANCES

Loans and advances are stated net of provision for loan losses.

	<i>(Reviewed)</i> 31 March 2017 US\$ 000	<i>(Audited)</i> 31 December 2016 US\$ 000
Letters of credit - financing	130,267	117,411
Sovereign loans	88,957	91,427
Commercial loans	20,283	50,575
Factoring	19,697	18,080
	259,204	277,493
Provision for impairment	(74,738)	(69,452)
	184,466	208,041

Movements in provision for impairment were as follows:

	31 March 2017 (Reviewed)		
	Specific provision US\$ '000	Collective provision US\$ '000	Total US\$ '000
At 1 January	65,952	3,500	69,452
Provided during the period	5,239	-	5,239
Written off during the period	(92)	-	(92)
Exchange differences	139	-	139
At 31 March	71,238	3,500	74,738

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2017 (Reviewed)

5 LOANS AND ADVANCES (continued)

	31 March 2016 (Reviewed)		
	Specific provision US\$ '000	Collective provision US\$ '000	Total US\$ '000
At 1 January	28,443	3,765	32,208
Provided during the period	2,074	-	2,074
Reallocated during the period	265	(265)	-
Written off during the period	-	-	-
Exchange differences	185	-	185
At 31 March	<u>30,967</u>	<u>3,500</u>	<u>34,467</u>

The carrying value and fair value of the financial assets reclassified are as follows:

	(Reviewed) 31 March 2017 US\$'000	(Audited) 31 December 2016 US\$'000
Carrying value	44,810	44,615
Fair value	48,532	45,642

Additional fair value gain of US\$ 3,722 thousand for the three months ended 31 March 2017 (31 March 2016: loss of US\$ 5,942 thousand) would have been recognised in the interim statement of comprehensive income had the trading investment not been reclassified to loans and advances.

6 COMMITMENTS AND CONTINGENT LIABILITIES

(i) Credit and derivative related commitments	(Reviewed) 31 March 2017 US\$'000	(Audited) 31 December 2016 US\$'000
Letters of credit	61,418	57,947
Letters of guarantee	10,125	13,199
Undrawn loan commitments	12,735	10,605
	<u>84,278</u>	<u>81,751</u>
Forward foreign exchange contracts	293	1,875
	<u>84,571</u>	<u>83,626</u>

At 31 March 2017 undrawn loan commitments maturing within one year was US\$ 9,274 thousand (31 December 2016: US\$ 8,919 thousand).

(ii) Legal contingency

The Bank is a defendant in legal proceedings whereby a counterparty is pursuing a claim of US\$ 1,917 thousand, relating to a guarantee issued by the Bank, the terms of which are currently under dispute.

The information usually required by IAS 37- *Provisions, Contingent liabilities and Contingent Assets* is not disclosed in these interim condensed financial statements on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The validity of the claim is being currently assessed by the Board of Directors of the Bank with the assistance of external legal counsel.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2017 (Reviewed)

7 TRANSACTIONS WITH RELATED PARTIES

Related parties represent shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Bank's management.

Transactions with related parties included in the interim statement of financial position and interim statement of profit or loss are as follows:

	<i>(Reviewed)</i>	<i>(Audited)</i>
	31 March	31 December
	2017	2016
	US\$'000	US\$'000
Interim statement of financial position		
Assets		
Cash and balances with banks	16,088	13,321
Deposits with banks and other financial institutions	10,752	21,230
Loans and advances	-	110
Interest receivable	-	1
Other assets	181	235
Liabilities		
Deposits from banks and other financial institutions	437,205	437,131
Due to banks and other financial institutions	8,677	9,318
Interest payable	2,609	913
Other liabilities	299	375
Assets under management	20,665	20,104
Contingent liabilities		
Letters of credit and guarantee (fully secured by deposits)	3,337	1,148
	<i>Three months ended</i>	
	<i>(Reviewed)</i>	
	31 March	31 March
	2017	2016
	US\$ '000	US\$ '000
Interim statement of profit or loss		
Interest and similar income	14	53
Interest expense	2,208	1,851
Fee and commission income	230	277
	<i>Three months ended</i>	
	<i>(Reviewed)</i>	
	31 March	31 March
	2017	2016
	US\$ '000	US\$ '000
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	531	540
End of service benefits	51	40
	582	580

* Includes sitting fees of US\$ 25 thousand (31 March 2016: US\$ 25 thousand) and reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US\$ 21 thousand (31 March 2016: US\$ 21 thousand).

At 31 March 2017 (Reviewed)

8 FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value hierarchy - financial instruments measured at fair value

The following table provides the fair value measurement hierarchy of the Bank's financial instruments measured at fair value:

At 31 March 2017 (Reviewed)

	<i>Level 1</i> US\$ '000	<i>Level 2</i> US\$ '000	<i>Total</i> US\$ '000
Investments held for trading	22,831	-	22,831
Available-for-sale investments	95,222	-	95,222
Derivative financial instruments	-	(8)	(8)
	<u>118,053</u>	<u>(8)</u>	<u>118,045</u>

At 31 December 2016 (Audited)

	<i>Level 1</i> US\$ '000	<i>Level 2</i> US\$ '000	<i>Total</i> US\$ '000
Investments held for trading	22,413	-	22,413
Available-for-sale investments	92,188	-	92,188
Derivative financial instruments	-	16	16
	<u>114,601</u>	<u>16</u>	<u>114,617</u>

The Bank had no investments measured at fair value qualifying for level 3 of fair value hierarchy as at 31 March 2017 or as at 31 December 2016.

Transfers between level 1, level 2 and level 3

During the three-month period ended 31 March 2017 there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurement (2016: same).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2017 (Reviewed)

8 FINANCIAL INSTRUMENTS (continued)**Financial instruments not measured at fair value - comparison of fair value to carrying value**

The following table provides details of the Bank's financial instruments not measured at fair value:

At 31 March 2017 (Reviewed)

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair</i>	<i>Carrying</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>value</i>	<i>value</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Held-to-maturity investments	110,304	-	3,000	113,304	111,444
Loans and advances	48,532	-	-	48,532	44,810
	158,836	-	3,000	161,836	156,254

At 31 December 2016 (Audited)

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair</i>	<i>Carrying</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>Value</i>	<i>value</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Held-to-maturity investments	108,478	-	3,000	111,478	111,579
Loans and advances	45,642	-	-	45,642	44,615
	154,120	-	3,000	157,120	156,194

Balances with banks, deposits with banks and other financial institutions, interest receivable, other assets, deposits from banks and other financial institutions, due to banks and other financial institutions, due to customers, interest payable and other liabilities are generally short term in nature. Management has assessed that the fair values of these approximate their carrying values as of 31 March 2017 and 31 December 2016.