

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

**INTERIM CONDENSED  
FINANCIAL STATEMENTS**

**30 JUNE 2015 (Reviewed)**

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

### *Introduction*

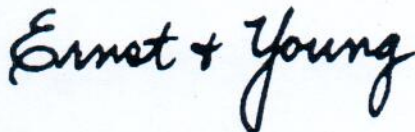
We have reviewed the accompanying interim condensed financial statements of ALUBAF Arab International Bank B.S.C. (c) (the "Bank") as at 30 June 2015, comprising the interim statement of financial position and the related interim statements of profit or loss, comprehensive income, cash flows and changes in equity for the six-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.




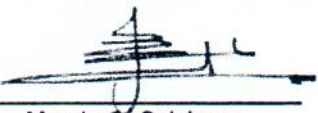
6 August 2015  
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)  
**INTERIM STATEMENT OF FINANCIAL POSITION**  
 At 30 June 2015 (Reviewed)

		(Reviewed) 30 June 2015 US\$'000	(Audited) 31 December 2014 US\$'000
<b>ASSETS</b>			
Cash and balances with banks		43,357	22,507
Deposits with banks and other financial institutions		409,602	523,645
Investments held for trading	3	14,825	3,037
Non-trading investments	4	146,230	147,994
Loans and advances	5	493,303	485,255
Property, equipment and software		12,079	12,320
Interest receivable		7,433	8,922
Other assets		1,651	1,277
<b>TOTAL ASSETS</b>		<b>1,128,480</b>	<b>1,204,957</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Deposits from banks and other financial institutions		567,093	616,319
Due to banks and other financial institutions		200,137	219,636
Due to customers		25,387	25,151
Interest payable		217	189
Other liabilities		6,502	11,750
<b>Total liabilities</b>		<b>799,336</b>	<b>873,045</b>
<b>Equity</b>			
Share capital	8	250,000	250,000
Advance towards capital increase	8	-	140
Statutory reserve		17,667	17,667
Retained earnings		62,484	65,272
Fair value reserve		(1,007)	(1,167)
<b>Total equity</b>		<b>329,144</b>	<b>331,912</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,128,480</b>	<b>1,204,957</b>

  
 \_\_\_\_\_  
 Hasan Khalifa Abulhasan  
 Chief Executive Officer

  
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 Suleiman Esa Al Azzabi  
 Deputy Chairman

  
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 Moraja G. Solaiman  
 Chairman


The attached notes 1 to 12 form part of these interim condensed financial statements.

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


## INTERIM STATEMENT OF PROFIT OR LOSS

Six months ended 30 June 2015 (Reviewed)


	<i>(Reviewed)</i>		<i>(Reviewed)</i>	
	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<i>Note</i>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Interest and similar income	11,338	11,357	21,399	21,400
Interest expense	(457)	(437)	(833)	(816)
<b>Net interest income</b>	<b>10,881</b>	<b>10,920</b>	<b>20,566</b>	<b>20,584</b>
Fee and commission income	4,081	3,583	8,073	8,202
Trading income - net	52	32	(62)	448
Gain on non-trading investments - net	-	-	129	254
Foreign exchange gain - net	694	282	637	188
Dividend income	12	36	12	62
<b>Operating income</b>	<b>15,720</b>	<b>14,853</b>	<b>29,355</b>	<b>29,738</b>
Provision for credit losses (net)	5 (1,035)	-	(831)	-
Provision for impairment of held to maturity investments	4 (132)	-	(263)	-
<b>Net operating income</b>	<b>14,553</b>	<b>14,853</b>	<b>28,261</b>	<b>29,738</b>
Staff costs	2,140	1,953	3,988	4,049
Depreciation	299	307	611	616
Other operating expenses	762	807	1,450	1,670
<b>Operating expenses</b>	<b>3,201</b>	<b>3,067</b>	<b>6,049</b>	<b>6,335</b>
<b>NET PROFIT FOR THE PERIOD</b>	<b>11,352</b>	<b>11,786</b>	<b>22,212</b>	<b>23,403</b>



Hasan Khalifa Abulhasan  
Chief Executive Officer



Suleiman Esa Al Azzabi  
Deputy Chairman



Moraja G. Solaiman  
Chairman

The attached notes 1 to 12 form part of these interim condensed financial statements.

## INTERIM STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2015 (Reviewed)

	Three months ended 30 June		Six months ended 30 June	
	2015 US\$'000	2014 US\$'000	2015 US\$'000	2014 US\$'000
<b>NET PROFIT FOR THE PERIOD</b>	<b>11,352</b>	11,786	<b>22,212</b>	23,403
<b>Other comprehensive income:</b>				
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>				
Unrealised fair value gain on available-for-sale investments	520	394	160	586
<b>Other comprehensive income for the period</b>	<b>520</b>	394	<b>160</b>	586
<b>Total comprehensive income for the period</b>	<b>11,872</b>	12,180	<b>22,372</b>	23,989

The attached notes 1 to 12 form part of these interim condensed financial statements.

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

## INTERIM STATEMENT OF CASH FLOWS

Six months ended 30 June 2015 (Reviewed)

	Note	Six months ended	
		30 June	
		2015	2014
		US\$'000	US\$'000
<b>OPERATING ACTIVITIES</b>			
Net profit for the period		22,212	23,403
Adjustments for:			
Provision for impairment of held to maturity investments		263	-
Provision for loan losses		3,586	
Trading income		-	(448)
Depreciation		611	616
Amortisation of non-trading investments		231	-
Unrealised gain on held for trading securities		152	-
Gain on non-trading investments - net		(129)	(254)
Amortisation of assets reclassified as "loans and advances" from trading investments		(329)	(302)
Operating profit before changes in operating assets and liabilities		26,597	23,015
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		92,442	31,309
Loans and advances		(11,305)	(123,659)
Investments held for trading		(11,940)	8,200
Interest receivable and other assets		1,115	(144)
Deposits from banks and other financial institutions		(49,226)	(13,264)
Due to banks and other financial institutions		(19,499)	(28,143)
Due to customers		236	14,081
Interest payable and other liabilities		(5,220)	378
Net cash from/(used in) operating activities		23,200	(88,227)
<b>INVESTING ACTIVITIES</b>			
Purchase of property, equipment and software		(370)	(82)
Purchase of non-trading investments		(13,090)	(23,849)
Proceeds from disposal/redemption of non-trading investments		14,649	7,373
Net cash from/(used in) investing activities		1,189	(16,558)
<b>FINANCING ACTIVITIES</b>			
(Refund of advance) / advance towards capital increase	8	(140)	140
Dividend paid	9	(25,000)	(25,000)
Net cash used in financing activities		(25,140)	(24,860)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(751)</b>	<b>(129,645)</b>
Cash and cash equivalents at beginning of the period		388,257	373,440
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		<b>387,506</b>	<b>243,795</b>
Cash and cash equivalents comprise:			
Cash and bank balances		7	6
Deposits with banks and other financial institutions with original maturity of ninety days or less		387,499	243,789
		387,506	243,795

The attached notes 1 to 12 form part of these interim condensed financial statements.

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

INTERIM STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2015 (Reviewed)

	Share capital US\$'000	Advance towards capital increase US\$ '000	Statutory reserve US\$'000	Retained earnings US\$'000	Proposed dividend US\$'000	Fair value reserve US\$'000	Total US\$'000
Balance as at 1 January 2015	250,000	140	17,667	65,272		(1,167)	331,912
Return of advance towards capital increase (note 8)	-	(140)	-	-	-	-	(140)
Total comprehensive income for the period	-	-	-	22,212	-	160	22,372
Dividend paid (note 9)	-	-	-	(25,000)	-	-	(25,000)
<b>At 30 June 2015</b>	<b>250,000</b>	<b>-</b>	<b>17,667</b>	<b>62,484</b>	<b>-</b>	<b>(1,007)</b>	<b>329,144</b>
Balance as at 1 January 2014	250,000	-	13,597	28,642	25,000	(1,138)	316,101
Issue of share capital (note 8)	140	-	-	-	-	-	140
Total comprehensive income for the period	-	-	-	23,403	-	586	23,989
Dividend paid (note 9)	-	-	-	-	(25,000)	-	(25,000)
<b>At 30 June 2014</b>	<b>250,140</b>	<b>-</b>	<b>13,597</b>	<b>52,045</b>	<b>-</b>	<b>(552)</b>	<b>315,230</b>

The attached notes 1 to 12 form part of these interim condensed financial statements.

At 30 June 2015 (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 and Commerce under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the "CBB") under the new integrated licensing framework. 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 six-month period ended 30 June 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 6 August 2015.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

The interim condensed financial statements of the Bank for the six month period ended 30 June 2015 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 2014. In addition, results for the six-month period ended 30 June 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

**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 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015.

The below new standards and amendments were effective for annual financial periods commencing 1 July 2014 and therefore apply for the first time in 2015. However, they do not impact the annual financial statements or the interim condensed financial statements of the Bank.

- *Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*
- *Annual Improvements 2010-2012 Cycle*
- *Annual Improvements 2011-2013 Cycle*

**New standards, interpretations and amendments issued but not yet effective**

- *IFRS 9 Financial Instruments;*
- *IFRS 15 Revenue from Contracts with Customers*

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) 30 June 2015 US\$'000	(Audited) 31 December 2014 US\$'000
Quoted:		
- Debt	12,557	3,000
- Equity	2,268	37
	<u>14,825</u>	<u>3,037</u>



## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2015 (Reviewed)

## 4 NON-TRADING INVESTMENTS

	<i>(Reviewed)</i>	<i>(Audited)</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2015</i>	<i>2014</i>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Held-to-maturity:</b>		
Debt securities		
- Sovereign	47,814	53,122
- Banks and Corporate	71,965	74,150
Wakala units	3,000	3,000
<b>Total held-to-maturity</b>	<b>122,779</b>	<b>130,272</b>
<b>Available-for-sale:</b>		
Debt securities		
- Sovereign	13,080	4,549
- Corporate	10,371	13,173
<b>Total available-for-sale</b>	<b>23,451</b>	<b>17,722</b>
<b>Total non-trading investments</b>	<b>146,230</b>	<b>147,994</b>

Held to maturity investments are stated net of provision for impairment of US\$ 263 thousand (2014: Nil) recognised during the period in respect of a sovereign debt security.

## 5 LOANS AND ADVANCES

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

	<i>(Reviewed)</i>	<i>(Audited)</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2015</i>	<i>2014</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Gross loans and advances	512,073	504,137
Provision for credit losses	(18,770)	(18,882)
<b>Net loans and advances</b>	<b>493,303</b>	<b>485,255</b>

Movements in provision for loan losses during the six month period ended 30 June were as follows:

	<i>(Reviewed)</i>	<i>(Reviewed)</i>
	<i>30 June</i>	<i>30 June</i>
	<i>2015</i>	<i>2014</i>
	<i>US\$'000</i>	<i>US\$'000</i>
At 1 January	18,882	11,084
Charge for the period	2,172	1,497
Recovered during the period	(1,341)	(1,497)
Written off during the period	(2,276)	-
Interest suspended during the period	1,414	-
Exchange difference	(81)	(20)
<b>At 30 June</b>	<b>18,770</b>	<b>11,064</b>

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2015 (Reviewed)

**5 LOANS AND ADVANCES (continued)**

The provision for loan losses comprise of the following:

	(Reviewed) 30 June 2015 US\$'000	(Audited) 31 December 2014 US\$'000
Specific provision	10,370	7,236
Collective provision	8,400	11,646
	<u>18,770</u>	<u>18,882</u>

**6 RECLASSIFICATION OF FINANCIAL ASSETS**

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

	(Reviewed) 30 June 2015 US\$'000	(Audited) 31 December 2014 US\$'000
Carrying value	43,571	43,242
Fair value	44,565	46,361

Additional fair value loss of US\$ 2,125 thousand for the six months ended 30 June 2015 (30 June 2014: gain of US\$ 2,438 thousand) would have been recognised in the interim statement of comprehensive income had the trading investment not been reclassified to loans and advances.

**7 COMMITMENTS AND CONTINGENT LIABILITIES**

	(Reviewed) 30 June 2015 US\$'000	(Audited) 31 December 2014 US\$'000
Letters of credit	192,306	260,062
Letters of guarantee	14,280	8,394
Foreign exchange contracts	2,716	340
Undrawn loan commitments	34,022	18,409
	<u>243,324</u>	<u>287,205</u>

**Legal claim contingency**

The Bank is defendant in a legal proceeding that has arisen in the ordinary course of business. A counterparty is pursuing a claim of approximately US\$ 8 million including opportunity loss for future periods. The counterparty's claim is based on a document, which management believes does not commit the Bank. The Directors of the Bank, on reviewing the advice of professional legal advisers, are satisfied that the claim is not legally tenable and the outcome will not have any material effect on the financial position of the Bank.

**8 SHARE CAPITAL**

At the Extra Ordinary General Meeting held on 29 April 2014, the shareholders approved the increase of the share capital from US\$ 250 million to US\$ 300 million. During the period, US\$ 140 thousand of the advance received towards capital increase was refunded due to non-receipt of complete subscription from all the shareholders.

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2015 (Reviewed)

**9 DIVIDEND PAID**

At the shareholders' annual general meeting held on 12 April 2015, the shareholders resolved to distribute dividend of US\$ 25 million i.e. US\$ 5 per share (2014: US\$ 25 million US\$ 5 per share) subject to necessary regulatory approvals.

The regulatory approval having been obtained, the Bank has paid the dividend during the period.

**10 TRANSACTIONS WITH RELATED PARTIES**

Related parties represent associated companies, 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>
	<i>30 June</i>	<i>31 December</i>
	<i>2015</i>	<i>2014</i>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Interim statement of financial position</b>		
<b>Assets</b>		
Cash and balances with banks	2,117	1,595
Deposits with banks and other financial institutions	20,071	88,541
Loans and advances	4,230	7,511
Interest receivable	16	199
Other assets	321	220
<b>Liabilities</b>		
Deposits from banks and other financial institutions	387,875	400,376
Due to banks and other financial institutions	15,328	16,249
Interest payable	173	154
Other liabilities	1,420	2,221
Assets under management	34,022	23,376
<b>Contingent liabilities</b>		
Letters of credit & guarantee	7,372	17,549
	<i>(Reviewed)</i>	
	<i>30 June</i>	<i>30 June</i>
	<i>2015</i>	<i>2014</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Interim statement of profit or loss</b>		
Interest and similar income	323	365
Interest expense	620	375
Fee and commission income	49	20
<b>Compensation paid to the Board of Directors and key management personnel</b>		
Short term benefits*	1,332	1,286
End of service benefits	71	109
	<b>1,403</b>	<b>1,395</b>

\* Includes sitting fee of US\$ 81 thousand (30 June 2014: US\$ 87 thousand) and reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US\$ 77 thousand (30 June 2014: US\$ 100 thousand).

At 30 June 2015 (Reviewed)

**11 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 30 June 2015 (Reviewed)**

	Level 1 US\$ '000	Level 2 US\$ '000	Total US\$ '000
Investments held for trading	14,825	-	14,825
Available-for-sale investments	23,451	-	23,451
Derivative financial instruments	-	(20)	(20)
	<u>38,276</u>	<u>(20)</u>	<u>38,256</u>

**At 31 December 2014 (Audited)**

	Level 1 US\$ '000	Level 2 US\$ '000	Total US\$ '000
Investments held for trading	3,037	-	3,037
Available-for-sale investments	17,722	-	17,722
Derivative financial instruments	-	(57)	(57)
	<u>20,759</u>	<u>(57)</u>	<u>20,702</u>

The Bank had no investments measured at fair value qualifying for level 3 of fair value hierarchy as at 30 June 2015 and as at 31 December 2014.

**Transfers between level 1, level 2 and level 3**

During the six-month period ended 30 June 2015 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 (2014: nil).

**Fair value hierarchy - financial instruments not measured at fair value**

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

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2015 (Reviewed)

## 11 FINANCIAL INSTRUMENTS (continued)

At 30 June 2015 (Reviewed)

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total fair Value US\$ '000	Carrying value US\$ '000
Held-to-maturity investments	116,003	-	7,715	123,718	
Loans and advances	44,565	-	-	44,565	
	<u>160,568</u>	<u>-</u>	<u>7,715</u>	<u>168,283</u>	<u>-</u>

At 31 December 2014 (Audited)

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total fair Value US\$ '000	Carrying value US\$ '000
Held-to-maturity investments	121,988	-	7,815	129,803	130,272
Loans and advances	46,361	-	-	46,361	43,242
	<u>168,349</u>	<u>-</u>	<u>7,815</u>	<u>176,164</u>	<u>173,514</u>

- Fair values of held-to-maturity investments are determined based on quoted prices in the active markets.
- Fair values of loans and advances falling under Level 1 are determined based on quoted prices in active markets.

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 30 June 2015 and 31 December 2014.

## 12 COMPARATIVES FIGURES

Certain comparative figures were reclassified in order to conform to the presentation of financial statements for the current period. Such reclassifications do not affect previously reported net profit, total assets, total liabilities or equity.