

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

**INTERIM CONDENSED
FINANCIAL STATEMENTS**

30 September 2013 (Unaudited)

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 September 2013, comprising the interim statement of financial position as at 30 September 2013 and the related interim statements of income, comprehensive income, cash flows and changes in equity for the nine-month period then ended and explanatory notes. The Bank's Management 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.



20 October 2013
Manama, Kingdom of Bahrain

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

INTERIM STATEMENT OF FINANCIAL POSITION

At 30 September 2013 (Unaudited)

	Note	(Unaudited) 30 September 2013 US\$'000	Audited 31 December 2012 US\$'000
ASSETS			
Cash and balances with banks		19,834	7,102
Deposits with banks and other financial institutions		599,657	664,904
Investments held for trading	4	13,601	24
Non-trading investments	5	136,619	38,890
Loans and advances		353,026	378,684
Property, equipment and software		13,614	13,966
Interest receivable		7,670	8,034
Other assets		1,328	495
TOTAL ASSETS		1,145,349	1,112,099
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions		460,820	519,017
Due to banks and other financial institutions		343,103	267,063
Due to customers		21,084	21,083
Interest payable		153	169
Other liabilities		11,513	4,168
Total liabilities		836,673	811,500
Equity			
Share capital		250,000	250,000
Statutory reserve		9,933	9,933
Retained earnings		50,297	20,666
Proposed dividend		-	20,000
Fair value reserve		(1,554)	-
Total equity		308,676	300,599
TOTAL LIABILITIES AND EQUITY		1,145,349	1,112,099


 Mr. M. Raja G. Solaiman
 Chairman


 Mr. Suleiman Esa A. Azzabi
 Deputy Chairman


The attached notes 1 to 9 form part of these interim condensed financial statements.

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

INTERIM STATEMENT OF INCOME

For the nine months ended 30 September 2013 (Unaudited)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
Interest and similar income	9,090	7,301	24,745	19,112
Interest expense	(470)	(608)	(1,366)	(2,036)
Net interest income	8,620	6,693	23,379	17,076
Fees and commissions income	5,204	3,518	12,886	12,406
Changes in fair value of investments				
held for trading	577	-	(928)	2
Trading income	(616)	-	(498)	-
Investment income	-	-	953	-
Foreign exchange gain	508	26	974	224
Other income	15	20	15	20
Net operating income	14,308	10,257	36,781	29,728
Staff costs	1,591	1,225	4,516	3,310
Depreciation	306	85	771	270
Other operating expenses	572	386	1,863	1,232
Operating expenses	2,469	1,696	7,150	4,812
NET PROFIT FOR THE PERIOD	11,839	8,561	29,631	24,916



 Mr Moraja G. Solaiman
 Chairman



 Mr Suliman Esa Al Azzabi
 Deputy Chairman

The attached notes 1 to 9 form part of these interim condensed financial statements.

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

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2013 (Unaudited)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	2013	2012	2013	2012
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
NET PROFIT FOR THE PERIOD	11,839	8,561	29,631	24,916
Other comprehensive loss:				
Items that may be reclassified to the statement of income in subsequent periods:				
Unrealised fair value loss on available-for-sale investments - net	(241)	-	(1,554)	-
Other comprehensive loss for the period	(241)	-	(1,554)	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	11,598	8,561	28,077	24,916

The attached notes 1 to 9 form part of these interim condensed financial statements.

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

INTERIM STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2013 (Unaudited)

	<i>(Unaudited)</i>	
	<i>Nine months ended</i>	
	<i>30 September</i>	
	2013	2012
	US\$'000	US\$'000
OPERATING ACTIVITIES		
Net profit for the period	29,631	24,916
Adjustments for:		
Depreciation	771	270
Changes in fair value of investment held for trading	928	(2)
Trading income	498	-
Investment income	(953)	-
Amortisation of assets reclassified as "loans and advances" from trading investments	(416)	(382)
Operating income before changes in operating assets and liabilities	30,459	24,802
Changes in operating assets and liabilities:		
Deposits with banks and other financial institutions	(80,000)	-
Investments held for trading	(15,003)	-
Loans and advances	26,074	(202,240)
Interest receivable and other assets	(469)	(1,199)
Deposits from banks and other financial institutions	(58,197)	(21,548)
Due to banks and other financial institutions	76,040	74,089
Due to customers	1	17,190
Interest payable and other liabilities	7,329	1,141
Net cash used in operating activities	(13,766)	(107,765)
INVESTING ACTIVITIES		
Purchase of property, equipment and software	(419)	(2,483)
Purchase of non-trading investments	(109,276)	(12,993)
Proceeds from disposal of non-trading investments	10,946	2,887
Net cash used in investing activities	(98,749)	(12,589)
FINANCING ACTIVITIES		
Issue of share capital	-	50,000
Dividend paid	(20,000)	(20,000)
Net cash (used in) from financing activities	(20,000)	30,000
DECREASE IN CASH AND CASH EQUIVALENTS	(132,515)	(90,354)
Cash and cash equivalents at beginning of the period	662,006	704,059
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	529,491	613,705
Cash and cash equivalents comprise:		
Cash and balances with banks	19,834	96,338
Deposits with banks and other financial institutions with original maturity of ninety days or less	509,657	517,367
	529,491	613,705

The attached notes 1 to 9 form part of these interim condensed financial statements.

ALUBAF Arab International Bank B.S.C. (c)**INTERIM STATEMENT OF CHANGES IN EQUITY**

For the nine months ended 30 September 2013 (Unaudited)

	<i>Share capital US\$'000</i>	<i>Statutory reserve US\$'000</i>	<i>Retained earnings US\$'000</i>	<i>Proposed dividend US\$'000</i>	<i>Fair value reserve US\$'000</i>	<i>Total US\$'000</i>
Balance as at 1 January 2013	250,000	9,933	20,666	20,000	-	300,599
Net profit for the period	-	-	29,631	-	-	29,631
Other comprehensive loss	-	-	-	-	(1,554)	(1,554)
Total comprehensive income (loss) for the period	-	-	29,631	-	(1,554)	28,077
Dividend paid	-	-	-	(20,000)	-	(20,000)
At 30 September 2013	250,000	9,933	50,297	-	(1,554)	308,676
Balance as at 1 January 2012	200,000	6,888	13,694	20,000	-	240,582
Issue of share capital	50,000	-	-	-	-	50,000
Dividend paid	-	-	-	(20,000)	-	(20,000)
Total comprehensive income for the period	-	-	24,916	-	-	24,916
At 30 September 2012	250,000	6,888	38,610	-	-	295,498

The attached notes 1 to 9 form part of these interim condensed financial statements.

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 nine month period ended 30 September 2013 were authorised for issue in accordance with the resolution of Directors on 20 October 2013.

2 BASIS OF PREPARATION

The interim condensed financial statements of the Bank for the nine month period ended 30 September 2013 are prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

3 SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards and should be read in conjunction with the Bank's annual financial statements for the year ended 31 December 2012.

In addition, results for the nine month period ended 30 September 2013 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2013.

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 2012, except for the adoption of new standards and interpretations effective as of 1 January 2013.

The nature and impact of each new standard/amendment is described below:

IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Bank's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted by the Bank (continued)

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in *IFRS 8 Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment. However, the amendment did not have an impact on the interim condensed financial statements for the Bank.

IFRS 7 Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities) - Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Bank is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the interim condensed financial statements of the Bank.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing *IAS 27 Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and *SIC-12 Consolidation - Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

- (a) an investor has power over an investee;
- (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

However, the adoption of standard did not have an impact on the interim condensed financial statements for the Bank.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and *SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. However, the adoption of standard did not have an impact on the interim condensed financial statements for the Bank.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

30 September 2013 (Unaudited)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)**New standards, interpretations and amendments adopted by the Bank (continued)***IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed financial statements, unless significant events and transactions in the interim period requires that they are provided. However, the adoption of standard did not have an impact on the interim condensed financial statements for the Bank.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Bank.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including *IFRS 7 Financial Instruments Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed financial statements period. The Bank has made the applicable disclosures as required by IFRS 13.

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

4 INVESTMENTS HELD FOR TRADING

	<i>(Unaudited)</i> 30 September 2013 US\$'000	<i>Audited</i> 31 December 2012 US\$'000
Debt securities	10,820	-
Equity securities	2,781	24
	<u>13,601</u>	<u>24</u>

5 NON-TRADING INVESTMENTS

	<i>(Unaudited)</i> 30 September 2013 US\$'000	<i>Audited</i> 31 December 2012 US\$'000
Held-to-maturity:		
Debt securities:		
- Sovereign	47,103	23,897
- Corporate	71,649	11,993
Wakala units	3,000	3,000
	<u>121,752</u>	<u>38,890</u>
Available-for-sale investments:		
Debt securities:		
- Sovereign	6,752	-
- Corporate	8,115	-
	<u>14,867</u>	<u>-</u>
	<u>136,619</u>	<u>38,890</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

30 September 2013 (Unaudited)

6 RECLASSIFICATION OF FINANCIAL ASSETS

In October 2008, the IASB issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" titled "Reclassification of Financial Assets". The amendments to IAS 39 permit reclassification of financial assets from the "trading investment" category to "loans and advances" category in certain circumstances.

The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the IAS 39 amendments. The amendments are effective retrospectively from 1 July 2008.

In accordance with the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets" the Bank reclassified investments in Iraq Notes with a carrying value of US \$ 40.2 million, effective 1 July 2008 from 'trading investment' to 'loans and advances' pursuant to the amendment to IAS 39 and IFRS 7 issued by IASB in October 2008 and considering the global financial crisis as a rare circumstance in the financial sector.

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

	<i>(Unaudited)</i> 30 September 2013 US\$'000	<i>Audited</i> 31 December 2012 US\$'000
Carrying value	42,500	42,085
Fair value	46,991	52,317

Additional fair value loss that would have been recognised in the interim statement of comprehensive income for the nine month period ended 30 September 2013 had the trading investment not been reclassified amounts to US\$ 4.91 million (30 September 2012: US\$ 5.97 million).

7 COMMITMENTS AND CONTINGENT LIABILITIES

	<i>(Unaudited)</i> 30 September 2013 US\$'000	<i>Audited</i> 31 December 2012 US\$'000
Letters of guarantee	1,310	1,845
Letters of credit	197,623	250,045
Forward foreign exchange contracts	16,203	-
	<u>215,136</u>	<u>251,890</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

30 September 2013 (Unaudited)

8 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 comprehensive income are as follows:

	<i>(Unaudited)</i> 30 September 2013 US\$'000	<i>Audited</i> 31 December 2012 US\$'000
Interim statement of financial position		
Assets		
Cash and balances with banks	1,835	2,055
Deposit with banks and other financial institutions	65,000	100,700
Interest receivable	31,850	50
Other assets	56	41
Liabilities		
Deposits from banks and other financial institutions	224,737	249,673
Due to banks and other financial institutions	15,363	15,144
Interest payable	82	99
Other liabilities - others	406	164
Contingent Liabilities -Letters of credit (Fully secured by deposits)	21,158	13,625
	<u><i>(Unaudited)</i></u>	<u><i>(Unaudited)</i></u>
	30 September	30 September
	2013	2012
	US\$'000	US\$'000
Interim statement of comprehensive income		
Interest income	171	377
Interest expense	684	504
Fees and commissions income	74	1,172
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	711	867
End of service benefits	64	72
	<u>775</u>	<u>939</u>

* Includes sitting fee of US\$ 122 thousand (30 September 2012: US\$ 120 thousand) and the reimbursement of travel and accommodation expenses paid to Board of Directors amounting to US\$ 113 thousand (30 September 2012: US\$ 90 thousand).

30 September 2013 (Unaudited)

9 FINANCIAL INSTRUMENTS

The fair values of financial instruments as at 30 September 2013 are not materially different from their carrying values except as disclosed below:

	<i>Carrying amount</i> <i>US\$'000</i>	<i>Fair value</i> <i>US\$'000</i>
Financial assets:		
Non-trading investments	136,619	128,160
Loans and advances	353,026	357,517
	<u>353,026</u>	<u>357,517</u>

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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.

The Bank's held for trading and available-for-sale investments are categorised in level 1 of the fair value hierarchy as of 30 September 2013 and 31 December 2012. Moreover, none of the financial assets were transferred into or out of level 1 during the period ended 30 September 2013.