

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

**INTERIM CONDENSED
FINANCIAL STATEMENTS**

30 JUNE 2017 (Reviewed)



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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 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 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.

9 August 2017

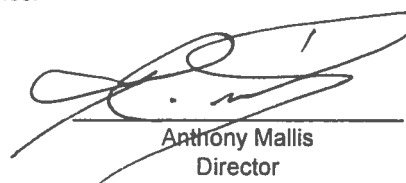
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)
INTERIM STATEMENT OF FINANCIAL POSITION
 At 30 June 2017 (Reviewed)

		<i>(Reviewed)</i>	<i>(Audited)</i>
		30 June	31 December
		2017	2016
	<i>Note</i>	US\$'000	US\$'000
ASSETS			
Cash and balances with Central banks and other banks		378,708	289,802
Deposits with banks and other financial institutions		434,678	437,992
Investments held for trading	3	20,831	22,413
Non-trading investments	4	209,691	203,767
Loans and advances	5	183,883	208,041
Property, equipment and software		10,723	11,149
Interest receivable		6,852	6,134
Other assets		1,486	1,638
TOTAL ASSETS		1,246,852	1,180,936
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions		625,502	586,824
Due to banks and other financial institutions		174,269	156,315
Due to customers		132,151	129,755
Interest payable		1,443	981
Other liabilities		6,442	4,784
Total liabilities		939,807	878,659
Equity			
Share capital		250,000	250,000
Statutory reserve		20,174	20,174
Retained earnings		39,138	35,652
Fair value reserve		(2,267)	(3,549)
Total equity		307,045	302,277
TOTAL LIABILITIES AND EQUITY		1,246,852	1,180,936


 Talal Al Zain
 Director


 Hasan Khalifa Abulhasan
 Chief Executive Officer


 Anthony Mallis
 Director

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

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

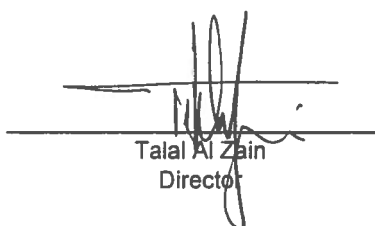
INTERIM STATEMENT OF PROFIT OR LOSS

Six months ended 30 June 2017 (Reviewed)

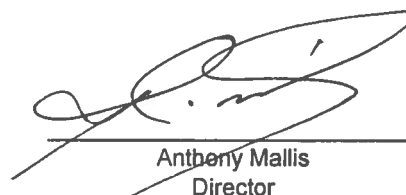
	Note	(Reviewed)		(Reviewed)	
		Three months ended		Six months ended	
		30 June		30 June	
		2017	2016	2017	2016
		US\$'000	US\$'000	US\$'000	US\$'000
Interest and similar income		9,847	10,112	18,705	19,599
Interest expense		(2,475)	(2,093)	(4,850)	(4,298)
Net interest income		7,372	8,019	13,855	15,301
Fee and commission income		1,032	1,489	2,310	2,664
Trading income - net		18	(34)	32	(82)
Gain on non-trading investments - net		(70)	-	5	-
Foreign exchange gain - net		128	478	492	781
Other income		28	29	51	36
Operating income		8,508	9,981	16,745	18,700
Provision for credit losses - net	5	(2,500)	(10,625)	(7,739)	(12,699)
Provision for legal claim		-	(5,431)	-	(5,431)
Net operating income		6,008	(6,075)	9,006	570
Staff costs		1,897	2,039	3,788	4,057
Depreciation		269	239	537	489
Other operating expenses		604	1,685	1,195	2,285
Operating expenses		2,770	3,963	5,520	6,831
NET PROFIT / (LOSS) FOR THE PERIOD		3,238	(10,038)	3,486	(6,261)



Hasan Khalifa Abulhasan
Chief Executive Officer



Talal Al Zain
Director



Anthony Mallis
Director

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
 Six months ended 30 June 2017 (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>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
NET PROFIT / (LOSS) FOR THE PERIOD	3,238	(10,038)	3,486	(6,261)
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	(280)	833	1,282	952
Other comprehensive income for the period	(280)	833	1,282	952
Total comprehensive income / (loss) for the period	2,958	(9,205)	4,768	(5,309)

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

Six months ended 30 June 2017 (Reviewed)

	Note	(Reviewed)	
		Six months ended	
		2017	2016
		US\$'000	US\$'000
OPERATING ACTIVITIES			
Net profit (loss) for the period		3,486	(6,261)
Adjustments for:			
Provision for credit losses - net	5	7,739	12,699
Provision for legal claim		-	5,431
Depreciation		537	489
Amortisation of non-trading investments		262	275
Unrealised loss on held for trading securities		15	99
Amortisation of assets reclassified as "loans and advances" from trading investments		(390)	(358)
Operating profit before changes in operating assets and liabilities		11,649	12,374
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		400,448	99,828
Loans and advances		16,809	43,264
Investments held for trading		1,567	(2,201)
Interest receivable and other assets		(566)	1,636
Deposits from banks and other financial institutions		38,678	(208,865)
Due to banks and other financial institutions		17,954	(13,974)
Due to customers		2,396	21,449
Interest payable and other liabilities		2,120	249
Net cash from (used in) operating activities		491,055	(46,240)
INVESTING ACTIVITIES			
Purchase of non-trading investments		(9,903)	(136,420)
Proceeds from disposal/redemption of non-trading investments		5,000	89,431
Purchase of property, equipment and software		(111)	(248)
Net cash used in investing activities		(5,014)	(47,237)
FINANCING ACTIVITY			
Dividend paid		-	(12,500)
Net cash used in financing activity		-	(12,500)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		486,041	(105,977)
Cash and cash equivalents at beginning of the period		289,802	699,092
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		775,843	593,115
Cash and cash equivalents comprise:			
Cash and balances with Central Bank and other banks		378,708	305,093
Deposits with banks and other financial institutions with original maturity of ninety days or less		397,135	288,022
		775,843	593,115

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
 Six months ended 30 June 2017 (Reviewed)

	<i>(Reviewed)</i>				
	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Fair value reserve</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Balance as at 1 January 2017	250,000	20,174	35,652	(3,549)	302,277
Net profit for the period	-	-	3,486	-	3,486
Other comprehensive income for the period	-	-	-	1,282	1,282
At 30 June 2017	250,000	20,174	39,138	(2,267)	307,045
Balance as at 1 January 2016	250,000	20,174	62,837	(3,241)	329,770
Dividend paid	-	-	(12,500)	-	(12,500)
Total comprehensive loss for the period	-	-	(6,261)	952	(5,309)
At 30 June 2016	250,000	20,174	44,076	(2,289)	311,961

The attached notes 1 to 8 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, 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 six-month period ended 30 June 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 9 August 2017.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements of the Bank for the six month period ended 30 June 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 six-month period ended 30 June 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

	<i>(Reviewed)</i>	<i>(Audited)</i>
	30 June	31 December
	2017	2016
	US\$'000	US\$'000
<i>Quoted:</i>		
- Debt	20,522	22,203
- Equity	309	210
	20,831	22,413

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2017 (Reviewed)

4 NON-TRADING INVESTMENTS

	<i>(Reviewed)</i> 30 June 2017 US\$'000	<i>(Audited)</i> 31 December 2016 US\$'000
Held-to-maturity:		
Debt securities		
- Sovereign	42,544	45,677
- Banks and Corporate	62,773	62,902
Wakala units	3,000	3,000
Total held-to-maturity	108,317	111,579
Available-for-sale:		
Debt securities		
- Sovereign	85,598	82,061
- Banks and Corporate	15,776	10,127
Total available-for-sale	101,374	92,188
Total non-trading investments	209,691	203,767

5 LOANS AND ADVANCES

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

	<i>(Reviewed)</i> 30 June 2017 US\$ 000	<i>(Audited)</i> 31 December 2016 US\$ 000
Letters of credit - financing	107,905	117,411
Sovereign loans	99,974	91,427
Commercial loans	33,187	50,575
Factoring	20,361	18,080
	261,427	277,493
Provision for impairment	(77,544)	(69,452)
	183,883	208,041

Movements in provision for impairment were as follows:

	30 June 2017 (Reviewed)		
	<i>Specific provision</i> US\$ '000	<i>Collective provision</i> US\$ '000	<i>Total</i> US\$ '000
At 1 January	65,952	3,500	69,452
Provided during the period	7,739	-	7,739
Reallocated during the period	495	(495)	-
Write off during the period	(92)	-	(92)
Exchange differences	445	-	445
At 30 June	74,539	3,005	77,544

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2017 (Reviewed)

5 LOANS AND ADVANCES (continued)

	30 June 2016 (Reviewed)		
	<i>Specific</i>	<i>Collective</i>	<i>Total</i>
	<i>provision</i>	<i>provision</i>	
	US\$ '000	US\$ '000	US\$ '000
At 1 January	28,443	3,765	32,208
Provided during the period	12,699	-	12,699
Reallocated during the period	265	(265)	-
Exchange differences	84	-	84
At 30 June	41,491	3,500	44,991

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

	<i>(Reviewed)</i>	<i>(Audited)</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2017</i>	<i>2016</i>
	US\$'000	US\$'000
Carrying value	45,004	44,615
Fair value	48,930	45,642

Additional fair value gain of US\$ 3,925 thousand for the six months ended 30 June 2017 (30 June 2016: loss of US\$ 2,328 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	<i>(Reviewed)</i>	<i>(Audited)</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2017</i>	<i>2016</i>
	US\$'000	US\$'000
Letters of credit	44,890	57,947
Letters of guarantee	7,760	13,199
Undrawn loan commitments	5,414	10,605
	58,064	81,751
Forward foreign exchange contracts	2,789	1,875
	60,853	83,626

Undrawn loan commitments maturing within one year from 30 June 2017 is US\$ nil (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.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 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>
	30 June	31 December
	2017	2016
	US\$'000	US\$'000
Interim statement of financial position		
Assets		
Cash and balances with banks	25,905	13,321
Deposits with banks and other financial institutions	10,086	21,230
Loans and advances	-	110
Interest receivable	2	1
Other assets	236	235
Liabilities		
Deposits from banks and other financial institutions	477,596	437,131
Due to banks and other financial institutions	42,424	9,318
Interest payable	1,409	913
Other liabilities	261	375
Assets under management	21,905	20,104
Contingent liabilities		
Letters of credit and guarantee (fully secured by deposits)	4,302	1,148
	<i>Six months ended</i>	
	<i>(Reviewed)</i>	
	30 June	30 June
	2017	2016
	US\$ '000	US\$ '000
Interim statement of profit or loss		
Interest and similar income	24	96
Interest expense	4,566	3,762
Fee and commission income	468	509
	<i>Six months ended</i>	
	<i>(Reviewed)</i>	
	30 June	30 June
	2017	2016
	US\$ '000	US\$ '000
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	971	1,058
End of service benefits	109	78
	1,080	1,136

* Includes sitting fees of US\$ 44 thousand (30 June 2016: US\$ 50 thousand) and reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US\$ 43 thousand (30 June 2016: US\$ 42 thousand).

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 30 June 2017 (Reviewed)

	<i>Level 1</i> <i>US\$ '000</i>	<i>Level 2</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
Investments held for trading	20,831	-	20,831
Available-for-sale investments	101,374	-	101,374
Derivative financial instruments	-	3	3
	<u>122,205</u>	<u>3</u>	<u>122,208</u>

At 31 December 2016 (Audited)

	<i>Level 1</i> <i>US\$ '000</i>	<i>Level 2</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
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 30 June 2017 or as at 31 December 2016.

Transfers between level 1, level 2 and level 3

During the six-month period ended 30 June 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).

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 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 30 June 2017 (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	107,275	-	3,000	110,275	108,317
Loans and advances	48,930	-	-	48,930	45,004
	<u>156,205</u>	<u>-</u>	<u>3,000</u>	<u>159,205</u>	<u>153,321</u>

At 31 December 2016 (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	108,478	-	3,000	111,478	111,579
Loans and advances	45,642	-	-	45,642	44,615
	<u>154,120</u>	<u>-</u>	<u>3,000</u>	<u>157,120</u>	<u>156,194</u>

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 2017 and 31 December 2016.