

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

**INTERIM CONDENSED
FINANCIAL STATEMENTS**

30 June 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 June 2013, comprising the interim statement of financial position as at 30 June 2013 and the related interim statements of income, comprehensive income, cash flows and changes in equity for the six-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

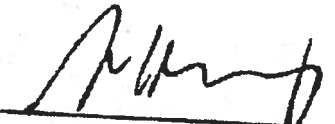
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

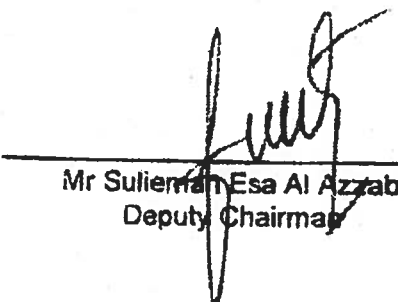


1 August 2013
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)
INTERIM STATEMENT OF FINANCIAL POSITION
 At 30 June 2013 (Unaudited)

	Note	(Unaudited) 30 June 2013 US\$'000	Audited 31 December 2012 US\$'000
ASSETS			
Cash and balances with banks		95,421	7,102
Deposits with banks and other financial institutions		606,456	664,904
Investments held for trading	4	20,030	24
Non-trading investments	5	125,996	38,890
Loans and advances		289,446	378,684
Property, equipment and software		13,862	13,966
Interest receivable		6,775	8,034
Other assets		972	495
TOTAL ASSETS		1,158,958	1,112,099
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions		497,206	519,017
Due to banks and other financial institutions		333,177	267,063
Due to customers		27,913	21,083
Interest payable		107	169
Other liabilities		3,477	4,168
Total liabilities		861,880	811,500
Equity			
Share capital		250,000	250,000
Statutory reserve		9,933	9,933
Retained earnings		38,458	20,666
Proposed dividend		-	20,000
Fair value reserve		(1,313)	-
Total equity		297,078	300,599
TOTAL LIABILITIES AND EQUITY		1,158,958	1,112,099


 Mr Moraja G. Solaiman
 Chairman


 Mr Suliman Esa Al Azzabi
 Deputy Chairman

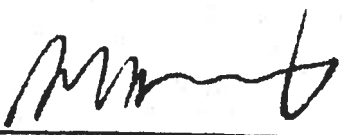
The attached notes 1 to 9 form part of these interim condensed financial statements.

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

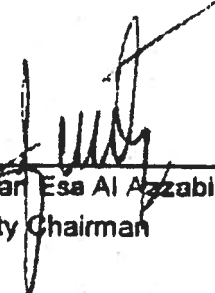
INTERIM STATEMENT OF INCOME

For the six months ended 30 June 2013 (Unaudited)

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
Interest and similar income	7,963	6,013	15,655	11,811
Interest expense	(448)	(647)	(896)	(1,428)
Net interest income	7,515	5,366	14,759	10,383
Fees and commissions income	4,969	4,515	7,682	8,888
Changes in fair value of investments held for trading	(1,281)	2	(1,505)	2
Trading income	118	-	118	-
Investment income	-	-	953	-
Foreign exchange gain	410	159	466	198
Net operating income	11,731	10,042	22,473	19,471
Staff costs	1,585	1,049	2,925	2,085
Depreciation	262	78	465	185
Other operating expenses	715	453	1,291	846
Operating expenses	2,562	1,580	4,681	3,116
NET PROFIT FOR THE PERIOD	9,169	8,462	17,792	16,355



 Mr Moraja G. Solaiman
 Chairman



 Mr Sulaiman 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 six months ended 30 June 2013 (Unaudited)

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</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	9,169	8,462	17,792	16,355
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	(1,313)	-	(1,313)	-
Other comprehensive loss for the period	(1,313)	-	(1,313)	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	7,856	8,462	16,479	16,355

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 six months ended 30 June 2013 (Unaudited)

	<i>(Unaudited)</i>	
	<i>Six months ended</i>	
	<i>30 June</i>	
	2013	2012
	US\$'000	US\$'000
OPERATING ACTIVITIES		
Net profit for the period	17,792	16,355
Adjustments for:		
Depreciation	465	185
Changes in fair value of investment held for trading	1,505	(2)
Trading income	(118)	-
Investment income	(953)	-
Amortisation of assets reclassified as "loans and advances" from trading investments	(278)	(254)
Operating income before changes in operating assets and liabilities	18,413	16,284
Changes in operating assets and liabilities:		
Deposits with banks and other financial institutions	(15,000)	-
Investments held for trading	(21,393)	-
Loans and advances	89,516	(116,343)
Interest receivable and other assets	782	(4,832)
Deposits from banks and other financial institutions	(21,811)	116,219
Due to banks and other financial institutions	66,114	(38,649)
Due to customers	6,830	(674)
Interest payable and other liabilities	(753)	1,576
Net cash from (used in) operating activities	122,698	(26,419)
INVESTING ACTIVITIES		
Purchase of property, equipment and software	(361)	(1,762)
Purchase of non-trading investments	(98,412)	-
Proceeds from disposal of non-trading investments	10,946	-
Net cash used in investing activities	(87,827)	(1,762)
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
INCREASE IN CASH AND CASH EQUIVALENTS	14,871	1,819
Cash and cash equivalent at beginning of the period	662,006	704,059
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	676,877	705,878
Cash and cash equivalents comprise:		
Cash in hand	6	2
Balances and deposits with banks and other financial institutions with original maturity of ninety days or less	676,871	705,876
	676,877	705,878

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 six months ended 30 June 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	-	-	17,792	-	-	17,792
Other comprehensive loss	-	-	-	-	(1,313)	(1,313)
Total comprehensive income (loss) for the period	-	-	17,792	-	(1,313)	16,479
Dividend paid	-	-	-	(20,000)	-	(20,000)
At 30 June 2013	250,000	9,933	38,458	-	(1,313)	297,078
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)
Net profit for the period	-	-	16,355	-	-	16,355
At 30 June 2012	250,000	6,888	30,049	-	-	286,937

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

30 June 2013 (Unaudited)

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 2013 were authorised for issue in accordance with the resolution of Directors on 1 August 2013.

2 BASIS OF PREPARATION

The interim condensed financial statements of the Bank for the six month period ended 30 June 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 as at 31 December 2012.

In addition, results for the six month period ended 30 June 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.

ALUBAF Arab International Bank B.S.C. (c)
NOTES TO THE INTERIM FINANCIAL STATEMENTS

30 June 2013 (Unaudited)

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.

ALUBAF Arab International Bank B.S.C. (c)
 NOTES TO THE INTERIM FINANCIAL STATEMENTS

30 June 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 June 2013 US\$'000	<i>Audited</i> 31 December 2012 US\$'000
Debt securities	16,905	-
Equity securities	3,125	24
	<u>20,030</u>	<u>24</u>

5 NON-TRADING INVESTMENTS

	<i>(Unaudited)</i> 30 June 2013 US\$'000	<i>Audited</i> 31 December 2012 US\$'000
Held-to-maturity:		
Debt securities:		
- Sovereign	38,133	23,897
- Corporate	71,744	11,993
Wakala units	3,000	3,000
	<u>112,877</u>	<u>38,890</u>
Available-for-sale investments:		
Debt securities:		
- Sovereign	4,656	-
- Corporate	8,463	-
	<u>13,119</u>	<u>-</u>
	<u>125,996</u>	<u>38,890</u>

ALUBAF Arab International Bank B.S.C. (c)
NOTES TO THE INTERIM FINANCIAL STATEMENTS

30 June 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 June 2013 US\$'000	<i>Audited</i> 31 December 2012 US\$'000
Carrying value	42,362	42,085
Fair value	45,006	52,317

Additional fair value loss that would have been recognised in the interim statement of comprehensive income for the six month period ended 30 June 2013 had the trading investment not been reclassified amounts to US\$ 7.03 million (30 June 2012: US\$ 824 thousand).

7 COMMITMENTS AND CONTINGENT LIABILITIES

	<i>(Unaudited)</i> 30 June 2013 US\$'000	<i>Audited</i> 31 December 2012 US\$'000
Letters of guarantee	2,134	1,845
Letters of credit	216,655	250,045
Forward foreign exchange contracts	555	-
	219,344	251,890

ALUBAF Arab International Bank B.S.C. (c)
 NOTES TO THE INTERIM FINANCIAL STATEMENTS

30 June 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>	<i>Audited</i>
	30 June	31 December
	2013	2012
	US\$'000	US\$'000
Interim statement of financial position		
Assets		
Cash and balances with banks	17,137	2,055
Deposit with banks and other financial institutions	85,855	100,700
Interest receivable	6	50
Other assets	74	41
Liabilities		
Deposits from banks and other financial institutions	249,636	249,673
Due to banks and other financial institutions	14,931	15,144
Interest payable	34	99
Other liabilities - others	375	164
Contingent Liabilities-Letters of Credit (Fully secured by deposits)	6,555	13,625
	<i>(Unaudited)</i>	
	30 June	30 June
	2013	2012
	US\$ '000	US\$ '000
Interim statement of comprehensive income		
Interest income	109	255
Interest expense	491	299
Fee and commission income	24	1,166
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	636	484
End of service benefits	43	60
	679	544

* Includes sitting fee of US\$ 87 thousand (30 June 2012: US\$ 75 thousand) and the reimbursement of travel and accommodation expenses paid to Board of Directors amounting to US\$ 67 thousand (30 June 2012: US\$ 58 thousand).

30 June 2013 (Unaudited)

9 FINANCIAL INSTRUMENTS

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

	<i>Carrying amount</i> US\$ '000	<i>Fair value</i> US\$ '000
Financial assets:		
Non-trading investments	125,996	119,389
Loans and advances	289,446	292,090

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 June 2013 and 31 December 2012. Moreover, none of the financial assets were transferred into or out of level 1 during the period ended 30 June 2013.