

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

**INTERIM CONDENSED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2016 (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 September 2016, 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 nine-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.



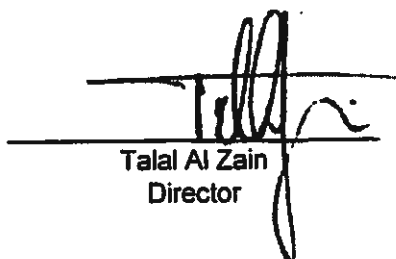
3 November 2016
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)
INTERIM STATEMENT OF FINANCIAL POSITION
 At 30 September 2016 (Reviewed)


		<i>(Reviewed)</i> 30 September 2016 US\$'000	<i>(Audited)</i> 31 December 2015 US\$'000
ASSETS			
Cash and balances with Central banks and other banks		333,413	488,526
Deposits with banks and other financial institutions		372,407	408,117
Investments held for trading	3	23,510	21,477
Non-trading investments	4	204,389	144,289
Loans and advances	5	264,626	360,176
Property, equipment and software		11,412	11,893
Interest receivable		5,138	6,581
Other assets		1,676	1,948
TOTAL ASSETS		1,216,571	1,443,007
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions		648,739	870,401
Due to banks and other financial institutions		174,566	202,359
Due to customers		81,549	31,572
Interest payable		2,266	1,302
Other liabilities		8,965	7,603
Total liabilities		916,085	1,113,237
Equity			
Share capital		250,000	250,000
Statutory reserve		20,174	20,174
Retained earnings		33,374	62,837
Fair value reserve		(3,062)	(3,241)
Total equity		300,486	329,770
TOTAL LIABILITIES AND EQUITY		1,216,571	1,443,007



Hasan Khalifa Abulhasan
Chief Executive Officer



Talal Al Zain
Director



Moraja G. Solaiman
Chairman

The attached notes 1 to 11 form part of these interim condensed financial statements.

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

INTERIM STATEMENT OF PROFIT OR LOSS

Nine months ended 30 September 2016 (Reviewed)

	Note	<i>(Reviewed)</i>		<i>(Reviewed)</i>	
		<i>Three months ended</i>		<i>Nine months ended</i>	
		<i>30 September</i>		<i>30 September</i>	
		2016	2015	2016	2015
		US\$'000	US\$'000	US\$'000	US\$'000
Interest and similar income		9,488	14,551	29,087	35,950
Interest expense		(2,107)	(690)	(6,405)	(1,523)
Net interest income		7,381	13,861	22,682	34,427
Fee and commission income		1,601	3,672	4,265	11,745
Trading income - net		34	(333)	(48)	(395)
Gain on non-trading investments - net		-	(7)	-	122
Foreign exchange gain - net		320	392	1,101	1,029
Other income		23	14	59	26
Operating income		9,359	17,599	28,059	46,954
Provision for credit losses - net	5	(16,823)	(13,759)	(29,522)	(14,590)
Settlement of legal claim	6	(325)	-	(5,756)	-
Provision for impairment of held to maturity investments		-	-	-	(263)
Net operating (loss) / income		(7,789)	3,840	(7,219)	32,101
Staff costs		1,959	2,009	6,016	5,997
Depreciation		260	271	749	882
Other operating expenses		694	983	2,979	2,433
Operating expenses		2,913	3,263	9,744	9,312
NET (LOSS) / PROFIT FOR THE PERIOD		(10,702)	577	(16,963)	22,789


 Hasan Khalifa Abulhasan
 Chief Executive Officer


 Talal Al Zain
 Director


 Moraja G. Solaiman
 Chairman

The attached notes 1 to 11 form part of these interim condensed financial statements.

ALUBAF Arab International Bank B.S.C. (c)**INTERIM STATEMENT OF COMPREHENSIVE INCOME**

Nine months ended 30 September 2016 (Reviewed)

	<i>(Reviewed)</i> <i>Three months ended</i> <i>30 September</i>		<i>(Reviewed)</i> <i>Nine months ended</i> <i>30 September</i>	
	<i>2016</i> <i>US\$'000</i>	<i>2015</i> <i>US\$'000</i>	<i>2016</i> <i>US\$'000</i>	<i>2015</i> <i>US\$'000</i>
NET (LOSS) / PROFIT FOR THE PERIOD	(10,702)	577	(16,963)	22,789
Other comprehensive income:				
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>				
Unrealised fair value (loss) / gain on available-for-sale investments	(773)	(1,526)	179	(1,366)
Other comprehensive income for the period	(773)	(1,526)	179	(1,366)
Total comprehensive (loss) / income for the period	(11,475)	(949)	(16,784)	21,423

The attached notes 1 to 11 form part of these interim condensed financial statements.

ALUBAF Arab International Bank B.S.C. (c)
INTERIM STATEMENT OF CASH FLOWS

Nine months ended 30 September 2016 (Reviewed)

	Note	(Reviewed)	
		Nine months ended	
		30 September	
		2016	2015
		US\$'000	US\$'000
OPERATING ACTIVITIES			
Net (loss) / profit for the period		(16,963)	22,789
Adjustments for:			
Provision for credit losses - net	5	29,522	14,590
Settlement of legal claim	6	5,756	-
Provision for impairment of held to maturity investments		-	263
Depreciation		749	882
Amortisation of non-trading investments		410	557
Unrealised loss on held for trading securities		109	71
Gain on non-trading investments - net		-	(122)
Amortisation of assets reclassified as "loans and advances" from trading investments		(537)	(493)
Operating profit before changes in operating assets and liabilities		19,046	38,537
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		94,917	(112,004)
Loans and advances		66,565	40,984
Investments held for trading		(2,142)	(21,873)
Interest receivable and other assets		1,715	1,973
Deposits from banks and other financial institutions		(221,662)	(9,349)
Due to banks and other financial institutions		(27,793)	(36,201)
Due to customers		49,977	6,103
Interest payable and other liabilities		(3,430)	(5,171)
Net cash used in operating activities		(22,807)	(97,001)
INVESTING ACTIVITIES			
Purchase of non-trading investments		(199,741)	(21,055)
Proceeds from disposal/redemption of non-trading investments		139,410	16,202
Purchase of property, equipment and software		(268)	(608)
Net cash used in investing activities		(60,599)	(5,461)
FINANCING ACTIVITIES			
Dividend paid	9	(12,500)	(25,000)
Refund of advance towards capital increase	8	-	(140)
Net cash used in financing activities		(12,500)	(25,140)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(95,906)	(127,602)
Cash and cash equivalents at beginning of the period		699,092	388,257
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		603,186	260,655
Cash and cash equivalents comprise:			
Cash and balances with Central Bank and other banks		333,413	60,515
Deposits with banks and other financial institutions with original maturity of ninety days or less		269,773	200,140
		603,186	260,655

The attached notes 1 to 11 form part of these interim condensed financial statements.

ALUBAF Arab International Bank B.S.C. (c)
INTERIM STATEMENT OF CHANGES IN EQUITY
 Nine months ended 30 September 2016 (Reviewed)

	(Reviewed)					
	Share capital US\$'000	Advance towards capital increase US\$ '000	Statutory reserve US\$'000	Retained earnings US\$'000	Fair value reserve US\$'000	Total US\$'000
Balance as at 1 January 2016	250,000	-	20,174	62,837	(3,241)	329,770
Dividend paid (note 9)	-	-	-	(12,500)	-	(12,500)
Total comprehensive loss for the period	-	-	-	(16,963)	179	(16,784)
At 30 September 2016	250,000	-	20,174	33,374	(3,062)	300,486
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)
Dividend paid (note 9)	-	-	-	(25,000)	-	(25,000)
Total comprehensive income for the period	-	-	-	22,789	(1,366)	21,423
At 30 September 2015	250,000	-	17,667	63,061	(2,533)	328,195

The attached notes 1 to 11 form part of these interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2016 (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"). 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 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 3 November 2016.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements of the Bank for the nine month period ended 30 September 2016 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 2015. In addition, results for the nine-month period ended 30 September 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

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 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016.

The below new standards and amendments were effective for annual financial periods commencing 1 January 2016 and therefore apply for the first time in 2016. 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> 30 September 2016 US\$'000	<i>(Audited)</i> 31 December 2015 US\$'000
<i>Quoted:</i>		
- Debt	23,084	21,455
- Equity	426	22
	<u>23,510</u>	<u>21,477</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2016 (Reviewed)

4 NON-TRADING INVESTMENTS

	<i>(Reviewed)</i> 30 September 2016 US\$'000	<i>(Audited)</i> 31 December 2015 US\$'000
Held-to-maturity:		
Debt securities		
- Sovereign	45,747	45,958
- Banks and Corporate	62,967	66,156
Wakala units	3,000	3,000
Total held-to-maturity	111,714	115,114
Available-for-sale:		
Debt securities		
- Sovereign	82,794	20,582
- Banks and Corporate	9,881	8,593
Total available-for-sale	92,675	29,175
Total non-trading investments	204,389	144,289

Held-to-maturity investments are stated net of provision for impairment of Nil (2015: US\$ 263 thousand) 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> 30 September 2016 US\$ 000	<i>(Audited)</i> 31 December 2015 US\$ 000
Letters of credit - financing	150,203	185,795
Sovereign loans	98,932	123,199
Commercial loans	44,619	55,263
Factoring	32,746	28,127
	326,500	392,384
Provision for impairment	(61,874)	(32,208)
	264,626	360,176

Movements in provision for impairment were as follows:

	30 September 2016 (Reviewed)		
	<i>Specific provision US\$ '000</i>	<i>General provision US\$ '000</i>	<i>Total US\$ '000</i>
At 1 January	28,443	3,765	32,208
Provided during the period	29,522	-	29,522
Recoveries during the period	-	-	-
Net charge for the period	29,522	-	29,522
Reallocated during the period	265	(265)	-
Exchange difference	144	-	144
At 30 June	58,374	3,500	61,874

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2016 (Reviewed)

5 LOANS AND ADVANCES (continued)

	30 September 2015 (Reviewed)		
	Specific US\$ '000	General US\$ '000	Total US\$ '000
At 1 January	7,236	11,646	18,882
Provided during the period	15,931	-	15,931
Recoveries during the period	(1,341)	-	(1,341)
Net charge for the period	14,590	-	14,590
Reallocated during the period	5,709	(5,709)	-
Written off	(2,276)	(1,715)	(3,991)
Exchange difference	(27)	-	(27)
At 30 September	25,232	4,222	29,454

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

	(Reviewed) 30 September 2016 US\$'000	(Audited) 31 December 2015 US\$'000
Carrying value	44,436	43,899
Fair value	45,178	37,215

Additional fair value gain of US\$ 742 thousand for the nine months ended 30 September 2016 (30 September 2015: loss of US\$ 5,527 thousand) would have been recognised in the interim statement of comprehensive income had the trading investment not been reclassified to loans and advances.

6 SETTLEMENT OF LEGAL CLAIM

The Bank was defendant in legal proceedings where the counterparty was pursuing a claim based on a document, which management believed, did not commit the Bank. On 30 June 2016, a judgement was issued by the relevant Court that required the Bank to pay compensation of US\$ 5,756 thousand to the claimant. In August 2016, the Bank paid the compensation into a separate escrow account to be paid to the claimant, which has been expensed in the interim statement of profit or loss for the period ended 30 September 2016. The Bank has also requested permission to appeal.

7 COMMITMENTS AND CONTINGENT LIABILITIES

	(Reviewed) 30 September 2016 US\$'000	(Audited) 31 December 2015 US\$'000
Letters of credit	81,718	150,677
Letters of guarantee	13,288	14,079
Undrawn loan commitments	9,228	34,617
	104,234	199,373
Forward foreign exchange contracts	2,265	147,524
	106,499	346,897

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2016 (Reviewed)

8 SHARE CAPITAL

At the Extraordinary 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 ended 30 September 2015, US\$ 140 thousand of the advance received towards capital increase was refunded due to non-receipt of complete subscription from all the shareholders.

9 DIVIDEND

A dividend of US\$ 12,500 thousand i.e. US\$ 2.50 per share relating to 2015 (2014: US\$ 25,000 thousand i.e. US\$ 5 per share) was paid during the period ended 30 September 2016 after due approval of the shareholders at the annual general meeting held on 19 April 2016.

10 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> 30 September 2016 <i>US\$'000</i>	<i>(Audited)</i> 31 December 2015 <i>US\$'000</i>
Interim statement of financial position		
Assets		
Cash and balances with banks	17,733	8,780
Deposits with banks and other financial institutions	4,493	10,000
Loans and advances	266	3,559
Interest receivable	1	11
Other assets	209	725
Liabilities		
Deposits from banks and other financial institutions	497,554	695,175
Due to banks and other financial institutions	16,017	14,754
Interest payable	2,239	1,258
Other liabilities	893	1,339
Assets under management	21,588	21,005
Contingent liabilities		
Letters of credit and guarantee (fully secured by deposits)	14,850	8,013
	<i>Nine months ended</i> <i>(Reviewed)</i>	
	30 September 2016 <i>US\$ '000</i>	30 September 2015 <i>US\$ '000</i>
Interim statement of profit or loss		
Interest and similar income	109	383
Interest expense	5,703	1,214
Fee and commission income	1,227	1,631

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2016 (Reviewed)

10 TRANSACTIONS WITH RELATED PARTIES (continued)

	<i>Nine months ended</i>	
	<i>(Reviewed)</i>	
	<u>30 September</u>	<u>30 September</u>
	2016	2015
	US\$ '000	US\$ '000
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	1,603	2,169
End of service benefits	119	92
	<u>1,722</u>	<u>2,261</u>

* Includes sitting fee of US\$ 69 thousand (30 September 2015: US\$ 124 thousand) and reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US\$ 63 thousand (30 September 2015: US\$ 133 thousand).

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 September 2016 (Reviewed)

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
	US\$ '000	US\$ '000	US\$ '000
Investments held for trading	23,510	-	23,510
Available-for-sale investments	92,675	-	92,675
Derivative financial instruments	-	(6)	(6)
	<u>116,185</u>	<u>(6)</u>	<u>116,179</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2016 (Reviewed)

11 FINANCIAL INSTRUMENTS (continued)

At 31 December 2015 (Audited)

	Level 1 US\$ '000	Level 2 US\$ '000	Total US\$ '000
Investments held for trading	21,477	-	21,477
Available-for-sale investments	29,175	-	29,175
Derivative financial instruments	-	(563)	(563)
	<u>50,652</u>	<u>(563)</u>	<u>50,089</u>

The Bank had no investments measured at fair value qualifying for level 3 of fair value hierarchy as at 30 September 2016 and as at 31 December 2015.

Transfers between level 1, level 2 and level 3

During the nine-month period ended 30 September 2016 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 (2015: nil).

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 September 2016 (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	110,966	-	3,000	113,966	111,714
Loans and advances	45,178	-	-	45,178	44,436
	<u>156,144</u>	<u>-</u>	<u>3,000</u>	<u>159,144</u>	<u>156,150</u>

At 31 December 2015 (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	109,853	-	3,000	112,853	115,114
Loans and advances	37,215	-	-	37,215	43,899
	<u>147,068</u>	<u>-</u>	<u>3,000</u>	<u>150,068</u>	<u>159,013</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 September 2016 and 31 December 2015.