

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

**INTERIM CONDENSED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2015 (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 September 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 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.

20 October 2015
Manama, Kingdom of Bahrain

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

		<i>(Reviewed)</i> 30 September 2015 US\$'000	<i>(Audited)</i> 31 December 2014 US\$'000
ASSETS			
Cash and balances with banks		60,515	22,507
Deposits with banks and other financial institutions		470,039	523,645
Investments held for trading	3	24,839	3,037
Non-trading investments	4	150,783	147,994
Loans and advances	5	430,174	485,255
Property, equipment and software		12,046	12,320
Interest receivable		6,200	8,922
Other assets		2,026	1,277
TOTAL ASSETS		1,156,622	1,204,957
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions		606,970	616,319
Due to banks and other financial institutions		183,435	219,636
Due to customers		31,254	25,151
Interest payable		542	189
Other liabilities		6,226	11,750
Total liabilities		828,427	873,045
Equity			
Share capital	8	250,000	250,000
Advance towards capital increase	8	-	140
Statutory reserve		17,667	17,667
Retained earnings		63,061	65,272
Fair value reserve		(2,533)	(1,167)
Total equity		328,195	331,912
TOTAL LIABILITIES AND EQUITY		1,156,622	1,204,957



Hasan Khalifa Abulhasan
Chief Executive Officer



Fathi Ahmed Yahia
Director



Moraja G. Solaiman
Chairman

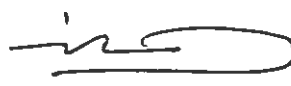
The attached notes 1 to 12 form part of these interim condensed financial statements.

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

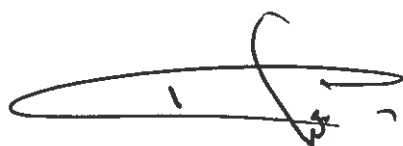
INTERIM STATEMENT OF PROFIT OR LOSS

Nine months ended 30 September 2015 (Reviewed)

	<i>(Reviewed)</i>		<i>(Reviewed)</i>	
	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
<i>Note</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Interest and similar income	14,551	11,792	35,950	33,192
Interest expense	(690)	(258)	(1,523)	(1,072)
Net interest income	13,861	11,536	34,427	32,120
Fee and commission income	3,672	3,619	11,745	11,821
Trading income - net	(333)	156	(395)	604
Gain on non-trading investments - net	(7)	78	122	332
Foreign exchange gain - net	392	24	1,029	212
Dividend income	14	13	26	75
Operating income	17,599	15,426	46,954	45,164
Provision for credit losses (net)	5 (13,759)	-	(14,590)	-
Provision for impairment of held to maturity investments	4 -	-	(263)	-
Net operating income	3,840	15,426	32,101	45,164
Staff costs	2,009	1,906	5,997	5,955
Depreciation	271	308	882	924
Other operating expenses	983	727	2,433	2,397
Operating expenses	3,263	2,941	9,312	9,276
NET PROFIT FOR THE PERIOD	577	12,485	22,789	35,888



Hasan Khalifa Abulhasan
Chief Executive Officer



Fathi Ahmed Yahia
Director



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 COMPREHENSIVE INCOME

Nine months ended 30 September 2015 (Reviewed)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
NET PROFIT FOR THE PERIOD	577	12,485	22,789	35,888
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	(1,526)	(136)	(1,366)	450
Other comprehensive income for the period	(1,526)	(136)	(1,366)	450
Total comprehensive income for the period	(949)	12,349	21,423	36,338

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

Nine months ended 30 September 2015 (Reviewed)

	Note	Nine months ended 30 September	
		2015 US\$'000	2014 US\$'000
OPERATING ACTIVITIES			
Net profit for the period		22,789	35,888
Adjustments for:			
Provision for impairment of held to maturity investments		263	-
Provision for loan losses(net)		14,590	-
Depreciation		882	924
Amortisation of non-trading investments		557	571
Unrealised loss on held for trading securities		71	(604)
Gain on non-trading investments - net		(122)	(332)
Amortisation of assets reclassified as "loans and advances" from trading investments		(493)	(453)
Operating profit before changes in operating assets and liabilities		38,537	35,994
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		(112,004)	(45,773)
Loans and advances		40,984	(61,485)
Investments held for trading		(21,873)	10,291
Interest receivable and other assets		1,973	(2,609)
Deposits from banks and other financial institutions		(9,349)	30,567
Due to banks and other financial institutions		(36,201)	(42,982)
Due to customers		6,103	10,979
Interest payable and other liabilities		(5,171)	(2,568)
Net cash used in operating activities		(97,001)	(67,586)
INVESTING ACTIVITIES			
Purchase of property, equipment and software		(608)	(144)
Purchase of non-trading investments		(21,055)	(28,943)
Proceeds from disposal/redemption of non-trading investments		16,202	17,767
Net cash used in investing activities		(5,461)	(11,320)
FINANCING ACTIVITIES			
Dividend paid	8	(25,000)	(25,000)
(Refund of advance) / advance towards capital increase	9	(140)	140
Net cash used in financing activities		(25,140)	(24,860)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(127,602)	(103,766)
Cash and cash equivalents at beginning of the period		388,257	373,440
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		260,655	269,674
Cash and cash equivalents comprise:			
Cash and bank balances		60,515	20,403
Deposits with banks and other financial institutions with original maturity of ninety days or less		200,140	249,271
		260,655	269,674

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
 Nine months ended 30 September 2015 (Reviewed)

	<i>Share capital US\$'000</i>	<i>Advance towards capital increase 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 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	-	-	-	22,789	-	(1,366)	21,423
Dividend paid (note 9)	-	-	-	(25,000)	-	-	(25,000)
At 30 September 2015	250,000	-	17,667	63,061	-	(2,533)	328,195
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	-	-	-	35,888	-	450	36,338
Dividend paid (note 9)	-	-	-	-	(25,000)	-	(25,000)
At 30 September 2014	250,140	-	13,597	64,530	-	(688)	327,579

The attached notes 1 to 12 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 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 20 October 2015.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements of the Bank for the nine month period ended 30 September 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 nine-month period ended 30 September 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

	<i>(Reviewed)</i> 30 September 2015 US\$'000	<i>(Audited)</i> 31 December 2014 US\$'000
Quoted:		
- Debt	24,763	3,000
- Equity	76	37
	<u>24,839</u>	<u>3,037</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2015 (Reviewed)

4 NON-TRADING INVESTMENTS

	<i>(Reviewed)</i> 30 September 2015 US\$'000	<i>(Audited)</i> 31 December 2014 US\$'000
Held-to-maturity:		
Debt securities		
- Sovereign	46,029	53,122
- Banks and Corporate	71,871	74,150
Wakala units	3,000	3,000
Total held-to-maturity	120,900	130,272
Available-for-sale:		
Debt securities		
- Sovereign	21,102	4,549
- Banks and Corporate	8,781	13,173
Total available-for-sale	29,883	17,722
Total non-trading investments	150,783	147,994

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> 30 September 2015 US\$'000	<i>(Audited)</i> 31 December 2014 US\$'000
Gross loans and advances	459,628	504,137
Provision for credit losses	(29,454)	(18,882)
Net loans and advances	430,174	485,255

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

	<i>(Reviewed)</i> 30 September 2015 US\$'000	<i>(Reviewed)</i> 30 September 2014 US\$'000
At 1 January	18,882	11,084
Charge for the period	15,931	1,497
Recovered during the period	(1,341)	(1,497)
Net charge for the period	14,590	-
Written off during the period	(3,991)	-
Exchange difference	(27)	(20)
At 30 September	29,454	11,064

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2015 (Reviewed)

5 LOANS AND ADVANCES (continued)

The provision for loan losses comprise the following:

	<i>(Reviewed)</i> 30 September 2015 <i>US\$'000</i>	<i>(Audited)</i> 31 December 2014 <i>US\$'000</i>
Specific provision	25,232	7,236
Collective provision	4,222	11,646
	<u>29,454</u>	<u>18,882</u>

6 RECLASSIFICATION OF FINANCIAL ASSETS

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

	<i>(Reviewed)</i> 30 September 2015 <i>US\$'000</i>	<i>(Audited)</i> 31 December 2014 <i>US\$'000</i>
Carrying value	43,735	43,242
Fair value	38,208	46,361

Additional fair value loss of US\$ 8,646 thousand for the nine months ended 30 September 2015 (30 September 2014: gain of US\$ 2,226 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

	<i>(Reviewed)</i> 30 September 2015 <i>US\$'000</i>	<i>(Audited)</i> 31 December 2014 <i>US\$'000</i>
Letters of credit	133,612	260,062
Letters of guarantee	16,363	8,394
Foreign exchange contracts	134	340
Undrawn loan commitments	29,122	18,409
	<u>179,231</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 September 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> 30 September 2015 US\$'000	<i>(Audited)</i> 31 December 2014 US\$'000
Interim statement of financial position		
Assets		
Cash and balances with banks	3,934	1,595
Deposits with banks and other financial institutions	39,633	88,541
Loans and advances	4,249	7,511
Interest receivable	17	199
Other assets	274	220
Liabilities		
Deposits from banks and other financial institutions	421,875	400,376
Due to banks and other financial institutions	14,871	16,249
Interest payable	515	154
Other liabilities	1,423	2,221
Assets under management	27,263	23,376
Contingent liabilities		
Letters of credit & guarantee	8,336	17,549
	<u>(Reviewed)</u>	
	<u>30 September</u>	<u>30 September</u>
	<u>2015</u>	<u>2014</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Interim statement of profit or loss		
Interest and similar income	383	564
Interest expense	1,214	567
Fee and commission income	1,631	790
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	2,169	1,894
End of service benefits	92	142
	<u>2,261</u>	<u>2,036</u>

* Includes sitting fee of US\$ 124 thousand (30 September 2014: US\$ 112 thousand) and reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US\$ 133 thousand (30 September 2014: US\$ 128 thousand).

At 30 September 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 September 2015 (Reviewed)

	<i>Level 1</i> US\$ '000	<i>Level 2</i> US\$ '000	<i>Total</i> US\$ '000
Investments held for trading	24,839	-	24,839
Available-for-sale investments	29,883	-	29,883
Derivative financial instruments	-	1	1
	<u>54,722</u>	<u>1</u>	<u>54,723</u>

At 31 December 2014 (Audited)

	<i>Level 1</i> US\$ '000	<i>Level 2</i> US\$ '000	<i>Total</i> 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 September 2015 and as at 31 December 2014.

Transfers between level 1, level 2 and level 3

During the nine-month period ended 30 September 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 September 2015 (Reviewed)

11 FINANCIAL INSTRUMENTS (continued)

At 30 September 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	106,094	-	12,769	118,863	120,900
Loans and advances	38,208	-	-	38,208	43,735
	144,302	-	12,769	157,071	164,635

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
	168,349	-	7,815	176,164	173,514

- 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 September 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.