

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

**INTERIM CONDENSED
FINANCIAL STATEMENTS**

31 MARCH 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 31 March 2013, comprising the interim statement of financial position and the related interim statements of comprehensive income, cash flows and changes in equity for the three-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.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

22 April 2013
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)
INTERIM STATEMENT OF FINANCIAL POSITION
 At 31 March 2013 (Unaudited)

	(Unaudited) 31 March 2013 US\$'000	Audited 31 December 2012 US\$'000
ASSETS		
Cash and balances with banks	48,285	7,102
Deposits with banks and other financial institutions	532,340	664,904
Investments held for trading	10,670	24
Non-trading investments	101,554	38,890
Loans and advances	384,612	378,684
Property, equipment and software	13,980	13,966
Interest receivable	8,863	8,034
Other assets	814	495
TOTAL ASSETS	1,101,118	1,112,099
LIABILITIES AND EQUITY		
Liabilities		
Deposits from banks and other financial institutions	471,491	519,017
Due to banks and other financial institutions	299,712	267,063
Due to customers	17,489	21,083
Interest payable	272	169
Other liabilities	2,932	4,168
Total liabilities	791,896	811,500
Equity		
Share capital	250,000	250,000
Statutory reserve	9,933	9,933
Retained earnings	29,289	20,666
Proposed dividend	20,000	20,000
Total equity	309,222	300,599
TOTAL LIABILITIES AND EQUITY	1,101,118	1,112,099



 Mr Moraja G. Solaiman
 Chairman


 Mr Suljman Esa Al Azzabi
 Deputy Chairman

The attached notes 1 to 10 form part of these interim condensed financial statements.

ALUBAF Arab International Bank B.S.C. (c)
INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three months ended 31 March 2013 (Unaudited)

		(Unaudited)	
		Three months ended	
		31 March	
		2013	2012
		US\$'000	US\$'000
	Note		
Interest and similar income		7,692	5,798
Interest expense		(448)	(781)
Net interest income		7,244	5,017
Fee and commission income		2,713	4,373
Changes in fair value of investments held for trading		(224)	-
Investment income	6	953	-
Foreign exchange gain		56	39
Net operating income		10,742	9,429
Staff costs		1,340	1,036
Depreciation		203	107
Other operating expenses		576	393
Operating expenses		2,119	1,536
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		8,623	7,893



Mr Moraja G. Solaiman
Chairman



Mr Sulieman Ess Al Azzabi
Deputy Chairman

The attached notes 1 to 10 form part of these interim condensed financial statements.

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

INTERIM STATEMENT OF CASH FLOWS

For the three months ended 31 March 2013 (Unaudited)

		<i>(Unaudited)</i>	
		<i>Three months ended</i>	
		<i>31 March</i>	
	<i>Note</i>	2013	2012
		US\$'000	US\$'000
OPERATING ACTIVITIES			
Net profit for the period		8,623	7,893
Adjustments for:			
Depreciation		203	107
Changes in fair value of investments held for trading		224	-
Investment income	6	(953)	-
Amortisation of assets reclassified as "loans and advances" from trading investments		(139)	(127)
Operating profit before changes in operating assets and liabilities		<u>7,958</u>	<u>7,873</u>
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		5,000	-
Loans and advances		(5,789)	25,880
Interest receivable and other assets		(1,148)	474
Deposits from banks and other financial institutions		(47,526)	(165,700)
Due to banks and other financial institutions		32,649	33,141
Due to customers		(3,594)	7,249
Interest payable and other liabilities		(1,133)	(1,260)
Net cash used in operating activities		<u>(13,583)</u>	<u>(92,343)</u>
INVESTING ACTIVITIES			
Purchase of property, equipment and software		(217)	(1,094)
Purchase of investments held for trading		(10,870)	-
Purchase of non-trading investments		(72,657)	-
Proceeds from disposal of non-trading investments		10,946	-
Net cash used in investing activities		<u>(72,798)</u>	<u>(1,094)</u>
FINANCING ACTIVITY			
Issue of share capital		-	50,000
Net cash from financing activity		<u>-</u>	<u>50,000</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(86,381)	(43,437)
Cash and cash equivalents at beginning of the period		<u>662,006</u>	<u>704,059</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		<u><u>575,625</u></u>	<u><u>660,622</u></u>
Cash and cash equivalents comprise:			
Cash in hand		23	4
Balances and deposits with banks and other financial institutions with original maturity of ninety days or less		<u>575,602</u>	<u>660,618</u>
		<u><u>575,625</u></u>	<u><u>660,622</u></u>

The attached notes 1 to 10 form part of these interim condensed financial statements.

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

For the three months ended 31 March 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>Total US\$'000</i>
Balance as at 1 January 2013	250,000	9,933	20,666	20,000	300,599
Total comprehensive income for the period	-	-	8,623	-	8,623
At 31 March 2013	250,000	9,933	29,289	20,000	309,222
Balance as at 1 January 2012	200,000	6,888	13,694	20,000	240,582
Issue of share capital	50,000	-	-	-	50,000
Total comprehensive income for the period	-	-	7,893	-	7,893
At 31 March 2012	250,000	6,888	21,587	20,000	298,475

The attached notes 1 to 10 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 three month period ended 31 March 2013 were authorised for issue in accordance with the resolution of the Board of Directors on 22 April 2013.

2 BASIS OF PREPARATION

The interim condensed financial statements of the Bank for the three month period ended 31 March 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 three month period ended 31 March 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 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 *Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed financial statements for the Bank, as there is no tax consequences attached to cash or non-cash distribution.

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.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. 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.

At 31 March 2013 (Unaudited)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)**New standards, interpretations and amendments adopted by the Bank (continued)***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.

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 NON-TRADING INVESTMENTS

	<i>(Unaudited)</i> 31 March 2013 US\$'000	<i>Audited</i> 31 December 2012 US\$'000
Held-to-maturity:		
Debt securities (note 4.1)	98,554	35,890
Wakala units (note 4.2)	3,000	3,000
	101,554	38,890

4.1 Debt securities

	<i>(Unaudited)</i> 31 March 2013 US\$'000	<i>Audited</i> 31 December 2012 US\$'000
Sovereign	38,192	23,897
Corporate	60,362	11,993
	98,554	35,890

4.2 This represents participation made through an investment in wakala units having a fixed maturity.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2013 (Unaudited)

5 RECLASSIFICATION OF FINANCIAL ASSETS

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

	<i>(Unaudited)</i>	<i>Audited</i>
	31 March	31 December
	2013	2012
	US\$'000	US\$'000
Carrying value	42,223	42,085
Fair value	51,037	52,317

Additional fair value loss that would have been recognised in the interim statement of comprehensive income for the three month period ended 31 March 2013 had the trading investment not been reclassified amounts to US\$ 1.42 million (31 March 2012: gain of US\$ 491 thousand).

6 INVESTMENT INCOME

During the quarter the Bank earned investment income of US\$ 953 thousand on disposal of certain investments which is of non-recurring nature.

7 COMMITMENTS AND CONTINGENT LIABILITIES

	<i>(Unaudited)</i>	<i>Audited</i>
	31 March	31 December
	2013	2012
	US\$'000	US\$'000
Letters of credit	172,984	250,045
Letters of guarantee	2,197	1,845
	175,181	251,890

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>
	31 March	31 December
	2013	2012
	US\$ '000	US\$ '000
Interim statement of financial position		
Assets		
Cash and balances with banks	922	2,055
Deposits with banks and other financial institutions	85,000	100,700
Interest receivable	9	50
Other assets	83	41
Liabilities		
Deposits from banks and other financial institutions	239,097	249,673
Due to banks and other financial institutions	17,339	15,144
Interest payable	238	99
Other liabilities - others	225	164
Contingent Liabilities-Letters of Credit		
(Fully secured by Deposit takings)	7,019	13,625

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2013 (Unaudited)

8 TRANSACTIONS WITH RELATED PARTIES (continued)

	<i>(Unaudited)</i>	
	31 March	31 March
	2013	2012
	US\$ '000	US\$ '000
Interim statement of comprehensive income		
Interest and similar income	55	152
Interest expense	257	153
Fee and commission income	24	978
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	274	230
End of service benefits	24	48
	298	278

* Includes sitting fee of US\$ 25 thousand (31 March 2012: US\$ 25 thousand) and the reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US\$ 36 thousand (31 March 2012: US\$ 22 thousand).

9 FINANCIAL INSTRUMENTS

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 March 2013:

	Carrying amount	Fair value
	US\$ '000	US\$ '000
Financial assets:		
Cash and balances with banks	48,285	48,285
Deposits with banks and other financial institutions	532,340	532,340
Investments held for trading	10,670	10,670
Non-trading investments	101,554	99,791
Loans and advances	384,612	393,436
Interest receivable	8,863	8,863
Other assets	814	814
Total	1,087,138	1,094,199
Financial liabilities:		
Deposits from banks and other financial institutions	471,491	471,491
Due to banks and other financial institutions	299,712	299,712
Due to customers	17,489	17,489
Interest payable	272	272
Other liabilities	2,932	2,932
Total	791,896	791,896

9 FINANCIAL INSTRUMENTS (continued)

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 investments held for trading carried at fair value are categorised in level 1 of the fair value hierarchy as of 31 March 2013 and 31 December 2012. Moreover, none of the financial assets were transferred into or out of level 1 during the period ended 31 March 2013. The investments held for trading comprise debt investments of US\$ 10,646 thousand (31 December 2012: Nil) and equity investment of US\$ 24 thousand (31 December 2012: US\$ 24 thousand).

The fair values of financial instruments are not significantly different from the carrying values included in the interim condensed financial statements except as mentioned in note 5 to the interim condensed financial statements.

10 SUBSEQUENT EVENT

Proposed dividend of US\$ 20 million (US\$ 4 per share) for the year ended 31 December 2012 (2011: US\$ 20 million; US\$ 5 per share), which was approved by the Bank's shareholders for payment at the Annual General Meeting held on 21 April 2013.