

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

**INTERIM CONDENSED
FINANCIAL STATEMENTS**

31 MARCH 2014 (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 2014, 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 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.



29 April 2014
Manama, Kingdom of Bahrain

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

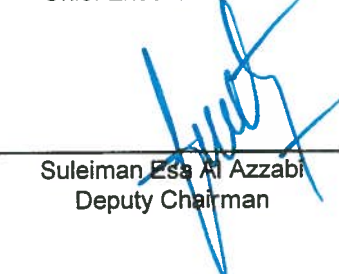
INTERIM STATEMENT OF FINANCIAL POSITION

At 31 March 2014 (Unaudited)

		<i>(Unaudited)</i> 31 March 2014 US\$'000	<i>Audited</i> 31 December 2013 US\$'000
ASSETS			
Cash and balances with banks		15,360	150,345
Deposits with banks and other financial institutions		379,524	422,005
Investments held for trading		7,957	14,626
Non-trading investments	4	156,587	137,282
Loans and advances	5	476,087	362,998
Property, equipment and software		13,111	13,366
Interest receivable		6,014	5,916
Other assets		1,264	1,224
TOTAL ASSETS		1,055,904	1,107,762
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions		479,273	501,186
Due to banks and other financial institutions		230,976	268,273
Due to customers		3,852	7,714
Interest payable		542	205
Other liabilities		13,351	14,283
Total liabilities		727,994	791,661
Equity			
Share capital		250,000	250,000
Statutory reserve		13,597	13,597
Retained earnings		40,259	28,642
Proposed dividend	7	25,000	25,000
Fair value reserve		(946)	(1,138)
Total equity		327,910	316,101
TOTAL LIABILITIES AND EQUITY		1,055,904	1,107,762



Hasan Khalifa Abulhasan
Chief Executive Officer



Suleiman Ezz Al Azzabi
Deputy Chairman



Moraja G. Solaiman
Chairman

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

INTERIM STATEMENT OF PROFIT OR LOSS

For the three months ended 31 March 2014 (Unaudited)

		(Unaudited)	
		Three months ended	
		31 March	
		2014	2013
Note		US\$'000	US\$'000
	Interest and similar income	10,043	7,692
	Interest expense	(379)	(448)
	Net interest income	9,664	7,244
	Fee and commission income	4,619	2,713
	Trading income	416	(224)
	Gain on non-trading investments	254	953
	Foreign exchange gain	(94)	56
6	Dividend income	26	-
	Net operating income	14,885	10,742
	Staff costs	2,096	1,340
	Depreciation	309	203
	Other operating expenses	863	576
	Operating expenses	3,268	2,119
	NET PROFIT FOR THE PERIOD	11,617	8,623



Hasan Khalifa Abulhasan
Chief Executive Officer



Suleiman Asa Al Azzabi
Deputy Chairman



Moraja G. Solaiman
Chairman

ALUBAF Arab International Bank B.S.C. (c)
INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three months ended 31 March 2014 (Unaudited)

	<i>Three months ended</i>	
	<i>31 March</i>	
	2014	2013
	US\$'000	US\$'000
NET PROFIT FOR THE PERIOD	11,617	8,623
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	192	-
Other comprehensive income for the period	192	-
Total comprehensive income for the period	11,809	8,623

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 2014 (Unaudited)

	<i>Three months ended</i>	
	<i>31 March</i>	
	2014	2013
	US\$'000	US\$'000
	<i>Note</i>	
OPERATING ACTIVITIES		
Net profit for the period	11,617	8,623
Adjustments for:		
Depreciation	309	203
Trading income	(416)	224
Gain on non-trading investments	(254)	(953)
Amortisation of assets reclassified as "loans and advances" from trading investments	(151)	(139)
Operating profit before changes in operating assets and liabilities	11,105	7,958
Changes in operating assets and liabilities:		
Deposits with banks and other financial institutions	42,450	5,000
Loans and advances	(112,938)	(5,789)
Investments held for trading	7,085	(10,870)
Interest receivable and other assets	(138)	(1,148)
Deposits from banks and other financial institutions	(21,913)	(47,526)
Due to banks and other financial institutions	(37,297)	32,649
Due to customers	(3,862)	(3,594)
Interest payable and other liabilities	(595)	(1,133)
Net cash used in operating activities	(116,103)	(24,453)
INVESTING ACTIVITIES		
Purchase of property, equipment and software	(54)	(217)
Purchase of non-trading investments	(26,232)	(72,657)
Proceeds from disposal of non-trading investments	7,373	10,946
Net cash used in investing activities	(18,913)	(61,928)
FINANCING ACTIVITY		
Net cash from financing activity	-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(135,016)	(86,381)
Cash and cash equivalents at beginning of the period	373,440	662,006
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	238,424	575,625
Cash and cash equivalents comprise:		
Cash in hand	15,360	23
Balances and deposits with banks and other financial institutions with original maturity of ninety days or less	223,064	575,602
	238,424	575,625

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 2014 (Unaudited)

	<i>Share capital</i> US\$'000	<i>Statutory reserve</i> US\$'000	<i>Retained earnings</i> US\$'000	<i>Proposed dividend</i> US\$'000	<i>Fair value reserve</i> US\$'000	<i>Total</i> US\$'000
Balance as at 1 January 2014	250,000	13,597	28,642	25,000	(1,138)	316,101
Total comprehensive income for the period	-	-	11,617	-	192	11,809
At 31 March 2014	250,000	13,597	40,259	25,000	(946)	327,910
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

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

At 31 March 2014 (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 three month period ended 31 March 2014 were authorised for issue in accordance with the resolution of the Board of Directors on 29 April 2014.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements of the Bank for the three month period ended 31 March 2014 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 2013. In addition, results for the three-month period ended 31 March 2014 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

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 2013, except for the adoption of new standards and interpretations effective as of 1 January 2014.

The below new standards and amendments apply for the first time in 2014. However, they do not impact the annual financial statements of the Bank or the interim condensed financial statements of the Bank.

- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*
- *Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*
- *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*
- *Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36*
- *IFRIC 21 Levies*

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>(Unaudited)</i> 31 March 2014 US\$'000	<i>Audited</i> 31 December 2013 US\$'000
<i>Quoted:</i>		
- Debt	5,469	11,715
- Equity	2,488	2,911
	7,957	14,626

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2014 (Unaudited)

4 NON-TRADING INVESTMENTS

	<i>(Unaudited)</i> 31 March 2014 US\$'000	<i>Audited</i> 31 December 2013 US\$'000
Held-to-maturity:		
Debt securities		
- Sovereign	58,155	47,446
- Corporate	74,424	71,553
Wakala units	3,000	3,000
Total held-to-maturity	135,579	121,999
Available-for-sale:		
Debt securities		
Sovereign	7,618	7,194
Corporate	13,390	8,089
Total available-for-sale	21,008	15,283
Total non-trading investments	156,587	137,282

5 RECLASSIFICATION OF FINANCIAL ASSETS

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

	<i>(Unaudited)</i> 31 March 2014 US\$'000	<i>Audited</i> 31 December 2013 US\$'000
Carrying value	42,790	42,639
Fair value	48,472	46,687

Additional fair value gain that would have been recognised in the interim statement of comprehensive income for the three month period ended 31 March 2014 had the trading investment not been reclassified amounts to US\$ 1.63 million (31 March 2013: loss of US\$ 1.42 million).

6 SEASONALITY OF RESULTS

Dividend income for the three months ended 31 March 2014 of US\$ 26 thousand (three months ended 31 March 2013: nil), is of a seasonal nature.

7 PROPOSED DIVIDEND

The Bank has proposed a dividend of US\$ 25 million (US\$ 5 per share) for the year ended 31 December 2013 (2012: US\$ 20 million; US\$ 4 per share), which will be submitted for approval of the Bank's shareholders at the next Annual General Meeting to be held on 28 April 2014.

At 31 March 2014 (Unaudited)

8 COMMITMENTS AND CONTINGENT LIABILITIES

	<i>(Unaudited)</i> 31 March 2014 US\$'000	<i>Audited</i> 31 December 2013 US\$'000
<i>Credit and other commitments</i>		
Letters of credit	267,819	163,393
Letters of guarantee	5,453	6,347
Foreign exchange contracts	10,617	2,521
Undrawn loan commitments	9,594	1,102
	293,483	173,363

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.

9 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> 31 March 2014 US\$'000	<i>Audited</i> 31 December 2013 US\$'000
Interim statement of financial position		
Assets		
Cash and balances with banks	1,006	10,772
Deposits with banks and other financial institutions	70,000	77,500
Loans and advances	7,970	7,874
Interest receivable	76	119
Other assets	290	38
Liabilities		
Deposits from banks and other financial institutions	236,911	243,935
Due to banks and other financial institutions	17,501	15,536
Interest payable	471	128
Other liabilities	497	3,014
Assets under management	26,423	26,517
Contingent Liabilities		
Letters of Credit	17,082	21,542
Foreign exchange contracts	2,451	-

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2014 (Unaudited)

9 TRANSACTIONS WITH RELATED PARTIES (continued)

	<i>(Unaudited)</i>	
	31 March	31 March
	2014	2013
	US\$ '000	US\$ '000
Interim statement of comprehensive income		
Interest and similar income	169	55
Interest expense	193	257
Fee and commission income	310	24
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	646	528
End of service benefits	38	51
	684	579

* Includes sitting fee of US\$ 62 thousand (31 March 2013: US\$ 25 thousand) and reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US\$ 72 thousand (31 March 2013: US\$ 22 thousand).

10 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 31 March 2014

	Level 1	Level 2	Level 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Investments held for trading	7,957	-	-	7,957
Available-for-sale investments	21,008	-	-	21,008
Derivative financial instruments	-	11	-	11
	28,965	11	-	28,976

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2014 (Unaudited)

10 FINANCIAL INSTRUMENTS (continued)

At 31 December 2013

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total US\$ '000
Investments held for trading	14,626	-	-	14,626
Available-for-sale investments	15,283	-	-	15,283
Derivative financial instruments	-	7	-	7
	<u>29,909</u>	<u>7</u>	<u>-</u>	<u>29,916</u>

Transfers between level 1, level 2 and level 3

During the three-month period ended 31 March 2014 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 (2013: 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:

At 31 March 2014

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total fair value US\$ '000
Held-to-maturity investments	123,547	-	10,035	133,582
Loans and advances	48,472	-	433,297	481,769
	<u>172,019</u>	<u>-</u>	<u>443,332</u>	<u>615,351</u>

At 31 December 2013

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total fair values US\$ '000
Held-to-maturity investments	106,012	-	9,630	115,642
Loans and advances	46,687	-	316,750	363,437
	<u>152,699</u>	<u>-</u>	<u>326,380</u>	<u>479,079</u>

- 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. Fair values of loans and advances falling under Level 3 are determined using discounted cash flows.

Balances with banks, deposits with banks and other financial institutions, deposits from banks and other financial institutions, due to banks and other financial institutions and due to customers are generally short term in nature. Management has assessed that the fair values of these approximate their carrying values as of 31 March 2014.