

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

**INTERIM CONDENSED  
FINANCIAL STATEMENTS**

**30 JUNE 2014 (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 June 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 six-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.



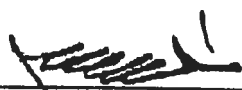
6 August 2014  
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)  
 INTERIM STATEMENT OF FINANCIAL POSITION  
 At 30 June 2014 (Reviewed)

		(Reviewed) 30 June 2014 US\$'000	Audited 31 December 2013 US\$'000
<b>ASSETS</b>			
Cash and balances with banks		21,467	150,345
Deposits with banks and other financial institutions		389,929	422,005
Investments held for trading	3	6,874	14,626
Non-trading investments	4	154,598	137,282
Loans and advances		486,959	362,998
Property, equipment and software		12,832	13,366
Interest receivable		6,038	5,916
Other assets		1,246	1,224
<b>TOTAL ASSETS</b>		<b>1,079,943</b>	<b>1,107,762</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Deposits from banks and other financial institutions		487,922	501,186
Due to banks and other financial institutions		240,130	268,273
Due to customers		21,795	7,714
Interest payable		908	205
Other liabilities		13,958	14,283
<b>Total liabilities</b>		<b>764,713</b>	<b>791,661</b>
<b>Equity</b>			
Share capital		250,140	250,000
Statutory reserve		13,597	13,597
Retained earnings		52,045	28,642
Proposed dividend		-	25,000
Fair value reserve		(552)	(1,138)
<b>Total equity</b>		<b>315,230</b>	<b>316,101</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,079,943</b>	<b>1,107,762</b>



Hasan Khalifa Abulhasan  
 Chief Executive Officer



Suleiman Esa Al Azzabi  
 Deputy Chairman



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

For the six months ended 30 June 2014 (Reviewed)

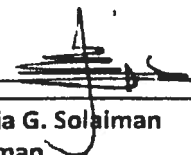
	<i>(Reviewed)</i>		<i>(Reviewed)</i>	
	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<b>2014</b>	2013	<b>2014</b>	2013
Note	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Interest and similar income	<b>11,357</b>	7,963	<b>21,400</b>	15,655
Interest expense	<b>(437)</b>	(448)	<b>(816)</b>	(896)
<b>Net interest income</b>	<b>10,920</b>	7,515	<b>20,584</b>	14,759
Fee and commission income	<b>3,583</b>	4,969	<b>8,202</b>	7,682
Trading income	<b>32</b>	(1,163)	<b>448</b>	(434)
Gain on non-trading investments	-	-	<b>254</b>	-
Foreign exchange gain	<b>282</b>	410	<b>188</b>	466
Dividend income	<b>36</b>	-	<b>62</b>	-
	6			
<b>Net operating income</b>	<b>14,853</b>	11,731	<b>29,738</b>	22,473
Staff costs	<b>1,953</b>	1,585	<b>4,049</b>	2,925
Depreciation	<b>307</b>	262	<b>616</b>	465
Other operating expenses	<b>807</b>	715	<b>1,670</b>	1,291
<b>Operating expenses</b>	<b>3,067</b>	2,562	<b>6,335</b>	4,681
<b>NET PROFIT FOR THE PERIOD</b>	<b>11,786</b>	9,169	<b>23,403</b>	17,792



**Hasan Khalifa Abulhasan**  
Chief Executive Officer



**Suleiman Esa Al Azzabi**  
Deputy Chairman



**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**

For the six months ended 30 June 2014 (Reviewed)

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
<b>NET PROFIT FOR THE PERIOD</b>	<b>11,786</b>	9,169	<b>23,403</b>	17,792
<b>Other comprehensive income:</b>				
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>				
Unrealised fair value gain (loss) on available-for-sale investments	<b>394</b>	(1,313)	<b>586</b>	(1,313)
<b>Other comprehensive income for the period</b>	<b>394</b>	(1,313)	<b>586</b>	(1,313)
<b>Total comprehensive income for the period</b>	<b>12,180</b>	7,856	<b>23,989</b>	16,479

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

For the six months ended 30 June 2014 (Reviewed)

	<i>Six months ended</i>	
	<i>30 June</i>	
	<b>2014</b>	2013
	<b>US\$'000</b>	US\$'000
<b>OPERATING ACTIVITIES</b>		
Net profit for the period	<b>23,403</b>	17,792
Adjustments for:		
Depreciation	<b>616</b>	465
Trading income	<b>(448)</b>	434
Gain on non-trading investments	<b>(254)</b>	-
Amortisation of assets reclassified as "loans and advances" from trading investments	<b>(302)</b>	(278)
Operating profit before changes in operating assets and liabilities	<b>23,015</b>	18,413
Changes in operating assets and liabilities:		
Deposits with banks and other financial institutions	<b>31,309</b>	(15,000)
Loans and advances	<b>(123,659)</b>	89,516
Investments held for trading	<b>8,200</b>	(21,393)
Interest receivable and other assets	<b>(144)</b>	782
Deposits from banks and other financial institutions	<b>(13,264)</b>	(21,811)
Due to banks and other financial institutions	<b>(28,143)</b>	66,114
Due to customers	<b>14,081</b>	6,830
Interest payable and other liabilities	<b>378</b>	(753)
Net cash (used in) from operating activities	<b>(88,227)</b>	122,698
<b>INVESTING ACTIVITIES</b>		
Purchase of property, equipment and software	<b>(82)</b>	(361)
Purchase of non-trading investments	<b>(23,849)</b>	(98,412)
Proceeds from disposal of non-trading investments	<b>7,373</b>	10,946
Net cash used in investing activities	<b>(16,558)</b>	(87,827)
<b>FINANCING ACTIVITIES</b>		
Dividend paid	<b>(25,000)</b>	(20,000)
Issue of share capital	<b>140</b>	-
Net cash used in financing activities	<b>(24,860)</b>	(20,000)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(129,645)</b>	14,871
Cash and cash equivalents at beginning of the period	<b>373,440</b>	662,006
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>243,795</b>	676,877
Cash and cash equivalents comprise:		
Cash in hand	<b>6</b>	6
Balances and deposits with banks and other financial institutions with original maturity of ninety days or less	<b>243,789</b>	676,871
	<b>243,795</b>	676,877

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**

For the six months ended 30 June 2014 (Reviewed)

	<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 2014	250,000	13,597	28,642	25,000	(1,138)	316,101
Issue of share capital (note 9)	140	-	-	-	-	140
Total comprehensive income for the period	-	-	23,403	-	586	23,989
Dividend paid (note 8)	-	-	-	(25,000)	-	(25,000)
<b>At 30 June 2014</b>	<b>250,140</b>	<b>13,597</b>	<b>52,045</b>	<b>-</b>	<b>(552)</b>	<b>315,230</b>
Balance as at 1 January 2013	250,000	9,933	20,666	20,000	-	300,599
Total comprehensive income for the period	-	-	17,792	-	(1,313)	16,479
Dividend paid (note 8)	-	-	-	(20,000)	-	(20,000)
At 30 June 2013	250,000	9,933	38,458	-	(1,313)	297,078

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

At 30 June 2014 (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") 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 2014 were authorised for issue in accordance with the resolution of the Board of Directors on 6 August 2014.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

The interim condensed financial statements of the Bank for the six month period ended 30 June 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 six-month period ended 30 June 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*; and
- *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>(Reviewed)</i> <b>30 June</b> <b>2014</b> <b>US\$'000</b>	<i>Audited</i> <b>31 December</b> <b>2013</b> <b>US\$'000</b>
<i>Quoted:</i>		
- Debt	<b>5,713</b>	11,715
- Equity	<b>1,161</b>	2,911
	<b>6,874</b>	14,626



## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2014 (Reviewed)

**4 NON-TRADING INVESTMENTS**

	<i>(Reviewed)</i> <b>30 June</b> <b>2014</b> <b>US\$'000</b>	<i>Audited</i> <b>31 December</b> <b>2013</b> <b>US\$'000</b>
<b>Held-to-maturity:</b>		
Debt securities		
- Sovereign	<b>53,331</b>	47,446
- Corporate	<b>74,333</b>	71,553
Wakala units	<b>3,000</b>	3,000
<b>Total held-to-maturity</b>	<b>130,664</b>	121,999
<b>Available-for-sale:</b>		
Debt securities		
- Sovereign	<b>4,558</b>	7,194
- Corporate	<b>19,376</b>	8,089
<b>Total available-for-sale</b>	<b>23,934</b>	15,283
<b>Total non-trading investments</b>	<b>154,598</b>	137,282

**5 RECLASSIFICATION OF FINANCIAL ASSETS**

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

	<i>(Reviewed)</i> <b>30 June</b> <b>2014</b> <b>US\$'000</b>	<i>Audited</i> <b>31 December</b> <b>2013</b> <b>US\$'000</b>
Carrying value	<b>42,941</b>	42,639
Fair value	<b>49,427</b>	46,687

Additional fair value gain of US\$ 3.04 million for the six months ended 30 June 2014 (six months ended 30 June 2013: loss of US\$ 7.03 million) that would have been recognised in the interim statement of comprehensive income had the trading investment not been reclassified to loans and advances.

**6 SEASONALITY OF RESULTS**

Dividend income for the six months ended 30 June 2014 of US\$ 62 thousand (six months ended 30 June 2013: nil), is of a seasonal nature.

**7 COMMITMENTS AND CONTINGENT LIABILITIES**

	<i>(Reviewed)</i> <b>30 June</b> <b>2014</b> <b>US\$'000</b>	<i>Audited</i> <b>31 December</b> <b>2013</b> <b>US\$'000</b>
Letters of credit	<b>256,503</b>	163,393
Letters of guarantee	<b>7,810</b>	6,347
Foreign exchange contracts	<b>7,925</b>	2,521
Undrawn loan commitments	<b>10,917</b>	1,102
	<b>283,154</b>	173,363

At 30 June 2014 (Reviewed)

**7 COMMITMENTS AND CONTINGENT LIABILITIES (continued)****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 DIVIDEND PAID**

Following the shareholders' approval at the Annual General Meeting held on 29 April 2014, cash dividend of US\$ 5 per share totalling US\$ 25 million (US\$ 4 per share totalling US\$ 20 million) was paid.

**9 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 US\$ 50 million was received towards capital increase.

**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>	<i>Audited</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2014</i>	<i>2013</i>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Interim statement of financial position</b>		
<b>Assets</b>		
Cash and balances with banks	946	10,772
Deposits with banks and other financial institutions	94,000	77,500
Loans and advances	7,940	7,874
Interest receivable	201	119
Other assets	258	38
<b>Liabilities</b>		
Deposits from banks and other financial institutions	230,237	243,935
Due to banks and other financial institutions	17,135	15,536
Interest payable	838	128
Other liabilities	883	3,014
Assets under management	26,226	26,517
<b>Contingent liabilities</b>		
Letters of credit	9,940	21,542

No provision is required in respect of loans given to related parties (2013: nil)





## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2014 (Reviewed)

**10 TRANSACTIONS WITH RELATED PARTIES (continued)**

	<i>(Reviewed)</i>	
	<b>30 June</b>	<b>30 June</b>
	<b>2014</b>	<b>2013</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>Interim statement of profit or loss</b>		
Interest and similar income	365	109
Interest expense	375	491
Fee and commission income	20	24
<b>Compensation paid to the Board of Directors and key management personnel</b>		
Short term benefits*	1,286	1,116
End of service benefits	109	102
	<b>1,395</b>	<b>1,218</b>

\* Includes sitting fee of US\$ 87 thousand (30 June 2013: US\$ 87 thousand) and reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US\$ 100 thousand (30 June 2013: US\$ 67 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 June 2014**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
Investments held for trading	6,874	-	-	6,874
Available-for-sale investments	23,934	-	-	23,934
Derivative financial instruments	-	7	-	7
	<b>30,808</b>	<b>7</b>	<b>-</b>	<b>30,815</b>

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2014 (Reviewed)

**11 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	-	-	-	-
	<u>29,909</u>	<u>-</u>	<u>-</u>	<u>29,909</u>

The Bank had no investments measured at fair value qualifying for level 3 of fair value hierarchy as at 30 June 2014 and as at 31 December 2013.

**Transfers between level 1, level 2 and level 3**

During the six-month period ended 30 June 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 30 June 2014

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total fair value US\$ '000
Held-to-maturity investments	127,120	-	4,815	131,935
Loans and advances	49,427	-	444,018	493,445
	<u>176,547</u>	<u>-</u>	<u>448,833</u>	<u>625,380</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, 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 June 2014 and 31 December 2013.