

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

**INTERIM CONDENSED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2017 (Reviewed)

REVIEW REPORT TO THE BOARD OF DIRECTORS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

Introduction

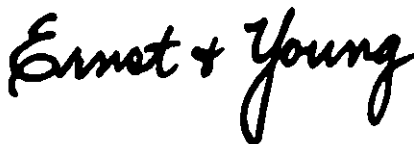
We have reviewed the accompanying interim condensed financial statements of ALUBAF Arab International Bank B.S.C. (c) (the "Bank") as at 30 September 2017, comprising the interim statement of financial position and the related interim statements of profit or loss, comprehensive income, cash flows and 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.



7 November 2017
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)
INTERIM STATEMENT OF FINANCIAL POSITION
 At 30 September 2017 (Reviewed)

		<i>(Reviewed)</i> 30 September 2017 US\$'000	<i>(Audited)</i> 31 December 2016 US\$'000
ASSETS			
Cash and balances with Central banks and other banks		321,823	289,802
Deposits with banks and other financial institutions		430,155	437,992
Investments held for trading	3	21,248	22,413
Non-trading investments	4	225,179	203,767
Loans and advances	5	167,627	208,041
Property, equipment and software		10,513	11,149
Interest receivable		5,694	6,134
Other assets		1,620	1,638
TOTAL ASSETS		1,183,859	1,180,936
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions		626,500	586,824
Due to banks and other financial institutions		134,769	156,315
Due to customers		99,365	129,755
Interest payable		2,633	981
Other liabilities		10,749	4,784
Total liabilities		874,016	878,659
Equity			
Share capital		250,000	250,000
Statutory reserve		20,174	20,174
Retained earnings		41,795	35,652
Fair value reserve		(2,126)	(3,549)
Total equity		309,843	302,277
TOTAL LIABILITIES AND EQUITY		1,183,859	1,180,936



Hasan Khalifa Abulhasan
Chief Executive Officer



Talal Al Zain
Director



Anthony C. Mallis
Director

The attached notes 1 to 8 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 2017 (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>	
		<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Interest and similar income		9,629	9,488	28,334	29,087
Interest expense		(2,650)	(2,107)	(7,500)	(6,405)
Net interest income		6,979	7,381	20,834	22,682
Fee and commission income		794	1,601	3,104	4,265
Trading income - net		9	34	41	(48)
Gain on non-trading investments - net		-	-	5	-
Foreign exchange gain - net		78	320	570	1,101
Other income		24	23	75	59
Operating income		7,884	9,359	24,629	28,059
Provision for credit losses - net	5	(2,500)	(16,823)	(10,239)	(29,522)
Provision for legal claim		-	(325)	-	(5,756)
Net operating income (loss)		5,384	(7,789)	14,390	(7,219)
Staff costs		1,761	1,959	5,549	6,016
Depreciation		270	260	807	749
Other operating expenses		696	694	1,891	2,979
Operating expenses		2,727	2,913	8,247	9,744
NET PROFIT / (LOSS) FOR THE PERIOD		2,657	(10,702)	6,143	(16,963)


 Hasan Khalifa Abulhasan
 Chief Executive Officer


 Talal Al Zain
 Director


 Anthony C. Mallis
 Director

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

INTERIM STATEMENT OF COMPREHENSIVE INCOME

Nine months ended 30 September 2017 (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>	
	2017	2016	2017	2016
	US\$'000	US\$'000	US\$'000	US\$'000
NET PROFIT / (LOSS) FOR THE PERIOD	2,657	(10,702)	6,143	(16,963)
Other comprehensive income:				
<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	141	(773)	1,423	179
Other comprehensive income for the period	141	(773)	1,423	179
Total comprehensive income / (loss) for the period	2,798	(11,475)	7,566	(16,784)

The attached notes 1 to 8 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 2017 (Reviewed)

	Note	(Reviewed)	
		Nine months ended 30 September	
		2017	2016
		US\$'000	US\$'000
OPERATING ACTIVITIES			
Net profit (loss) for the period		6,143	(16,963)
Adjustments for:			
Provision for credit losses - net	5	10,239	29,522
Provision for legal claim		-	5,756
Depreciation		807	749
Amortisation of non-trading investments		389	410
Unrealised loss on held for trading securities		20	109
Amortisation of assets reclassified as "loans and advances" from trading investments		(584)	(537)
Operating profit before changes in operating assets and liabilities		17,014	19,046
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		46,702	94,917
Loans and advances		30,759	66,565
Investments held for trading		1,145	(2,142)
Interest receivable and other assets		458	1,715
Deposits from banks and other financial institutions		39,676	(221,662)
Due to banks and other financial institutions		(21,546)	(27,793)
Due to customers		(30,390)	49,977
Interest payable and other liabilities		7,617	(3,430)
Net cash from (used in) operating activities		91,435	(22,807)
INVESTING ACTIVITIES			
Purchase of non-trading investments		(25,378)	(199,741)
Proceeds from disposal/redemption of non-trading investments		5,000	139,410
Purchase of property, equipment and software		(171)	(268)
Net cash used in investing activities		(20,549)	(60,599)
FINANCING ACTIVITY			
Dividend paid		-	(12,500)
Net cash used in financing activity		-	(12,500)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		70,886	(95,906)
Cash and cash equivalents at beginning of the period		651,092	699,092
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		721,978	603,186
Cash and cash equivalents comprise:			
Cash and balances with Central Bank and other banks		321,823	333,413
Deposits with banks and other financial institutions with original maturity of ninety days or less		400,155	269,773
		721,978	603,186

The attached notes 1 to 8 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 2017 (Reviewed)

	<i>(Reviewed)</i>				
	<i>Share capital US\$'000</i>	<i>Statutory reserve US\$'000</i>	<i>Retained earnings US\$'000</i>	<i>Fair value reserve US\$'000</i>	<i>Total US\$'000</i>
Balance as at 1 January 2017	250,000	20,174	35,652	(3,549)	302,277
Net profit for the period	-	-	6,143	-	6,143
Other comprehensive income for the period	-	-	-	1,423	1,423
At 30 September 2017	250,000	20,174	41,795	(2,126)	309,843
Balance as at 1 January 2016	250,000	20,174	62,837	(3,241)	329,770
Dividend paid	-	-	(12,500)	-	(12,500)
Net profit for the period	-	-	(16,963)	-	(16,963)
Other comprehensive income for the period	-	-	-	179	179
At 30 September 2016	250,000	20,174	33,374	(3,062)	300,486

The attached notes 1 to 8 form part of these interim condensed financial statements.

At 30 September 2017 (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, Commerce and Tourism 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 six-month period ended 30 September 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 7 November 2017.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements of the Bank for the nine month period ended 30 September 2017 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 2016. In addition, results for the nine-month period ended 30 September 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

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 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017.

The below new standards and amendments were effective for annual financial periods commencing 1 January 2017 and therefore apply for the first time in 2017. However, they had no impact on the Bank's accounting policies, financial position or performance.

- IAS 7 Disclosure Initiative - Amendments;
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments; and
- IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective, such as:

- *IFRS 9 Financial Instruments: effective date 1 January 2018;*
- *IFRS 15 Revenue from Contracts from Customers: effective date 1 January 2018; and*
- *IFRS 16 Leases: effective date 1 January 2019.*

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 2017 US\$'000	<i>(Audited)</i> 31 December 2016 US\$'000
<i>Quoted:</i>		
- Debt	20,843	22,203
- Equity	405	210
	21,248	22,413

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2017 (Reviewed)

4 NON-TRADING INVESTMENTS

	<i>(Reviewed)</i> 30 September 2017 <i>US\$'000</i>	<i>(Audited)</i> 31 December 2016 <i>US\$'000</i>
Held-to-maturity:		
Debt securities		
- Sovereign	42,482	45,677
- Banks and Corporate	62,709	62,902
Wakala units	3,000	3,000
Total held-to-maturity	108,191	111,579
Available-for-sale:		
Debt securities		
- Sovereign	95,820	82,061
- Banks and Corporate	21,168	10,127
Total available-for-sale	116,988	92,188
Total non-trading investments	225,179	203,767

5 LOANS AND ADVANCES

Loans and advances are stated net of provision for loan losses.

	<i>(Reviewed)</i> 30 September 2017 <i>US\$ 000</i>	<i>(Audited)</i> 31 December 2016 <i>US\$ 000</i>
Letters of credit - financing	100,248	117,411
Sovereign loans	95,546	91,427
Commercial loans	33,163	50,575
Factoring	18,874	18,080
	247,831	277,493
Provision for impairment	(80,204)	(69,452)
	167,627	208,041

Movements in provision for impairment were as follows:

	30 September 2017 (Reviewed)		
	<i>Specific provision</i> <i>US\$ '000</i>	<i>Collective provision</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
At 1 January	65,952	3,500	69,452
Provided during the period	7,739	2,500	10,239
Reallocated during the period	495	(495)	-
Write off during the period	(92)	-	(92)
Exchange differences	605	-	605
At 30 September	74,699	5,505	80,204

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2017 (Reviewed)

5 LOANS AND ADVANCES (continued)

	30 September 2016 (Reviewed)		
	Specific provision US\$ '000	Collective provision US\$ '000	Total US\$ '000
At 1 January	28,443	3,765	32,208
Provided during the period	29,522	-	29,522
Reallocated during the period	265	(265)	-
Exchange differences	144	-	144
At 30 September	58,374	3,500	61,874

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

	(Reviewed) 30 September 2017 US\$'000	(Audited) 31 December 2016 US\$'000
Carrying value	45,199	44,615
Fair value	51,163	45,642

Additional fair value gain of US\$ 5,964 thousand for the nine months ended 30 September 2017 (30 September 2016: gain of US\$ 742 thousand) would have been recognised in the interim statement of comprehensive income had the trading investment not been reclassified to loans and advances.

6 COMMITMENTS AND CONTINGENT LIABILITIES

(i) Credit and derivative related commitments

	(Reviewed) 30 September 2017 US\$'000	(Audited) 31 December 2016 US\$'000
Letters of credit	17,963	57,947
Letters of guarantee	7,356	13,199
Undrawn loan commitments	8,275	10,605
	33,594	81,751
Forward foreign exchange contracts	-	1,875
	33,594	83,626

Undrawn loan commitments maturing within one year from 30 September 2017 is US\$ nil (31 December 2016: US\$ 10,605 thousand).

(ii) Legal contingency

The Bank is a defendant in legal proceedings whereby a counterparty is pursuing a claim of US\$ 1,917 thousand, relating to a guarantee issued by the Bank, the terms of which are currently under dispute.

The information usually required by IAS 37- *Provisions, Contingent liabilities and Contingent Assets* is not disclosed in these interim condensed financial statements on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The validity of the claim is being currently assessed by the Board of Directors of the Bank with the assistance of external legal counsel.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2017 (Reviewed)

7 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 2017 US\$'000	<i>(Audited)</i> 31 December 2016 US\$'000
Interim statement of financial position		
Assets		
Cash and balances with banks	27,374	13,321
Deposits with banks and other financial institutions	6,500	21,230
Loans and advances	-	110
Interest receivable	4	1
Other assets	243	235
Liabilities		
Deposits from banks and other financial institutions	477,766	437,131
Due to banks and other financial institutions	8,841	9,318
Interest payable	2,609	913
Other liabilities	416	375
Assets under management	22,553	20,104
Contingent liabilities		
Letters of credit and guarantee (fully secured by deposits)	3,824	1,148
	<i>Nine months ended</i> <i>(Reviewed)</i>	
	<u>30 September</u> 2017 US\$ '000	<u>30 September</u> 2016 US\$ '000
Interim statement of profit or loss		
Interest and similar income	34	109
Interest expense	7,103	5,703
Fee and commission income	712	1,227
	<i>Nine months ended</i> <i>(Reviewed)</i>	
	<u>30 September</u> 2017 US\$ '000	<u>30 September</u> 2016 US\$ '000
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	1,482	1,603
End of service benefits	154	119
	<u>1,636</u>	<u>1,722</u>

* Includes sitting fees of US\$ 106 thousand (30 September 2016: US\$ 50 thousand) and reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US\$ 98 thousand (30 September 2016: US\$ 42 thousand).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2017 (Reviewed)

8 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 2017 (Reviewed)

	<i>Level 1</i> <i>US\$ '000</i>	<i>Level 2</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
Investments held for trading	21,248	-	21,248
Available-for-sale investments	116,988	-	116,988
	<u>138,236</u>	<u>-</u>	<u>138,236</u>

At 31 December 2016 (Audited)

	<i>Level 1</i> <i>US\$ '000</i>	<i>Level 2</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
Investments held for trading	22,413	-	22,413
Available-for-sale investments	92,188	-	92,188
Derivative financial instruments	-	16	16
	<u>114,601</u>	<u>16</u>	<u>114,617</u>

The Bank had no investments measured at fair value qualifying for level 3 of fair value hierarchy as at 30 September 2017 or as at 31 December 2016.

Transfers between level 1, level 2 and level 3

During the nine-month period ended 30 September 2017 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 (2016: same).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2017 (Reviewed)

8 FINANCIAL INSTRUMENTS (continued)**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 2017 (Reviewed)

	Level 1	Level 2	Level 3	Total fair	Carrying
	US\$ '000	US\$ '000	US\$ '000	value	value
				US\$ '000	US\$ '000
Held-to-maturity investments	107,271	-	3,000	110,271	108,191
Loans and advances	51,163	-	-	51,163	45,199
	158,434	-	3,000	161,434	153,390

At 31 December 2016 (Audited)

	Level 1	Level 2	Level 3	Total fair	Carrying
	US\$ '000	US\$ '000	US\$ '000	value	value
				US\$ '000	US\$ '000
Held-to-maturity investments	108,478	-	3,000	111,478	111,579
Loans and advances	45,642	-	-	45,642	44,615
	154,120	-	3,000	157,120	156,194

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 2017 and 31 December 2016.