

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

**INTERIM CONDENSED
FINANCIAL STATEMENTS**

30 JUNE 2016 (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 2016, 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.



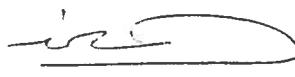
26 July 2016
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)
INTERIM STATEMENT OF FINANCIAL POSITION
 At 30 June 2016 (Reviewed)

		<i>(Reviewed)</i> 30 June 2016 <i>US\$'000</i>	<i>(Audited)</i> 31 December 2015 <i>US\$'000</i>
ASSETS			
Cash and balances with Central banks and other banks		305,093	488,526
Deposits with banks and other financial institutions		385,745	408,117
Investments held for trading	3	23,579	21,477
Non-trading investments	4	191,955	144,289
Loans and advances	5	304,571	360,176
Property, equipment and software		11,652	11,893
Interest receivable		5,411	6,581
Other assets		1,482	1,948
TOTAL ASSETS		1,229,488	1,443,007
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions		661,536	870,401
Due to banks and other financial institutions		188,385	202,359
Due to customers		53,021	31,572
Interest payable		872	1,302
Other liabilities		13,713	7,603
Total liabilities		917,527	1,113,237
Equity			
Share capital		250,000	250,000
Statutory reserve		20,174	20,174
Retained earnings		44,076	62,837
Fair value reserve		(2,289)	(3,241)
Total equity		311,961	329,770
TOTAL LIABILITIES AND EQUITY		1,229,488	1,443,007



Guima Masaud Salem Kordi
 Director



Hasan Khalifa Abulhasan
 Chief Executive Officer



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

Six months ended 30 June 2016 (Reviewed)

	Note	<i>(Reviewed)</i> Three months ended 30 June		<i>(Reviewed)</i> Six months ended 30 June	
		2016	2015	2016	2015
		US\$'000	US\$'000	US\$'000	US\$'000
Interest and similar income		10,112	11,338	19,599	21,399
Interest expense		(2,093)	(457)	(4,298)	(833)
Net interest income		8,019	10,881	15,301	20,566
Fee and commission income		1,489	4,081	2,664	8,073
Trading income - net		(34)	52	(82)	(62)
Gain on non-trading investments - net		-	-	-	129
Foreign exchange gain - net		478	694	781	637
Other income		29	12	36	12
Operating income		9,981	15,720	18,700	29,355
Provision for credit losses - net	5	(10,625)	(1,035)	(12,699)	(831)
Provision for legal claim	6	(5,431)	-	(5,431)	-
Provision for impairment of held to maturity investments		-	(132)	-	(263)
Net operating (loss) / income		(6,075)	14,553	570	28,261
Staff costs		2,039	2,140	4,057	3,988
Depreciation		239	299	489	611
Other operating expenses		1,685	762	2,285	1,450
Operating expenses		3,963	3,201	6,831	6,049
NET (LOSS) / PROFIT FOR THE PERIOD		(10,038)	11,352	(6,261)	22,212



Guima Masaud Salem Kordi
Director



Hasan Khalifa Abulhasan
Chief Executive Officer



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

Six months ended 30 June 2016 (Reviewed)

	<i>(Reviewed)</i> Three months ended 30 June		<i>(Reviewed)</i> Six months ended 30 June	
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
NET (LOSS) / PROFIT FOR THE PERIOD	(10,038)	11,352	(6,261)	22,212
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	833	520	952	160
Other comprehensive income for the period	833	520	952	160
Total comprehensive (loss) / income for the period	(9,205)	11,872	(5,309)	22,372

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

Six months ended 30 June 2016 (Reviewed)

	Note	(Reviewed)	
		Six months ended	
		30 June	
		2016	2015
		US\$'000	US\$'000
OPERATING ACTIVITIES			
Net (loss) / profit for the period		(6,261)	22,212
Adjustments for:			
Provision for credit losses - net	5	12,699	3,586
Provision for legal claim	6	5,431	-
Provision for impairment of held to maturity investments		-	263
Depreciation		489	611
Amortisation of non-trading investments		275	231
Unrealised loss on held for trading securities		99	152
Gain on non-trading investments - net		-	(129)
Amortisation of assets reclassified as "loans and advances" from trading investments		(358)	(329)
Operating profit before changes in operating assets and liabilities		12,374	26,597
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		99,828	92,442
Loans and advances		43,264	(11,305)
Investments held for trading		(2,201)	(11,940)
Interest receivable and other assets		1,636	1,115
Deposits from banks and other financial institutions		(208,865)	(49,226)
Due to banks and other financial institutions		(13,974)	(19,499)
Due to customers		21,449	236
Interest payable and other liabilities		249	(5,220)
Net cash (used in) / from operating activities		(46,240)	23,200
INVESTING ACTIVITIES			
Purchase of non-trading investments		(136,420)	(13,090)
Proceeds from disposal/redemption of non-trading investments		89,431	14,649
Purchase of property, equipment and software		(248)	(370)
Net cash (used in) / from investing activities		(47,237)	1,189
FINANCING ACTIVITIES			
Dividend paid	9	(12,500)	(25,000)
Refund of advance towards capital increase	8	-	(140)
Net cash used in financing activities		(12,500)	(25,140)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(105,977)	(751)
Cash and cash equivalents at beginning of the period		699,092	388,257
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		593,115	387,506
Cash and cash equivalents comprise:			
Cash and balances with Central Bank and other banks		305,093	43,357
Deposits with banks and other financial institutions with original maturity of ninety days or less		288,022	344,149
		593,115	387,506

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
 Six months ended 30 June 2016 (Reviewed)

	(Reviewed)					
	Share capital US\$'000	Advance towards capital increase US\$ '000	Statutory reserve US\$'000	Retained earnings US\$'000	Fair value reserve US\$'000	Total US\$'000
Balance as at 1 January 2016	250,000	-	20,174	62,837	(3,241)	329,770
Dividend paid (note 9)	-	-	-	(12,500)	-	(12,500)
Total comprehensive loss for the period	-	-	-	(6,261)	952	(5,309)
At 30 June 2016	250,000	-	20,174	44,076	(2,289)	311,961
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)
Dividend paid (note 9)	-	-	-	(25,000)	-	(25,000)
Total comprehensive income for the period	-	-	-	22,212	160	22,372
At 30 June 2015	250,000	-	17,667	62,484	(1,007)	329,144

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

At 30 June 2016 (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 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 26 July 2016.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements of the Bank for the six month period ended 30 June 2016 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 2015. In addition, results for the six-month period ended 30 June 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

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 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016.

The below new standards and amendments were effective for annual financial periods commencing 1 January 2016 and therefore apply for the first time in 2016. However, they had no impact on the Bank's accounting policies, financial position or performance.

- *IFRS 7 Financial Instruments: Disclosures*
- *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*
- *Amendments to IAS 27: Equity Method in Separate Financial Instruments*
- *Amendments to IAS 1: Disclosure Initiative*

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>	<i>(Audited)</i>
	30 June	31 December
	2016	2015
	US\$'000	US\$'000
<i>Quoted:</i>		
- Debt	22,977	21,455
- Equity	602	22
	23,579	21,477

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2016 (Reviewed)

4 NON-TRADING INVESTMENTS

	<i>(Reviewed)</i> 30 June 2016 US\$'000	<i>(Audited)</i> 31 December 2015 US\$'000
Held-to-maturity:		
Debt securities		
- Sovereign	45,818	45,958
- Banks and Corporate	113,010	66,156
Wakala units	3,000	3,000
Total held-to-maturity	161,828	115,114
Available-for-sale:		
Debt securities		
- Sovereign	20,577	20,582
- Banks and Corporate	9,550	8,593
Total available-for-sale	30,127	29,175
Total non-trading investments	191,955	144,289

Held-to-maturity investments are stated net of provision for impairment of Nil (2015: US\$ 263 thousand) 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 June 2016 US\$ 000	<i>(Audited)</i> 31 December 2015 US\$ 000
Sovereign loans	108,317	123,199
Letters of credit - financing	167,413	185,795
Commercial loans	48,477	55,263
Factoring	25,355	28,127
	349,562	392,384
Provision for impairment	(44,991)	(32,208)
	304,571	360,176

Movements in provision for impairment were as follows:

	30 June 2016 (Reviewed)		
	Specific provision US\$ '000	General provision US\$ '000	Total US\$ '000
At 1 January	28,443	3,765	32,208
Provided during the period	12,699	-	12,699
Recoveries during the period	-	-	-
Net charge for the period	12,699	-	12,699
Reallocated during the period	265	(265)	-
Exchange difference	84	-	84
At 30 June	41,491	3,500	44,991

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2016 (Reviewed)

5 LOANS AND ADVANCES (continued)

	30 June 2015 (Reviewed)		
	Specific US\$ '000	General US\$ '000	Total US\$ '000
At 1 January	7,236	11,646	18,882
Provided during the period	2,172	-	2,172
Recoveries during the period	(1,341)	-	(1,341)
Net charge for the period	831	-	831
Reallocated and interest suspended during the period	4,660	(3,246)	1,414
Written off	(2,276)	-	(2,276)
Exchange difference	(81)	-	(81)
At 30 June	10,370	8,400	18,770

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

	(Reviewed) 30 June 2016 US\$'000	(Audited) 31 December 2015 US\$'000
Carrying value	44,257	43,899
Fair value	41,929	37,215

Additional fair value loss of US\$ 2,328 thousand for the six months ended 30 June 2016 (30 June 2015: gain of US\$ 994 thousand) would have been recognised in the interim statement of comprehensive income had the trading investment not been reclassified to loans and advances.

6 PROVISION FOR LEGAL CLAIM

The Bank was defendant in legal proceedings where the counterparty was pursuing a claim based on a document, which management believed, did not commit the Bank. On 30 June 2016, a judgement was issued on this matter for which the Bank has requested permission to appeal. The judgement requires the Bank to pay compensation to the claimant based on mutual agreement between the claimant and the Bank. In the absence of mutual agreement, the court will determine the award. The claimant has submitted a claim of US\$ 5,966 thousand compared to US\$ 5,431 thousand submitted by the Bank. Based on independent expert advice, the Bank's management estimates the ultimate liability to be US\$ 5,431 thousand. Accordingly, as of 30 June 2016, a provision of US\$ 5,431 thousand has been recognised in these interim condensed financial statements. No provision was recognised in the prior period.

7 COMMITMENTS AND CONTINGENT LIABILITIES

	(Reviewed) 30 June 2016 US\$'000	(Audited) 31 December 2015 US\$'000
Letters of credit	60,074	150,677
Letters of guarantee	13,357	14,079
Undrawn loan commitments	28,361	34,617
	101,792	199,373
Forward foreign exchange contracts	3,061	147,524
	104,853	346,897

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2016 (Reviewed)

8 SHARE CAPITAL

At the Extraordinary 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 ended 30 June 2015, US\$ 140 thousand of the advance received towards capital increase was refunded due to non-receipt of complete subscription from all the shareholders.

9 DIVIDEND

A dividend of US\$ 12,500 thousand i.e. US\$ 2.5 per share relating to 2015 (2014: US\$ 25,000 thousand i.e. US\$ 5 per share) was paid during the period ended 30 June 2016 after due approval of the shareholders at the annual general meeting held on 19 April 2016.

10 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 June 2016 US\$'000	<i>(Audited)</i> 31 December 2015 US\$'000
Interim statement of financial position		
Assets		
Cash and balances with banks	11,183	8,780
Deposits with banks and other financial institutions	14,998	10,000
Loans and advances	266	3,559
Interest receivable	1	11
Other assets	226	725
Liabilities		
Deposits from banks and other financial institutions	502,690	695,175
Due to banks and other financial institutions	14,688	14,754
Interest payable	831	1,258
Other liabilities	1,766	1,339
Assets under management	21,491	21,005
Contingent liabilities		
Letters of credit and guarantee	293	8,013
	<i>Six months ended</i> <i>(Reviewed)</i>	
	30 June 2016 US\$ '000	30 June 2015 US\$ '000
Interim statement of profit or loss		
Interest and similar income	96	323
Interest expense	3,762	620
Fee and commission income	509	49

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2016 (Reviewed)

10 TRANSACTIONS WITH RELATED PARTIES (continued)

	<i>Six months ended (Reviewed)</i>	
	30 June 2016 US\$ '000	30 June 2015 US\$ '000
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	1,058	1,332
End of service benefits	78	71
	1,136	1,403

* Includes sitting fee of US\$ 50 thousand (30 June 2015: US\$ 81 thousand) and reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US\$ 42 thousand (30 June 2015: US\$ 77 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 2016 (Reviewed)

	Level 1 US\$ '000	Level 2 US\$ '000	Total US\$ '000
Investments held for trading	23,579	-	23,579
Available-for-sale investments	30,127	-	30,127
Derivative financial instruments	-	35	35
	53,706	35	53,741

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 June 2016 (Reviewed)

11 FINANCIAL INSTRUMENTS (continued)

At 31 December 2015 (Audited)

	Level 1 US\$ '000	Level 2 US\$ '000	Total US\$ '000
Investments held for trading	21,477	-	21,477
Available-for-sale investments	29,175	-	29,175
Derivative financial instruments	-	(563)	(563)
	<u>50,652</u>	<u>(563)</u>	<u>50,089</u>

The Bank had no investments measured at fair value qualifying for level 3 of fair value hierarchy as at 30 June 2016 and as at 31 December 2015.

Transfers between level 1, level 2 and level 3

During the six-month period ended 30 June 2016 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 (2015: 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 2016 (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	159,968	-	3,000	162,968	161,828
Loans and advances	41,929	-	-	41,929	44,257
	<u>201,897</u>	<u>-</u>	<u>3,000</u>	<u>204,897</u>	<u>206,085</u>

At 31 December 2015 (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	109,853	-	3,000	112,853	115,114
Loans and advances	37,215	-	-	37,215	43,899
	<u>147,068</u>	<u>-</u>	<u>3,000</u>	<u>150,068</u>	<u>159,013</u>

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 2016 and 31 December 2015.