

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

**INTERIM CONDENSED
FINANCIAL STATEMENTS**

31 MARCH 2015 (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 31 March 2015, 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 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.



14 April 2015
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)
INTERIM STATEMENT OF FINANCIAL POSITION
 At 31 March 2015 (Reviewed)

		<i>(Reviewed)</i> 31 March 2015 US\$'000	<i>(Audited)</i> 31 December 2014 US\$'000
ASSETS			
Cash and balances with banks		39,738	22,507
Deposits with banks and other financial institutions		424,796	523,645
Investments held for trading	3	7,858	3,037
Non-trading investments	4	150,918	147,994
Loans and advances		485,335	485,255
Property, equipment and software		12,122	12,320
Interest receivable		7,896	8,922
Other assets		1,553	1,277
TOTAL ASSETS		1,130,216	1,204,957
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions		530,145	616,319
Due to banks and other financial institutions		226,288	219,636
Due to customers		22,885	25,151
Interest payable		124	189
Other liabilities		8,502	11,750
Total liabilities		787,944	873,045
Equity			
Share capital	7	250,000	250,000
Advance towards capital increase	7	-	140
Statutory reserve		17,667	17,667
Retained earnings		76,132	65,272
Fair value reserve		(1,527)	(1,167)
Total equity		342,272	331,912
TOTAL LIABILITIES AND EQUITY		1,130,216	1,204,957


 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

Three months ended 31 March 2015 (Reviewed)

	Note	(Reviewed)	
		Three months ended	
		31 March	
		2015	2014
		US\$'000	US\$'000
Interest and similar income		10,061	10,043
Interest expense		(376)	(379)
Net interest income		9,685	9,664
Fee and commission income		3,992	4,619
Trading income - net		(114)	416
Gain on non-trading investments - net		129	254
Foreign exchange loss - net		(57)	(94)
Dividend income		-	26
Operating income		13,635	14,885
Write back of provision for credit losses		204	-
Provision for impairment of held to maturity investments	4	(131)	-
Net operating income		13,708	14,885
Staff costs		1,848	2,096
Depreciation		312	309
Other operating expenses		688	863
Operating expenses		2,848	3,268
NET PROFIT FOR THE PERIOD		10,860	11,617



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

Three months ended 31 March 2015 (Reviewed)

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2015</i>	<i>2014</i>
	<i>US\$'000</i>	<i>US\$'000</i>
NET PROFIT FOR THE PERIOD	10,860	11,617
Other comprehensive income:		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Unrealised fair value (loss) /gain on available-for-sale investments	(360)	192
Other comprehensive income for the period	(360)	192
Total comprehensive income for the period	10,500	11,809

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

Three months ended 31 March 2015 (Reviewed)

	Note	Three months ended	
		31 March	
		2015	2014
		US\$'000	US\$'000
OPERATING ACTIVITIES			
Net profit for the period		10,860	11,617
Adjustments for:			
Provision for impairment of held to maturity investments		131	-
Depreciation		312	309
Amortisation of non-trading investments		196	-
Unrealised gain on held for trading securities		39	(416)
Gain on non-trading investments - net		(129)	(254)
Amortisation of assets reclassified as "loans and advances" from trading investments		(164)	(151)
Operating profit before changes in operating assets and liabilities		11,245	11,105
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		67,662	42,450
Loans and advances		84	(112,938)
Investments held for trading		(4,860)	7,085
Interest receivable and other assets		709	(138)
Deposits from banks and other financial institutions		(86,174)	(21,913)
Due to banks and other financial institutions		6,652	(37,297)
Due to customers		(2,266)	(3,862)
Interest payable and other liabilities		(3,313)	(595)
Net cash used in operating activities		(10,261)	(116,103)
INVESTING ACTIVITIES			
Purchase of property, equipment and software		(114)	(54)
Purchase of non-trading investments		(13,090)	(26,232)
Proceeds from disposal/redemption of non-trading investments		9,649	7,373
Net cash used in investing activities		(3,555)	(18,913)
FINANCING ACTIVITIES			
Return of advance towards capital increase	7	(140)	-
Net cash used in financing activities		(140)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(13,956)	(135,016)
Cash and cash equivalents at beginning of the period		388,257	373,440
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		374,301	238,424
Cash and cash equivalents comprise:			
Cash and bank balances		39,738	15,360
Deposits with banks and other financial institutions with original maturity of ninety days or less		334,563	223,064
		374,301	238,424

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

Three months ended 31 March 2015 (Reviewed)

	<i>Share capital US\$'000</i>	<i>Advance towards capital increase 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 2015	250,000	140	17,667	65,272	-	(1,167)	331,912
Return of advance towards capital increase (note 7)	-	(140)	-	-	-	-	(140)
Total comprehensive income for the period	-	-	-	10,860	-	(360)	10,500
At 31 March 2015	250,000	-	17,667	76,132	-	(1,527)	342,272
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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2015 (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 three-month period ended 31 March 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 14 April 2015.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements of the Bank for the three month period ended 31 March 2015 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 2014. In addition, results for the three-month period ended 31 March 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

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 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015.

The below new standards and amendments were effective for annual financial periods commencing 1 July 2014 and therefore apply for the first time in 2015. However, they do not impact the annual financial statements or the interim condensed financial statements of the Bank.

- *Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*
- *Annual Improvements 2010-2012 Cycle*
- *Annual Improvements 2011-2013 Cycle*

New standards, interpretations and amendments issued but not yet effective

- *IFRS 9 Financial Instruments;*
- *IFRS 15 Revenue from Contracts with Customers*

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> 31 March 2015 US\$'000	<i>(Audited)</i> 31 December 2014 US\$'000
Quoted:		
- Debt	7,600	3,000
- Equity	258	37
	<u>7,858</u>	<u>3,037</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2015 (Reviewed)

4 NON-TRADING INVESTMENTS

	<i>(Reviewed)</i> 31 March 2015 US\$'000	<i>(Audited)</i> 31 December 2014 US\$'000
Held-to-maturity:		
Debt securities		
- Sovereign	52,928	53,122
- Banks and Corporate	72,058	74,150
Wakala units	3,000	3,000
Total held-to-maturity	127,986	130,272
Available-for-sale:		
Debt securities		
- Sovereign	12,660	4,549
- Corporate	10,272	13,173
Total available-for-sale	22,932	17,722
Total non-trading investments	150,918	147,994

Held to maturity investments are stated net of provision for impairment of US\$ 131 thousand (2014: Nil) recognised during the period in respect of a sovereign debt security.

5 RECLASSIFICATION OF FINANCIAL ASSETS

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

	<i>(Reviewed)</i> 31 March 2015 US\$'000	<i>(Audited)</i> 31 December 2014 US\$'000
Carrying value	43,407	43,242
Fair value	46,055	46,361

Additional fair value loss of US\$ 471 thousand for the three months ended 31 March 2015 (31 March 2014: gain of US\$ 1,634 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>(Reviewed)</i> 31 March 2015 US\$'000	<i>(Audited)</i> 31 December 2014 US\$'000
Letters of credit	190,731	260,062
Letters of guarantee	15,276	8,394
Foreign exchange contracts	992	340
Undrawn loan commitments	26,332	18,409
	233,331	287,205

At 31 March 2015 (Reviewed)

6 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.

7 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 advance received towards capital increase was refunded due to non-receipt of complete subscription from all shareholders.

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 profit or loss are as follows:

	<i>(Reviewed)</i>	<i>(Audited)</i>
	<i>31 March</i>	<i>31 December</i>
	<i>2015</i>	<i>2014</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Interim statement of financial position		
Assets		
Cash and balances with banks	4,150	1,595
Deposits with banks and other financial institutions	90,000	88,541
Loans and advances	7,115	7,511
Interest receivable	35	199
Other assets	228	220
Liabilities		
Deposits from banks and other financial institutions	340,194	400,376
Due to banks and other financial institutions	10,778	16,249
Interest payable	85	154
Other liabilities	997	2,221
Assets under management	20,742	23,376
Contingent liabilities		
Letters of credit	6,464	17,549

At 31 March 2015 (Reviewed)

8 TRANSACTIONS WITH RELATED PARTIES (continued)

	<i>(Reviewed)</i>	
	<i>31 March 2015 US\$ '000</i>	<i>31 March 2014 US\$ '000</i>
Interim statement of profit or loss		
Interest and similar income	187	169
Interest expense	261	193
Fee and commission income	14	310
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	624	646
End of service benefits	33	29
	<u>657</u>	<u>675</u>

* Includes sitting fee of US\$ 25 thousand (31 March 2014: US\$ 62 thousand) and reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US\$ 28 thousand (31 March 2014: US\$ 72 thousand).

9 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 2015 (Reviewed)

	<i>Level 1 US\$ '000</i>	<i>Level 2 US\$ '000</i>	<i>Total US\$ '000</i>
Investments held for trading	7,858	-	7,858
Available-for-sale investments	22,932	-	22,932
Derivative financial instruments	-	9	9
	<u>30,790</u>	<u>9</u>	<u>30,799</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2015 (Reviewed)

9 FINANCIAL INSTRUMENTS (continued)

At 31 December 2014 (Audited)

	Level 1 US\$ '000	Level 2 US\$ '000	Total US\$ '000
Investments held for trading	3,037	-	3,037
Available-for-sale investments	17,722	-	17,722
Derivative financial instruments	-	(57)	(57)
	<u>20,759</u>	<u>(57)</u>	<u>20,702</u>

The Bank had no investments measured at fair value qualifying for level 3 of fair value hierarchy as at 31 March 2015 and as at 31 December 2014.

Transfers between level 1, level 2 and level 3

During the three-month period ended 31 March 2015 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 (2014: 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 2015 (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	121,429	-	7,724	129,153	127,986
Loans and advances	46,055	-	-	46,055	43,407
	<u>167,484</u>	<u>-</u>	<u>7,724</u>	<u>175,208</u>	<u>171,393</u>

At 31 December 2014 (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	121,988	-	7,815	129,803	130,272
Loans and advances	46,361	-	-	46,361	43,242
	<u>168,349</u>	<u>-</u>	<u>7,815</u>	<u>176,164</u>	<u>173,514</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.

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 31 March 2015 and 31 December 2014.

10 SUBSEQUENT EVENT

At the shareholders' annual general meeting held on 12 April 2015, the shareholders resolved to distribute dividend of US\$ 25 million i.e. US\$ 5 per share (2014: US\$ 25 million) subject to necessary regulatory approvals.

11 COMPARATIVES FIGURES

Certain comparative figures were reclassified in order to conform to the presentation of financial statements for the current period. Such reclassifications do not affect previously reported net profit, total assets, total liabilities or equity.