

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

**INTERIM CONDENSED
FINANCIAL STATEMENTS**

30 SEPTEMBER 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 September 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 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.



30 October 2014
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)**INTERIM STATEMENT OF FINANCIAL POSITION**

At 30 September 2014 (Reviewed)

		<i>(Reviewed)</i> 30 September 2014 US\$'000	<i>(Audited)</i> 31 December 2013 US\$'000
ASSETS			
Cash and balances with banks		20,403	150,345
Deposits with banks and other financial institutions		493,954	422,005
Investments held for trading	3	4,939	14,626
Non-trading investments	4	148,669	137,282
Loans and advances		424,936	362,998
Property, equipment and software		12,586	13,366
Interest receivable		7,758	5,916
Other assets		1,991	1,224
TOTAL ASSETS		1,115,236	1,107,762
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions		531,753	501,186
Due to banks and other financial institutions		225,291	268,273
Due to customers		18,693	7,714
Interest payable		1,111	205
Other liabilities		10,809	14,283
Total liabilities		787,657	791,661
Equity			
Share capital	9	250,140	250,000
Statutory reserve		13,597	13,597
Retained earnings		64,530	28,642
Proposed dividend		-	25,000
Fair value reserve		(688)	(1,138)
Total equity		327,579	316,101
TOTAL LIABILITIES AND EQUITY		1,115,236	1,107,762

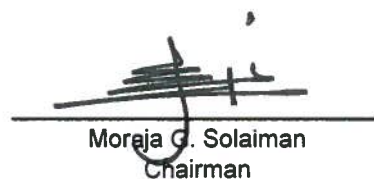
Hasan Khalifa Abulhasan
Chief Executive OfficerSuleiman Esa Al Azzabi
Deputy ChairmanMoraja G. Solaiman
Chairman

The attached notes 1 to 12 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 2014 (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>	
		2014	2013	2014	2013
		US\$'000	US\$'000	US\$'000	US\$'000
Interest and similar income		11,792	9,090	33,192	24,745
Interest expense		(256)	(470)	(1,072)	(1,366)
Net interest income		11,536	8,620	32,120	23,379
Fee and commission income		3,619	5,204	11,821	12,886
Trading income		156	(39)	604	(1,426)
Gain on non-trading investments		78	-	332	953
Foreign exchange gain		24	508	212	974
Dividend income	6	13	15	75	15
Net operating income		15,426	14,308	45,164	36,781
Staff costs		1,906	1,591	5,955	4,516
Depreciation		308	306	924	771
Other operating expenses		727	572	2,397	1,863
Operating expenses		2,941	2,469	9,276	7,150
NET PROFIT FOR THE PERIOD		12,485	11,839	35,888	29,631

Hasan Khalifa Abulhasan
Chief Executive OfficerSuleiman Esa Al Azzabi
Deputy ChairmanMoreja G. Solaiman
Chairman

The attached notes 1 to 12 form part of these interim condensed financial statements.

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

INTERIM STATEMENT OF COMPREHENSIVE INCOME

Nine months ended 30 September 2014 (Reviewed)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000
NET PROFIT FOR THE PERIOD	12,485	11,839	35,888	29,631
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	(136)	(241)	450	(1,554)
Other comprehensive income for the period	(136)	(241)	450	(1,554)
Total comprehensive income for the period	12,349	11,598	36,338	28,077

The attached notes 1 to 12 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 2014 (Reviewed)

	Note	Nine months ended 30 September	
		2014 US\$'000	2013 US\$'000
OPERATING ACTIVITIES			
Net profit for the period		35,888	29,631
Adjustments for:			
Depreciation		924	771
Amortisation of non-trading investments		571	-
Trading income		(604)	1,426
Gain on non-trading investments		(332)	(953)
Amortisation of assets reclassified as "loans and advances" from trading investments		(453)	(416)
Operating profit before changes in operating assets and liabilities		35,994	30,459
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		(45,773)	(80,000)
Loans and advances		(61,485)	26,074
Investments held for trading		10,291	(15,003)
Interest receivable and other assets		(2,609)	(469)
Deposits from banks and other financial institutions		30,567	(58,197)
Due to banks and other financial institutions		(42,982)	76,040
Due to customers		10,979	1
Interest payable and other liabilities		(2,568)	7,329
Net cash used in operating activities		(67,586)	(13,766)
INVESTING ACTIVITIES			
Purchase of property, equipment and software		(144)	(419)
Purchase of non-trading investments		(28,943)	(109,276)
Proceeds from disposal/redemption of non-trading investments		17,767	10,946
Net cash used in investing activities		(11,320)	(98,749)
FINANCING ACTIVITIES			
Dividend paid	8	(25,000)	(20,000)
Issue of share capital	9	140	-
Net cash used in financing activities		(24,860)	(20,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(103,766)	(132,515)
Cash and cash equivalents at beginning of the period		373,440	662,006
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		269,674	529,491
Cash and cash equivalents comprise:			
Cash and bank balances		20,403	19,834
Deposits with banks and other financial institutions with original maturity of ninety days or less		249,271	509,657
		269,674	529,491

The attached notes 1 to 12 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 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	-	-	35,888	-	450	36,338
Dividend paid (note 8)	-	-	-	(25,000)	-	(25,000)
At 30 September 2014	250,140	13,597	64,530	-	(688)	327,579
Balance as at 1 January 2013	250,000	9,933	20,666	20,000	-	300,599
Total comprehensive income for the period	-	-	29,631	-	(1,554)	28,077
Dividend paid (note 8)	-	-	-	(20,000)	-	(20,000)
At 30 September 2013	250,000	9,933	50,297	-	(1,554)	308,676

The attached notes 1 to 12 form part of these interim condensed financial statements.

At 30 September 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 nine-month period ended 30 September 2014 were authorised for issue in accordance with the resolution of the Board of Directors on 30 October 2014.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements of the Bank for the nine month period ended 30 September 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 nine-month period ended 30 September 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 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*.

New standards, interpretations and amendments issued but not yet effective

- *IFRS 9 Financial Instruments*;
- *IFRS 14 Regulatory Deferral Accounts*; and
- *IFRS 15 Revenue from Contracts from 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> 30 September 2014 US\$'000	<i>(Audited)</i> 31 December 2013 US\$'000
<i>Quoted:</i>		
- Debt	4,467	11,715
- Equity	472	2,911
	4,939	14,626

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2014 (Reviewed)

4 NON-TRADING INVESTMENTS

	<i>(Reviewed)</i> 30 September 2014 US\$'000	<i>(Audited)</i> 31 December 2013 US\$'000
Held-to-maturity:		
Debt securities		
- Sovereign	53,227	47,446
- Banks and Corporate	74,241	71,553
Wakala units	3,000	3,000
Total held-to-maturity	130,468	121,999
Available-for-sale:		
Debt securities		
- Sovereign	4,534	7,194
- Corporate	13,667	8,089
Total available-for-sale	18,201	15,283
Total non-trading investments	148,669	137,282

5 RECLASSIFICATION OF FINANCIAL ASSETS

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

	<i>(Reviewed)</i> 30 September 2014 US\$'000	<i>(Audited)</i> 31 December 2013 US\$'000
Carrying value	43,091	42,639
Fair value	49,365	46,687

Additional fair value gain of US\$ 3,131 thousand for the nine months ended 30 September 2014 (nine months ended 30 September 2013: loss of US\$ 4,911 thousand) 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 nine months ended 30 September 2014 of US\$ 75 thousand (nine months ended 30 September 2013: US\$ 15 thousand), is of a seasonal nature.

7 COMMITMENTS AND CONTINGENT LIABILITIES

	<i>(Reviewed)</i> 30 September 2014 US\$'000	<i>(Audited)</i> 31 December 2013 US\$'000
Letters of credit	333,487	163,393
Letters of guarantee	8,730	6,347
Foreign exchange contracts	7,542	2,521
Undrawn loan commitments	15,034	1,102
	364,793	173,363

At 30 September 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 was paid for the year ended 31 December 2013 (31 December 2012: US\$ 4 per share totalling US\$ 20 million).

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. The legal formalities in this respect are in progress as of 30 September 2014.

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> 30 September 2014 US\$'000	<i>(Audited)</i> 31 December 2013 US\$'000
Interim statement of financial position		
Assets		
Cash and balances with banks	410	10,772
Deposits with banks and other financial institutions	75,000	77,500
Loans and advances	7,665	7,874
Interest receivable	87	119
Other assets	245	38
Liabilities		
Deposits from banks and other financial institutions	308,620	243,935
Due to banks and other financial institutions	16,633	15,536
Interest payable	1,078	128
Other liabilities	918	3,014
Assets under management	24,399	26,517
Contingent liabilities		
Letters of credit	19,398	21,542

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

At 30 September 2014 (Reviewed)

10 TRANSACTIONS WITH RELATED PARTIES (continued)

	<i>(Reviewed)</i>	
	<u>30 September</u> <u>2014</u> <u>US\$ '000</u>	<u>30 September</u> <u>2013</u> <u>US\$ '000</u>
Interim statement of profit or loss		
Interest and similar income	564	171
Interest expense	567	684
Fee and commission income	16	74
Compensation paid to the Board of Directors and key management personnel		
Short term benefits*	1,894	1,764
End of service benefits	142	94
	<u>2,036</u>	<u>1,858</u>

* Includes sitting fee of US\$ 112 thousand (30 September 2013: US\$ 118 thousand) and reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US\$ 128 thousand (30 September 2013: US\$ 117 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 September 2014 (Reviewed)

	<u>Level 1</u> <u>US\$ '000</u>	<u>Level 2</u> <u>US\$ '000</u>	<u>Level 3</u> <u>US\$ '000</u>	<u>Total</u> <u>US\$ '000</u>
Investments held for trading	4,939	-	-	4,939
Available-for-sale investments	18,201	-	-	18,201
Derivative financial instruments	-	8	-	8
	<u>23,140</u>	<u>8</u>	<u>-</u>	<u>23,148</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 30 September 2014 (Reviewed)

11 FINANCIAL INSTRUMENTS (continued)

At 31 December 2013 (Audited)

	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>

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

Transfers between level 1, level 2 and level 3

During the nine-month period ended 30 September 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 September 2014 (Reviewed)

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total US\$ '000
Held-to-maturity investments	126,037	-	4,815	130,852
Loans and advances	49,365	-	381,845	431,210
	<u>175,402</u>	<u>-</u>	<u>386,660</u>	<u>562,062</u>

At 31 December 2013 (Audited)

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total 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 September 2014 and 31 December 2013.

12 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.