TOWARDS
SUSTAINABLE
GROWTH

2010

ANNUAL REPORT

بنك اليوباف العربي الدولي ش.م.ب. (م)
ALUBAF ARAB INTERNATIONAL BANK B.S.C (C)

Registered Office

ALUBAF Arab International Bank B.S.C. (c)
Wind Tower, Second Floor, Diplomatic area
P.O. Box 11529
Manama, Kingdom of Bahrain
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To be successful, you have to have your heart in your business, and your business in your heart

Thomas Watson, Sr.

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ALUBAF Bank

- ALUBAF Arab International Bank B.S.C.(c) is a wholesale bank registered in the Kingdom of Bahrain.
- ALUBAF reactivated its business in the region effective December 2007.
- ALUBAF's operations include Treasury, Trade finance and Lending.

Vision

ALUBAF visualizes to be a premier wholesale bank in providing effective banking solutions and bridge the gap between North Africa and Middle East.

Mission

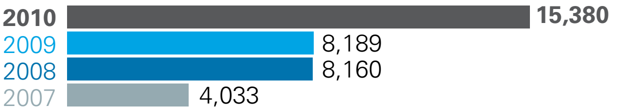
To augment shareholder value with prudent financial management and to entrench a disciplined risk and cost management culture and be a premier provider of Trade finance.

Financial Highlights

WE ARE VERY PLEASED THAT DESPITE THE CURRENT UNCERTAIN ECONOMIC ENVIRONMENT , WE HAVE ENJOYED A STRONG START TO 2010. WE REMAIN CONFIDENT THAT OUR STRUCTURE STANDS IN GOOD STEAD TO MEET THE CHALLENGES OF 2011 AND BEYOND.

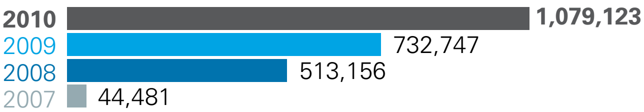
Net Profit
US$ '000s

US 15,380



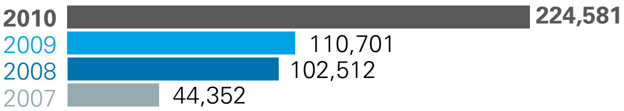
Total Assets
US$ '000s

US 1,079,123



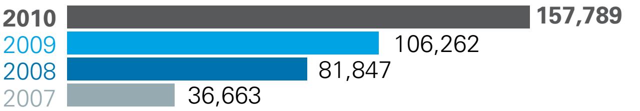
Total Equity
US$ '000s

US 224,581



Total Loans
US$ '000s

US 157,789



	2010	2009	2008	2007
	US$ '000s	US$ '000s	US$ '000s	US$ '000s
Financial Position				
Net Profit	**15,380**	8,189	8,160	4,033
Total Assets	**1,079,123**	732,747	513,156	44,481
Total Loans	**157,789**	106,262	81,847	36,663
Total Liabilities	**854,542**	622,046	410,644	129
Total Equity	**224,581**	110,701	102,512	44,352
Ratios (%)				
ROAA -Return on Average Assets (%)	**2%**	1%	3%	9%
ROAE - Return on Average Equity (%)	**9%**	8%	11%	10%
Cost to Income (%)	**24%**	29%	16%	10%
Capital Adequacy Ratio (%)	**43%**	29%	44%	-
Equity to Assets Ratio (%)	**21%**	15%	20%	-
Loans to Total assets (%)	**15%**	15%	16%	82%
Liquid assets to liabilities (%)	**104%**	97%	103%	-

Operational Highlights

- ALUBAF Profit for 2010, soared to USD 15.38 mm , signifying an increase of 88% over last year results. Operating income recorded for 2010 was USD 23.4 MM , an increase of 86% over last year . Income generated from all revenue streams exceeded expectations. ALUBAF's strong focus on core banking business continued to pay off well for the fiscal year 2010.

- ALUBAF doubled its paid up capital by injecting further USD 100 MM Capital in the beginning of second quarter of 2010 in line with Business strategy and plan. Majority shareholder Libyan Foreign Bank continued support by participating in the increase in paid up capital and purchased the Ordinary shares held by Central Bank of Egypt (0.72%) and Bank of Jordan (0.28%) thus increasing their shareholding in 2010 to 99.38% . This infusion of Capital contributed to a strong capital base and enabled to increase limits and exposure to counterparties.

  In the ensuing year 2011, ALUBAF is expected to increase further the share capital by another USD 50 MM to support expansion of business.

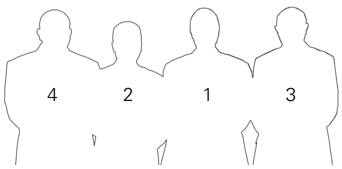
- State of the art Core banking system solution was successfully implemented in the first quarter of 2010, which responds and delivers increased operational efficiency. A full fledged Core Banking solution that integrated Treasury services and banking business operations was evaluated and implemented successfully to enhance entire Banking business operational services and produce reliable Information system.

- The Bank in its endeavor to comply with directives of Central Bank of Bahrain and application of best professional practices in its corporate governance, the Board of Directors approved the charters of the Board and committees for governance.

- In order to establish and enhance ALUBAF's active presence in the region, the Bank has invested and commenced the construction of its own office premises in prestigious Seef area of the Kingdom of Bahrain.

Board of Directors

OUR EXPERIENCED BOARD FOCUSES ON STRATEGY, FINANCIAL CONTROL AND RISK MANAGEMENT.



1. **Dr. Mohamed Abdulla Bait Elmal**
   Chairman

   PhD in Accounting with over 30 years of experience in Finance and Banking

   Additionally, a Board member and Chairman of:
   - Libyan Foreign Bank, Libya
   - British Arab Commercial Bank, London, UK

   Formerly,
   - Head of Auditor General, Libya
   - Minister of Finance, Libya

2. **Mr. Suleiman Esa Al Azzabi**
   Deputy Chairman

   Masters in Banking and Finance, with 20 years of experience.

   Additionally ,a Board member of :
   - Arab Financial Services, Bahrain

   Also,
   - Deputy General Manager, Al-Wahda Bank - Libya
   - Committee member, Leasing Law - Libya

3. **Mr. Seyfullah Asaad Moosa Salim**
   Director

   BA in Accounting, with over 25 years of Banking experience
   - Manager, International Finance Department, Libyan Foreign Bank, Libya

   Formerly,
   - A Board member of ALUBAF International Bank, Tunis

4. **Mr. Ali Makhzum Ben Hamza**
   Director

   BA in Statistics, with over 25 years of Banking experience
   - Manager, Training Department, Libyan Foreign Bank, Libya

Report of the Board of Directors

Dr. Mohamed Abdulla Bait Elmal
Chairman

Net Profit US$ '000s

US$15,380

2010	2009	2008	2007
15,380	8,189	8,160	4,033

THE BANK ACHIEVED SIGNIFICANT GROWTH IN ALL SPHERES OF ITS ACTIVITIES AND POSITIVELY REALIZED USD 15.4 MILLION AS NET PROFITS AGAINST USD 8.2 MILLION IN 2009, SIGNIFYING AN INCREASE OF 88% OVER LAST YEAR.

ALUBAF ARAB INTERNATIONAL BANK HAS ALWAYS SOUGHT TO REALIZE ITS VISION OF BECOMING A MAJOR BANK LINKING NORTH AFRICA TO THE MIDDLE EAST AND INCREASE ITS SHAREHOLDER VALUE.

On behalf of the Board of Directors, I am honoured to present the annual report and accounts of ALUBAF Arab International Bank for the year ended 31 December 2010.

World economic growth in 2010

According to International Monetary Fund's report the world economic growth in 2010 was 6.5%, which signifies a fragile recovery from the effects of financial crisis. The negative impact of the crisis affected the economies of developed countries, where Sovereign debts caused some European countries to devise an austerity plan aiming at reducing the public debt and decrease expenditure. The United States was also subject to the negative effects as its budget deficit reached USD 1.3 trillion, the number of bankrupt banks increased while the unemployment rate rocketed. On the contrary, Asian countries like China, India and Indonesia succeeded to achieve high rates of economic growth in spite of the global financial crisis, thanks to its economic policies based on strengthening the rates of demand in its local markets and providing fiscal stimuli. While, the Gulf countries and MENA region experienced strong growth largely due to rebound in oil prices from their trough in 2009. Thus , there was uneven and heterogeneity pace of growth experienced across regions.

Bahrain economic growth in 2010

In view of its pioneering role as a monetary and banking centre in the region, the Kingdom of Bahrain was ranked the 10th in the world and 1st in the Middle East and North Africa for its application of business friendly economic policies. Bahrain stands as the only State that figures among the first twenty states on that index since its start on 1995. This reflects the commitment of the Kingdom to structural reforms and openness to world economy. These results are due to the unlimited support and facilities that the government provides, major role played by Central Bank of Bahrain, and the Economic Development Board that forms a fundamental foundation for the development of banking sector and attracting investors. Hence, the GDP of the Kingdom of Bahrain reached a growth of 4.3% in 2010 in line with analysts estimates.

Financial results

ALUBAF Arab International Bank has always sought to realize its vision of becoming a major bank linking North Africa to the Middle East and increase its shareholder value.

2010 was a remarkable year for ALUBAF with exceptional performance. The bank achieved significant growth in all spheres of its activities and positively realized USD 15.4 million as net profits against USD 8.2 million in 2009, signifying an increase of 88% over last year.

Report of the Board of Directors (continued)

Income from Commissions and fees amounted to USD 11.8 million against USD 5.8 million in 2009, increasing by USD 6 million i.e., by 105% over last year. The Net interest income climbed to USD 10.7 million compared to USD 6.6 million in 2009, resulting in an increase of USD 4.1 million or 63% over last year. Revenue from foreign exchange increased to USD 851 Thousand compared to USD 218 Thousand in 2009, climbing by USD 633 Thousand or 290% over last year. Aligning prudent risk management policy to the general credit environment, we have increased the provision for credit losses to USD 2.4 million.

The total assets stood at USD 1,079 million at year end 2010 as compared to USD 733 million last year, achieving an increase of 47% or USD 346 million over last year. The loan portfolio increased to USD 157.8 million compared to USD 106.3 million in 2009, hence, registering an increase of USD 51.5 million or 48%. Deposits with Banks and financial institutions grew by USD 299 million or 51% over last year to reach USD 886 million.

On the Funding side the shareholders equity increased to USD 224.5 million an increase of 103% over last year. This includes infusion of further USD 100 million and making the paid up capital to USD 200 million in 2010. The return on average equity climbed to 9%, the return on average assets stood at 2% , while the cost-to-income ratio reached an efficient level of 24%.

Pursuant to the request of minority shareholders, the major shareholder, Libyan Foreign purchased the Ordinary shares held by Central Bank of Egypt (0.72% holding) and Bank of Jordan (0.28% holding), thus increasing the shareholding of Libyan Foreign Bank to 99.38% by 31 December 2010.

During the year 2010, the Bank in its endeavour to comply with directives of the Central Bank of Bahrain and application of best professional practices in its corporate governance, the Board of Directors approved the charters of the Board of Directors, and committees for governance.

Appropriations

Since the reactivation of the Bank's activities in 2007, ALUBAF achieved in a short span an accumulated profits with earnings before appropriations totalling USD 35.7 million after due provision for credit losses.

Last year, 2009 marked the distribution of cash dividends to shareholders at 1.5% of Paid up Capital. As the year ended 31 December 2010 revealed a significant jump in performance

TO ENSURE LONG TERM STABILITY FOR ALUBAF'S OPERATIONS, THE BANK WILL BE RELOCATED DURING THE SECOND HALF OF 2011 TO ITS NEW OFFICE PREMISES BEING BUILT IN PRESTIGIOUS SEEF AREA IN MANAMA.

and earnings, we are delighted to propose a cash dividend of 5% of Paid up Capital i.e., a distribution of USD 10 million, at USD 2.50 per equity share.

Outlook for 2011

The International Monetary Fund expects growth of advanced economies during 2011 ranging from 2-2.5% and emerging economies with a larger growth rate exceeding 5%. The growth rate in the Middle East and North Africa will be accelerated compared to 2009 and 2010 and hover at 4.7% in 2011.

In the Gulf region, due to rebound in oil prices , a boost in oil receipts is expected to respond with expansionary policies that can positively contribute to an accelerated growth rate of 5% in 2011.

With the robust growth forecast in the region, ALUBAF looks forward positively in achieving its strategy and plan. In line with this , ALUBAF is expected to increase its authorized capital and inject another USD 50 Million in 2011 with the support of the major shareholder, Libyan Foreign Bank to propel and move forward with its expansion and investment activities.

To ensure long term stability for ALUBAF's operations, the Bank will be relocated during the second half of 2011 to its new office premises being built in prestigious Seef area in Manama.

To conclude, I would like to express, on behalf of the Board of Directors, my deepest appreciation to the Central Bank of Bahrain, the Ministry of Industry and Commerce, the shareholders of the Bank, especially the Libyan Foreign Bank and all correspondent banks for their unlimited support and cooperation in leading the Bank to success. I would like to extend my deepest respect and appreciation to the Bank's staff for their dedication, devotion and industriousness in facing the challenges and achieving excellence in services.

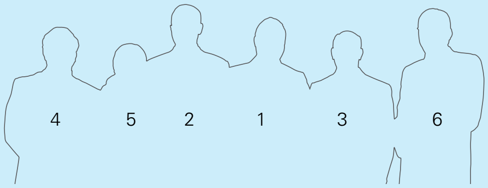
Dr. Mohamed Abdulla Bait Elmal
Chairman

+88.0%

Growth in Net Profits over last year

Executive Management

OUR EXECUTIVE MANAGEMENT TEAM IS A DIVERSE GROUP OF PROFESSIONALS WITH VAST AND VARIED ARRAY OF EXPERIENCES IN THE BANKING INDUSTRY, COMMITTED IN THE DAILY EXECUTION OF BUSINESS IN COMPLIANCE WITH APPROVED POLICIES, PLANS AND REGULATORY REQUIREMENTS.



1. **Mr. Ahmed Imhamed Rajab**
   General Manager

   A Senior Executive Manager of Libyan Foreign Bank is deputed to head ALUBAF, who brings in more than two decades (23 years) of expertise in Banking in the Middle East and North African region.

2. **Mr. Mahmoud A.Azzouz**
   Assistant General Manager

   A Senior Manager of Libyan Foreign Bank is deputed to head Operations and Trade Finance. He brings in more than two decades of International Banking experience in Trade Finance and Operations.

3. **Mr.Mohammed.S.Ftera**
   Assistant General Manager

   A Senior Manager of Libyan Foreign Bank is deputed to head support services function-Risk and Finance Department; He brings in more than two decades of experience in International Banking; He is a Bachelor of Business Administration and has held various positions in Libyan Foreign Bank.

4. **Mr.Suresh Vaidyanathan**
   Head of Operations

   A highly experienced banker over 33 years of banking experience in Bahrain banking industry. He is a Bachelor of Commerce and has served in senior banking positions with a number of reputable banks in Bahrain.

5. **Ms.K.R.Usha**
   Head of Finance

   An Associate member of Institute of Chartered Accountants of India and Institute of Cost and Works Accountants of India, with a strong Finance and Audit experience of more than 16 years and a Post qualification on Information Systems Audit from the Institute of Chartered Accountants of India.

6. **Mr. Saeed A. Nabi**
   Head of Human Resources and Administration

   BS in Human Resources management has served in various capacities in banking industry and has over 22 years of strong experience with specialization in compensation & benefits.

FINANCIAL STATEMENTS 2010

Auditors' Report

Independent Auditors' Report to the Board of Directors of ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

Report on the Financial Statements

We have audited the accompanying financial statements of the Alubaf Arab International Bank B.S.C. (c) ('the Bank'), which comprise the statement of financial position as at 31 December 2010 and the statement of comprehensive income, cash flows statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Bank's Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Bank's Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Regulatory Requirements

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the financial statements, and the contents of the report of the Board of Directors relating to these financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Central Bank of Bahrain and Financial Institutions Law have occurred during the year ended 31 December 2010 that might have had a material adverse effect on the business of the Bank or on its financial position, and that the Bank has complied with the terms of its banking license.

Ernst & Young

17 February 2011

Manama, Kingdom of Bahrain

Statement of Financial Position

At 31 December 2010

	Notes	2010 US$ '000	2009 US$ '000
ASSETS			
Cash and balances with banks and the Central Bank of Bahrain	3	21,717	30,522
Deposits with banks and other financial institutions		886,030	587,225
Investment held for trading	4	27	36
Loans and advances	5	157,789	106,262
Property, equipment and software	6	9,489	6,310
Interest receivables		3,750	2,190
Other assets		321	202
TOTAL ASSETS		1,079,123	732,747
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks and other financial institutions		551,502	425,541
Due to banks and other financial institutions		292,433	194,184
Due to customers		4,749	-
Interest payables		281	145
Other liabilities	7	5,577	2,176
Total liabilities		854,542	622,046
EQUITY			
Share capital	8	200,000	100,000
Statutory reserve	8	4,262	2,649
Retained earnings		10,319	6,552
Proposed dividend	9	10,000	1,500
Total equity		224,581	110,701
TOTAL LIABILITIES AND EQUITY		1,079,123	732,747

Dr. Mohamed Abdulla Bait Elmal
Chairman

Ahmed Imhamed Rajab
General Manager

The attached notes 1 to 15 form part of these financial statements

Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 US$ '000	2009 US$ '000
Interest income		12,542	8,334
Interest expense		(1,836)	(1,753)
Net interest income		10,706	6,581
Fee and commission income	10	11,841	5,771
Changes in fair value of investment held for trading		(9)	(13)
Foreign exchange gain		851	218
Other income		4	-
OPERATING INCOME		23,393	12,557
Provision for loan losses	5	(2,464)	(700)
NET OPERATING INCOME		20,929	11,857
Staff costs		3,067	1,994
Depreciation	6	296	118
Other operating expenses		2,186	1,556
OPERATING EXPENSES		5,549	3,668
COMPREHENSIVE INCOME FOR THE YEAR		15,380	8,189

The attached notes 1 to 15 form part of these financial statements

Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 US$ '000	2009 US$ '000
OPERATING ACTIVITIES			
Comprehensive income for the year		15,380	8,189
Adjustments for:			
Provision for loan losses	5	2,464	700
Depreciation	6	296	118
Changes in fair value of investment held for trading		9	13
Amortization of assets classified as 'Loans and advances' from trading investments		(429)	(394)
Operating income before changes in operating assets and liabilities		17,720	8,626
Changes in operating assets and liabilities:			
Loans and advances		(53,562)	(24,721)
Deposits with banks and other financial institutions		(473)	(2,485)
Interest receivables		(1,560)	1,739
Other assets		(119)	(145)
Deposits from banks and other financial institutions		125,961	52,727
Due to banks and other financial institutions		98,249	160,008
Due to customers		4,749	-
Interest payables		136	(1,500)
Other liabilities		3,401	167
Net cash from operating activities		194,502	194,416
INVESTING ACTIVITY			
Purchase of property, equipment & software		(3,475)	(2,005)
Net cash used in investing activity		(3,475)	(2,005)
FINANCING ACTIVITIES			
Issue of share capital		100,000	-
Dividend 2009 paid		(1,500)	-
Net cash from financing activities		98,500	-
INCREASE IN CASH AND CASH EQUIVALENTS		289,527	192,411
Cash and cash equivalents at 1 January		603,167	410,756
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	892,694	603,167

The attached notes 1 to 15 form part of these financial statements

Statement of Changes in Equity

Year ended 31 December 2010

	Notes	Share capital US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Proposed dividend US$ '000	Total US$ '000
Balance as of 31 December 2008		100,000	1,830	682	-	102,512
Comprehensive income for the year		-	-	8,189	-	8,189
Transfer to statutory reserve	8	-	819	(819)	-	-
Proposed dividend	9	-	-	(1,500)	1,500	-
Balance as of 31 December 2009		100,000	2,649	6,552	1,500	110,701
Balance as of 31 December 2009		100,000	2,649	6,552	1,500	110,701
Dividend paid		-	-	-	(1,500)	(1,500)
Increase in share capital	8	100,000	-	-	-	100,000
Comprehensive income for the year		-	-	15,380	-	15,380
Transfer to statutory reserve	8	-	1,613	(1,613)	-	-
Proposed dividend	9	-	-	(10,000)	10,000	-
Balance as of 31 December 2010		200,000	4,262	10,319	10,000	224,581

The attached notes 1 to 15 form part of these financial statements

Notes to the Financial Statements

At 31 December 2010

1 ACTIVITIES

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 under the new integrated licensing framework. The Bank's registered office is at the Wind Tower Building, 2nd Floor, Diplomatic Area, P O Box 11529, Manama, Kingdom of Bahrain.

The Bank is majority owned by Libyan Foreign Bank, a bank registered in Libya (refer note 8 for more detail).

The financial statements for the year ended 31 December 2010 were authorized for issue in accordance with a resolution of the directors on 17 February 2011.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost convention, as modified for measurement at fair value of investments held for trading.

The financial statements are presented in US Dollars which is the Bank's functional currency, and all values are rounded to the nearest thousand (US Dollar thousand) except where otherwise indicated.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards and are in conformity with the Bahrain Commercial Companies Law and Central Bank of Bahrain and Financial Institutions Law.

2.2 Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

Impairment and uncollectability of financial assets

Financial assets not carried at fair value are reviewed at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of comprehensive income. Impairment is determined as follows:

(a) for assets carried at amortised cost, impairment is based on estimated future cash flows discounted at the original effective interest rate.

(b) for assets carried at cost, impairment is the present value of future cash flows giving consideration to the current market rate of return for a similar financial asset.

Fair value of financial instruments

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

The fair value of interest-bearing financial assets and liabilities is estimated based on discounted cash flows using current market rates for financial instruments with similar terms and risk characteristics.

Estimates are made in determining the fair values of financial assets and derivatives that are not quoted in an active market. Such estimates are necessarily based on assumptions about several factors involving varying degrees of uncertainty and actual results may differ resulting in future changes in such amounts.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes to the Financial Statements

At 31 December 2010

2 ACCOUNTING POLICIES *(continued)*

2.3 Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39

IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective 1 July 2009

IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009

Improvements to IFRSs Issued in May 2008

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations effective 1 January 2010 Issued

Issued in April 2009

IFRS 2 Share-based Payment
IAS 1 - Presentation of Financial Statements
IAS 17 Leases
IAS 38 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement
IFRIC 9 Reassessment of Embedded Derivatives

2.4 Summary of significant accounting policies

Foreign currencies

Transactions in foreign currencies are initially recorded in the relevant functional currency rate of exchange ruling at the date of transaction.

Monetary assets and liabilities in foreign currencies are translated into United States Dollars at rates of exchange prevailing at the statement of financial position date. Any exchange gains and losses are taken to statement of comprehensive income.

Financial instruments - initial recognition and subsequent measurement

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management’s intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Notes to the Financial Statements

At 31 December 2010

2 ACCOUNTING POLICIES *(continued)*

2.4 Summary of significant accounting policies *(continued)*

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets or financial liabilities held-for-trading

These investments are initially recorded at fair value and subsequently remeasured at fair value with any realised and unrealised gains and losses arising from changes in fair values being included in the statement of comprehensive income in the period in which they arise. However, the acquisition expense are expensed when acquired. Interest earned and dividends received are included in interest income and dividend income respectively.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - the Bank has transferred substantially all the risks and rewards of the asset, or
  - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liability

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the Bank intends to settle on a net basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with banks and mandatory deposit with Central Bank of Bahrain, placements and balances with banks with original maturities of less than 90 days.

Deposits

All money market and customer deposits are carried at amortised cost, less amounts repaid.

Loans and advances

Loans and advances are stated at amortised cost using effective interest rate method and net of any amounts written off or provided.

Impairment losses on loans and advances

The Bank reviews its individually significant loans at each reporting date to assess whether a provision for impairment should be recorded in the statement of comprehensive income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

Notes to the Financial Statements

At 31 December 2010

2 ACCOUNTING POLICIES *(continued)*

2.4 Summary of significant accounting policies *(continued)*

Property, equipment and software

Land is not depreciated. It is carried at cost less impairment in value.

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the equipment if the recognition criteria are met. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation is provided on a straight-line basis over the estimated useful lives of three years except for software which is depreciated over the period of five years.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the year the asset is derecognised.

Capital work in progress

All costs and expenses, including payments to project asset suppliers and directly attributable expenses incurred in connection with, the construction of the building and the related infrastructure costs or in relation to the core banking system are recognised as capital work in progress.

Upon completion of the project, capital work in progress is classified into relevant class of property and equipment.

Provisions

Provisions are recognised when the Bank has a present obligation (legal and constructive) arising from a past event, and costs to settle the obligation are both probable and able to be reliably measured.

Contingent liabilities

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees.

Financial guarantees are initially recognised in the financial statements at fair value, being the commission received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised commission and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income

Interest income and fees which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method, unless collectability is in doubt. The recognition of interest income is suspended when the loans become impaired, such as when overdue by more than 90 days.

(ii) Fee and commission income

Credit origination fees are treated as an integral part of the effective interest rate of financial instruments and are recognised over their lives, except when the underlying risk is sold to a third party at which time it is recognised immediately. Other fees and commissions income are recognised when earned.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

Notes to the Financial Statements

At 31 December 2010

2 ACCOUNTING POLICIES *(continued)*

2.5 Standards, interpretations and amendments to approved accounting standards that are issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the bank's financial statements are listed below. This listing is of standards and interpretations issued, which the bank reasonably expects to be applicable at a future date. The bank intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments: Presentation - Classification of Rights Issues

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Bank after initial application.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Bank's financial assets.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below.

IFRS 7 - Financial Instruments: Disclosures
IAS 1 - Presentation of Financial Statements.

The Bank, however, expects that there will not be any significant impact from the adoption of the amendments on its financial position or performance.

3 CASH AND BALANCES WITH BANKS AND THE CENTRAL BANK OF BAHRAIN

	2010 US$ '000	2009 US$ '000
Cash and mandatory reserve deposit with the Central Bank of Bahrain	61	55
Money at call and short notice	17,532	28,660
Balances with other banks	4,124	1,807
Cash and balances with banks and the Central Bank of Bahrain	21,717	30,522
Placements with Banks original maturities of less than 90 days	871,030	572,698
Mandatory reserve with CBB	(53)	(53)
Cash and cash equivalents	892,694	603,167

Notes to the Financial Statements

At 31 December 2010

4 INVESTMENT HELD FOR TRADING

This comprise of investment in equity shares held by the Bank for US$ 27 thousand (2009: US$ 36 thousand).

5 LOANS AND ADVANCES

Loans and advances are stated net of provisions for loan losses and interest in suspense.

	2010 US$ '000	2009 US$ '000
Sovereign loans	50,248	51,552
Commercial loans	110,930	55,410
	161,178	106,962
Less: Provision for loan losses and interest in suspense	(3,389)	(700)
	157,789	106,262

Movements in the provision for loan losses in relation to commercial loans were as follows:

	2010 US$ '000	2009 US$ '000
At 1 January	700	-
Provided during the year	2,464	700
Interest in suspense	225	-
At 31 December	3,389	700

Reclassification of financial assets:

In October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" titled "Reclassification of Financial Assets". The amendments to IAS 39 permit reclassification of financial assets from the "trading investment" category to "loans and advances" category in certain circumstances.

The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the IAS 39 amendments. The amendments are effective retrospective from 1 July 2008.

Per the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets" The Bank has reclassified investments in Iraq note with a carrying value of US $ 40.2 million, effective 1 July 2008 from 'trading investment' to 'loans and advances' pursuant to the amendment to IAS 39 and IFRS 7 issued by IASB in October 2008 and considering the current global financial crisis as a rare circumstance in the financial sector.

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

	2010 US$ '000	2009 US$ '000
Carrying value	41,108	40,679
Fair value	50,532	41,700

Additional fair value gain that would have been recognised in the statement of comprehensive income for the year ended 31 December 2010 had the trading investment not been reclassified amounts to US$ 8.8 million (31 December 2009: US$ 11.48 million).

The Bank earns an effective interest rate of 8.89% (2009: 8.89%) and expects to recover US $41.1 million (2009: US $ 40.7 million) on Iraq notes which were reclassified in 2008.

Notes to the Financial Statements

At 31 December 2010

6 PROPERTY, EQUIPMENT AND SOFTWARE

	Freehold land	Furniture, equipment and motor vehicles	Software	Capital work in progress	Total
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Cost					
At 31 December 2009	4,232	442	-	1,845	6,519
Additions during the year	-	409	704	2,365	3,478
Disposals during the year	-	(30)	-	-	(30)
At 31 December 2010	4,232	821	704	4,210	9,967
Depreciation					
At 31 December 2009	-	209	-	-	209
Depreciation for the year	-	214	82	-	296
Depreciation on disposals	-	(27)	-	-	(27)
At 31 December 2010	-	396	82	-	478
Net book value					
At 31 December 2010	4,232	425	622	4,210	9,489
At 31 December 2009	4,232	233	-	1,845	6,310

Capital work in progress consists of:	2010 US$ '000	2009 US$ '000
Payments for construction of building	4,210	1,429
Payments for core banking system	-	416
	4,210	1,845

The capital work in progress relates to the construction of the building which is expected to be completed in June 2011. During the year cost of Core Banking software and implementation amounting to US$ 704 thousand (2009: Nil) was capitalized.

7 OTHER LIABILITIES

	2010 US$ '000	2009 US$ '000
Accrued expenses	1,378	759
Unearned fee income	695	1,004
Advance received against letter of credit	1,055	234
Retention money	691	-
Payable on behalf of shareholder (note 13)	1,486	-
Others (note 13)	272	179
	5,577	2,176

Notes to the Financial Statements

At 31 December 2010

8 SHARE CAPITAL

	2010 US$ '000	2009 US$ '000
Authorized:		
4,000,000 shares of US$ 50 each	200,000	200,000
Issued and fully paid up:		
At start of the year:		
2,000,000 (2009: 2,000,000) Ordinary shares of US$ 50 each	100,000	100,000
Issued during the year		
2,000,000 (2009: Nil) Ordinary shares of US$ 50 each	100,000	-
At end of the year:		
4,000,000 (2009: 2,000,000) Ordinary shares of US$ 50 each	200,000	100,000

	2010		2009	
Shareholders	Percentage holding (%)	US$ '000	Percentage holding (%)	US$ '000
Libyan Foreign Bank	99.38	198,751	97.11	97,105
Central Bank of Egypt	-	-	1.43	1,429
Bank of Jordan Limited	-	-	0.56	561
Yemen Bank for Reconstruction and Development	0.28	561	0.56	561
National Bank of Yemen	0.34	688	0.34	344
	100.00	200,000	100.00	100,000

STATUTORY RESERVE

As required by the Bahrain Commercial Companies Law and the Bank's articles of association, a statutory reserve has been created by transfer of 10% of its annual profit. The Bank may resolve to discontinue such transfers when the reserve totals 50% of the paid up capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

9 PROPOSED DIVIDEND

The Bank proposed dividend of US$ 2.50 (2009: US$ 0.75) per share amounting to US$ 10 million for the year ended 2010 (2009: US$ 1.5 million).

10 FEE AND COMMISSION INCOME

	2010 US$ '000	2009 US$ '000
Commission income from letters of guarantee	69	6
Commission income from letters of credit	11,772	5,765
	11,841	5,771

Notes to the Financial Statements

At 31 December 2010

11 COMMITMENTS AND CONTINGENT LIABILITIES

The Bank's commitments in respect of non-cancellable operating leases were as follows:

	2010 US$ '000	2009 US$ '000
Within one year	85	107
Within one to five years	-	117
	85	224

Commitment on account of capital work in progress:

	2010 US$ '000	2009 US$ '000
Within one year	2,156	3,117
Within one to five years	-	2,311
	2,156	5,428

Credit related contingencies:

	2010 US$ '000	2009 US$ '000
Letters of guarantee	500	7,701
Letters of credit	469,699	234,723
	470,199	242,424

12 RISK MANAGEMENT

12.1 Introduction

Risk is inherent in the Bank's investing activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The main risks to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk.

a) Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive Committee

The Executive Committee of the Board is responsible for approving new credits and recommending credit granting framework and financing guidelines within the Bank's strategic plan and objectives.

Board Risk Committee

The Board Risk Committee is responsible for maintaining oversight of the Bank's internal risk and capital management framework and systems.

Notes to the Financial Statements

At 31 December 2010

12 RISK MANAGEMENT *(continued)*

12.1 Introduction *(continued)*

a) Risk management structure *(continued)*

Management Risk Committee

The Management Risk Committee has the overall responsibility for establishing the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Asset Liability Management Committee

The Asset Liability Management Committee's (ALCO) objective is to prudently direct and manage asset and liability allocation to achieve the Bank's strategic goals. The ALCO will monitor the Bank's liquidity risks by ensuring that the Bank's activities are in line with the risk/reward guidelines approved by the Board.

Audit Committee

The Audit Committee is appointed by the Board of Directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof, the soundness of the internal controls of the Bank, the measurement system of risk assessment and relating these to the Bank's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Internal Audit

Risk management processes throughout the Bank are audited at least annually by the Internal Audit Department, based on the risk-based audit plan approved by the Audit Committee. Audit staff examine both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, then reports its findings and recommendations to the Audit Committee.

b) Risk measurement and reporting systems

Currently, the Bank's assets mainly comprise cash and balances with banks, deposits with banks and other financial institutions and loans and advances.

Monitoring and controlling risks is primarily performed based on limits approved by the Board. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Bank also monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

c) Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include guidelines to maintain a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

12.2 Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, and procedures. The Bank manages its credit risk by monitoring concentration of exposures by geographic location and adhering to approved limits formulated. The Bank limits its risk on off balance sheet items with adequate collateral.

a) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

Notes to the Financial Statements

At 31 December 2010

12 RISK MANAGEMENT *(continued)*

12.2 Credit risk *(continued)*

a) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements *(continued)*

	Gross maximum exposure 2010 US$ '000	Net maximum exposure 2010 US$ '000	Gross maximum exposure 2009 US$ '000	Net maximum exposure 2009 US$ '000
Balances with banks and the Central Bank of Bahrain	21,709	21,709	30,520	30,520
Deposits with banks and other financial institutions	886,030	886,030	587,225	587,225
Loans and advances	157,789	135,142	106,262	105,917
Interest receivables	3,750	3,750	2,190	2,190
Total funded credit risk exposure	1,069,278	1,046,631	726,197	725,852
Unfunded exposure on credit related contingencies	470,199	263,228	242,424	135,758
Total funded and unfunded credit risk exposures	1,539,477	1,309,859	968,621	861,610

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collaterals accepted include cash collateral, residential and commercial real estate and securities.

b) Credit quality per class of financial assets

The table below presents an analysis of financial assets by neither past due nor impaired and external rating designation at 31 December 2010 and 2009. The credit quality is graded based on External credit rating agency- Standard and Poor, Fitch and Moody and categorised into the under mentioned categories.

(i) High standard -Where External credit rating agency ratings are A and above.

(ii) Standard- Where External credit rating agency ratings are below A.

(iii) Watch list- Where the recoverability of loan is doubtful.

(iv) Past due and impaired- Where interest or principal sum of loan is due for more than 90 days.

	Neither past due nor impaired				
At 31 December 2010	High standard grade US$ '000	Standard grade US$ '000	Watch list US$ '000	Past due or individually impaired US$ '000	Total US$ '000
Balances with banks and the Central Bank of Bahrain	9,489	12,220	-	-	21,709
Deposits with banks and other financial institutions	376,233	509,797	-	-	886,030
Loans and advances	9,791	143,912	-	4,086	157,789
Interest receivables	227	3,523	-	-	3,750
Total funded exposures	395,740	669,452	-	4,086	1,069,278
Credit related contingencies	-	470,199	-	-	470,199
Total unfunded exposures	-	470,199	-	-	470,199
Total of funded and unfunded exposures	395,740	1,139,651	-	4,086	1,539,477

Notes to the Financial Statements

At 31 December 2010

12 RISK MANAGEMENT *(continued)*

12.2 Credit risk *(continued)*

b) Credit quality per class of financial assets *(continued)*

	Neither past due nor impaired				
	High standard grade	Standard grade	Watch list	Past due or individually impaired	Total
At 31 December 2009	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Balances with banks and the Central Bank of Bahrain	19,491	11,029	-	-	30,520
Deposits with banks and other financial institutions	169,174	418,051	-	-	587,225
Loans and advances	7,991	91,721	4,700	1,850	106,262
Interest receivables	106	2,084	-	-	2,190
Total funded exposures	196,762	522,885	4,700	1,850	726,197
Credit related contingencies	-	242,424	-	-	242,424
Total unfunded exposures	-	242,424	-	-	242,424
Total of funded and unfunded exposures	196,762	765,309	4,700	1,850	968,621

c) Concentration of maximum exposure to credit risk

The geographical distribution of gross credit exposures:

	Bahrain	Other GCC countries	Other Middle east and African countries	Europe	Rest of the world	Total
At 31 December 2010	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
ASSETS						
Balances with banks and the Central Bank of Bahrain	781	4,104	5,579	5,103	6,142	21,709
Deposits with banks and other financial institutions	319,840	146,059	131,671	288,460	-	886,030
Loans and advances	7,805	6,449	131,535	12,000	-	157,789
Interest receivables	287	61	3,304	98	-	3,750
Total funded exposures	328,713	156,673	272,089	305,661	6,142	1,069,278
Credit related contingencies	-	-	470,199	-	-	470,199
Total unfunded exposures	-	-	470,199	-	-	470,199
Total funded and unfunded exposures	328,713	156,673	742,288	305,661	6,142	1,539,477

Notes to the Financial Statements

At 31 December 2010

12 RISK MANAGEMENT *(continued)*

12.2 Credit risk *(continued)*

c) Concentration of maximum exposure to credit risk *(continued)*

At 31 December 2009	Bahrain US$ '000	Other GCC countries US$ '000	Other Middle east and African countries US$ '000	Europe US$ '000	Rest of the world US$ '000	Total US$ '000
ASSETS						
Balances with banks and the Central Bank of Bahrain	337	3,470	2,594	8,913	15,206	30,520
Deposits with banks and other financial institutions	325,779	67,094	79,750	114,602	-	587,225
Loans and advances	7,990	6,550	86,722	-	5,000	106,262
Interest receivables	152	24	1,927	72	15	2,190
Total funded exposures	334,258	77,138	170,993	123,587	20,221	726,197
Credit related contingencies	-	-	242,424	-	-	242,424
Total unfunded exposures	-	-	242,424	-	-	242,424
Total funded and unfunded exposures	334,258	77,138	413,417	123,587	20,221	968,621

Sectoral classification of gross credit exposures:

At 31 December 2010	Sovereign US$ '000	Banks and financial institutions US$ '000	Commercial and business US$ '000	Total US$ '000
ASSETS				
Balances with banks and Central Bank of Bahrain	53	21,656	-	21,709
Deposits with banks and other financial institutions	-	886,030	-	886,030
Loans and advances	50,248	98,378	9,163	157,789
Interest receivables	1,624	2,105	21	3,750
Total funded exposures	51,925	1,008,169	9,184	1,069,278
Credit related contingencies	-	470,199	-	470,199
Total unfunded exposures	-	470,199	-	470,199
Total of funded and unfunded exposures	51,925	1,478,368	9,184	1,539,477

Notes to the Financial Statements

At 31 December 2010

12 RISK MANAGEMENT *(continued)*

12.2 Credit risk *(continued)*

c) Concentration of maximum exposure to credit risk *(continued)*

At 31 December 2009	Sovereign US$ '000	Banks and financial institutions US$ '000	Commercial and business US$ '000	Total US$ '000
ASSETS				
Balances with banks and Central Bank of Bahrain	53	30,467	-	30,520
Deposits with banks and other financial institutions	-	587,225	-	587,225
Loans and advances	51,552	43,160	11,550	106,262
Interest receivables	1,702	448	40	2,190
Total funded exposures	53,307	661,300	11,590	726,197
Credit related contingencies	-	242,424	-	242,424
Total unfunded exposures	-	242,424	-	242,424
Total of funded and unfunded exposures	53,307	903,724	11,590	968,621

12.3 Market risk

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates and equity. This risk arises from asset -liability mismatches, changes that occur in the yield curve and foreign exchange rates. Given the Bank's low risk strategy, aggregate market risk levels are considered very low.

12.4 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature of reprise in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through a number of means. The Bank's interest rate sensitivity position as of 31 December, is as follows:

	Impact on statement of comprehensive income	
Sensitivity analysis - interest rate risk	2010 US$ '000	2009 US$ '000
25 bps increase/decrease		
US Dollar	(+)(-) 218	(+)(-)237
Euro	(+)(-)78	(+)(-)161

12.5 Currency risk

Currency risk arise from the movement of the rate of exchange over a period of time. The Bank's currency risk is limited to assets and liabilities denominated in Euro amounting to US$ 21 thousand (2009: US$ 339 thousand) , As other GCC currencies are pegged to the US Dollar, their balances are not considered to represent significant currency risk.

12.6 Equity Price Risk

Equity price risk arises from the change in fair values of equity investments. The Bank exposure towards the equity price risk is minimal as equity investment is in a A+ rated company which is listed on the Bahrain Bourse.

Notes to the Financial Statements

At 31 December 2010

12 RISK MANAGEMENT *(continued)*

12.7 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis. This incorporates an assessment of expected cash flow and the availability of high grade collateral which would be used to secure additional funding if required.

The maturity profile of the assets and liabilities at **31 December 2010** given below reflects the management's best estimates of the maturities of assets and liabilities that have been determined on the basis of the remaining period at the balance sheet date.

	Up to 1 year						
At 31 December 2010	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 12 months US$ '000	Total US$ '000	More than 1 year US$ '000	No specific maturity US$ '000	Total US$ '000
ASSETS							
Cash and balances with banks and the Central Bank of Bahrain	21,656	-	-	21,656	-	61	21,717
Deposits with banks and other financial institutions	744,447	141,583	-	886,030	-	-	886,030
Investment held for trading	-	-	-	-	-	27	27
Loans and advances	6,364	36,932	57,938	101,234	56,555	-	157,789
Property, equipment and software	-	-	-	-	-	9,489	9,489
Interest receivables	1,958	396	1,396	3,750	-	-	3,750
Other assets	173	-	-	173	148	-	321
Total assets	774,598	178,911	59,334	1,012,843	56,703	9,577	1,079,123
LIABILITIES							
Deposits from banks and other financial institutions	388,334	163,168	-	551,502	-	-	551,502
Due to banks and other financial institutions	255,841	16,192	20,400	292,433	-	-	292,433
Due to customers	1,399	-	3,350	4,749	-	-	4,749
Interest payables	114	46	121	281	-	-	281
Other liabilities	1,385	2,991	371	4,747	691	139	5,577
Total liabilities	647,073	182,397	24,242	853,712	691	139	854,542
Net liquidity gap	127,525	(3,486)	35,092	159,131	56,012	9,438	224,581
Cumulative liquidity gap	127,525	124,039	159,131	-	215,143	224,581	-

Notes to the Financial Statements

At 31 December 2010

12 RISK MANAGEMENT *(continued)*

12.7 Liquidity risk *(continued)*

	Up to 1 year						
At 31 December 2009	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 12 months US$ '000	Total US$ '000	More than 1 year US$ '000	No specific maturity US$ '000	Total US$ '000
ASSETS							
Cash and balances with banks and the Central Bank of Bahrain	30,467	-	-	30,467	-	55	30,522
Deposits with banks and other financial institutions	564,225	23,000	-	587,225	-	-	587,225
Investment held for trading	-	-	-	-	-	36	36
Loans and advances	-	-	43,864	43,864	62,398	-	106,262
Property, equipment and software	-	-	-	-	-	6,310	6,310
Interest receivables	1,773	136	281	2,190	-	-	2,190
Other assets	-	-	202	202	-	-	202
Total assets	596,465	23,136	44,347	663,948	62,398	6,401	732,747
LIABILITIES							
Deposits from banks and other financial institutions	399,812	25,729	-	425,541	-	-	425,541
Due to banks and other financial institutions	167,431	26,753	-	194,184	-	-	194,184
Interest payables	84	61	-	145	-	-	145
Other liabilities	-	936	835	1,771	330	75	2,176
Total liabilities	567,327	53,479	835	621,641	330	75	622,046
Net liquidity gap	29,138	(30,343)	43,512	42,307	62,068	6,326	110,701
Cumulative liquidity gap	29,138	(1,205)	42,307	-	104,375	110,701	-

The maturity profile of the financial liabilities as at **31 December 2010** based on contractual undiscounted repayment obligations is as follows:

	Up to 1 year						
At 31 December 2010	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 12 months US$ '000	Total US$ '000	More than 1 year US$ '000	No specific maturity US$ '000	Total US$ '000
LIABILITIES							
Deposits from banks and financial institutions	388,448	163,214	121	551,783	-	-	551,783
Due to banks and other financial institutions	255,841	16,192	20,400	292,433	-	-	292,433
Due to customers	1,399	-	3,350	4,749	-	-	4,749
Other liabilities	1,384	2,667	-	4,051	-	139	4,190
Total funded exposures	647,072	182,073	23,871	853,016	-	139	853,155
Credit related contingencies	25,036	52,178	240,870	318,084	152,115	-	470,199
Total unfunded exposures	25,036	52,178	240,870	318,084	152,115	-	470,199
Total financial liabilities	672,108	234,251	264,741	1,171,100	152,115	139	1,323,354

Notes to the Financial Statements

At 31 December 2010

12 RISK MANAGEMENT *(continued)*

12.7 Liquidity risk *(continued)*

At 31 December 2009	Up to 1 year: Up to 1 month US$ '000	Up to 1 year: 1 to 3 months US$ '000	Up to 1 year: 3 to 12 months US$ '000	Up to 1 year: Total US$ '000	More than 1 year US$ '000	No specific maturity US$ '000	Total US$ '000
LIABILITIES							
Deposits from banks and financial institutions	399,896	25,790	-	425,686	-	-	425,686
Due to banks and other financial institutions	167,515	26,767	-	194,282	-	-	194,282
Other liabilities	1,020	-	-	1,020	-	75	1,095
Total funded exposures	568,431	52,557	-	620,988	-	75	621,063
Credit related contingencies	45,671	196,753	-	242,424	-	-	242,424
Total unfunded exposures	45,671	196,753	-	242,424	-	-	242,424
Total financial liabilities	614,102	249,310	-	863,412	-	75	863,487

12.8 Fair value of financial instruments

Financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

The fair values of financial instruments are not significantly different from the carrying values included in the financial statements.

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.

As at 31 December 2010, the financial instrument recorded at fair value by level of the fair value hierarchy is classified under:

	Level 1: 2010 US$ '000	Level 1: 2009 US$ '000
Investments carried at fair value through statement of comprehensive income	27	36
	27	36

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 fair value disclosures during the year ended 31 December 2010.

There were no investments qualifying for level 3 fair value disclosures.

Notes to the Financial Statements

At 31 December 2010

13 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 statement of comprehensive income and statement of financial position are as follows:

	2010 US$ '000	2009 US$ '000
Statement of comprehensive income		
Interest income	11	14
Interest expense	424	463
Fee and commission income	169	6
Statement of financial position		
Assets		
Cash and balances with banks	2,800	578
Deposit with banks and financial institutions	30,000	-
Interest receivables	3	-
Other assets	31	-
Liabilities		
Deposits from banks and other financial institutions	219,348	125,656
Interest payable	29	-
Other liabilities - payable on behalf of shareholders	1,486	-
Other liabilities - others	221	-
Contingent liabilities- Letters of Credit (Fully secured by Deposit takings)	24,584	-

Compensation paid to the Board of Directors and key management personnel:

	2010 US$ '000	2009 US$ '000
Short term benefits*	1,423	1,059
End of term benefits	37	36
Total compensation	1,460	1,095

* Includes Board of Directors fee amounts to US $ 750 thousand (2009: US $ 671 thousand).

Notes to the Financial Statements

At 31 December 2010

14 CAPITAL ADEQUACY

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The risk asset ratio, calculated in accordance with the capital adequacy guidelines, under Basel II, approved by the Central Bank of Bahrain.

	2010 US$ '000	2009 US$ '000
Capital base:		
Tier 1 capital	224,581	110,701
Tier 2 capital	-	-
Total capital base (a)	224,581	110,701
Risk weighted assets (b)	526,118	385,575
Capital adequacy (a/b * 100)	42.69%	28.71%
Minimum requirement	12.00%	12.00%

15 COMPARATIVES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported results of the Bank.

BASEL II PILLAR III DISCLOSURES

As at 31 December 2010

Basel II Pillar III Disclosures

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Basel II Pillar III Disclosures

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1. Introduction

Central Bank of Bahrain ("CBB"), the regulating body for Banks and Financial Institutions in the Kingdom of Bahrain, provides a common framework for the implementation of Basel II accord.

The Basel II framework is based on three pillars:

- Pillar I defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital has to be covered by own regulatory funds.
- Pillar II addresses the Bank's internal processes for assessing overall capital adequacy in relation to risks (ICAAP). Pillar II also introduces the Supervisory review and Evaluation Process (SREP), which assesses the internal capital adequacy.
- Pillar III complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy.

This document gathers together all the elements of the disclosure required under Pillar III and complies with the public disclosure module of CBB, in order to enhance corporate governance and financial transparency. This disclosure report is in addition to the financial statements presented in accordance with International Financial Reporting Standards (IFRS).

2. Corporate Structure

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 under the new integrated licensing framework. The Bank's registered office is at Wind Tower Building, 2nd Floor, Diplomatic Area, P O Box 11529, Manama, Kingdom of Bahrain.

The Bank is majority owned by Libyan Foreign Bank (Shareholding 99.38%), a bank registered in Libya.

3. Capital Structure

The Bank's capital base comprise of Tier I Capital, which includes share capital, statutory reserve and retained earnings. The issued and paid up share capital of the Bank was US $ 200 million as at 31 December 2010 comprising of 4 million shares of US$ 50 each.

Break down of Capital Base

	US$ '000 Tier I
Share capital	200,000
Statutory reserve	4,262
Retained earnings	20,319
Tier I Capital base	224,581
Less: Regulatory deductions	-
Net Available Capital Base	224,581

The Bank increased its Paid up share capital in April 2010 to USD 200 Million, pursuant to the approval in Annual general meeting held on 22nd March 2010. Further, the shares of minority shareholder , Bank of Jordan and Central Bank of Egypt was bought by Libyan Foreign Bank. Thus the shareholding of Libyan Foreign Bank is 99.38% as at 31st December 2010. ALUBAF recorded a net profit of US$ 15,380 thousand for the year ended 31 December 2010 and transferred 10% of profits (US$ 1,613 thousand) towards Statutory reserve.

The Bank proposed a dividend of US$ 10,000 thousand, i.e. US$ 2.50 per Ordinary share for the year 2010.

Basel II Pillar III Disclosures

31 December 2010

4. Capital Adequacy Ratio (CAR)

The purpose of capital management at the Bank is to ensure the efficient utilization of capital in relation to business requirements and growth, risk profile and shareholders' returns and expectations.
The Bank manages its capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of its activities.

Capital adequacy ratio calculation:

	US$ '000 Tier I
Tier I Capital Base	224,581
Risk weighted assets (RWA)	
Credit risk	509,189
Market risk	188
Operational risk	16,741
	526,118
Capital adequacy ratio	42.69%

The Bank's capital adequacy ratio of 42.69% is well above the minimum regulatory requirement of 12%.

5. Profile of risk-weighted assets and capital charge

The Bank has adopted the standardized approach for credit risk, market risk and the Basic indicator approach for operational risk for regulatory reporting purposes. The Bank's risk weighted capital requirement for credit, market and operational risks are given below:

5.1 Credit risk

Definition of exposure classes per Standard Portfolio

The Bank has funded and unfunded credit portfolio. The exposures are classified as per the Standard portfolio approach mentioned under the CBB's Basel II capital adequacy framework covering the standardized approach for credit risk.

The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

(a) Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on Bahrain are risk weighted at 0%, while claims on other sovereigns, denominated in a non-relevant currency and unrated are assigned a risk weight of 100%.

(b) Claims on banks

Claims on Banks are risk weighted based on the ratings assigned to them by external rating agencies. However, short term claims on locally incorporated banks and claims maturing within three months and denominated in Bahrain Dinars or US Dollars are risk weighted at 20%. Other claims on banks, which are in foreign currency, are risk weighted using standard risk weights ranging from 20% to 100%. Unrated claims on banks are assigned a risk weight of 20% & 50% respectively.

(c) Claims on corporate portfolio

Claims on corporate portfolio are risk weighted based on external credit ratings and are assigned a risk weight of 100% for unrated corporate portfolio.

Basel II Pillar III Disclosures

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5. Profile of risk-weighted assets and capital charge *(continued)*

(d) Past due exposure

Past due exposures include Loans and advances of which interest or repayment of principal are due for more than 90 days; Past due exposures, net of specific provisions are risk weighted as follows:

(a) 150% risk weight, when specific provisions are less than 20% of the outstanding amount of loan.

(b) 100% risk weight, when specific provisions are greater than 20% of the outstanding amount of the loan.

(e) Equity portfolios

Investments in listed equities are risk weighted at 100%.

(f) Other exposures

These are risk weighted at 100%.

Credit exposure and risk weighted assets

US$ '000	Funded exposures	Unfunded exposures	Gross credit exposures	Eligible collateral	Risk weighted assets	Capital charge
Claims on sovereigns	51,925	–	51,925	–	43,967	5,276
Claims on banks	993,536	470,199	1,463,735	116,587	430,891	51,707
Claims on corporate	19,731	–	19,731	–	19,731	2,368
Past due	4,763	–	4,763	–	4,763	572
Equity portfolio	27	–	27	–	27	3
Other exposures	9,810	–	9,810	–	9,810	1,177
Total	1,079,792	470,199	1,549,991	116,587	509,189	61,103

Gross credit exposure before credit risk mitigation

US$ '000	Gross credit exposure	Average monthly gross exposure
Claims from Sovereigns	51,925	50,222
Claims from Banks	993,536	772,405
Claims on Corporate	19,731	22,282
Past Due	4,763	3,397
Equity Portfolio	27	29
Other exposures	9,810	8,543
Total funded exposure	1,079,792	856,878
Unfunded exposures	470,199	391,331
Gross credit exposures	1,549,991	

Average monthly balance represents the average of the sum of twelve month end balance for the year ended 31 December 2010.

Basel II Pillar III Disclosures

31 December 2010

5. Profile of risk-weighted assets and capital charge *(continued)*

5.2 Market risk

The Bank's capital requirement for market risk in accordance with the standardised methodology is as follows:

US$ '000	Risk weighted exposures	Capital charge	Maximum value	Minimum value
Foreign exchange risk	163	20	425	138
Equities position risk	25	3	38	25
Total	188	23	463	163

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US$ 2,009 thousand on operational risk weighted exposure of US$ 16,741 thousand. This operational risk weighted exposure is computed using the Basic indicator approach, where a fixed percentage (Alpha), which is 15% of the average previous three year annual gross income, is multiplied by 12.5 operational capital charge; years with positive gross income are counted for computation of capital charge. This computation is as per CBB Capital adequacy rulebook.

6. Risk Management

Risk is inherent in the Banks business activities and is managed through a process of ongoing identification, measurement, controlling and monitoring. The Bank is exposed primarily to credit risk and to a limited extent to market and operational risk.

Following is the Risk and Capital Management Structure:

Board of Directors	
Executive Committee	Board Risk Committee
Asset Liability Management Committee	Management Risk Committee

The Board of Directors is responsible for the best practice management and risk oversight. Board of Directors defines the risk appetite and risk tolerance standards and oversees that risk process standards are in place. At the second level, Executive management is responsible for the identification and evaluation on a continuous basis of all significant risks to the business and implementation of appropriate internal controls to minimize them. Senior management is responsible for monitoring credit lending portfolio, country limits and interbank limits and general credit policy matters, which are reviewed and approved by the Board of Directors.

Independent internal audit of risk management process are audited and reported to the Audit Committee, which is appointed by the Board of Directors.

6.1 Credit risk concentrations and thresholds

The first level of protection against undue credit risk is through country and industry threshold limits, together with individual borrower threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty or group of connected counterparties exceeding 15% of the regulatory capital base.

As at 31 December 2010, the Bank's exposures in excess of 15% of the obligor limits to individual counterparties are shown below:

US $ '000	Funded exposure	Unfunded exposure	Total
Counterparty A *	81,671	Nil	81,671
Counterparty B	41,109	Nil	41,109
Counterparty C *	39,328	Nil	39,328

* These are interbank deposits maturing within 6 months from 31 December 2010.

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6. Risk Management *(continued)*

6.1 Credit risk concentrations and thresholds *(continued)*

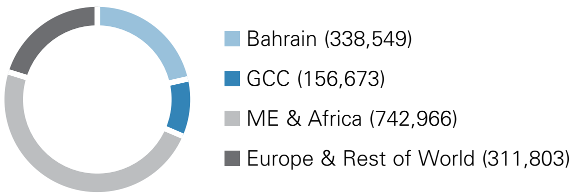
Risk mitigation – collateral

The amount and type of collateral depends on an assignment of the credit risk of the counterparty. The types of collateral mainly include cash collaterals for both funded and unfunded credit exposures, which is liquidated on maturity/ expiry date.

6.2 Geographical distribution of exposures is summarized below:

US$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	338,549	338,549	-
Other GCC Countries	156,673	156,673	-
Other Middle East & Africa	742,966	272,767	470,199
Europe	305,661	305,661	-
Rest of the world	6,142	6,142	-
Total	1,549,991	1,079,792	470,199

Geographic Exposures USD '000s



The geographical distribution of gross credit exposures by major type of credit exposures can be analyzed as follows:

US$ '000	Bahrain	Other GCC Countries	Other Middle East and Africa	Europe	Rest Of the world	Total
Claims from Sovereigns	7,958	-	43,967	-	-	51,925
Claims from Banks	320,754	136,901	224,078	305,661	6,142	993,536
Claims on Corporate	-	15,009	4,722	-	-	19,731
Past Due	-	4,763	-	-	-	4,763
Equity Portfolio	27	-	-	-	-	27
Other exposures	9,810	-	-	-	-	9,810
Total funded exposure	338,549	156,673	272,767	305,661	6,142	1,079,792
Unfunded exposures	-	-	470,199	-	-	470,199
Gross credit exposures	338,549	156,673	742,966	305,661	6,142	1,549,991

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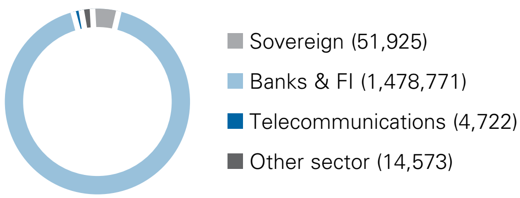
6. Risk Management *(continued)*

6.3 Industrial sector analysis of exposures is summarized below:

US$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	51,925	51,925	-
Banks & financial institutions	1,478,771	1,008,572	470,199
Telecommunications	4,722	4,722	-
Other sector	14,573	14,573	-
Total	1,549,991	1,079,792	470,199

Sectoral Exposures USD '000s



The industrial sector analysis of gross credit exposures by major types of credit exposures can be analyzed as follows:

USD '000s	Banks & financial institutions	Sovereign	Telecommunications	Other Sector	Total
Claims from Sovereigns	-	51,925	-	-	51,925
Claims from Banks	993,536	-	-	-	993,536
Claims on Corporate	15,009	-	4,722	-	19,731
Past Due	-	-	-	4,763	4,763
Equity Portfolio	27	-	-	-	27
Other exposures	-	-	-	9,810	9,810
Total funded exposure	1,008,572	51,925	4,722	14,573	1,079,792
Unfunded exposures	470,199	-	-	-	470,199
Gross credit exposures	1,478,771	51,925	4,722	14,573	1,549,991

6.4 Exposure by external credit rating

The Bank uses external credit ratings from Standard & Poors, Moodys and Fitch ratings, which are accredited External Credit Assessment Institutions (ECAI's). The Bank assigns the risk weights through the mapping process provided by CBB to the rating grades. The Bank uses the highest risk weight associated, in case of two or more eligible ECAI's are chosen. The breakdown of the Bank's exposure into rated and unrated categories is as follows:

Basel II Pillar III Disclosures

31 December 2010

6. Risk Management *(continued)*

6.4 Exposure by external credit rating *(continued)*

US$ '000	Funded exposure	Unfunded exposure	Rated-High standard grade exposure	Rated-Standard grade exposure	Unrated exposure
Claims on sovereigns	51,925	-	7,958	-	43,967
Claims on banks	993,536	470,199	387,782	270,281	805,672
Claims on corporate	19,731	-	-	-	19,731
Past due	4,763	-	-	-	4,763
Equity portfolio	27	-	27	-	-
Other exposures	9,810	-	-	-	9,810
Total	1,079,792	470,199	395,767	270,281	883,943

6.5 Maturity analysis of funded exposures

Residual contractual maturities of the Bank's exposures are as follows:

US$ '000	Within 1 month	1-3 months	3-12 months	Total within 1 year	1-5 years	10-20 years	Undated	Total
Claims on Sovereigns	1,536	-	6,727	8,263	2,500	41,109	53	51,925
Claims on Banks	757,150	178,906	52,606	988,662	4,874	-	-	993,536
Claims on Corporate	15,027	4	-	15,031	4,700	-	-	19,731
Past Due	-	-	-	-	-	-	4,763	4,763
Equity Portfolio	-	-	-	-	-	-	27	27
Other exposures	-	-	-	-	-	-	9,810	9,810
Total	773,713	178,910	59,333	1,011,956	12,074	41,109	14,653	1,079,792

The Bank does not have any exposure maturing within 5-10 years or more than 20 years.

6.6 Maturity analysis of unfunded exposures

US$ '000	Notional principal	Within 1 month	1-3 months	3-12 months	Total within 1 year	Over one year	Total
Claims on Banks-contingent items	470,199	25,036	52,178	240,870	318,084	152,115	470,199

Credit-related contingent items:

Credit related contingent items comprise letters of credit confirmations, acceptance and guarantees. For credit-related contingent items, the nominal value is converted to an exposure through the application of a credit conversion factor (CCF). The CCF applied is at 20% to convert off balance sheet notional amounts into an equivalent on balance sheet exposure.

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6. Risk Management *(continued)*

6.7 Impairment of assets

The Bank makes an assessment at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognized in the statement of comprehensive income.

Evidence of impairment may include indications that a borrower is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower will enter bankruptcy or other financial re-organisation and where, observable data indicates, that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

Refer Disclosures made under 7.2 for details of Impaired loans and relative specific provision made during 2010.

6.8 Market Risk

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates and equity prices. This risk arises from asset - liability mismatches, changes that occur in the yield curve and foreign exchange rates. Given the Bank's low risk strategy, aggregate market risk levels are considered very low.

Interest rate risk on the Banking book arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through basis point value approach, which measures changes in economic value resulting from changes in interest rates. The Bank's interest rate sensitivity position as of 31 December 2010 for a change in 25 basis points will result in an increase or decrease on statement of comprehensive income by +/(-) US$ 218 thousand.

Currency risk arises from the movement of the rate of exchange over a period of time. The Banks currency risk is limited to Euro denominated assets and liabilities, as Bahrain Dinars and GCC Currencies (except Kuwaiti Dinars) are pegged to US Dollars. The Bank limits this risk by monitoring positions on a regular basis. Thus, the Banks exposure to currency risk is minimal and insignificant.

Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. During 2010, the Bank depended mainly on its own capital and assets were managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and deposits with banks.

6.9 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems, or from external events. Operational risk is inherent in all business activities and can never be eliminated entirely, however shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk. To achieve this goal, the Bank intends to make operational risk transparent throughout the enterprise, to which end processes are being developed to provide for regular reporting of relevant operational risk management information to senior management and the Board of Directors.

Operational functions of booking, recording and monitoring of transactions are carried by staff that are independent of the individuals initiating the transactions. Each business line including Operations, Information Technology, Human Resources, Compliance and Financial Control – is further responsible for employing the aforementioned framework processes and control programmes to manage its operational risk within the guidelines established by the Bank policy, and to develop internal procedures that comply with these policies.

Basel II Pillar III Disclosures

31 December 2010

6. Risk Management *(continued)*

6.10 Capital management

Internal Capital Adequacy Assessment Process (ICAAP)

The Bank's capital management aims to maintain an optimum level of capital to enable it to pursue the Bank's corporate strategies whilst meeting regulatory ratio requirements.

Comprehensive assessment of economic capital, i.e., credit, market and operational risks and processes relating to other risks such as liquidity, is made, reviewed and monitored regularly. The Bank's capital adequacy ratio of 42.69% is well above the regulatory requirement and provides a healthy cushion against any stress conditions.

Supervisory Review and Evaluation Process (SREP)

Central Bank of Bahrain (CBB) is the regulator for the Bank and sets the minimum capital requirement. CBB requires the Bank to maintain a 12% minimum ratio of total capital to risk weighted assets, taking into account both on balance sheet and off balance sheet exposures. The Bank maintains a strong and healthy capital adequacy ratio.

7. Other Disclosures

7.1 Related Party transactions

Related party represents major shareholders, directors, key management personnel and entities significantly influenced by such parties. Pricing policies are at arm's length and approved by executive management and Board of Directors.

	31 December 2010 US$ '000
Exposures to related parties:	32,834
Liabilities to related parties:	
Connected deposits	221,084

7.2 Impaired loans and relative provision

	31 December 2010 US$ '000
Gross impaired loans	7,250
Less: Specific provision	(2,487)
Net impaired loans	4,763

Movement in impairment provision

	Specific	Collective	Total
Opening provision	400	300	700
Specific charge for the year	2,087	377	2,464
Closing specific provision	2,487	677	3,164

The impaired loans and provisions against it relates to commercial and business loans in Other GCC Countries. The collaterals consist of securities and properties which are managed by the syndicated agent and valued on an annual basis.

All past due loans are impaired and are past due for a period of one to three years.

Basel II Pillar III Disclosures

31 December 2010

7. Other Disclosures *(continued)*

7.3 Restructured facilities

	31 December 2010 US$ '000
Balance of any restructured credit facilities as at year end	51,422
Loans restructured during the year	-
Impact of restructured credit facilities on present and future earnings	-

7.4 Assets sold under recourse agreements:

The Bank did not enter into any recourse agreements during the year ended 31 December 2010.

7.5 Equity positions in the banking book:

None

Corporate Directory

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