PIONEERING • PROSPERING • PROTECTING

بنك اليوباف العربي الدولي ش.م.ب. (م)

ALUBAF ARAB INTERNATIONAL BANK B.S.C (C)

Annual Report 2009

ALL LASTING BUSINESS IS BUILT ON FRIENDSHIP.

Alfred A. Montapert

ALUBAF Bank successfully completes its second year of operation and looks to the future with refreshed perspectives, renewed vigour and progressive ambitions. More importantly, the bank seeks to leverage not just its wealth of experience in the industry but its unique, strategically positioned location in Bahrain which would act as a bridge onto a wider spread clientele of North Africa and Middle East. A spiraling galaxy of opportunities lie ahead waiting to be seized as the bank seeks to exploit this crucial geographical asset to enable it to keep an eye on emerging investment trends that would help consolidate its position further as another leading bank from the region and a force to reckon with.

CONTENTS

Registered Office
ALUBAF Arab International Bank BSC©, Wind Tower, 2nd Floor, Diplomatic Area, P.O. Box 11529, Manama, Kingdom of Bahrain
Tel: +973 17517722, Tele fax: + 973 17540094

- ALUBAF Arab International Bank BSC(c) is a wholesale bank registered in the Kingdom of Bahrain.
- 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.

BOARD OF DIRECTORS

Mr. Mohamed Najib Hmida Eljamal
Chairman
(Up to 21 December 2009)

BA in Accounting, with over 30 years of International Banking experience.

Additionally, a Board member of:
Arab International Bank, Cairo, Egypt

Deputy Chairman, A&T Bank, Istanbul, Turkey

Also,
General Manager, Libyan Foreign Bank, Libya

Formerly, a Board member of:
British Arab Commercial Bank, London, UK

ARESBANK, Madrid, Spain

Arab Bank for Investment and Foreign Trade, Abudhabi, UAE

Dr. Mohamed Abdulla Bait Elmal
Chairman
(Effective 22 December 2009)

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

Mr. Suleiman Esa Al Azzabi
Deputy Chairman
(Effective 22 December 2009)

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

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

Mr. Ali Makhzum Ben Hamza
Director

BA in Statistics, with over 25 years of Banking experience

Manager, Training Department, Libyan Foreign Bank, Libya

EXECUTIVE MANAGEMENT

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.

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.

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.

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.

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.

Mr. Suresh Vaidyanathan
Head of Operations,

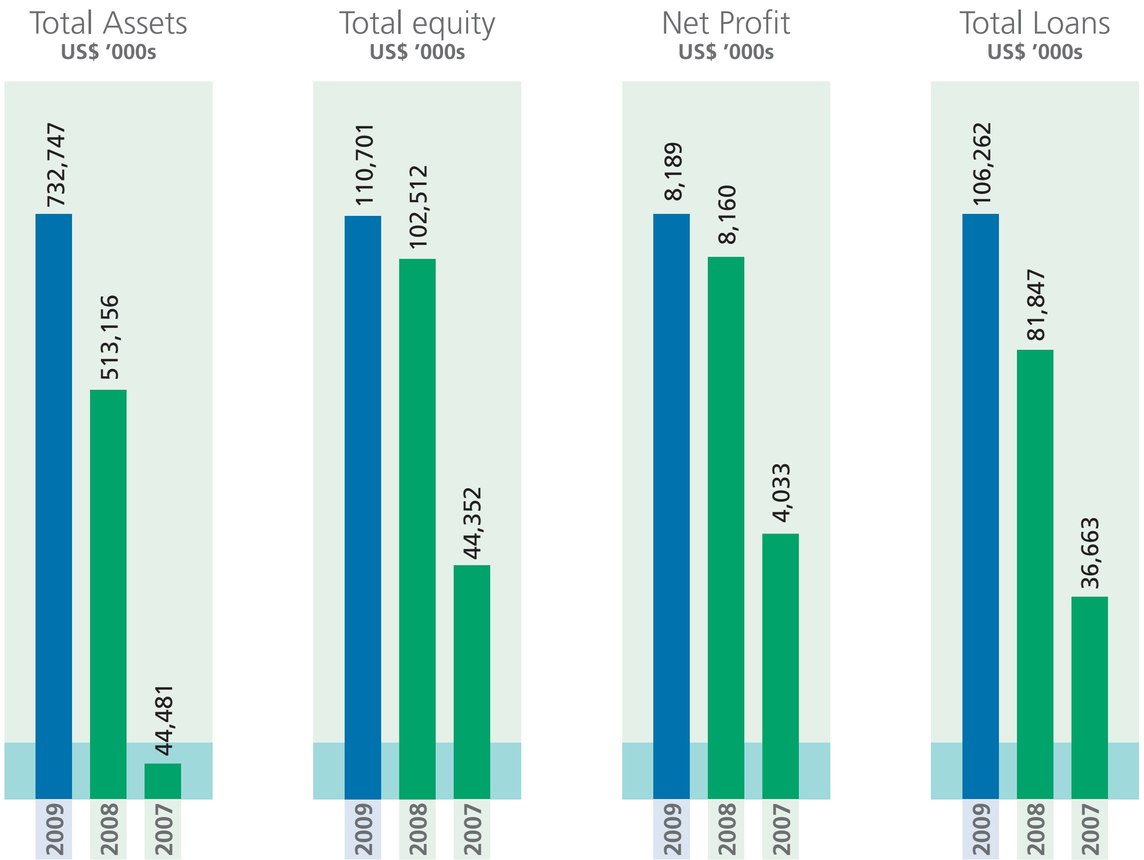
A highly experienced banker over 33 years of banking experience in Bahrain banking industry. He is a Bachelor of Commerce and has served in senior banking positions with a number of reputable banks in Bahrain.

BEFORE YOU CAN REALLY START SETTING FINANCIAL GOALS, YOU NEED TO DETERMINE WHERE YOU STAND FINANCIALLY.

David Bach

FINANCIAL HIGHLIGHTS

YEAR ENDED DECEMBER 31



FINANCIAL HIGHLIGHTS

YEAR ENDED DECEMBER 31

	2009 US$ '000s	2008 US$ '000s	2007 US$ '000s
Net Profit	8,189	8,160	4,033
Total assets	732,747	513,156	44,481
Total loans	106,262	81,847	36,663
Total liabilities	622,046	410,644	129
Total equity	110,701	102,512	44,352
ROAA-Return on average assets (%)	1%	3%	9%
ROAE-Return on average equity (%)	8%	11%	10%
Cost to income	29%	16%	10%
Capital adequacy ratio	29%	44%	-
Equity/ Assets ratio	15%	20%	-

THE BOARD OF DIRECTORS' STATEMENT

On behalf of the Board of Directors of ALUBAF Arab International Bank B.S.C (c), it gives me immense pleasure in presenting to the shareholders, the Annual Report and Audited Financial Statements for the year ended 31 December, 2009.

Outlook for 2010

The Governments, Central Banks and Financial Institutions had resorted to a number of measures to partly ameliorate the impact of the global financial crisis that has gathered pace resulting into muted global economic growth before recovery begins, which many economists, now expect will be in 2010. Due to the region's degree of economic and financial recovery, ALUBAF Arab International Bank understands that current regional and global economic scenario warrants them to be vigilant to detect any early warning signals of any deterioration in any line of business and take timely and effective corrective action, so that the interests of the shareholders are adequately protected.

In light of the current financial and economic scenarios, the bank seeks to strengthen its capital base by increasing the paid-up capital to US$ 250 million in 2010, to expand the target markets in order to ensure sustainable growth and increase in size of its operations. Accordingly, we are confident to achieve the annual growth goals based on the established strategies as well as the continued focus on the core banking activities.

The bank's endeavor will be to build on its successful track record in investing and growing its core lines of business. The fee on trade finance has shown considerable improvement in 2009 and this trend is likely to continue in 2010.

Keeping this in view, the bank has invested in Core banking software, which will result in effective operational efficiency and internal control. The bank has also invested and commenced the construction of its own office premises in prestigious Seef area of the Kingdom of Bahrain, in order to establish and enhance its active presence in the region.

Financial Performance

Despite 2009 being a dismal period for the banking sector regionally and globally being under the grip of economic downturn and financial crisis, ALUBAF's performance was positive with an upward trend where its strategy focuses on Core banking activities.

ALUBAF achieved an impressive performance for its second year of operations during the year 2009, increasing it's operating income by 29% over last year and recorded a net profit of US$ 8.1 Million in line with the year 2008. The bank's core business lines contributed equally to the bottom line. However, the increase in income was mainly from fee and commission income, while, Interest income from Money market operations and Loans increased over the last year. Additionally our foreign exchange income realized profits in the current year.

The total assets increased by 43% over last year and stood at US$ 733 Million at end of the year 2009, as compared to US$ 513 Million in 2008. The bank had maintained comfortable statutory ratios and modest cost to income ratios, by producing a return of 8% on average equity in 2009.

Appropriations

Based on the excellent performance for the year ended 31 December 2009 a proposed dividend of 1.5% per ordinary share price of US$50, i.e., at US$ 0.75 per issued and paid up share for the year ended 31December, 2009

Appreciation

On behalf of the Board of Directors and shareholders, I would like to thank the Bahrain Ministry of Industry and Commerce and the Central Bank of Bahrain for their guidance and support.

The directors extend their thanks and appreciation to Libyan Foreign Bank and all our correspondent banks for the support and cooperation, and the entire staff for their efforts during the year 2009.

Dr. Mohamed Abdullah Bait Elmal
Chairman

"Its second year of operations during the year 2009, increasing it's operating income by 29% over last year and recorded a net profit of US$ 8.1 Million in line with the year 2008."

P.O. Box 140
14th Floor - The Tower
Bahrain Commercial Complex
Manama, Kingdom of Bahrain
Tel: +973 1753 5455 Fax: +973 1753 5405
manama@bh.ey.com
www.ey.com/me
C.R. No. 6700

AUDITORS' REPORT TO THE SHAREHOLDERS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

We have audited the accompanying financial statements of ALUBAF Arab International Bank B.S.C. (c) ("the Bank"), which comprise the statement of financial position as at 31 December 2009 and the statements of income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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' judgement, 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 for 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 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 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Regulatory Matters

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 Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank have occurred during the year ended 31 December 2009 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

22 February 2010
Manama, Kingdom of Bahrain

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	Note	2009 US$ '000	2008 US$ '000
ASSETS			
Cash and balances with banks and the Central Bank of Bahrain	3.1	30,522	3,870
Deposits with banks and other financial institutions		587,225	418,981
Investment held for trading	4	36	49
Loans and advances	5	106,262	81,847
Land, property, equipment and capital work in progress	6	6,310	4,423
Interest receivable		2,190	3,929
Other assets		202	57
TOTAL ASSETS		732,747	513,156
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks and other financial institutions		425,541	372,814
Due to banks		194,184	34,176
Interest payable		145	1,645
Other liabilities	7	2,176	2,009
Total liabilities		622,046	410,644
EQUITY			
Share capital	8	100,000	100,000
Statutory reserve	8	2,649	1,830
Retained earnings		6,552	682
Proposed dividend	9	1,500	–
Total equity		110,701	102,512
TOTAL LIABILITIES AND EQUITY		732,747	513,156

Dr. Mohammad Abdulla Bait Elmal
Chairman

Ahmed I. Mohamed Rajab
General Manager

The attached notes 1 to 14 form part of these financial statements.

STATEMENT OF INCOME

YEAR ENDED 31 DECEMBER 2009

	Note	2009 US$ '000	2008 US$ '000
Interest income		8,147	9,278
Interest expense		(1,753)	(3,916)
Net interest income		6,394	5,362
Fee and commission income	10	5,958	1,059
Changes in fair value of investments held for trading		(13)	3,331
Foreign exchange gain (loss)		218	(8)
Other income		–	25
OPERATING INCOME		12,557	9,769
Provision for loan losses		(700)	–
NET OPERATING INCOME		11,857	9,769
Staff costs		1,994	861
Depreciation		118	85
Other operating expenses		1,556	663
OPERATING EXPENSES		3,668	1,609
PROFIT FOR THE YEAR		8,189	8,160

The attached notes 1 to 14 form part of these financial statements.

STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2009

	2009 US$ '000	2008 US$ '000
OPERATING ACTIVITIES		
Profit for the year	8,189	8,160
Adjustments for:		
Provision for loan losses	700	–
Depreciation	118	85
Changes in fair value of investments held for trading	13	(3,331)
Amoritsation of assets classified as 'Loans and advances' from trading investments	(394)	(189)
Operating profit before changes in operating assets and liabilities	8,626	4,725
Changes in operating assets and liabilities:		
Loans and advances	(24,721)	(41,562)
Deposits with banks and other financial institutions	(168,244)	(413,384)
Interest receivable	1,739	(2,460)
Other assets	(145)	(1)
Deposits from banks and other financial institutions	52,727	372,814
Due to banks	160,008	34,176
Interest payable	(1,500)	1,625
Other liabilities	167	1,900
Net cash from (used in) operating activities	28,657	(42,167)
INVESTING ACTIVITY		
Addition to land, property, equipment and capital work in progress	(2,005)	(4,328)
Net cash used in investing activity	(2,005)	(4,328)
FINANCING ACTIVITY		
Issue of share capital	–	50,000
Net cash from financing activity	–	50,000
INCREASE IN CASH AND CASH EQUIVALENTS	26,652	3,505
Cash and cash equivalents at 1 January	3,817	312
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (NOTE 3.2)	30,469	3,817

The attached notes 1 to 14 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2009

	Share capital US$ '000	Statutory reserve US$ '000	Retained earnings/ (Accumulated deficit) US$ '000	Proposed dividend US$ '000	Total US$ '000
Balance as of 31 December 2008	100,000	1,830	682	–	102,512
Profit for the year - 2009	–	–	8,189	–	8,189
Transfer to statutory reserve (note 8)	–	819	(819)	–	–
Dividend proposed (note 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 2007	50,000	1,014	(6,662)	–	44,352
Increase in share capital (note 8)	50,000	–	–	–	50,000
Profit for the year - 2008	–	–	8,160	–	8,160
Transfer to statutory reserve (note 8)	–	816	(816)	–	–
Balance as of 31 December 2008	100,000	1,830	682	–	102,512

The attached notes 1 to 14 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

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 2009 were authorised for issue in accordance with a resolution of the directors on 22 February 2010.

2 SIGNIFICANT ACCOUNTING POLICIES

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.

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.

Changes in accounting policy and disclosures

The accounting policies used in the preparation of these financial statements are consistent with those used in previous year except that the Bank has adopted the following new and amended IASB Standards during the year.

Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments

The amendments to IFRS 7 were issued in March 2009 and are effective for financial years beginning on or after 1 January 2009 to enhance fair value and liquidity disclosures.

With respect to fair value, the amendments require disclosure of a three-level hierarchy, by class, for all financial instruments recognised at the fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Bank.

Comparative information is not stated as it is not required by the transition provision of the amendment.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2009

2 SIGNIFICANT ACCOUNTING POLICIES continued

IAS 1 Presentation of Financial Statements (Revised)

Revised standard is effective for financial years beginning on or after 1 January 2009.

The revised standard requires changes in equity arising from transactions with shareholders of the parent in their capacity as owners (i.e. owner changes in equity) to be presented in the statement of changes in equity. All other changes in equity (i.e. non-owner changes in equity) are required to be presented separately in the statement of comprehensive income. Components of comprehensive income are not permitted to be presented in the statement of changes in equity. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

The statement of comprehensive income has not been presented as there are no non-owner changes in equity during the year ended 31 December 2009.

IASB Standards and interpretations issued at 31 December 2009 but not adopted

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The standard is effective for the annual period beginning on or after 1 January 2013.

This has not yet been adopted by the Bank. The Bank is considering the implementation of the standard, the impact on the Bank's financial position and results and the timing of its adoption by the Bank.

In addition a number of new standards, amendments and interpretations were effective for 2009 but had neither any impact on the financial position or performance of the Bank nor on its financial statements disclosures.

Investments held for trading

These investments are initially recorded at cost 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 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.

Loans and advances

Loans and advances are stated at cost less any amounts written off and provision for impairment.

Deposits

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

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:

2 SIGNIFICANT ACCOUNTING POLICIES continued

(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.

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 denominated in foreign currencies are re-translated into US Dollars at the rate of exchange prevailing as at the date of the statement of financial position. Any gains or losses are reflected in the statement of income.

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks.

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.

Land, property and equipment

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 income as incurred.

Depreciation is provided on a straight-line basis over the estimated useful lives of three 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 income in the year the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2009

2 SIGNIFICANT ACCOUNTING POLICIES continued

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.

Fair values
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 statement of financial position 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.

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.

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

Impairment and uncollectability of financial assets
An assessment is made at each statement of financial postion date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of income.

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.

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial postion date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

2 SIGNIFICANT ACCOUNTING POLICIES continued

The Bank's management exercises considerable judgement in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

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 amoritsed commission and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

3.1 Cash and balances with banks and the Central Bank of Bahrain comprise of:

	2009 US$ '000	2008 US$ '000
Cash and mandatory reserve deposit with the Central Bank of Bahrain	55	67
Money at call and short notice	28,660	3,803
Balances with other banks	1,807	–
	30,522	3,870

3.2 Cash and cash equivalents comprise of:

	2009 US$ '000	2008 US$ '000
Cash and current account with banks (excluding mandatory deposit with CBB)	2	14
Money at call and short notice	28,660	3,803
Balances with other banks	1,807	–
	30,469	3,817

Cash and cash equivalents included in the statement of cash flows represent the money at call and short notice and balances with other banks presented above.

4 INVESTMENT HELD FOR TRADING

This comprises equity shares of Arab Banking Corporation B.S.C. held by the Bank for US$ 36 thousand (2008: US$ 49 thousand).

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

5 LOANS AND ADVANCES

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

	2009 US$ '000	2008 US$ '000
Sovereign loans	51,552	47,163
Commercial loans	55,410	34,684
	106,962	81,847
Less: Provision for loan losses and interest in suspense	(700)	–
	106,262	81,847

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

	2009 US$ '000	2008 US$ '000
At 1 January	–	8,767
Provided during the year	700	–
Written off during the year	–	(8,767)
At 31 December	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:

	2009 US$'000	2008 US$'000
Carrying value	40,679	40,285
Fair value	41,700	30,209

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

The Bank earns an effective interest rate of 8.89% (2008: 8.89%) and expects to recover US$40.7 million (2008: US$ 40.2 million) on Iraq notes which were reclassified in 2008.

6 LAND, PROPERTY, EQUIPMENT AND CAPITAL WORK IN PROGRESS

	Freehold land US$ '000	Furniture, equipment and motor vehicles US$ '000	Capital work in progress US$ '000	Total US$ '000
Cost				
At 31 December 2008	4,232	282	–	4,514
Additions during the year	–	160	1,845	2,005
At 31 December 2009	4,232	442	1,845	6,519
Depreciation				
At 31 December 2008	–	91	–	91
Depreciation for the year	–	118	–	118
At 31 December 2009	–	209	–	209
Net book value				
At 31 December 2009	4,232	233	1,845	6,310
At 31 December 2008	4,232	191	–	4,423

Capital work in progress consists of:

	2009 US$'000	2008 US$'000
Payments for construction of building	1,429	–
Payments for core banking system	416	–
	1,845	–

The capital work in progress relates to the construction of the building and the related infrastructure costs, which is expected to be completed in January 2011 and the core banking system which is expected to be implemented by March 2010.

7 OTHER LIABILITIES

	2009 US$ '000	2008 US$ '000
Accrued expenses	759	247
Unearned fee income	1,004	114
Advance received against letter of credit	234	1,648
Other liabilities	179	–
	2,176	2,009

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

8 SHARE CAPITAL

	2009 US$ '000	2008 US$ '000
Authorised:		
4,000,000 shares of US$ 50 each	200,000	200,000
Issued and fully paid:		
2,000,000 shares of US$ 50 each		
(2008: 2,000,000 shares of US$ 50 each)	100,000	100,000

Shareholders

	2009		2008	
	Percentage holding (%)	US$ '000	Percentage holding (%)	US$ '000
Libyan Foreign Bank	97.11	97,105	97.11	97,105
Central Bank of Egypt	1.43	1,429	1.43	1,429
Bank of Jordan Limited	0.56	561	0.56	561
Yemen Bank for Reconstruction and Development	0.56	561	0.56	561
National Bank of Yemen	0.34	344	0.34	344
	100.00	100,000	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 DIVIDENDS

The Bank proposed dividend of US$ 0.75 (2008: nil) per share amounting to US$ 1.5 million for the year ended 2009 (2008: nil).

10 FEE AND COMMISSION INCOME

	2009 US$ '000	2008 US$ '000
Loan participation fee	60	72
Commission income from letters of guarantee	6	8
Commission income from letters of credit	5,765	979
Income from discounting of letters of credit	127	–
	5,958	1,059

11 COMMITMENTS AND CONTINGENT LIABILITIES

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

	2009 US$ '000	2008 US$ '000
Within one year	107	59
Within one to five years	117	160
	224	219

Commitment on account of capital work in progress:

	2009 US$ '000	2008 US$ '000
Within one year	3,117	–
Within one to five years	2,311	–
	5,428	–

Credit related contingencies:

	2009 US$ '000	2008 US$ '000
Letters of guarantee	7,701	19
Letters of credit	234,723	50,990
	242,424	51,009

12 RISK MANAGEMENT

12.1 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.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

12 RISK MANAGEMENT continued

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.

	Gross maximum exposure 2009 US$ '000	Gross maximum exposure 2008 US$ '000
Balances with banks and the Central Bank of Bahrain	30,520	3,857
Deposits with banks and other financial institutions	587,225	418,981
Loans and advances	106,262	81,847
Interest receivable	2,190	3,929
Total funded credit risk exposure	726,197	508,614
Unfunded exposure on credit related contingencies	242,424	51,009
Total credit risk exposure	968,621	559,623

b. Credit quality per class of financial assets

The table below shows distribution of financial assets neither past due nor impaired:

	Neither past due nor impaired				
	High standard grade US$ '000	Standard grade US$ '000	Watch list US$ '000	Past due and impaired US$ '000	Total US$ '000
At 31 December 2009					
Cash and 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 receivable	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

12 RISK MANAGEMENT continued

	Neither past due nor impaired				
	High standard grade US$ '000	Standard grade US$ '000	Watch list US$ '000	Past due and impaired US$ '000	Total US$ '000
At 31 December 2008					
Cash and balances with banks and the Central Bank of Bahrain	3,856	–	–	–	3,856
Deposits with banks and other financial institutions	282,221	136,760	–	–	418,981
Loans and advances	2,653	79,194	–	–	81,847
Interest receivable	1,725	2,204	–	–	3,929
Total funded exposures	290,455	218,158	–	–	508,613
Credit related contingencies	–	51,009	–	–	51,009
Total unfunded exposures	–	51,009	–	–	51,009
Total of funded and unfunded exposures	290,455	269,167	–	–	559,622

Definition

(i) High standard-Undoubted through to good credit risk

(ii) Standard-Satisfactory through to adequate credit risk

(iii) Watch list

(iv) Past due and impaired

The proportionate fair value of collateral that the syndicate agent of the Bank holds relating to loans individually determined to be impaired at 31 December 2009 amounts to US$ 5.3 million, which is in excess of the impaired loan amount. The collaterals consist of securities and properties.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

12 RISK MANAGEMENT continued

c. Concentration of maximum exposure to credit risk

The geographical distribution of gross credit exposures:

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						
Cash and 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 receivable	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 of funded and unfunded exposures	334,258	77,138	413,417	123,587	20,221	968,621

At 31 December 2008

	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						
Cash and balances with banks and the Central Bank of Bahrain	153	359	68	1,497	1,791	3,868
Deposits with banks and financial institutions	250,319	62,394	65,000	36,268	5,000	418,981
Loans and advances	2,653	7,250	61,444	5,500	5,000	81,847
Interest receivable	1,680	147	1,999	7	96	3,929
Total funded exposures	254,805	70,150	128,511	43,272	11,887	508,625
Credit related contingencies	–	19	50,990	–	–	51,009
Total unfunded exposures	–	19	50,990	–	–	51,009
Total of funded and unfunded exposures	254,805	70,169	179,501	43,272	11,887	559,634

12 RISK MANAGEMENT continued

Sectoral classification of gross credit exposures

At 31 December 2009

ASSETS	Sovereign US$ '000	Banks and financial institutions US$ '000	Commercial and business US$ '000	Others US$ '000	Total US$ '000
Cash and 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 receivable	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

At 31 December 2008

ASSETS	Sovereign US$ '000	Banks and financial institutions US$ '000	Commercial and business US$ '000	Others US$ '000	Total US$ '000
Cash and balances with banks and Central Bank of Bahrain	53	3,815	–	–	3,868
Deposits with banks and other financial institutions	–	418,981	–	–	418,981
Loans and advances	47,163	–	34,684	–	81,847
Interest receivable	1,743	2,046	140	–	3,929
Total funded exposures	48,959	424,842	34,824	–	508,625
Credit related contingencies	–	51,009	–	–	51,009
Total unfunded exposures	–	51,009	–	–	51,009
Total of funded and unfunded exposures	48,959	475,851	34,824	–	559,634

12.2 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.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

12 RISK MANAGEMENT continued

12.3 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 reprice 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:

Sensitivity analysis - interest rate risk

	Impact on statement of income	
	2009 US$ '000	2008 US$ '000
at 25 bps increase/decrease		
US Dollar	(+)(–)237	(+)(–)196
Euro	(+)(–)161	–

12.4 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$ 339 thousand (2008: nil) , As other GCC currencies are pegged to the US Dollar, their balances are not considered to represent significant currency risk.

12.5 Equity Price Risk

Equity price risk arises from the change in fair values of equity investments. The Bank exposure towards the equity risk is minimal as their equity investment is in a A+ rated company which is listed on the Bahrain Stock Exchange. However, the sensitivity of the statement of income to a reasonable possible change in equity price of investment classified as investment held for trading by 10%, with all other variables held constant, will result in a change of US$ 3.6 thousand (2008: US$ 4.9 thousand) in the statement of income. The effect of change in equity prices is expected to be equal and opposite.

12.6 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 cashflow and the availability of high grade collateral which would be used to secure additional funding if required.

12 RISK MANAGEMENT continued

The maturity profile of the assets and liabilities at 31 December 2009 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 as at the date of the statement of financial position.

	Upto 1 year						
At 31 December 2009	Upto 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
Land, property, equipment and capital work in progress	–	–	–	–	–	6,310	6,310
Interest receivable	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	167,431	26,753	–	194,184	–	–	194,184
Interest payable	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	–

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2009

12 RISK MANAGEMENT continued

	Upto 1 year						
At 31 December 2008	Upto 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	3,803	–	–	3,803	–	67	3,870
Deposits with banks and other financial institutions	409,731	9,250	–	418,981	–	–	418,981
Investment held for trading	–	–	–	–	–	49	49
Loans and advances	–	3,983	15,466	19,449	62,398	–	81,847
Land, property, equipment and capital work in progress	–	–	–	–	–	4,423	4,423
Interest receivable	3,374	177	314	3,865	64	–	3,929
Other assets	–	–	–	–	57	–	57
Total assets	416,908	13,410	15,780	446,098	62,519	4,539	513,156
LIABILITIES							
Deposits from banks and other financial institutions	363,769	9,045	–	372,814	–	–	372,814
Due to banks	34,176	–	–	34,176	–	–	34,176
Interest payable	1,645	–	–	1,645	–	–	1,645
Other liabilities	1,799	–	–	1,799	114	96	2,009
Total liabilities	401,389	9,045	–	410,434	114	96	410,644
Net liquidity gap	15,519	4,365	15,780	35,664	62,405	4,443	102,512
Cumulative liquidity gap	15,519	19,884	35,664	–	98,069	102,512	–

12 RISK MANAGEMENT continued

The maturity profile of the financial liabilities as at 31 December 2009 based on contractual undiscounted repayment obligations is as follows:

	Upto 1 year						
At 31 December 2009	Upto 1 month US$ '000	1 to 3 months US$ '000	3 to 12 months US$ '000	Total US$ '000	No fixed maturity US$	Over 5 years US$ '000	Total US$ '000
LIABILITIES							
Deposits from banks and financial institutions	399,896	25,790	–	425,686	–	–	425,686
Due to banks	167,515	26,767	–	194,282	–	–	194,282
Other liabilities	1,095	–	–	1,095	–	–	1,095
Total funded exposure	568,506	52,557	–	621,063	–	–	621,063
Credit related contingencies	45,671	196,753	–	242,424	–	–	242,424
Total unfunded exposure	45,671	196,753	–	242,424	–	–	242,424
Total financial liabilities	614,177	249,310	–	863,487	–	–	863,487

	Upto 1 year						
At 31 December 2008	Upto 1 month US$ '000	1 to 3 months US$ '000	3 to 12 months US$ '000	Total US$ '000	No fixed maturity US$	Over 5 years US$ '000	Total US$ '000
LIABILITIES							
Deposits from banks and financial institutions	363,969	9,045	–	373,014	–	–	373,014
Due to banks	34,176	–	–	34,176	–	–	34,176
Other liabilities	1,895	–	–	1,895	–	–	1,895
Total funded exposure	400,040	9,045	–	409,085	–	–	409,085
Credit related contingencies	3,577	2,281	4,344	10,202	40,807	–	51,009
Total unfunded exposure	3,577	2,281	4,344	10,202	40,807	–	51,009
Total financial liabilities	403,617	11,326	4,344	419,287	40,807	–	460,094

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

12 RISK MANAGEMENT continued

12.7 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 date.

As at 31 December 2009, the financial instrument recorded at fair value by level of the fair value hierarchy is classified under:

	Level 1 US$ 000
Investments carried at fair value through statement of income	36
	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 2009.

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

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 income and statement of financial position are as follows:

	2009 US$ '000	2008 US$ '000
Statement of income		
Interest income	14	116
Interest expense	463	1,248
Fee and commission income	6	–
Statement of financial position		
Cash and balances with banks and the Central Bank of Bahrain	578	60
Deposits with banks and other financial institutions	–	–
Deposits from banks and other financial institutions	125,656	168,521

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

	2009 US$ 000	2008 US$ 000
Short term benefits*	1,059	284
End of term benefits	36	11
Total compensation	1,095	295

* Includes fee paid and proposed to Board of Directors during the year US$ 671 thousand (2008: US$ 152 thousand).

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

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 maximise 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.

	2009 US$ 000	2008 US$ 000
Capital base:		
Tier 1 capital	110,701	102,512
Tier 2 capital	–	–
Total capital base (a)	110,701	102,512
Risk weighted assets (b)	385,575	234,466
Capital adequacy (a/b * 100)	28.71%	43.72%
Minimum requirement	12.00%	12.00%

BASEL II PILLAR III DISCLOSURES

AT 31 DECEMBER 2009

TABLE OF CONTENTS

BASEL II PILLAR III DISCLOSURES

AT 31 DECEMBER 2009

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 97.11%), 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$ 100 million as at 31 December 2009 comprising of 2 million shares of US$ 50 each.

BASEL II PILLAR III DISCLOSURES
AT 31 DECEMBER 2009

3 CAPITAL STRUCTURE continued

Break down of Capital Base

	US$ '000s
Tier I	
Share capital	100,000
Statutory reserve	2,649
Retained earnings	8,052
Tier I Capital base	110,701
Less: Regulatory deductions	–
Net Available Capital Base	110,701

The Bank recorded a net profit of US$ 8,189 thousand for the year ended 31 December 2009 and transferred 10% of profits (US$ 819 thousand) towards Statutory reserve. The Bank proposed a dividend of US$ 1,500 thousand, i.e. US$ 0.75 per Ordinary share for the year 2009.

Pursuant to the approval in Annual general meeting held on 22nd March 2010, the Bank has increased its Paid up share capital to USD 200 Million in April 2010, subsequent to the year ended 31 December, 2009.

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$ '000s
Tier I Capital Base	110,701
Risk weighted assets (RWA)	
Credit risk	371,747
Market risk	488
Operational risk	13,340
	385,575
Capital adequacy ratio	28.71%

The Bank's capital adequacy ratio of 28.71% is well above the minimum regulatory requirement of 12%.

BASEL II PILLAR III DISCLOSURES

AT 31 DECEMBER 2009

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.

(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:

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

(ii) 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%.

BASEL II PILLAR III DISCLOSURES
AT 31 DECEMBER 2009

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE continued

Credit exposure and risk weighted assets

US$ '000	Funded exposures	Unfunded exposures	Gross credit exposures	Eligible collateral	Risk weighted	Capital requirement
Claims on sovereigns	51,605	–	51,605	–	43,561	5,228
Claims on banks	646,325	242,424	888,749	48,484	292,146	35,058
Claims on corporate	24,527	–	24,527	–	24,527	2,943
Past due	1,850	–	1,850	–	2,775	333
Equity portfolio	36	–	36	–	36	4
Other exposures	8,702	–	8,702	–	8,702	1,044
Total	733,045	242,424	975,469	48,484	371,747	44,610

Gross credit exposure before credit risk mitigation

US$ '000s	Gross credit exposure	Average monthly balance
Claims from Sovereigns	51,605	47,614
Claims from Banks	646,325	430,557
Claims on Corporate	24,527	16,885
Past Due	1,850	2,017
Equity Portfolio	36	38
Other exposures	8,702	6,783
Total funded exposure	733,045	503,894
Unfunded exposures	242,424	210,265
Gross credit exposures	975,469	714,159

Average monthly balance represents the average of the sum of twelve month end balance for the year ended 31 December 2009.

5.2 Market risk

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

US$ '000s	Risk weighted exposures	Capital requirement	Maximum value	Minimum value
Foreign exchange risk	450	54	616	125
Equities position risk	38	5	50	38
Total	488	59		

BASEL II PILLAR III DISCLOSURES

AT 31 DECEMBER 2009

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE continued

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US$ 1,601 thousand on operational risk weighted exposure of US$ 13,340 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 on- going identification, measurement, controlling and monitoring. The Bank is exposed primarily to credit risk and to a limited extent to market and operational risk.

The Board of Directors is responsible for the best practice management and risk oversight. Board of Directors oversees the definition of risk appetite, risk tolerance standards and risk process standards to be kept in place. At the second level, the senior management is responsible for credit decisions on lending portfolio, setting country limits and interbank limits and general credit policy matters, which are reviewed and approved by the Board of Directors. 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. This is done through the senior management reporting timely to Board of Directors for their decision making and implementation.

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 2009, the Bank's exposures in excess of 15% of the obligor limits to individual counterparties are shown below:

US$ '000s	Funded exposure	Unfunded exposure	Total Exposure
Counterparty A*	68,177	Nil	68,177
Counterparty B	40,679	Nil	40,679
Counterparty C	Nil	28,112	28,112

* These are interbank deposits maturing within 6 months from 31 December 2009.

BASEL II PILLAR III DISCLOSURES

AT 31 DECEMBER 2009

6 RISK MANAGEMENT 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 in relation to credit related contingent items.

The amount and type of collateral depends on an assignment of credit risk of the counterparty. The types of collateral mainly include cash collaterals in relation to credit related contingent items, which is liquidated on maturity/expiry date.

6.2 Geographical distribution of exposures is summarized below:

US$ '000s	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	340,806	340,806	–
Other GCC Countries	77,438	77,438	–
Other Middle East & Africa	413,417	170,993	242,424
Europe	123,587	123,587	–
Rest of the world	20,221	20,221	–
Total	975,469	733,045	242,424

6.3 Industrial sector analysis of exposures is summarized below:

US$ '000s	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	53,307	53,307	–
Banks & financial institutions	903,724	661,300	242,424
Commercial & business	11,890	11,890	–
Others	6,548	6,548	–
Total	975,469	733,045	242,424

BASEL II PILLAR III DISCLOSURES

AT 31 DECEMBER 2009

6 RISK MANAGEMENT continued

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:

US$ '000	Funded exposure	Unfunded exposure	Rated-High exposure	Rated-Standard exposure	Unrated exposure
Claims on sovereigns	51,605	–	8,044	–	43,561
Claims on banks	646,325	242,424	169,174	293,778	425,797
Claims on corporate	24,527	–	–	–	24,527
Past due	1,850	–	–	–	1,850
Equity portfolio	36	–	–	–	36
Other exposures	8,702	–	–	–	8,702
Total	733,045	242,424	177,218	293,778	504,473

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	–	–	5,491	5,491	5,382	40,679	53	51,605
Claims on Banks	580,165	23,000	31,823	638,437	11,337	–	–	646,325
Claims on Corporate	14,527	–	5,000	19,527	5,000	–	–	24,527
Past Due	–	–	1,850	1,850	–	–	–	1,850
Equity Portfolio	–	–	–	–	–	–	36	36
Other exposures	1,773	136	483	2,392	–	–	6,310	8,702
Total	596,465	23,136	44,647	667,697	21,719	40,679	6,399	733,045

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

6 RISK MANAGEMENT continued

6.6 Maturity analysis of unfunded exposures

US$ '000	Notional principal	Within 1 month	1-3 months	3-12 months	Total within 1 year
Claims on Banks- contingent items	242,424	45,671	196,753	–	242,424
Total	242,424	45,671	196,753	–	242,424

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.

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 recognised in the statement of 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 2009.

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 2009 for a change in 25 basis points will result in an increase or decrease on statement of income by +/(-) US$ 237 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.

BASEL II PILLAR III DISCLOSURES

AT 31 DECEMBER 2009

6 RISK MANAGEMENT continued

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 2009, 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.

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 28.71% 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.

US$ '000s	31 December 2009
Exposures to related parties:	578
Liabilities to related parties: Connected deposits	125,656

7.2 Impaired loans and relative provision:

US$ '000s	31 December 2009
Gross impaired loans	2,250
Less: Specific provision	(400)
Net impaired loans	1,850

Movement in impairment provision:

	Specific	Collective	Total
Opening specific provision	–	–	–
Specific charge for the year	400	300	700
Closing specific provision	400	300	700

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.

7.3 Restructured facilities:

US$ '000s	31 December 2009
Balance of any restructured credit facilities as at year end	42,529
Loans restructured during the year	1,850
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 2009.

7.5 Equity positions in the banking book :

None

CORPORATE DIRECTORY

General Management

Ahmed I. Rajab
General Manager
Tel: 17517750

Mohamed Said Ftera
Assistant General Manager
Tel: 17517754

Mahmoud Abdullah Azzouz
Assistant General Manager
Tel: 17517757

Human Resources and Administrations

Saeed A. Nabi Hussain
Head of HR and Administrations
Tel: 17517728

Finance

K.R. Usha
Head of Finance
Tel: 17517734

Operations

Suresh T. Vaidyanathan
Head of Operations
Tel: 17517720

Treasury

Mahmood A. Ameer Radhi
Treasury Manager
Tel: 17517723

Credit and Marketing

Emad Al-Shaikh
Manager
Tel: 17517729

Trade Finance:

Hassan A.Rahman
Manager
Tel: 17517752

Jaffar Hussain
Assistant Manager
Tel: 17517730