Annual Report 2011

Building Momentum

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

| ALUBAF Arab Interantional 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.

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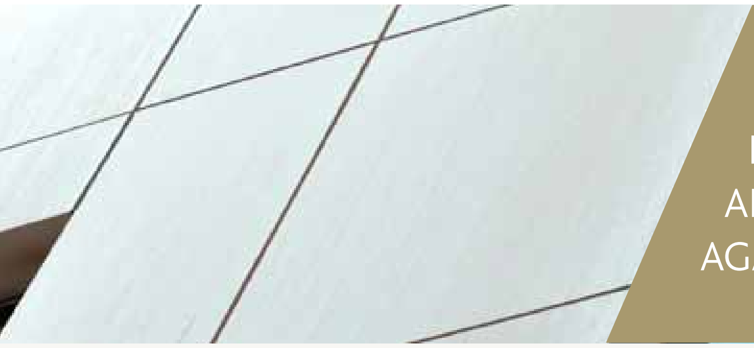
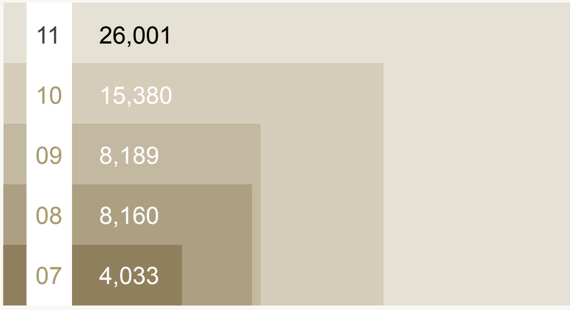
FINANCIAL HIGHLIGHTS

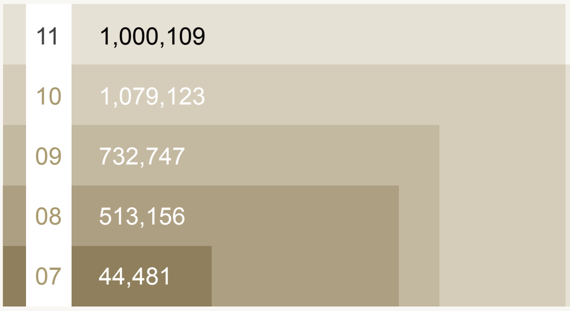
	2011 US$ '000s	2010 US$ '000s	2009 US$ '000s	2008 US$ '000s	2007 US$ '000s
FINANCIAL POSITION					
Net Profit before appropriation	**26,001**	15,380	8,189	8,160	4,033
Total Assets	**1,000,109**	1,079,123	732,747	513,156	44,481
Total Loans	**278,456**	157,789	106,262	81,847	36,663
Total Liablities	**759,527**	854,542	622,046	410,644	129
Total Equity	**240,582**	224,581	110,701	102,512	44,352
RATIOS (%)					
PROFITABILITY					
ROAA -Return on Average Assets	3%	2%	1%	3%	9%
ROAE -Return on Average Equity	11%	9%	8%	11%	10%
Cost to Income	18%	27%	29%	16%	10%
CAPITAL					
Capital Adequacy Ratio	45%	43%	29%	44%	-
Equity Assets Ratio	24%	21%	15%	20%	100%
ASSET QUALITY					
Loans to Total Assets	28%	15%	15%	16%	82%
LIQUIDITY					
Liquid assets to Liabilities	93%	104%	97%	103%	-



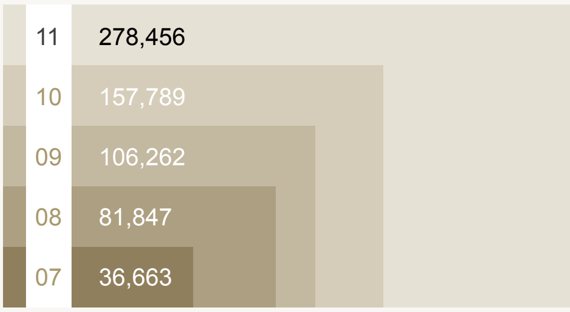
THE BANK'S NET PROFIT GREW BY 69% OVER PREVIOUS YEAR AND EARNED US$ 26 MILLION AS AGAINST US$ 15.3 MILLION IN 2010.



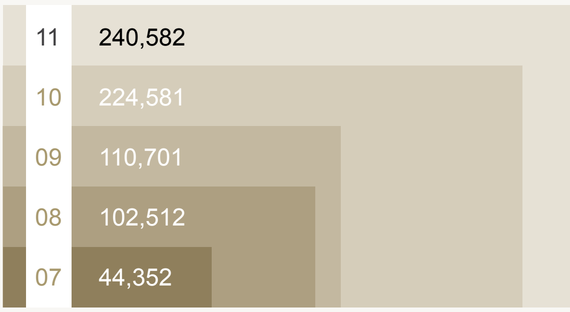
Net Profit
Before Appropriation
US$ '000s



Total Assets
US$ '000s



Total Loans
US$ '000s



Total Equity
US$ '000s

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BOARD OF DIRECTORS

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

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BOARD OF DIRECTORS

Dr. Mohamed Abdulla Bait Elmal
Chairman

- PHD in Accounting
- 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. Seyfullah Asaad Moosa Salim
Director

- BA in Accounting
- Over 25 years of Banking experience
- Additionally,
  Manager, International Finance Department,
  Libyan Foreign Bank, Libya
- Formerly,
  A Board Member of ALUBAF Interantional Bank, Tunis

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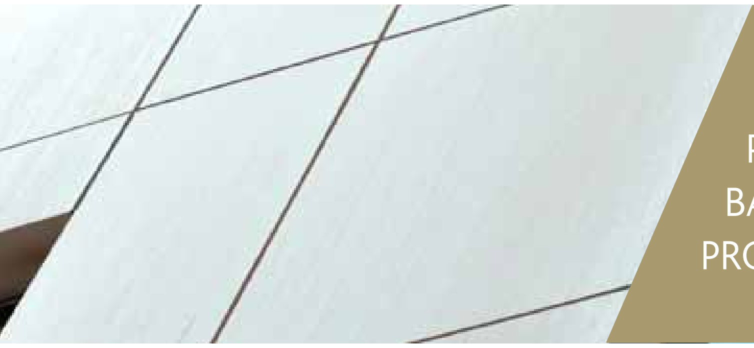

2011 HAS SIGNIFIED ANOTHER PROMINENT YEAR IN THE BANK'S JOURNEY TOWARDS PROFITABILITY AND GROWTH.

Mr. Suleiman Esa Al Azzabi
Deputy Chairman

- Masters in Banking and Finance
- 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. Ali Makhzum Ben Hamza
Director

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

REPORT OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS RECOMMEND A CASH DIVIDEND OF 10% OF PAID UP CAPITAL.

Dr. Mohamed Abdulla Bait Elmal | Chairman

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REPORT OF THE BOARD OF DIRECTORS

ON BEHALF OF THE BOARD OF DIRECTORS OF ALUBAF ARAB INTERNATIONAL BANK, I AM EXTREMELY PROUD AND PRIVILEGED TO PRESENT THE ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2011.

As we step into the new financial year it would be educative to dwell on the year gone by and to consider on the opportunities and the challenges which one is likely to face in the coming year in global sense.

| GLOBAL ENVIRONMENT

The year 2011 saw a major change in global economy and political environment of Middle east North African region. The overall growth in the world economy was slowed and the Euro zone continues to reel under severe financial strain and certain hard decisions have to be taken to correct the downturn in major European economies.

The political environment in Libya witnessed a change along with the other African countries. The UN economic sanctions imposed on Libya did not affect ALUBAF, as neither the assets freeze nor any other restrictive financial measures were applied on funds and assets of ALUBAF , being a Central Bank of Bahrain licencee.

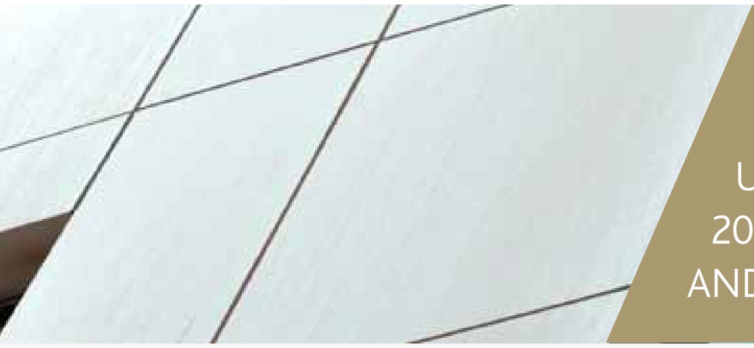
Regardless, of the global financial crisis and the difficult regional environment ALUBAF managed to achieve positive financial results in line with our objectives of delivering consistent returns. In fact, 2011 has signified another prominent year in the Bank's journey towards profitability and growth.

| 2011 - PERFORMANCE

At ALUBAF, prudent strategy and a dedicated management have shown that growth can be sustained even in a tough economic environment. The Bank has ended the year with solid earnings, strong balance sheet and equity position and emerges strong from the global financial crisis and regional political developments.

The Bank's net profit grew by 69% over previous year and earned US$ 26 million as against US$ 15.3 million in 2010. Net interest Income rose to US$ 18.6 million as compared to US$ 10.7 million in the year 2010 thereby showing an increase of 74% over last year. The Fee and Commission income increased by 20% over previous year to US$ 14.3 million as against US$ 11.9 million in 2010.

This creditable performance was possible by virtue of effective cost control mechanism. The increase in operating expenses was marginal at 2% over previous year signifying an achievement of optimum operating efficiency.



THE BANK HAS INFUSED ADDITIONAL CAPITAL OF US$ 50 MILLION IN JANUARY 2012 IN LINE WITH ITS STRATEGY AND BUSINESS PLAN.

The total assets stood at US$ 1 billion as at December 31, 2011. Loans to total assets ratio increased to 28% in the current year from 15% in previous year. The Bank continues to maintain strong Capital adequacy ratio of 45% and an impressive liquidity ratio of 93%. The Bank attained a return on Average Equity of 11% in 2011 as against 9% in 2010.

DIVIDEND

In view of the excellent performance of the Bank during the year and with the continued support of shareholder's, the Board of Directors recommend a cash dividend of 10% of Paid up Capital , which will involve an outgo of US$ 20 million , i.e., US$ 5 per equity share for 2011.

OUTLOOK FOR 2012

The Year 2012 augurs well for the Bank as the situation in Libya has settled for the better . Lifting of UN sanctions in December 2011 on Central Bank of Libya and Libyan Foreign Bank had a significant impact on business from Libya. Further, the Libyan Transitional government faced with the task of rebuilding Libya will open up huge opportunity and the year 2012 should prove to be an encouraging year for the Bank.

With this encouraging and positive outlook , the Bank is planning to enter new geographical areas, countries and new business. The Bank has infused additional capital of US$ 50 MM in January 2012 in line with its strategy and business plan.

ACKNOWLEDGEMENT

To conclude, I would express my sincere appreciation to the Central Bank of Bahrain, the Ministry of Industry and Commerce, the shareholders of the Bank for their unstinted and absolute commitment to the development of the Bank in their hour of need. I extend my appreciation to all our correspondent banks and to the loyal and dedicated staff for their continued hard work and excellence in service.

Dr. Mohammad Abdulla Bait Elmal
Chairman

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MANAGEMENT TEAM

OUR MANAGEMENT TEAM IS A DIVERSE GROUP OF PROFESSIONALS WITH VAST AND VARIED ARRAY OF EXPERIENCES IN THE BANKING INDUSTRY.

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EXECUTIVE MANAGEMENT

Mr. Ahmed Imhamed Rajab

General Manager

A senior executive manager of Libyan Foreign Bank is deputed to head ALUBAF, Bahrain to spearhead it's reactivation in 2007. He brings in more than two decades (25 Years) of expertise in banking in the Middle East and North African region. He is a Bachelor of Accounting and joined Libyan Foreign Bank in 1985 and held several senior management roles in a broad range of areas that include credit & marketing, operations, treasury and trade finance.

Mr. Mohammed S. Ftera

Assistant General Manager

A senior manager of Libyan Foreign Bank is deputed to head support services function-IT 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.

Mr. Mahmood A. Azzouz

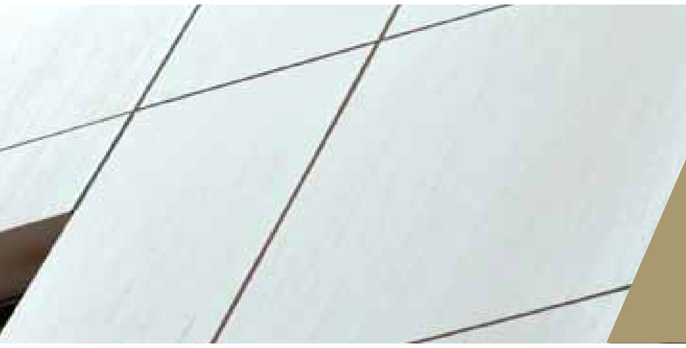
Assistant General Manager

A senior manager of Libyan Foreign Bank is deputed to head Operations, Treasury and Trade Finance. He brings in more than two decades of International banking experience in Trade Finance and Operations.

Mr. Suresh Vaidyanathan

Head of Operations

He is a Bachelor of Commerce and has served in senior banking positions with a number of reputable banks in Bahrain. His experience spans over 34 years in varied areas in banking industry that includes credit, operations and treasury.



AT ALUBAF , PRUDENT STRATEGY AND A DEDICATED MANAGEMENT HAVE SHOWN THAT GROWTH CAN BE SUSTAINED EVEN IN A TOUGH ECONOMIC ENVIRONMENT.

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 18 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

BSc in Human Resources management has served in various capacities in banking industry and has over 25 years of strong experience with specialization in compensation & benefits.

Mr. Hassan A. Rahman Al-Saffar

Head of Trade Finance

Diploma in Banking, with over 25 years in Bahrain Banking Industry. He brings with him strong experience in International Trade Finance and excellent depth of knowledge on UCP and relevant compliance issues on Documentary credits.

Mr. Mohamed Hameed A. Qader

Head of Risk and Compliance

BSc in Accounting and Diploma in International Compliance from an International Compliance Association accredited by University of Manchester, UK. Prior to joining ALUBAF in 2009, he has served Central Bank of Bahrain Operations for six years and moved to Banking Supervision, where he served for five years. He specializes in regulatory compliance and has sound knowledge of Anti money laundering (AML) and Risk management.

GENERAL MANAGER REPORT

ALUBAF'S STRATEGY IS TO ENSURE PREMIUM SELECTION OF BANKING PRODUCTS AND SERVICES WITH PLANNED INCREASE IN BANKS LOANS AND ADVANCES.

Ahmed Imhamed Rajab | General Manager

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GENERAL MANAGER REPORT

MESSAGE FROM GENERAL MANAGER

With great pleasure and enormous pride we report our achievements for the financial year 2011, as we ALUBAF have delivered strong financial performance, despite the ongoing volatility on global and regional markets. Year 2011 marked the fourth operational year of the bank and proved to be a very challenging, however sound strategic overall progress was achieved in our vision, mission and purpose.

During the year 2011, we have systematically implemented and progressed in our strategy of becoming a leading MENA bank and we achieved our vision to be a premier wholesale bank and to be recognized as a bank for its ability to build financial bridges connecting our customers and regional markets. Our mission to maximize shareholders interests and our purpose to serve the customers to their requirements with care and diligence was also met.

OPERATING ENVIRONMENT

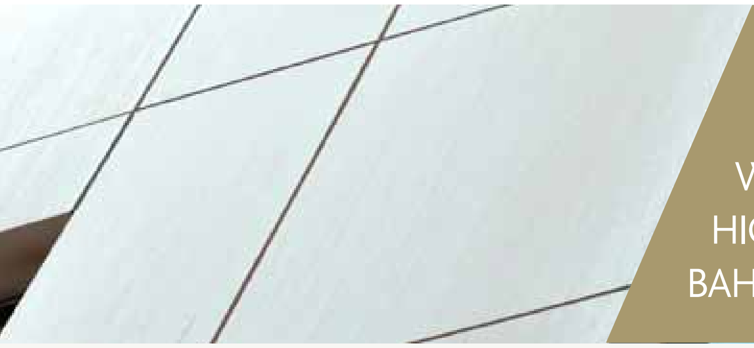
Throughout 2011, regional economies benefitted from the stabilized oil prices and a recovery from the depressed economic outlook which prevailed in the aftermath of global downturn that gave a momentum to open up new markets. However due to the unexpected political circumstances and followed by the imposition of sanctions on our major shareholder the Libyan Foreign Bank has restricted our progress to open new markets.

However, the sanctions did not affect our existing business and no restrictions were applied to ALUBAF, being a Central Bank of Bahrain (CBB) licensee.

OPERATIONAL ACHIEVEMENTS

Alubaf performed well this year combining a better operational performance with good strategic progress. The Bank has systematically recorded the best results, net profit from the first year of operation Year 2008 US$ 8.2 million, Year 2009 US$ 8.2 million, Year 2010 US$ 15.4 million and for the Year 2011 US$ 26 million.

Alubaf retained a strong balance sheet with a capital adequacy ratio of 45% well above of CBB's threshold of 12.50% and our liquidity is very strong with liquid assets to liabilities at 93%.



THE BANK HAS SUCCESSFULLY FORAYED INTO LOCAL MARKETS WHEREIN WE HAVE PARTICIPATED IN THE HIGHLY SUCCESSFUL CENTRAL BANK OF BAHRAIN TREASURY BILLS AND SUKUKS.

The Bank has successfully forayed into local markets wherein we have participated in the highly successful Central Bank of Bahrain Treasury bills and sukuks and established strong relationship with financial institutions in the region.

The ongoing construction of Alubaf's Head Office in Seef area is yet another testament to our commitment to the Kingdom of Bahrain. The ALUBAF Tower will be completed by April 2012 and our new office will operationally function from May 2012 and this expansion strategy will lead us to enhance visibility to our target markets.

ORGANISATIONAL DEVELOPMENTS AND PRODUCTS

WHOLESALE BANKING

Though the MENA banking markets continued to face challenges, Alubaf's wholesale banking activities maintained steady revenues and profits and managed the risk with high prudence. The sanction on our major shareholder did not curtail our lending or unfunded business activity, as both were successfully executed in line with our business plan.

Alubaf focused in building relationship with Central banks, Governmental and corporate customers especially in countries where our business focus was and this has added great value to our approach which was rewarded by steady growth to our liquidity levels.

TRADE FINANCE

One of our core business which has been developed by our efficient Trade Finance team under my direct supervision has remained very stable with high contribution to revenue and profit margin.

The Trade Finance business risk profile is well monitored and ensured liquidity from the business. Management used its innovative structuring skills to broaden its customer base and increase transaction volumes with low risk and high revenues.

The team has built excellent reputation in the market in customer relationship and now Alubaf is well positioned to benefit from the growing trade between MENA region and the rest of the World.

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GENERAL MANAGER REPORT

TREASURY SERVICES

Despite tough market conditions and regional political uncertainty, our Treasury professionals succeeded to manage our liquidity in the most prudent way and new direct avenues were established to maximize profit from the arbitrage transactions in both money market and foreign exchange.

Treasury has also developed excellent banking relationship and all plans are underway for broadening our range of products and services in the year 2012.

RISK MANAGEMENT

Alubaf commissioned highly professional services to aid with the restructuring and advancement of our Risk unit. This service has brought vast progress on this area with an organizational chart aligned with a comprehensive set of risk strategies, policies, charters and procedures are incorporated towards higher control of risk.

COMPLIANCE

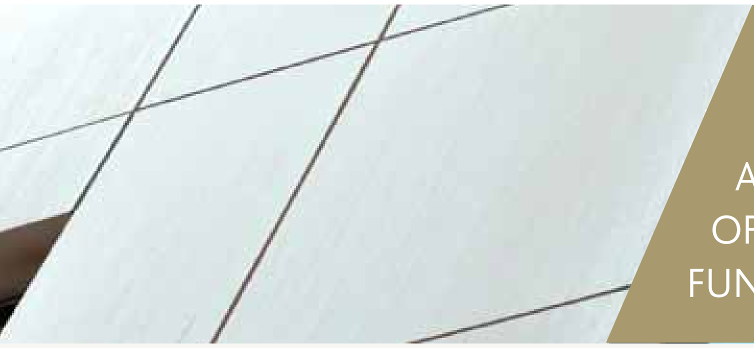
Banks compliance function provides independent oversight and can carry out its work freely and objectively. The professional service engaged to tune up the functions of the department has contributed to enhance our already existing filtering and reporting tools to counter any sort of non compliance.

Bank has given full rights to the Officer to contact the CBB or any other jurisdictions to obtain any information or to report on any violations.

CORPORATE GOVERNANCE

Bank has put in place a robust corporate governance structure that clearly sets out the objectives of the bank through which the Board and the Management pursue objectives that are in the best interests of the bank and its shareholders.

The structure is designed to establish and maintain an environment in which the highest standards of ethical business conduct are adopted and facilitate effective monitoring and to encourage the most efficient use of resources.



THE ALUBAF TOWER WILL BE COMPLETED BY APRIL 2012 AND OUR NEW OFFICE WILL OPERATIONALLY FUNCTION FROM MAY 2012.

FUTURE GROWTH

The outlook for 2012 remains extremely challenging. We have set ourselves ambitious business goals and objectives by building upon our successful performance in 2011. We are optimistic that these are achievable with our initiative and investment strategy planned.

Alubaf's strategy is to ensure premium selection of banking products and services with planned increase in banks loans and advances. We will continue to serve the best interests of our customers and shareholders by enhancing the availability of the products and serving them to the best with caution on risk and yield.

We are poised to reach the growth potential as set out by our Board of Directors and firmly we are on course to become one of the leading banks in the region.

APPRECIATION

I would like to thank our Directors for their continued guidance, support and encouragement and last but not the least to express my sincere gratitude to all our staff members and colleagues for their untiring efforts and contributions towards bringing Alubaf to its current position and stature in a short period.

I would also like to thank all the competent governmental authorities in Bahrain for the guidance and support and of course our valued customers for their ongoing support and confidence bestowed on Alubaf.

Ahmed Imhamed Rajab
General Manager

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CORPORATE GOVERNANCE

BANK IS COMMITTED TO UPHOLD THE HIGHEST STANDARD OF CORPORATE GOVERNANCE.

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CORPORATE GOVERNANCE

GOVERNANCE

ALUBAF Arab International Bank is committed to uphold the highest standard of corporate governance. The Board of Directors and management are fully committed to complying with established corporate governance and compliance with best practices in the Kingdom of Bahrain. This reflects the Bank's commitment to enhancing corporate governance, financial transparency and fairness in the disclosure of financial information for all stakeholders.

ALUBAF Arab International Bank has endeavored to comply with the requirements of the Corporate Governance Code introduced by the Ministry of Industry and Commerce (MOIC) of Kingdom of Bahrain on March 2010 and the Central Bank of Bahrain's (CBB) Rulebook Module - High Level Controls (Module HC) effective from 1 January 2011.

According to ALUBAF's Bank charter and the requirements set forth by the Code of Corporate Governance of the Kingdom of Bahrain, the Board has delegated specific responsibilities to a number of Board and Management Committees. Each Committee has its own formal written charter. The main Committees are:

1. **Board of Directors Committees:**
   - Audit, Risk & Compliance Committee (ARCC); and
   - Nomination & Remuneration Committee (NRC).

2. **Management Committees:**
   - Asset and liability Committee (ALCO);
   - Management Risk Committee (MRC); and
   - Human Resource and Compensation Committee (HRCC).

INDEPENDENCE AND AUTHORITY

Audit, Risk and Compliance maintains a separate position in order to ensure its independence. This ensures independent and objective monitoring and reporting of functions to Senior Management and the Board. In this respect, the Audit, Risk and Compliance exercises direct access to the Audit, Risk & Compliance Committee (ARCC).

Furthermore, the independence of functions are maintained by requiring the respected staff to perform only Audit, Risk and Compliance related responsibilities and not involving in any activities where there may be a probability of conflicts of interest. Audit and Compliance staff report directly to the Head of Department and are not involved by any means in the day-to-day business activities.

To carry out its duty both efficiently and effectively, the Audit and Compliance functions have the following privileges and authorities:

- To communicate (at any time and on its own initiative) with any staff member and obtain any records or files necessary to enable it to carry out its responsibilities;
- A direct line of communication with CBB, supervisory authorities and the Audit, Risk & Compliance Committee (ARCC); and
- Authority and resources (to include engaging outside specialists) to initiate and carry out / investigate possible breaches of laws and regulations and plan corrective actions, in case of exceptions.

The compliance function is also independent of the Internal Audit Department. To promote independency and objectivity of the functions, a separate audit programme covering the activities of the compliance function is undertaken by the Internal Audit department as part of its review.

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SHAREHOLDERS

ALUBAF's Bank is majority owned by Libyan Foreign Bank (LFB) by 99.38%, a bank registered in Libya and 100% owned by the Central Bank of Libya.

The shareholding structure of ALUBAF Arab International Bank as at 31st December 2011:

Name of Shareholder	Shareholding Percentage	Nationality
Libyan Foreign Bank	99.38%	Libyan
National Bank of Yemen	0.34%	Yemeni
Yemen Bank for Reconstruction & Development	0.28%	Yemeni
Total	**100%**	

THE BOARD OF DIRECTORS

Responsibilities of the Board

The Board of Directors is responsible for the overall business performance and strategy of ALUBAF Arab International Bank. The Board's role and responsibilities include but are not limited to:

- Establishing the objectives of the bank;
- Monitor management performance;
- Convene and prepare the agenda for the shareholder meetings;
- Monitoring conflict of interest and preventing abusive related party transactions;
- Adoption and annual review of strategy;
- Adoption and review of management structure and responsibilities;
- Adoption and review of the systems and controls framework;
- Monitoring the implementation of strategy by management; and
- Ensure financial statements are prepared which accurately disclose ALUBAF's Bank Financial position.

Composition of the Board

As of 31st December 2011, the Bank's Board of Directors comprises of four non-executive Directors, of which two are Independent and two are Non-Independent.

Board Members	Position	Independent/ Non-Independent	Executive / Non-Executive	Nationality	Appointment Date	Re-appointment Date
Dr. Mohamed Abdulla Bait Elmal	Chairman	Independent	Non-Executive	Libyan	26 Jun 2008	6 Jun 2011
Mr. Suleiman Esa Al Azzabi	Deputy Chairman	Independent	Non-Executive	Libyan	26 Oct 2008	6 Jun 2011
Mr. Ali Makhzum Ben Hamza	Director	Non-Independent	Non-Executive	Libyan	7 Jul 2004	6 Jun 2011
Mr. Seyfullah Asaad Moosa Salim	Director	Non-Independent	Non-Executive	Libyan	16 Aug 2007	6 Jun 2011

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CORPORATE GOVERNANCE

Activities of the Board

During the year 2011, the Board met five times, of which one member was absent. The details of the directors' attendance during 2011 are set out in the following table:

Board Members	Board Meetings (Attendance)	Audit, Risk & Compliance Committee (ARCC) *	Nomination & Remuneration Committee (NRC) *
Dr. Mohamed Abdulla Bait Elmal	5/5	-	2/2
Mr. Suleiman Esa Al Azzabi	4/5	2/2	-
Mr. Ali Makhzum Ben Hamza	5/5	2/2	-
Mr. Seyfullah Asaad Moosa Salim	5/5	2/2	2/2

* Committees commenced meetings after June 2011 as per CBB approval.

Evaluation of the Board

Appointment of Directors

The Board is appointed for a term of three years commencing on the date of the previous Board election. Board members adhere to Bank's Article of Association, the Corporate Governance Code of Conduct and all applicable laws and regulations.

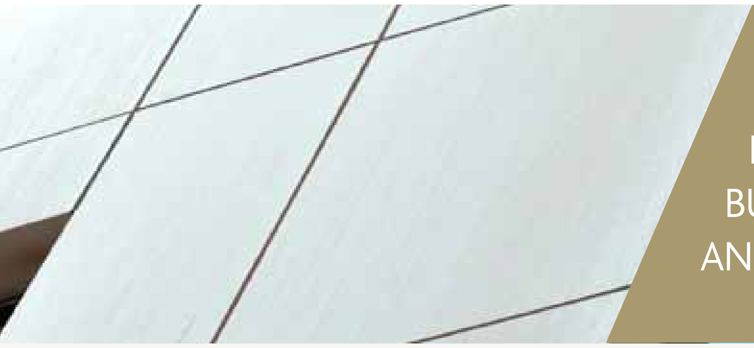
A comprehensive Directors' handbook is provided to the directors on Induction subsequent to their appointment. The Chairman of the Board ensures that each new appointed Director receives a formal and tailored induction to ensure his contribution to the Board from the commencement of his term, including meeting with senior management, presentations regarding the Bank's strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and independent auditors and legal counsel.

The Bank has a written appointment agreement with each Director, which recites the Directors' roles, duties, responsibilities and accountability, in addition to other aspects relating to their appointment including their terms, the time commitment envisaged, the committee assignments (if any), their remuneration & expense reimbursement entitlement, and access to independent professional advice as required.

Assessment of the Board

The Bank's Board mandate requires that the Board conducts an evaluation of its performance, including:

- An assessment of the Board's operation;
- Completion of self-assessment questionnaire by each member;
- Review of the self-assessment undertaken;
- Bank's strategies and risk assessments;
- Reviewing each Director's work, his attendance at Board and committee meetings, and his constructive involvement in discussions and decision making;
- Observation of stakeholders on the bank's corporate governance performance; and
- Current and emerging trends and factors.



THE BOARD OF DIRECTORS IS RESPONSIBLE FOR THE OVERALL BUSINESS PERFORMANACE AND STRATEGY.

BOARD COMMITTEES

The Board has two committees namely the Audit, Risk & Compliance Committee (ARCC) and Nomination & Remuneration Committee (NRC).The ARCC and NRC includes three members each. All members of the committees are board members. In accordance with the CBB's rulebook (Volume 1), the majority members of Board committees should be independent directors. However, the CBB has exempted the bank until 31st March 2012 to appoint more independent directors.

The Board Committee members are:

Board Committees	Member Name	Member Position	Independent/ Non-Independent
Audit, Risk & Compliance Committee (ARCC)	Mr. Suleiman Esa El Azzabi	Chairman	Independent
	Mr. Seyfullah Asaad Moosa Salim	Director	Non-Independent
	Mr. Ali Makhzum Ben Hamza	Director	Non-Independent
Nomination & Remuneration Committee (NRC)	Dr. Mohamed Abdulla Bait Elmal	Chairman	Independent
	Mr. Seyfullah Asaad Moosa Salim	Director	Non-Independent

Audit, Risk & Compliance Committee (ARCC)

The mandate of the Audit, Risk & Compliance Committee requires it, among other things, to:

- Assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices;
- Assist the Board in its oversight of the integrity and reporting of the Bank's quarterly and annual financial statements;
- Review the performance and approve activities, staffing and organizational structure of the internal audit function;
- Oversee the independence and performance of the external auditors as well as recommending the appointment, replacement and compensation of external auditors;
- Review the adequacy and effectiveness of the Bank's system of financial, accounting and risk management controls and practices;
- Oversee the Bank's compliance with laws, regulations and supervisory and internal policies;
- Regularly report to the Board about the committee activities and related recommendations and review any reports the Bank issues that relate to the committee responsibility;
- Maintaining oversight of the Bank's internal risk and capital management framework and systems and to review on an annual basis, the effectiveness of its systems;
- Articulating the Bank's risk tolerance against which to compare the amount of capital at risk on a forward-looking basis, as determined by exposures to credit, market, liquidity, operational, concentration, settlement, reputational and business cycle risks;
- Ensuring that senior management continues to take necessary steps to monitor and control the Bank's exposures through appropriate risk assessment and compliance to risk management policies;
- Approve risk management objectives, strategies, policies and procedures that are in line with ALUBAF's business lines, risk profile and risk appetite and in compatibility with the CBB rules and regulations and review them on annual bases. The Committee's approvals shall be communicated to those who are responsible for the implementation of risk management policies;

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CORPORATE GOVERNANCE

- Ensure that ALUBAF's risk management framework includes methodologies to effectively assess and manage credit, market, liquidity, operational, legal, profit / rate of return, and reputational risks;
- Ensure the existence of clear lines of authority and accountability for managing, monitoring and reporting risks as performed internally and as required by CBB;
- Ensure that the risk management function has adequate resources and appropriate access to information to enable it to perform its duties effectively;
- Overseeing the compliance function of the Bank;
- The Committee will review the effectiveness of the system for monitoring financial and disclosure compliance with legal and regulatory requirements, and the compatibility with the CBB rules and regulations that will be reviewed on annual bases and the results of management's investigations and follow-up (including disciplinary action) of any fraudulent actions or non-compliance;
- The Committee will ensure that the compliance function is adequately resourced, independent of business lines and is run by individuals not involved in day-to-day running of the various business areas;
- The Committee will ensure controls are instituted to manage the Bank's financial reporting quality and integrity;
- The Committee will ensure that management develops, implements and oversees the effectiveness of comprehensive know your customer standards, as well as ongoing monitoring of accounts and transactions, in keeping with the requirements of relevant regulations and best practice;
- Review the findings of any examinations by regulatory agencies.

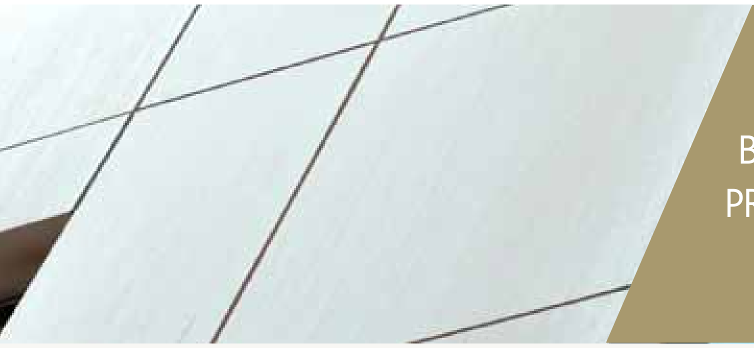
Nomination & Remuneration Committee (NRC)

The mandate of the Nomination & Remuneration Committee requires it, among other things, to:

- Ensure a formal and transparent Board nomination process is in place;
- Give full consideration to succession planning for directors (in particular the Chairman and the GM) and other senior management (such as the direct reports of the GM);
- Ensure effective policies and processes are in place for ensuring that executive management have the necessary integrity, technical and managerial competence and experience;
- Periodically review the time required from non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties;
- Report annually to the Board with an assessment of the Board's performance;
- Determine and agree with the Board the framework or broad policy for the remuneration of the directors, the GM and senior management;
- Review and assess the adequacy of the Bank's policies and practices on corporate governance and recommend any proposed changes to the Board for approval; and
- Review the adequacy of the charter adopted by NRC committee of the Board, and recommend changes whenever necessary.

MANAGEMENT COMMITTEES

The Management comprises of three committees namely Asset and liability Committee (ALCO), Management Risk Committee (MRC), and Human Resource and Compensation Committee (HRCC).



BANKS COMPLIANCE FUNCTION PROVIDES INDEPENDENT OVERSIGHT.

The Management Committee members are:

Management Committees	Member Position	Committee Member Position
Asset and liability Committee (ALCO)	General Manager	Head
	Assistant General Manager (Credit & Marketing, Operations, Treasury and Trade Finance)	Deputy Head
	Assistant General Manager	Member
	Head of Finance	Member
	Head of Risk Management and Compliance	Member
	Head of Credit and Marketing	Member
	Head of Treasury	Member
	Head of Operations	Representative
Management Risk Committee (MRC)	General Manager	Head
	Assistant General Manager (Finance and Information Technology)	Deputy Head
	Assistant General Manager	Member
	Head of Finance	Member
	Head of Credit and Marketing	Member
	Head of Operations	Member
	Head of Treasury	Member
	Head of Risk Management and Compliance	Representative
Human Resource and Compensation Committee (HRCC)	General Manager	Head
	Assistant General Manager (Credit & Marketing, Operations, Treasury and Trade Finance)	Member
	Assistant General Manager (Finance and Information Technology)	Member
	Head of Human Resources and Administration	Member

Asset and Liability Committee (ALCO)

The mandate of the Asset and Liability Committee requires it, among other things, to:

- Active management of the balance sheet;
- Effectively manage the Bank's liquidity requirements to meet business needs during normal conditions and during times of crisis;
- Monitor asset/liability maturity profile taking into account economic developments, fluctuations in asset values and benchmark reference rates;
- Management of foreign exchange risks;
- Within Board approved parameters, develop asset and liability management strategies, including liquidity strategies, and short and long-term funding and leverage strategies in general;
- Review the Bank's capital adequacy position and address capital management strategies from an ICAAP perspective;
- Review and monitor all aspects of liquidity policy including contingency planning and limits to ensure management of liquidity crisis;
- Review and approve or reject breaches of ALCO limits; and
- Review of reports submitted by Risk and Compliance Department.

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CORPORATE GOVERNANCE

Management Risk Committee (MRC)
The mandate of the Management Risk Committee requires it, among other things, to:

- Determine key risk areas and adopt risk management practices that contribute to the Bank's objectives;
- Ensure actions required are given appropriate level of sponsorship and supported by adequate resources;
- Increase the awareness level of management and staff on business risks in the Bank;
- Review and recommend to the Board the risk tolerance of the Bank;
- Review the Bank's mitigation strategy for key risks;
- Review and recommend for approval the Bank's risk management framework;
- Review the capital adequacy of the Bank's capital from regulator's perspective;
- Review and assess the adequacy of the risk measurement methodologies;
- Review and assess various internal limits and make specific recommendations with respect to economic risk capital, market risk limits, ALM limits, etc;
- Review other major risk concentration as deemed appropriate; and
- Approve Operational Risk framework and monitor the risk on ongoing basis.

Human Resources & Compensation Committee (HRCC)
The mandate of the Human Resources & Compensation Committee requires it, among other things, to:

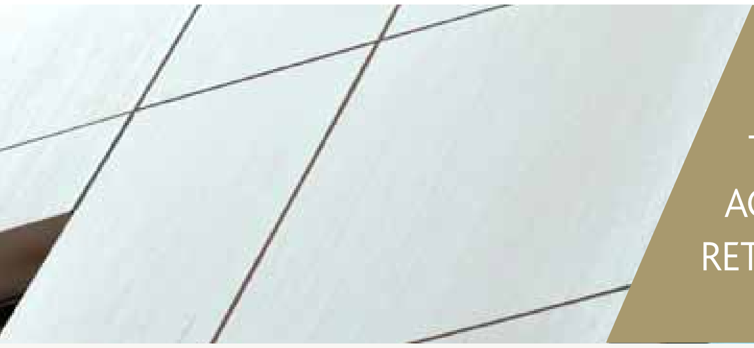
- Review regularly and recommend Bank's executive/staff development for senior management positions, including performance and skills evaluation, training and succession planning;
- Develop, review and recommend the Bank's executive/staff compensation;
- Determine the bonus and other incentive;
- Review matters relating to executive management succession and executive organization development;
- Manage the administration function of the Bank's; and
- Prepare periodic reports for the Board regarding the above items.

| CODE OF CONDUCT AND CONFLICT OF INTEREST

ALUBAF Bank has adopted Code of Conduct and other internal policies and guidelines designed to guide all employees and directors through best practices to fulfill their responsibilities and obligations towards the Bank's stakeholders in compliance with all laws, rules and regulations that govern the Bank's business operations. The Code of Conduct contains rules on conduct, ethics and on avoiding conflict of interest applicable to all the employees and directors of the Bank. The Code of Conduct is documented, published and communicated throughout the bank. The Bank has an annual declaration of Conflict of Interest statement for Board members and approved persons. The Bank's website also contains the Board approved Code of Conduct.

| REMUNERATION DISCLOSURES

Board of Directors and Staff Remuneration
There has been extensive public debate and regulatory focus during 2010 & 2011 on staff remuneration within banking sector. In January 2011, the Central Bank of Bahrain issued its corporate governance principles "Principle of remunerate approved persons fairly and responsibly" which set out the CBB's principle regarding remuneration of senior management and Board of Directors.



REWARDS IS CLOSELY LINKED TO THE BANKS STRATEGIC ACHIEVEMENTS AND LONG TERM RETURN ON SHAREHOLDERS FUNDS.

The Board Nomination and Remuneration Committee is responsible to enforced remunerations principle. The required disclosure by this principle is as follows.

The Bank employed 35 members of staff at 31st December 2011 (2010: 33 staff). The remuneration to Board of Directors and staff, including staff salaries are as follows:

	2011 US$'000s	2010 US$'000s
Staff Salaries	1,865	1,556
Remuneration Board of Directors - Rewards	255	750
Remuneration Executive Management - Rewards	453	342
Remuneration Staff - Rewards	415	343

Based on mentioned principle, it is required to disclose certain qualitative and quantitative remuneration items.

Governance of all matters related to remuneration within the Bank is held with Board committee for Nomination and Remuneration committee, comprising of two non-executive directors.

The committee is composed of the independent chairman, and one director is regarded as being non independent of the Bank. The committee members also possess the necessary skills to exercise the appropriate judgment.

The Nomination and Remuneration committee has acted as per Bank approved Nomination and Remuneration committee charter by the Board of Directors and assisted by a management committee of Human Resource & Compensation Committee, which chaired by the General Manager with membership of two Assistant General Managers as well as it has a membership of the Head of Human Resource & Administration to provide recommendations to reward the Bank staff.

The Bank has in place performance award schemes for the benefit of its staff. The scheme with rewards is closely linked to the Bank strategic achievements and long term return on shareholders funds, with also certain non-financial performance metrics (such as risk management & internal audit are assessed based on individual performance) being taken into account.

Performance awards under the policy qualify as remuneration. Individual Performance awards are payable in January following the year to which the reward relates.

At 31 December 2011, the total remuneration amount payable was US$ 1,123 thousand, in light of the return on equity achieved by the Bank during 2011. The remuneration paid for the financial year of 2010 was US$ 1,435 thousand.

The calculation of Performance awards for Individual is undertaken annually and is linked to five factors:

1. Individual Role level;
2. The Bank return on equity;
3. Assessed individual performance;
4. Assessed compliance with the Bank's documented core standards of conduct; and
5. The Bank's performance against the business plan prepared before the commencement of the year to which it relates.

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CORPORATE GOVERNANCE

The policy requires to identify relevant senior executives and designate them as "Approved Persons". The remuneration applies to eight senior executives of the Bank as per the Bank policy including all members who have served on the management committees.

The Bank had 35 employees as of 31st December 2011 who were eligible for Performance awards in respect of their service during 2011. The cost of performance awards payable to staff in respect of 2011 was US$ 868 thousand of which US$ 453 thousand allocated to the eight approved persons and US$ 415 thousand was in respect of other staff.

The Bank policy for annual salary comprise of 13 months basic salaries and the Bank did not offer any shares incentive plan or any other rewards.

Remuneration to External Auditors

In 2011, ALUBAF Bank has paid its external auditors, Messrs Ernst & Young, US$ 57 Thousand for audit and other audit related service fees (includes prudential information reports reviews, quarterly reviews, anti money laundering review, public disclosures reviews). Messrs Ernst & Young have expressed their willingness to continue as the auditors of the Bank for the financial year ending 31st December 2012. The non audit services and other advisory services provided by the external auditors amounts to US$ 13 Thousand.

The Audit Risk Compliance Committee (ARCC) has recommended the appointment of Messrs Ernst & Young and a resolution proposing their re-appointment will be presented at the annual general assembly meeting which will be held on April 2012.

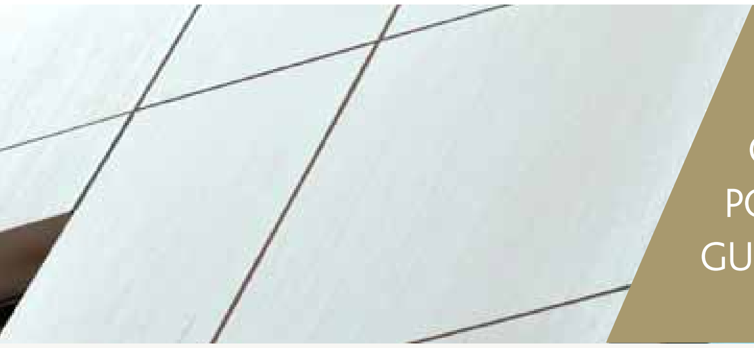
Break down of audit fee and other non–audit related services fee paid to external Auditors is given below:

	2011 US$'000s
Audit fee	57
Non Audit services fee	13
Total	**70**

FINANCIAL YEAR 2011 COMPLIANCE ENHANCEMENT UNDERTAKEN

In an effort to comply with CBB's HC module and corporate governance requirements the Bank has undertaken the following during the year to ensure its compliance with corporate governance code:

The Board of Directors have formulated two Board committees (Audit Risk Compliance Committee (ARCC) and Nomination and Remuneration Committee (NRC)) and three Management Committees (Assets & Liabilities Committee (ALCO), Management Risk Committee (MRC) and Human Resources and Compensation Committee). Furthermore, the Board of Directors has approved all charters of Board and Management Committees.



ALUBAF BANK HAS ADOPTED CODE OF CONDUCT AND OTHER INTERNAL POLICIES AND GUIDELINES, DESIGNED TO GUIDE ALL EMPLOYEES AND DIRECTORS.

These Board and senior management level committees are fully active and meet on a regular basis, maintaining proper minutes of all meetings.

During this year, the Board Nomination and Remuneration Committee (NRC) has undertaken an assessment evaluating each member of the Board member and provided its recommendations to shareholders at the Annual General Meeting (AGM).

A detailed evaluation has been conducted by year end of 2011 for each committee and each individual director; the findings have been addressed with the shareholders at annual shareholder meeting.

The Bank has recently put in place contracts which recite the directors' powers, duties, responsibilities and accountabilities for its Board of Directors.

Confidential communication channels have been afforded to employees enabling them to have access to the ARCC to raise concerns about possible improprieties in financial or legal matters.

The Bank has amended the Article of Association to include telephonic and video conference. Moreover, a section detailing comprehensive guidelines on Corporate Governance has been disclosed and extract of such information were published in Bank's website.

The Bank has recently conducted an assessment of its compliance status with CBB module HC. The results of which were presented at the annual general meeting (AGM) of this financial year. Items which remain outstanding to date have been provided in the following section below.

Ongoing Requirements and Enhancements Initiatives
On 5th June 2011, CBB temporarily exempted the Bank from complying with the requirement of having majority independent membership of its Board Audit Risk Compliance Committee and Board Nomination and Remuneration Committee till 31st December 2011.

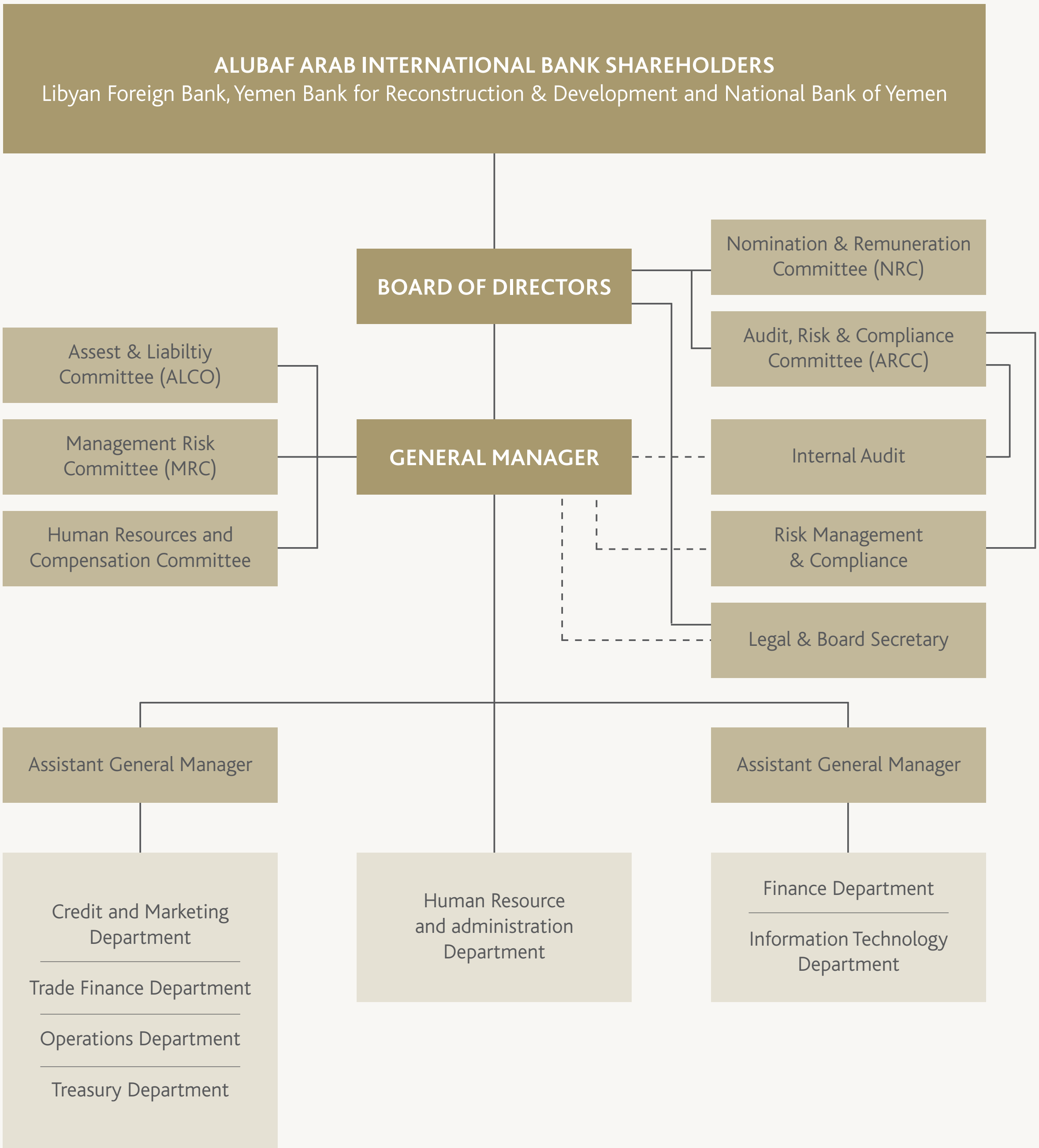
Given the current political situation in Libya, the CBB has provided the Bank a further exemption till the 31st March 2012 with respect to the appointment of independent directors. Once the situation has stabilised, initiatives will be taken to address the same keeping the CBB informed at all times.

An induction will be provided for all newly appointed independent and non-independent members of the Board and will be overseen by the NRC.

We are committed to adopt the best banking practice of governance, in our endeavors to be compliant with the HC Module of the Central Bank of Bahrain in the near future

CORPORATE GOVERNANCE CHART

WE ARE COMMITTED TO ADOPT THE BEST BANKING PRACTICE OF GOVERNANCE.


ALUBAF ARAB INTERNATIONAL BANK SHAREHOLDERS
Libyan Foreign Bank, Yemen Bank for Reconstruction & Development and National Bank of Yemen
BOARD OF DIRECTORS
Nomination & Remuneration Committee (NRC)
Audit, Risk & Compliance Committee (ARCC)
Assest & Liabiltiy Committee (ALCO)
Management Risk Committee (MRC)
Human Resources and Compensation Committee
GENERAL MANAGER
Internal Audit
Risk Management & Compliance
Legal & Board Secretary
Assistant General Manager
Assistant General Manager
Credit and Marketing Department
Trade Finance Department
Operations Department
Treasury Department
Human Resource and administration Department
Finance Department
Information Technology Department

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FINANCIAL STATEMENTS 2011

THE BANK HAS ENDED THE YEAR WITH SOLID EARNINGS, STRONG BALANCE SHEET AND EQUITY POSITION AND EMERGES STRONG FROM THE GLOBAL FINANCIAL CRISIS.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS 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 of the statement of financial position as at 31 December 2011 and the statements of comprehensive income, cash flows and 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 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER REGULATORY MATTERS

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that:

a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2011 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst & Young

31 January 2012
Manama, Kingdom of Bahrain

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 US$ '000	2010 US$ '000
ASSETS			
Cash and balances with banks	3	**49,293**	21,664
Deposits with banks and other financial institutions		**654,766**	886,030
Investment held for trading	4	**22**	27
Loans and advances	5	**278,456**	157,789
Property, equipment and software	6	**11,592**	9,489
Interest receivable		**5,114**	3,750
Other assets		**866**	374
TOTAL ASSETS		1,000,109	1,079,123
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks and other financial institutions	7	**470,302**	551,502
Due to banks and other financial institutions	7	**276,482**	292,433
Due to customers		**8,367**	4,749
Interest payable		**218**	281
Other liabilities	8	**4,158**	5,577
Total liabilities		759,527	854,542
EQUITY			
Share capital	9	**200,000**	200,000
Statutory reserve	9	**6,888**	4,262
Retained earnings		**13,694**	10,319
Proposed dividend	10	**20,000**	10,000
Total equity		240,582	224,581
TOTAL LIABILITIES AND EQUITY		1,000,109	1,079,123

Dr. Mohammad Abdulla Bait Elmal
Chairman

Ahmed Imhamed Rajab
General Manager

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 US$ '000	2010 US$ '000
Interest income		**20,865**	12,542
Interest expense		**(2,297)**	(1,836)
Net interest income		**18,568**	10,706
Fee and commission income	11	**14,347**	11,841
Changes in fair value of investment held for trading		**(5)**	(9)
Foreign exchange gain		**331**	851
Other income		**-**	4
OPERATING INCOME		**33,241**	23,393
Provision for loan losses	5	**(1,580)**	(2,464)
NET OPERATING INCOME		**31,661**	20,929
Staff costs		**3,696**	3,067
Depreciation	6	**348**	296
Other operating expenses		**1,616**	2,186
OPERATING EXPENSES		**5,660**	5,549
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**26,001**	15,380

STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 US$ '000	2010 US$ '000
OPERATING ACTIVITIES			
Net profit for the year		**26,001**	15,380
Adjustments for:			
Provision for loan losses	5	**1,580**	2,464
Depreciation	6	**348**	296
Changes in fair value of investment held for trading		**5**	9
Amortization of assets reclassified as 'Loans and advances' from trading investments		**(468)**	(429)
Operating income before changes in operating assets and liabilities		**27,466**	17,720
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		**15,000**	(473)
Loans and advances		**(121,779)**	(53,562)
Interest receivable		**(1,364)**	(1,560)
Other assets		**(492)**	(119)
Deposits from banks and other financial institutions		**(81,200)**	125,961
Due to banks and other financial institutions		**(15,951)**	98,249
Due to customers		**3,618**	4,749
Interest payable		**(63)**	136
Other liabilities		**(1,419)**	3,401
Net cash (used in) / from operating activities		**(176,184)**	**194,502**
INVESTING ACTIVITY			
Purchase of property, equipment & software	6	**(2,451)**	(3,475)
Net cash used in investing activity		**(2,451)**	**(3,475)**
FINANCING ACTIVITIES			
Issue of share capital		-	100,000
Dividend paid		**(10,000)**	(1,500)
Net cash (used in) / from financing activities		**(10,000)**	**98,500**
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(188,635)**	289,527
Cash and cash equivalents at 1 January		**892,694**	603,167
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	**704,059**	892,694

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Notes	Share capital US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Proposed dividend US$ '000	Total US$ '000
Balance as of 1 January 2010		100,000	2,649	6,552	1,500	110,701
Dividend paid		-	-	-	(1,500)	(1,500)
Increase in share capital		100,000	-	-	-	100,000
Total comprehensive income for the year		-	-	15,380	-	15,380
Transfer to statutory reserve	9	-	1,613	(1,613)	-	-
Proposed dividend	10	-	-	(10,000)	10,000	-
Balance as of 31 December 2010		200,000	4,262	10,319	10,000	224,581
Balance as of 1 January 2011		200,000	4,262	10,319	10,000	224,581
Dividend paid		-	-	-	(10,000)	(10,000)
Total comprehensive income for the year		-	-	26,001	-	26,001
Transfer to statutory reserve	9	-	2,626	(2,626)	-	-
Proposed dividend	10	-	-	(20,000)	20,000	-
Balance as of 31 December 2011		**200,000**	**6,888**	**13,694**	**20,000**	**240,582**

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

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 9 for more detail).

The financial statements for the year ended 31 December 2011 were authorized for issue in accordance with a resolution of the directors on 31 January 2012.

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.

Recent developments in the MENA region

During the year ended 31 December 2011, as a result of events arising out of social and political unrest in Libya, the United Nations Security Council called upon member states to impose economic sanctions on a number of Libyan or Libyan related individuals and entities, including the Libyan Foreign Bank. The Libyan Foreign Bank owns 99.38% of the issued share capital of the Bank. Neither the United Nations Security Council nor any member state has called for any economic sanctions to be imposed against the Bank, therefore, the Bank was not impacted by these sanctions. Moreover, the Central bank of Bahrain has issued a directive to all licensees confirming neither the assets freeze imposed by international organizations nor any other restrictive financial measures applied to the funds and assets of any current CBB licencee.

Futhermore, these sanctions over Libyan Foreign Bank were lifted on 16 December 2011.

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's (the CBB) regulations (as contained in volume 1 of the CBB rulebook) and directives 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 for assets carried at amortised cost, impairment is based on estimated future cash flows discounted at the original effective interest rate.

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.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

2 ACCOUNTING POLICIES (CONTINUED)

2.2 Significant accounting judgments and estimates (continued)

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.

Going concern
The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

2.3 Adoption of new and amended standards and interpretations

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 amended International Financial Reporting Standards. Adoption of these revised standards did not have any material effect on the financial statements of the Bank.

Amended standards and new interpretations
Following are the relevant amended IFRS and the new International Financial Reporting Interpretations Committee ("IFRIC") interpretations that have been adopted by the Bank during the year. Adoption of these revised standards and interpretations did not have any material effect on the financial statements of the Bank.

- IAS 24 (Revised) – Related party disclosures, 1 January 2011;
- IFRIC 14 Amendment – Prepayment of a minimum funding requirement, 1 January 2011;
- 2010 Annual Improvements to IFRS (IFRS 1 and IFRS 7), 1 January 2011;
- IAS 32 Amendment – Classification of rights issues, 1 February 2010;
- IFRIC 19 – Extinguishing financial liabilities with equity instruments, 1 July 2010;
- 2010 Annual improvements to IFRS (IFRS 3 and IAS 27), 1 July 2010;

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 held for trading.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

Financial assets or financial liabilities held-for-trading

These investments are subsequently measured 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.

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.

Deposits

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

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 statement of financial position when there is currently enforceable legal 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 deposits with banks and other financial institutions with original maturities of less than 90 days.

Property, equipment and software

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

Property, equipment and software 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

2 ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of 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 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 un-amoritsed 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

Fees and commissions income are recognised when earned.

(iii) Dividend income

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

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

Following are the relevant IFRS's that have been issued to be applied to financial statements for financial years but are not yet effective:

New standards, amendments and interpretations issued but not yet effective

Following are the relevant IFRS and IFRIC interpretations that have been issued during the year, to be applied to financial statements for financial years commencing on or after the following dates:

- IAS 1 Amendment: Presentation of financial statements, 1 July 2012;
- IFRS 10 – Consolidated financial statements, 1 January 2013;
- IFRS 11 - Joint Agreements, 1 January 2013;
- IFRS 12 – Disclosure of interest in other entities, 1 January 2013;
- IFRS 13 – Fair value measurement, 1 January 2013;
- IFRS 7 Amendment – Financial instruments: Disclosures, 1 July 2013;
- IFRS 9 - Financial instruments, 1 January 2015 (tentative)

The management is considering the implications of these standards and amendments (including their impact on the Bank's financial position and results) and the timing of their adoption by the Bank.

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3 CASH AND BALANCES WITH BANKS

	2011 US$ '000	2010 US$ '000
Cash	2	8
Money at call and short notice	27,035	17,532
Balances with other banks	22,256	4,124
Cash and balances with banks	49,293	21,664
Deposits with banks and other financial institutions with original maturities of less than 90 days	654,766	871,030
Cash and cash equivalents	704,059	892,694

An amount of US$ 53 thousand appearing in 2010 has been reclassified to other assets.

4 INVESTMENT HELD FOR TRADING

This comprise of investment in equity shares held by the Bank for US$ 22 thousand (2010: US$ 27 thousand).

5 LOANS AND ADVANCES

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

	2011 US$ '000	2010 US$ '000
Sovereign loans	50,521	50,248
Commercial loans	232,886	110,930
	283,407	161,178
Provision for loan losses and interest in suspense	(4,951)	(3,389)
	278,456	157,789

Movements in provision for loan losses and interest in suspense in relation to commercial loans were as follows:

	2011 US$ '000	2010 US$ '000
At 1 January	3,389	700
Provided during the year	1,580	2,464
Movement in interest in suspense	(18)	225
At 31 December	**4,951**	**3,389**

The breakup of provision for loan losses and interest in suspsense in relation to commercial loans is as follows:

	2011 US$ '000	2010 US$ '000
Specific provision	3,500	2,487
Interest in suspense	206	225
Collective provision	1,245	677
At 31 December	**4,951**	**3,389**

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

5 LOANS AND ADVANCES (CONTINUED)

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:

	2011 US$ '000	2010 US$ '000
Carrying value	**41,576**	41,108
Fair value	**45,177**	50,532

Additional fair value loss that would have been recognised in the statement of comprehensive income for the year ended 31 December 2011 had the trading investment not been reclassified amounts to US$ 5.4 million (31 December 2010: fair value gain of US$ 8.8 million).

The Bank earns an effective interest rate of 8.89% (2010: 8.89%) and expects to recover US$ 41.5 million (2010: US$ 41.1 million) on Iraq notes which were reclassified in 2008.

6 PROPERTY, EQUIPMENT AND SOFTWARE

	Freehold land US$ '000	Furniture equipment and motor vehicles US$ '000	Software US$ '000	Capital work in progress US$ '000	Total US$ '000
Cost					
At 1 January 2011	4,232	821	704	4,210	9,967
Additions during the year	-	104	56	2,291	2,451
At 31 December 2011	**4,232**	**925**	**760**	**6,501**	**12,418**
Depreciation					
At 1 January 2011	-	396	82	-	478
Charge for the year	-	203	145	-	348
At 31 December 2011	-	599	227	-	826
Net book value					
At 31 December 2011	**4,232**	**326**	**533**	**6,501**	**11,592**
At 31 December 2010	4,232	425	622	4,210	9,489

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

Capital work in progress consists of:

	2011 US$ '000	2010 US$ '000
Payments for construction of building	6,501	4,210
	6,501	4,210

The capital work in progress relates to the construction of the building which is expected to be completed in April 2012.

7 DEPOSITS FROM AND DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Deposits from banks and other financial institutions represent interest bearing money market deposits held with the Bank as at the financial position date.

Due to banks and other financial institutions represent current account balances and cash collateral held with the Bank in relation to the letters of credit as at the financial position date.

8 OTHER LIABILITIES

	2011 US$ '000	2010 US$ '000
Accrued expenses	1,452	1,378
Unearned fee income	2,124	695
Advance received against letter of credit	-	1,055
Retention money	561	691
Payable on behalf of shareholder (note 15)	-	1,486
Others	21	272
	4,158	5,577

9 SHARE CAPITAL

	2011 US$ '000	2010 US$ '000
Authorized:		
4,000,000 shares of US$ 50 each	200,000	200,000

	2011 US$ '000	2010 US$ '000
Issued and fully paid up :		
At start of the year :		
4,000,000 (2010: 2,000,000) Ordinary shares of US$ 50 each	200,000	100,000
Issued during the year		
2,000,000 Ordinary shares of US$ 50 each	-	100,000
At end of the year :		
4,000,000 Ordinary shares of US$ 50 each	200,000	200,000

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NOTES TO THE FINANCIAL STATEMENTS

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9 SHARE CAPITAL (CONTINUED)

Shareholders

	2011		2010	
	Percentage holding (%)	**US$ '000**	Percentage holding (%)	US$ '000
Libyan Foreign Bank	**99.38**	**198,751**	99.38	198,751
Yemen Bank for Reconstruction and Development	**0.28**	**561**	0.28	561
National Bank of Yemen	**0.34**	**688**	0.34	688
	100.00	**200,000**	100.00	200,000

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 before deduction of Board of Directors' fee. 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.

10 PROPOSED DIVIDEND

The Bank proposed dividend of US$ 5 per share (2010: US$ 2.50) amounting to US$ 20 million for the year ended 2011 (2010: US$ 10 million).

11 FEE AND COMMISSION INCOME

	2011 US$ '000	2010 US$ '000
Commission income from letters of guarantee	**109**	69
Commission income from letters of credit	**14,238**	11,772
	14,347	11,841

12 COMMITMENTS AND CONTINGENT LIABILITIES

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

	2011 US$ '000	2010 US$ '000
Within one year	**90**	85
	90	85

Commitment on account of capital work in progress:

	2011 US$ '000	2010 US$ '000
Within one year	2,990	2,156
	2,990	2,156

Credit related contingencies:

	2011 US$ '000	2010 US$ '000
Letters of guarantee	**1,539**	500
Letters of credit	**451,769**	469,699
	453,308	470,199

NOTES TO THE FINANCIAL STATEMENTS

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13 RISK MANAGEMENT

13.1 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.

Audit Risk and Compliance Committee

The Audit Risk and Compliance Committee (ARCC) of the Board is responsible for: assessing the quality and integrity of financial reporting, effectiveness of systems monitoring financial and disclosure compliance with legal and regulatory requirements, supervision of compliance function, soundness of internal controls. The ARCC also obtains regular updates from the management and Bank's compliance officer regarding compliance matters, which may have a material impact on the Bank's financial statements and reviews the findings of any examinations by regulatory agencies.

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.

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 ARCC. 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 ARCC.

b) Risk measurement and reporting systems

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

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.

NOTES TO THE FINANCIAL STATEMENTS

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13 RISK MANAGEMENT (CONTINUED)

13.2 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. The net exposure represents gross exposure net of cash collateral against LC's.

	Gross maximum exposure 2011 US$ '000	**Net maximum exposure 2011 US$ '000**	Gross maximum exposure 2010 US$ '000	Net maximum exposure 2010 US$ '000
Balances with banks(Note 3)	**49,291**	**49,291**	21,656	21,656
Deposits with banks and other financial institutions	**654,766**	**654,766**	886,030	886,030
Loans and advances	**278,456**	**225,046**	157,789	135,142
Interest receivable	**5,114**	**5,114**	3,750	3,750
Other assets	**697**	**697**	180	180
Total funded credit risk exposure	**988,324**	**934,914**	1,069,405	1,046,758
Unfunded exposure on credit related contingencies(Note 12)	**453,308**	**314,613**	470,199	263,228
Total funded and unfunded credit risk exposures	**1,441,632**	**1,249,527**	1,539,604	1,309,986

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 2011 and 2010. 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

13.2 Credit risk (continued)

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

	Neither past due nor impaired				
At 31 December 2011	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	12,453	36,838	-	-	49,291
Deposits with banks and other financial institutions	186,962	467,804	-	-	654,766
Loans and advances	1,986	278,965	-	2,456	283,407
Interest receivable	54	5,060	-	-	5,114
Other Assets	-	697	-	-	697
Total gross funded exposures	**201,455**	**789,364**	**-**	**2,456**	**993,275**
Less: Provision for loan losses and intesrest in suspense					
- Specific provision	-	(1,250)	-	(2,250)	(3,500)
- Interest in suspense	-	-	-	(206)	(206)
- Collective provision	-	(1,245)	-	-	(1,245)
Total provision and interest in suspense	**-**	**(2,495)**	**-**	**(2,456)**	**(4,951)**
Total net funded exposures	**201,455**	**786,869**	**-**	**-**	**988,324**
Credit related contingencies	-	453,308	-	-	453,308
Total unfunded exposures	**-**	**453,308**	**-**	**-**	**453,308**
Total net funded and unfunded exposures	**201,455**	**1,240,177**	**-**	**-**	**1,441,632**

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

13 RISK MANAGEMENT (CONTINUED)

13.2 Credit risk (continued)

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

	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	9,436	12,220	-	-	21,656
Deposits with banks and other financial institutions	376,233	509,797	-	-	886,030
Loans and advances	9,791	143,912	-	7,475	161,178
Interest receivable	227	3,523	-	-	3,750
Other assets	-	180	-	-	180
Total gross funded exposure	395,687	669,632	-	7,475	1,072,794
Less: Provision for loan losses and intesrest in suspense					
- Specific provision	-	-	-	(2,487)	(2,487)
- Interest in suspense	-	-	-	(225)	(225)
- Collective provision	-	(677)	-	-	(677)
Total provision and interest in suspense	-	(677)	-	(2,712)	(3,389)
Total net funded exposures	395,687	668,955	-	4,763	1,069,405
Credit related contingencies	-	470,199	-	-	470,199
Total unfunded exposures	-	470,199	-	-	470,199
Total net funded and unfunded exposures	395,687	1,139,154	-	4,763	1,539,604

NOTES TO THE FINANCIAL STATEMENTS

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c. Concentration of maximum exposure to credit risk

The geographical distribution of gross credit exposures:

At 31 December 2011	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	833	3,371	31,062	4,435	9,590	49,291
Deposits with banks and other financial institutions	182,740	128,331	122,018	216,677	5,000	654,766
Loans and advances	3,500	5,771	269,185	-	-	278,456
Interest receivable	194	178	4,560	182	-	5,114
Other assets	697	-	-	-	-	697
Total funded exposures	**187,964**	**137,651**	**426,825**	**221,294**	**14,590**	**988,324**
Credit related contingencies	-	424	452,884	-	-	453,308
Total unfunded exposures	**-**	**424**	**452,884**	**-**	**-**	**453,308**
Total funded and unfunded exposures	**187,964**	**138,075**	**879,709**	**221,294**	**14,590**	**1,441,632**

At 31 December 2010	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	728	4,104	5,579	5,103	6,142	21,656
Deposits with banks and 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 receivable	287	61	3,304	98	-	3,750
Other Assets	180	-	-	-	-	180
Total funded exposures	328,840	156,673	272,089	305,661	6,142	1,069,405
Credit related contingencies	-	-	470,199	-	-	470,199
Total unfunded exposures	-	-	470,199	-	-	470,199
Total funded and unfunded exposures	328,840	156,673	742,288	305,661	6,142	1,539,604

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

13 RISK MANAGEMENT (CONTINUED)

13.2 Credit risk (continued)

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

Sectoral classification of gross credit exposures

At 31 December 2011	Sovereign US$ '000	Banks and financial institutions US$ '000	Commercial business and others US$ '000	Total US$ '000
ASSETS				
Balances with banks	-	49,291	-	49,291
Deposits with banks and other financial institutions	-	654,766	-	654,766
Loans and advances	50,521	224,150	3,785	278,456
Interest receivable	1,453	3,660	1	5,114
Other assets	-	-	697	697
Total funded exposures	**51,974**	**931,867**	**4,483**	**988,324**
Credit related contingencies	-	453,308	-	453,308
Total unfunded exposures	-	**453,308**	-	**453,308**
Total of funded and unfunded exposures	**51,974**	**1,385,175**	**4,483**	**1,441,632**

At 31 December 2010	Sovereign US$ '000	Banks and financial institutions US$ '000	Commercial business and others US$ '000	Total US$ '000
ASSETS				
Balances with banks	-	21,656	-	21,656
Deposits with banks and other financial institutions	-	886,030	-	886,030
Loans and advances	50,248	98,378	9,163	157,789
Interest receivable	1,624	2,105	21	3,750
Other Assets	-	-	180	180
Total funded exposures	51,872	1,008,169	9,364	1,069,405
Credit related contingencies	-	470,199	-	470,199
Total unfunded exposures	-	470,199	-	470,199
Total of funded and unfunded exposures	51,872	1,478,368	9,364	1,539,604

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13.3 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.

13.3.1 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 that mature or 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:

Sensitivity analysis - interest rate risk

	Impact on statement of comprehensive income	
	2011	2010
	US$ '000	US$ '000
25 bps increase/decrease		
US Dollar	**(+)(-)66**	(+)(-)218
Euro	**(+)(-)244**	(+)(-)78

13.3.2 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$ 151 thousand (2010: US$ 21 thousand). As other GCC currencies are pegged to the US Dollar, their balances are not considered to represent significant currency risk.

13.3.3 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 insignificant and minimal.

13.4 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.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

13 RISK MANAGEMENT (CONTINUED)

13.4 Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2011 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 2011	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	49,293	-	-	49,293	-	-	49,293
Deposits with banks and other financial institutions	595,036	59,730	-	654,766	-	-	654,766
Investment held for trading	-	-	-	-	-	22	22
Loans and advances	47,877	55,410	121,155	224,442	54,014	-	278,456
Property, equipment and software	-	-	-	-	-	11,592	11,592
Interest receivable	3,214	1,029	871	5,114	-	-	5,114
Other assets	229	-	406	635	178	53	866
Total assets	695,649	116,169	122,432	934,250	54,192	11,667	1,000,109
LIABILITIES							
Deposits from banks and other financial institutions	399,157	46,527	24,618	470,302	-	-	470,302
Due to banks and other financial institutions	234,153	16,907	25,422	276,482	-	-	276,482
Due to customers	8,367	-	-	8,367	-	-	8,367
Interest payable	168	50	-	218	-	-	218
Other liabilities	1,228	244	1,875	3,347	577	234	4,158
Total liabilities	643,073	63,728	51,915	758,716	577	234	759,527
Net liquidity gap	52,576	52,441	70,517	175,534	53,615	11,433	240,582
Cumulative liquidity gap	52,576	105,017	175,534	-	229,149	240,582	-

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

	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	21,664	-	-	21,664	-	-	21,664
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 receivable	1,958	396	1,396	3,750	-	-	3,750
Other assets	173	-	-	173	148	-	321
Total assets	774,606	178,911	59,334	1,012,851	56,703	9,516	1,079,070
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 payable	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	127,533	(3,486)	35,092	159,139	56,012	9,377	224,528
Cumulative liquidity gap	127,533	124,047	159,139	-	215,151	224,528	-

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

13 RISK MANAGEMENT (CONTINUED)

13.4 Liquidity risk (continued)

The maturity profile of the financial and contingent liabilities as at 31 December 2011 based on contractual undiscounted repayment amounts is as follows:

	Up to 1 year						
At 31 December 2011	**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	399,300	46,577	24,724	470,601	-	-	470,601
Due to banks and other financial institutions	234,237	16,925	25,531	276,693	-	-	276,693
Due to customers	8,370	-	-	8,370	-	-	8,370
Other Liabilities	1,396	294	1,875	3,565	577	234	4,376
Total funded exposures	643,303	63,796	52,130	759,229	577	234	760,040
Credit related contingencies	549	21,875	430,884	453,308	-	-	453,308
Total unfunded exposures	549	21,875	430,884	453,308	-	-	453,308
Total financial and contingent liabilities	643,852	85,671	483,014	1,212,537	577	234	1,213,348

	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 and contingent liabilities	672,108	234,251	264,741	1,171,100	152,115	139	1,323,354

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

13.5 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 except for as mentioned in note 5 to 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 2011, the financial instrument recorded at fair value by level of the fair value hierarchy is classified under:

	Level 1	
	2011	2010
	US$ '000	US$ '000
Investments carried at fair value through statement of comprehensive income	**22**	27
	22	27

There were no investments qualifying for level 2 and 3 fair value disclosures.

14 DERIVATIVE FINANCIAL INSTRUMENTS

As part of its currency risk management, the Bank enters into forward exchange contracts. These contracts are settled on a net basis. Depending on currency movements, the contracts may result in either a net asset or a net liability. As at 31 December 2011 the Bank had entered into Euro 10 million (2010: Nil) of forward contracts which resulted in a net asset of US$ 228 thousand (31 December 2010: Nil).

15 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

15 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions with related parties included in the statement of comprehensive income and statement of financial position are as follows:

	2011 US$ '000	2010 US$ '000
Statement of comprehensive income		
Interest income	335	11
Interest expense	608	424
Fee and commission income	36	169
Statement of financial position		
Assets		
Cash and balances with banks	10,075	2,800
Deposit with banks and financial institutions	169,955	30,000
Interest Receivable	82	3
Other assets	22	31
Liabilities		
Deposits from banks and other financial institutions	229,756	219,348
Due to banks and other financial institutions	51,098	-
Interest Payable	94	29
Other liabilities - payable on behalf of shareholders	-	1,486
Other liabilities - others	21	221
Contingent Liabilities - Letters of Credit (Fully secured by Deposit takings)	113,453	24,584

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

	2011 US$ '000	2010 US$ '000
Short term benefits*	979	1,423
End of term benefits	55	37
Total compensation	1,034	1,460

* Includes Board of Directors fee amounts to US$ 255 thousand (2010: US$ 750 thousand).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

16 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.

	2011 US$ '000	2010 US$ '000
Capital base:		
Tier 1 capital	**240,582**	224,581
Total capital base (a)	**240,582**	224,581
Risk weighted assets (b)	**536,892**	526,118
Capital adequacy (a/b * 100)	**44.81%**	42.69%
Minimum requirement	**12.00%**	12.00%

17 EVENTS AFTER THE BALANCESHEET DATE

The Bank has raised share capital of US$50 million, on 2nd January 2012, consisting of 1,000,000 shares at a price of US$ 50 per share. The share capital issue was approved by the shareholders in the Extraordinary General Meeting held on 6 June 2011. The full amount of the capital issue has been received in cash on 2 January 2012.

BASEL II PILLAR III DISCLOSURES

THE BANK CONTINUES TO MAINTAIN STRONG CAPITAL ADEQUACY RATIO OF 45%.

BASEL II PILLAR III DISCLOSURES

31 December 2011

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 2011 comprising of 4 million shares of US$ 50 each.

Break down of Capital Base

	US$ '000 Tier I
Share capital	200,000
Statutory reserve	6,888
Retained earnings	33,694
Tier I Capital base	**240,582**
Less: Regulatory deductions	-
Net Available Capital Base	**240,582**

ALUBAF recorded a net profit of US$ 26,001 thousand for the year ended 31 December 2011 and transferred 10% of profits (US$ 2,626 thousand) towards Statutory reserve.

The Bank proposed a dividend of US$ 20,000 thousand, i.e. US$ 5.00 per Ordinary share for the year 2011.

Subsequent to year end 31 December 2011, the Bank increased its Paid up share capital in January 2012 to US$ 250 Million, pursuant to the approval in Annual general meeting held on 6th June 2011 and lifting of UN Sanctions on major shareholder Libyan Foreign Bank on 16th December, 2011.

BASEL II PILLAR III DISCLOSURES

31 December 2011

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 Capital Base	**240,582**
Risk weighted assets (RWA)	
Credit risk	505,093
Market risk	3,225
Operational risk	28,574
	536,892
Capital adequacy ratio	**44.81%**

The Bank's capital adequacy ratio of 44.81% 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.

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.

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BASEL II PILLAR III DISCLOSURES

31 December 2011

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (CONTINUED)

5.1 Credit risk (continued)

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	51,976	-	51,976	-	48,462	5,815
Claims on banks	928,104	453,308	1,381,412	143,764	437,863	52,544
Claims on corporate	8,791	-	8,791	-	6,288	755
Equity portfolio	22	-	22	-	22	3
Other exposures	12,458	-	12,458	-	12,458	1,495
Total	**1,001,351**	**453,308**	**1,454,659**	**143,764**	**505,093**	**60,612**

Gross credit exposure before credit risk mitigation

	US$ '000	
	Gross credit exposure	Average monthly gross exposure
Claims from Sovereigns	51,976	50,362
Claims from Banks	928,104	929,798
Claims on Corporate	8,791	8,971
Equity Portfolio	22	26
Other exposures	12,458	11,273
Total funded exposure	**1,001,351**	**1,000,430**
Unfunded exposures	**453,308**	**405,411**
Gross credit exposures	**1,454,659**	**1,405,841**

Average monthly balance represents the average of the sum of twelve month end balance for the year ended 31 December 2011.

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	3,225	387	3,225	188

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US$ 3,429 thousand on operational risk weighted exposure of US$ 28,574 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.

BASEL II PILLAR III DISCLOSURES

31 December 2011

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.

Following is the Risk and Capital Management Structure:

Board of Directors
Board Audit, Risk & Compliance Committee
Management Risk Committee
Asset Liability Management 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, Risk and Compliance 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 2011, 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*	65,000	Nil	65,000
Counterparty B	41,576	Nil	41,576

* These are interbank deposits maturing within 6 months from 31 December 2011.

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	199,746	199,746	-
Other GCC Countries	138,075	137,651	424
Other Middle east & Africa	880,954	428,070	452,884
Europe	221,294	221,294	-
Rest of the world	14,590	14,590	-
Total	**1,454,659**	**1,001,351**	**453,308**

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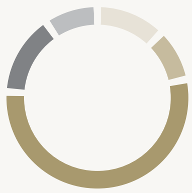
BASEL II PILLAR III DISCLOSURES

31 December 2011

6 RISK MANAGEMENT (CONTINUED)

6.2 Geographical distribution of exposures (continued)

Geographical Exposures US$ '000



- Bahrain (199,746)
- GCC (138,075)
- ME & Africa (880,954)
- Europe (221,294)
- Rest of the World (14,590)

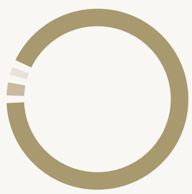
The geographical distribution of gross credit exposures by major type of credit exposures can be analyzed as follows:

US$ '000	Bahrain	Other GCC Countries	Other Middle East and Africa	Europe	Rest of the World	Total
Claims from Sovereigns	3.513	-	48,463	-	-	**51,976**
Claims from Banks	183,753	128,860	379,607	221,294	14,590	**928,104**
Claims on Corporate	-	8,791	-	-	-	**8,791**
Equity Portfolio	22	-	-	-	-	**22**
Other exposures	12,458	-	-	-	-	**12,458**
Total funded exposure	**199,746**	**137,651**	**428,070**	**221,294**	**14,590**	**1,001,351**
Unfunded exposures	**-**	**424**	**452,884**	**-**	**-**	**453,308**
Gross credit exposures	**199,746**	**138,075**	**880,954**	**221,294**	**14,590**	**1,454,659**

6.3 Industrial sector analysis of exposures is summarized below:

US$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	51,976	51,976	-
Banks & financial institutions	1,381,412	928,104	453,308
Commercial & Business	21,271	21,271	-
Total	**1,454,659**	**1,001,351**	**453,308**

Sectoral Exposures US$ '000



- Banks and FI (1,381,412)
- Sovereign (51,976)
- Corporate (21,271)

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

US$ '000s	Financial	Government	Other Sector	Total
Claims from Sovereigns	-	51,976	-	**51,976**
Claims from Banks	928,104	-	-	**928,104**
Claims on Corporate	5,006	-	3,785	**8,791**
Equity Portfolio	22	-	-	**22**
Other exposures	-	-	12,458	**12,458**
Total funded exposure	**933,132**	**51,976**	**16,243**	**1,001,351**
Unfunded exposures	**453,308**	**-**	**-**	**453,308**
Gross credit exposures	**1,386,440**	**51,976**	**16,243**	**1,454,659**

BASEL II PILLAR III DISCLOSURES

31 December 2011

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 standard grade exposure	Rated-Standard grade exposure	Unrated exposure
Claims on sovereigns	51,976	-	-	-	51,976
Claims on banks	928,104	452,884	196,449	226,464	958,075
Claims on corporate	8,791	424	5,006	3,785	424
Equity portfolio	22	-	-	22	-
Other exposures	12,458	-	-	-	12,458
Total	**1,001,351**	**453,308**	**201,455**	**230,271**	**1,022,933**

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	1-10 years	10-20 years	Undated	Total
Claims on Sovereigns	1,435	-	20	1,455	7,945	42,576	-	51,976
Claims on Banks	688,978	116,169	120,971	926,118	1,986	-	-	928,104
Claims on Corporate	5,006	-	-	5,006	3,785	-	-	8,791
Equity Portfolio	-	-	-	-	-	-	22	22
Other exposures	229	-	406	635	178	-	11,645	12,458
Total	**695,648**	**116,169**	**121,397**	**933,214**	**13,894**	**42,576**	**11,667**	**1,001,351**

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	453,308	549	21,875	430,884	453,308	-	453,308

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 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 2011.

BASEL II PILLAR III DISCLOSURES

31 December 2011

6 RISK MANAGEMENT (CONTINUED)

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 2011 for a change in 200 basis points will result in an increase or decrease on statement of income by +/(-) US$ 53 thousand for US$ denominated and US$ 195.34 on Euro denominated financial instruments.

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 2011, 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 44.81% is well above the regulatory requirement and provides a healthy cushion against any stress conditions.

BASEL II PILLAR III DISCLOSURES
31 December 2011

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 2011 US$ '000
Exposures to related parties:	180,134
Liabilities to related parties: Connected deposits	280,969

7.2 Impaired loans and relative provision:

	31 December 2011 US$ '000
Gross impaired loans	2,456
Less: Specific provision	(2,456)
Net impaired loans	-

Movement in impairment provision:

US$ '000	Specific	Collective	Total
Opening Provision	2,487	677	**3,164**
Charge for the year	1,013	567	**1,580**
Closing Specific Provision	**3,500**	**1,244**	**4,744**

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:

	31 December 2011 US$ '000
Balance of any restructured credit facilities as at year end	45,361
Loans restructured during the year	3,785
Impact of restructured credit facilities on present and future earnings	-

Nature of concession on restructured facility was on Interest rate and period of the facility.

7.4 Assets sold under recourse agreements

The Bank did not enter into any recourse agreements during the year ended 31 December 2011.

7.5 Equity positions in the banking book

None.

01 03 05 07 09 11 13 15 17 19 21 23 25 27 29 31 33 35 37 39 41 43 45 47 49 51 53 55 57 59 61 63 65 67 69 71 73 75

CORPORATE DIRECTORY

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Mahmood A.Ameer Majeed Radhi	Manager	17 517723
OPERATIONS		
Suresh T. Vaidyanthan	Head of Operations	17 517720
FINANCE		
K.R. Usha	Head of Finance	17 517734
RISK MANAGEMENT & COMPLIANCE		
Mohammed A.Hameed A.Razaq	Head of Risk Management & Compliance	17 517726
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AUDIT		
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