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

BOARD OF DIRECTORS REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2009

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

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

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

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

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

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

ERNST & YOUNG

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Regulatory Matters

We confirm that in our opinion proper accounting records have been kept by the Bank and the financial statements, and the contents of the report of the Board of Directors relating to these financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank have occurred during the year ended 31 December 2009 that might have had a material adverse effect on the business of the Bank or on its financial position and that the Bank has complied with the terms of its banking license.

Ernst & Young

22 February 2010
Manama, Kingdom of Bahrain

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

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

Dr.Mohamed Abdulla Bait Elmal
Chairman

A. Rajab

Ahmed I. Mohamed Rajab
Genaral Manager

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

STATEMENT OF INCOME

Year ended 31 December 2009

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

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

STATEMENT OF CASH FLOWS

Year ended 31 December 2009

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

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

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Share capital US$ '000	*Statutory reserve US$ '000*	*Retained earnings/ (Accumulated deficit) US$ '000*	*Proposed dividend US$ '000*	*Total US$ '000*
Balance as of 31 December 2008	100,000	1,830	682	-	102,512
Profit for the year - 2009	-	-	8,189	-	8,189
Transfer to statutory reserve (note 8)	-	819	(819)	-	-
Dividend proposed (note 9)	-	-	(1,500)	1,500	-
Balance as of 31 December 2009	**100,000**	**2,649**	**6,552**	**1,500**	**110,701**
Balance as of 31 December 2007	50,000	1,014	(6,662)	-	44,352
Increase in share capital (note 8)	50,000	-	-	-	50,000
Profit for the year - 2008	-	-	8,160	-	8,160
Transfer to statutory reserve (note 8)	-	816	(816)	-	-
Balance as of 31 December 2008	100,000	1,830	682	-	102,512

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

1 ACTIVITIES

ALUBAF Arab International Bank B.S.C. (c) ("the Bank") is a closed Bahraini joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain under the new integrated licensing framework. The Bank's registered office is at the Wind Tower Building, 2nd Floor, Diplomatic Area, P O Box 11529, Manama, Kingdom of Bahrain.

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

The financial statements for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 22 February 2010.

2 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments
The amendments to IFRS 7 were issued in March 2009 and are effective for financial years beginning on or after 1 January 2009 to enhance fair value and liquidity disclosures.

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

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

IAS 1 Presentation of Financial Statements (Revised)
Revised standard is effective for financial years beginning on or after 1 January 2009.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Investments held for trading

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

Loans and advances

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

Deposits

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

Revenue recognition

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

(i) Interest income

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

(ii) Fee and commission income

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

(iii) Dividend income

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

Foreign currencies

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with banks.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Land, property and equipment
Land is not depreciated. It is carried at cost less impairment in value.

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

Depreciation is provided on a straight-line basis over the estimated useful lives of three years.

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty

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

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

Financial guarantees

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

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

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

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

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

3.2 Cash and cash equivalents comprise of:

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

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

4 INVESTMENT HELD FOR TRADING

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

5 LOANS AND ADVANCES

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

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

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

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

Reclassification of financial assets:

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

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

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

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

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

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

The Bank earns an effective interest rate of 8.89% (2008: 8.89%) and expects to recover US $40.7 million (2008: US $ 40.3 million) on Iraq notes which were reclassified in 2008.

6 LAND, PROPERTY, EQUIPMENT AND CAPITAL WORK IN PROGRESS

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

Capital work in progress consists of:

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

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

7 OTHER LIABILITIES

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

8 SHARE CAPITAL

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

8 SHARE CAPITAL (continued)

Shareholders

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

Statutory reserve

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

9 PROPOSED DIVIDENDS

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

10 FEE AND COMMISSION INCOME

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

11 COMMITMENTS AND CONTINGENT LIABILITIES

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

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

Commitment on account of capital work in progress:

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

11 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Credit related contingencies:

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

12 RISK MANAGEMENT

12.1 Credit risk

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

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

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

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

12 RISK MANAGEMENT (continued)

12.1 Credit risk (continued)

b. Credit quality per class of financial assets

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

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

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

12 RISK MANAGEMENT (continued)

12.1 Credit risk (continued)

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

Definition
(i) High standard-Undoubted through to good credit risk
(ii) Standard-Satisfactory through to adequate credit risk
(iii) Watch list
(iv) Past due and impaired

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

c. Concentration of maximum exposure to credit risk

The geographical distribution of gross credit exposures:

At 31 December 2009

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

12 RISK MANAGEMENT (continued)

12.1 Credit risk (continued)

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

At 31 December 2008

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

Sectoral classification of gross credit exposures

At 31 December 2009

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

12 RISK MANAGEMENT (continued)

12.1 Credit risk (continued)

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

At 31 December 2008

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

12.2 Market risk

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

12.3 Interest rate risk

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

Sensitivity analysis - interest rate risk

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

12 RISK MANAGEMENT (continued)

12.4 Currency risk

Currency risk arise from the movement of the rate of exchange over a period of time. The Bank's currency risk is limited to assets and liabilities denominated in Euro amounting to $ 339 thousand (2008: nil) , As other GCC currencies are pegged to the US Dollar, their balances are not considered to represent significant currency risk.

12.5 Equity Price Risk

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

12.6 Liquidity risk

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

12 RISK MANAGEMENT (continued)

12.6 Liquidity risk (continued)

The maturity profile of the assets and liabilities at **31 December 2009** given below reflects the management's best estimates of the maturities of assets and liabilities that have been determined on the basis of the remaining period as at the date of the statement of financial position.

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

12 RISK MANAGEMENT (continued)

12.6 Liquidity risk (continued)

At 31 December 2008	*Upto 1 year*						
	Upto 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*No specific maturity US$ '000*	*Total US$ '000*
ASSETS							
Cash and balances with banks and the Central Bank of Bahrain	3,803	-	-	3,803	-	67	3,870
Deposits with banks and other financial institutions	409,731	9,250	-	418,981	-	-	418,981
Investment held for trading	-	-	-		-	49	49
Loans and advances	-	3,983	15,466	19,449	62,398	-	81,847
Land, property, equipment and capital work in progress	-	-	-		-	4,423	4,423
Interest receivable	3374	177	314	3,865	64	-	3,929
Other assets	-	-	-	-	57	-	57
Total assets	416,908	13,410	15,780	446,098	62,519	4,539	513,156
LIABILITIES							
Deposits from banks and other financial institutions	363,769	9,045	-	372,814	-	-	372,814
Due to banks	34,176	-	-	34,176	-	-	34,176
Interest payable	1,645	-	-	1,645	-	-	1,645
Other liabilities	1,799	-	-	1,799	114	96	2,009
Total liabilities	401,389	9,045	-	410,434	114	96	410,644
Net liquidity gap	15,519	4,365	15,780	35,664	62,405	4,443	102,512
Cumulative liquidity gap	15,519	19,884	35,664	-	98,069	102,512	-

12 RISK MANAGEMENT (continued)

12.6 Liquidity risk (continued)

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

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

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

12 RISK MANAGEMENT (continued)

12.7 Fair value of financial instruments

Financial instruments

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

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

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market date.

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

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

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 fair value disclosures during the year ended 31 December 2009.

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

13 TRANSACTIONS WITH RELATED PARTIES

Related parties represent associated companies, shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Bank's management.

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

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

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

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

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

14 CAPITAL ADEQUACY

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

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

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

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