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

BOARD OF DIRECTORS REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2010

Report of the Board of Directors

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

World economic growth in 2010

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

Bahrain economic growth in 2010

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

Financial results

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

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P.O. Box 11529, Manama, Kingdom of Bahrain
Swift: ALUBBHBM, C.R. 12819
☎ +973 17517722 🖷 +973 17540094
E-mail: info@alubafbank.com
Authorised capital: US$ 200 million Paid up capital: US$ 200 Million

برج الريح، الطابق الثاني (٢)، المنطقة الدبلوماسية
ص.ب: ١١٥٢٩، المنامة، مملكة البحرين
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2010 was a remarkable year for ALUBAF with exceptional performance. The bank achieved significant growth in all spheres of its activities and positively realized USD 15.4 million as net profits against USD 8.2 million in 2009, signifying an increase of 88% over last year.

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

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

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

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

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

Appropriations

Since the reactivation of the Bank's activities in 2007, ALUBAF achieved in a short span an accumulated profits with earnings before appropriations totalling USD 35.7

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million after due provision for credit losses. Last year, 2009 marked the distribution of cash dividends to shareholders at 1.5% of Paid up Capital. As the year ended 31 December 2010

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

Outlook for 2011

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

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

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

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

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

Dr. Mohammad Abdulla Bait Elmal
Chairman

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

Report on the Financial Statements

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

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS 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 2010, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Regulatory Requirements

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

Ernst + Young

17 February 2011
Manama, Kingdom of Bahrain

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

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

Dr. Mohammad Abdulla Bait Elmal
Chairman

Ahmed Imhamed Rajab
General Manager

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

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

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

STATEMENT OF CASH FLOWS

Year ended 31 December 2010

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

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

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

1 ACTIVITIES

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

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

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

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

Statement of compliance

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

2.2 Significant accounting judgments and estimates

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

Impairment and uncollectability of financial assets

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

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

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

Fair value of financial instruments

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

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

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

2 ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgments and estimates (continued)

Fair value of financial instruments (continued)
The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2.3 Changes in accounting policy and disclosures

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

IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective 1 July 2009
IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009

Improvements to IFRSs Issued in May 2008
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations effective 1 January 2010 Issued

Issued in April 2009
IFRS 2 Share-based Payment
IAS 1 - Presentation of Financial Statements
IAS 17 Leases
IAS 38 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement
IFRIC 9 Reassessment of Embedded Derivatives

2.4 Summary of significant accounting policies

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

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

Financial instruments - initial recognition and subsequent measurement

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

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

Derecognition of financial assets and financial liabilities

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

Financial guarantees are initially recognised in the financial statements at fair value, being the commission received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the 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:

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

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

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

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

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

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

IAS 24 Related Party Disclosures (Amendment)
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

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

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

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

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

2 ACCOUNTING POLICIES (continued)

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

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

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

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

4 INVESTMENT HELD FOR TRADING

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

5 LOANS AND ADVANCES

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

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

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

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

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:

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

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

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

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 31 December 2009	4,232	442	-	1,845	6,519
Additions during the year	-	409	704	2,365	3,478
Disposals during the year	-	(30)	-	-	(30)
At 31 December 2010	**4,232**	**821**	**704**	**4,210**	**9,967**
Depreciation					
At 31 December 2009	-	209	-	-	209
Depreciation for the year	-	214	82	-	296
Depreciation on disposals	-	(27)	-	-	(27)
At 31 December 2010	-	**396**	**82**	-	**478**
Net book value					
At 31 December 2010	**4,232**	**425**	**622**	**4,210**	**9,489**
At 31 December 2009	4,232	233	-	1,845	6,310

6 PROPERTY, EQUIPMENT AND SOFTWARE (continued)

Capital work in progress consists of:

	2010 *US$'000*	*2009* *US$'000*
Payments for construction of building	**4,210**	1,429
Payments for core banking system	**-**	416
	4,210	1,845

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

7 OTHER LIABILITIES

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

8 SHARE CAPITAL

	2010 *US$ '000*	*2009* *US$ '000*
Authorized:		
4,000,000 shares of US$ 50 each	**200,000**	200,000

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

Shareholders

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

8 SHARE CAPITAL (continued)

STATUTORY RESERVE

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

9 PROPOSED DIVIDEND

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

10 FEE AND COMMISSION INCOME

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

11 COMMITMENTS AND CONTINGENT LIABILITIES

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

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

Commitment on account of capital work in progress:

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

Credit related contingencies:

Letters of guarantee	**500**	7,701
Letters of credit	**469,699**	234,723
	470,199	242,424

12 RISK MANAGEMENT

12.1 Introduction

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

a) Risk management structure

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

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

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

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

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

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

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

b) Risk measurement and reporting systems

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

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

12 RISK MANAGEMENT (continued)

12.1 Introduction (continued)

c) Excessive risk concentration

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

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

12.2 Credit risk

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

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

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

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

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

b. Credit quality per class of financial assets

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

(i) High standard - Where External credit rating agency ratings are A and above.
(ii) Standard- Where External credit rating agency ratings are below A.
(iii) Watch list- Where the recoverability of loan is doubtful.
(iv) Past due and impaired- Where interest or principal sum of loan is due for more than 90 days.

12 RISK MANAGEMENT (continued)

12.2 Credit risk (continued)

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

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

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

12 RISK MANAGEMENT (continued)

12.2 Credit risk (continued)

c. Concentration of maximum exposure to credit risk

The geographical distribution of gross credit exposures:

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

At 31 December 2009

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

12 RISK MANAGEMENT (continued)

12.2 Credit risk (continued)

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

Sectoral classification of gross credit exposures

At 31 December 2010

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

At 31 December 2009

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

12.3 Market risk

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

12 RISK MANAGEMENT (continued)

12.4 Interest rate risk

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

Sensitivity analysis - interest rate risk

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

12.5 Currency risk

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

12.6 Equity Price Risk

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

12.7 Liquidity risk

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

12 RISK MANAGEMENT (continued)

12.7 Liquidity risk (continued)

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

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

12 RISK MANAGEMENT (continued)

12.7 Liquidity risk (continued)

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

12 RISK MANAGEMENT (continued)

12.7 Liquidity risk (continued)

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

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

At 31 December 2009	*Up to 1 year*						
	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	399,896	25,790	-	425,686	-	-	425,686
Due to banks and other financial institutions	167,515	26,767	-	194,282	-	-	194,282
Other liabilities	1,020	-	-	1,020	-	75	1,095
Total funded exposures	568,431	52,557	-	620,988	-	75	621,063
Credit related contingencies	45,671	196,753	-	242,424	-	-	242,424
Total unfunded exposures	45,671	196,753	-	242,424	-	-	242,424
Total financial liabilities	614,102	249,310	-	863,412	-	75	863,487

12 RISK MANAGEMENT (continued)

12.8 Fair value of financial instruments

Financial instruments

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

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

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

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

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

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

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

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

Transfers between level 1 and level 2

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

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

13 TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

14 CAPITAL ADEQUACY

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

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

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

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

15 COMPARATIVES

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