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

BOARD OF DIRECTORS REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2011

Report of the Board of Directors

On behalf of the Board of Directors of ALUBAF Arab International Bank ,I am extremely proud and privileged to present the Annual report and accounts for the year ended 31 December 2011.

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

Global environment

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

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

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

2011 - Performance

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

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

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

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

Dividend

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

Outlook for 2012

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

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

Acknowledgement

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

Dr. Mohammad Abdulla Bait Elmal
Chairman

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Alubaf Arab International Bank B.S.C. (c) ('the Bank'), which comprise the statement of financial position as at 31 December 2011 and the statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT 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 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

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

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

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

Ernst & Young

31 January 2012
Manama, Kingdom of Bahrain

STATEMENT OF FINANCIAL POSITION
At 31 December 2011

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

Dr. Mohammad Abdulla Bait Elmal
Chairman

A. Rajab

Ahmed Imhamed Rajab
General Manager

The attached notes 1 to 17 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

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

The attached notes 1 to 17 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2011

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

The attached notes 1 to 17 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

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

1 ACTIVITIES

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

The Bank is majority owned by Libyan Foreign Bank, a bank registered in Libya (refer note 9 for more detail).

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

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

Recent developments in the MENA region

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

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

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards and are in conformity with the Bahrain Commercial Companies Law and Central Bank of Bahrain's (the CBB) regulations (as contained in volume 1 of the CBB rulebook) and directives and Financial Institutions Law.

2.2 Significant accounting judgments and estimates

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

Impairment and uncollectability of financial assets

Financial assets not carried at fair value are reviewed at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of comprehensive income. Impairment is determined for assets carried at amortised cost, impairment is based on estimated future cash flows discounted at the original effective interest rate.

2 ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgments and estimates (continued)

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

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

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

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

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

2.3 Adoption of new and amended standards and interpretations
The accounting policies used in the preparation of these financial statements are consistent with those used in previous year except that the Bank has adopted the following amended International Financial Reporting Standards. Adoption of these revised standards did not have any material effect on the financial statements of the Bank.

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

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

2.4 Summary of significant accounting policies

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

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

Financial instruments - initial recognition and subsequent measurement

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

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

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

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

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

Derecognition of financial assets and financial liabilities

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

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

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

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

Cash and cash equivalents
Cash and cash equivalents comprise cash, balances with banks and deposits with banks and other financial institutions with original maturities of less than 90 days.

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

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

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

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

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

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

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

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

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

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

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
Fees and commissions income are recognised when earned.

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

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

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

New standards, amendments and interpretations issued but not yet effective
Following are the relevant IFRS and IFRIC interpretations that have been issued during the year, to be applied to financial statements for financial years commencing on or after the following dates:

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

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

3 CASH AND BALANCES WITH BANKS

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

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

4 INVESTMENT HELD FOR TRADING

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

5 LOANS AND ADVANCES

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

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

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

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

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

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

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.

5 LOANS AND ADVANCES (Continued)

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

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

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

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

6 PROPERTY, EQUIPMENT AND SOFTWARE

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

Capital work in progress consists of:

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

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

7 DEPOSITS FROM AND DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

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

8 OTHER LIABILITIES

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

9 SHARE CAPITAL

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

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

Shareholders

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

STATUTORY RESERVE

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

10 PROPOSED DIVIDEND

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

11 FEE AND COMMISSION INCOME

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

12 COMMITMENTS AND CONTINGENT LIABILITIES

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

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

Commitment on account of capital work in progress:

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

Credit related contingencies:

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

13 RISK MANAGEMENT

13.1 Introduction

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

a) Risk management structure

Board of Directors

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

Audit Risk and Compliance Committee

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

Management Risk Committee

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

Asset Liability Management Committee

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

Internal Audit

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

b) Risk measurement and reporting systems

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

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

c) Excessive risk concentration

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

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

13 RISK MANAGEMENT (continued)

13.2 Credit risk

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

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

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

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

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

b. Credit quality per class of financial assets

The table below presents an analysis of financial assets by neither past due nor impaired and external rating designation at 31 December 2011 and 2010. The credit quality is graded based on External credit rating agency- Standard and Poor, Fitch and Moody and categorised into the under mentioned categories.

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

13 RISK MANAGEMENT (continued)

13.2 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 2011					
Balances with banks	12,453	36,838	-	-	49,291
Deposits with banks and other financial institutions	186,962	467,804	-	-	654,766
Loans and advances	1,986	278,965	-	2,456	283,407
Interest receivable	54	5,060	-	-	5,114
Other Assets	-	697	-	-	697
Total gross funded exposures	201,455	789,364	-	2,456	993,275
Less: Provision for loan losses and intesrest in suspense					
- Specific provision	-	(1,250)	-	(2,250)	(3,500)
- Interest in suspense	-	-	-	(206)	(206)
- Collective provision	-	(1,245)	-	-	(1,245)
Total provision and interest in suspense	-	(2,495)	-	(2,456)	(4,951)
Total net funded exposures	201,455	786,869	-	-	988,324
Credit related contingencies	-	453,308	-	-	453,308
Total unfunded exposures	-	453,308	-	-	453,308
Total net funded and unfunded exposures	201,455	1,240,177	-	-	1,441,632

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

13 RISK MANAGEMENT (continued)

13.2 Credit risk (continued)

c. Concentration of maximum exposure to credit risk

The geographical distribution of gross credit exposures:

At 31 December 2011

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

At 31 December 2010

	Bahrain US$ '000	*Other GCC countries US$ '000*	*Other Middle east and African countries US$ '000*	*Europe US$ '000*	*Rest of the world US$ '000*	*Total US$ '000*
ASSETS						
Balances with banks	728	4,104	5,579	5,103	6,142	21,656
Deposits with banks and financial institutions	319,840	146,059	131,671	288,460	-	886,030
Loans and advances	7,805	6,449	131,535	12,000	-	157,789
Interest receivable	287	61	3,304	98	-	3,750
Other Assets	180	-	-	-	-	180
Total funded exposures	328,840	156,673	272,089	305,661	6,142	1,069,405
Credit related contingencies	-	-	470,199	-	-	470,199
Total unfunded exposures	-	-	470,199	-	-	470,199
Total funded and unfunded exposures	328,840	156,673	742,288	305,661	6,142	1,539,604

13 RISK MANAGEMENT (continued)

13.2 Credit risk (continued)

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

Sectoral classification of gross credit exposures

At 31 December 2011

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

At 31 December 2010

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

13.3 Market risk

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

13 RISK MANAGEMENT (continued)

13.3 Market risk (continued)

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

Sensitivity analysis - interest rate risk

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

13.3.2 Currency risk
Currency risk arise from the movement of the rate of exchange over a period of time. The Bank's currency risk is limited to assets and liabilities denominated in Euro amounting to US$ 151 thousand (2010: US$ 21 thousand). As other GCC currencies are pegged to the US Dollar, their balances are not considered to represent significant currency risk.

13.3.3 Equity Price Risk
Equity price risk arises from the change in fair values of equity investments. The Bank exposure towards the equity price risk is insignificant and minimal.

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

13 RISK MANAGEMENT (continued)

13.4 Liquidity risk (continued)

The maturity profile of the assets and liabilities at **31 December 2011** given below reflects the management's best estimates of the maturities of assets and liabilities that have been determined on the basis of the remaining period at the balance sheet date.

	Up to 1 year						
At 31 December 2011	***Up to 1 month US$ '000***	***1 to 3 months US$ '000***	***3 to 12 months US$ '000***	***Total US$ '000***	***More than 1 year US$ '000***	***No specific maturity US$ '000***	***Total US$ '000***
ASSETS							
Cash and balances with banks	49,293	-	-	49,293	-	-	49,293
Deposits with banks and other financial institutions	595,036	59,730	-	654,766	-	-	654,766
Investment held for trading	-	-	-	-	-	22	22
Loans and advances	47,877	55,410	121,155	224,442	54,014	-	278,456
Property, equipment and software	-	-	-	-	-	11,592	11,592
Interest receivable	3,214	1,029	871	5,114	-	-	5,114
Other assets	229	-	406	635	178	53	866
Total assets	**695,649**	**116,169**	**122,432**	**934,250**	**54,192**	**11,667**	**1,000,109**
LIABILITIES							
Deposits from banks and other financial institutions	399,157	46,527	24,618	470,302	-	-	470,302
Due to banks and other financial institutions	234,153	16,907	25,422	276,482	-	-	276,482
Due to customers	8,367	-	-	8,367	-	-	8,367
Interest payable	168	50	-	218	-	-	218
Other liabilities	1,228	244	1,875	3,347	577	234	4,158
Total liabilities	**643,073**	**63,728**	**51,915**	**758,716**	**577**	**234**	**759,527**
Net liquidity gap	**52,576**	**52,441**	**70,517**	**175,534**	**53,615**	**11,433**	**240,582**
Cumulative liquidity gap	**52,576**	**105,017**	**175,534**	**-**	**229,149**	**240,582**	**-**

13 RISK MANAGEMENT (continued)

13.4 Liquidity risk (continued)

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*
ASSETS							
Cash and balances with banks	21,664	-	-	21,664	-	-	21,664
Deposits with banks and other financial institutions	744,447	141,583	-	886,030	-	-	886,030
Investment held for trading	-	-	-	-	-	27	27
Loans and advances	6,364	36,932	57,938	101,234	56,555	-	157,789
Property, equipment and software	-	-	-	-	-	9,489	9,489
Interest receivable	1,958	396	1,396	3,750	-	-	3,750
Other assets	173	-	-	173	148	-	321
Total assets	774,606	178,911	59,334	1,012,851	56,703	9,516	1,079,070
LIABILITIES							
Deposits from banks and other financial institutions	388,334	163,168	-	551,502	-	-	551,502
Due to banks and other financial institutions	255,841	16,192	20,400	292,433	-	-	292,433
Due to customers	1,399	-	3,350	4,749	-	-	4,749
Interest payable	114	46	121	281	-	-	281
Other liabilities	1,385	2,991	371	4,747	691	139	5,577
Total liabilities	647,073	182,397	24,242	853,712	691	139	854,542
Net liquidity gap	127,533	(3,486)	35,092	159,139	56,012	9,377	224,528
Cumulative liquidity gap	127,533	124,047	159,139	-	215,151	224,528	-

13 RISK MANAGEMENT (continued)

13.4 Liquidity risk (continued)

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

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

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

13 RISK MANAGEMENT (continued)

13.5 Fair value of financial instruments

Financial instruments

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

The fair values of financial instruments are not significantly different from the carrying values included in the financial statements except for as mentioned in note 5 to the financial statements.

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

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

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

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

As at 31 December 2011, the financial instrument recorded at fair value by level of the fair value hierarchy is classified under:

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

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

14 DERIVATIVE FINANCIAL INSTRUMENTS

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

15 TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

16 CAPITAL ADEQUACY

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

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

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

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

17 EVENTS AFTER THE BALANCESHEET DATE

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