Arab Banking Corporation (B.S.C.)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

ERNST & YOUNG

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB BANKING CORPORATION (B.S.C.)

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Arab Banking Corporation (B.S.C.) [the Bank] and its subsidiaries [together 'the Group'] which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated 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 misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 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 ARAB BANKING CORPORATION (B.S.C.) [continued]

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group 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 consolidated financial statements, and the contents of the Board of Directors' report relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank have occurred during the year ended 31 December 2010 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking licence.

Ernst + Young

3 February 2011
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

All figures in US$ Million

	Note	2010	2009
ASSETS			
Liquid funds		**485**	646
Trading securities	6	**65**	135
Placements with banks and other financial institutions		**6,573**	3,949
Non-trading securities	7	**8,057**	9,552
Loans and advances	9	**12,186**	10,949
Interest receivable		**243**	181
Other assets	11	**374**	430
Premises and equipment		**122**	123
TOTAL ASSETS		**28,105**	25,965
LIABILITIES			
Deposits from customers		**11,175**	9,909
Deposits from banks and other financial institutions		**6,283**	6,224
Certificates of deposit		**41**	34
Securities sold under repurchase agreements	26	**3,719**	4,079
Interest payable		**182**	139
Taxation	12	**87**	116
Other liabilities	13	**575**	539
TERM NOTES, BONDS AND OTHER TERM FINANCING	14	**2,183**	2,344
Total liabilities		**24,245**	23,384
EQUITY	15		
Share capital		**3,110**	2,000
Reserves		**318**	191
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**3,428**	2,191
Non-controlling interests		**432**	390
Total equity		**3,860**	2,581
TOTAL LIABILITIES AND EQUITY		**28,105**	25,965

These consolidated financial statements were authorised for issue by the Board of Directors on 3 February 2011 and signed on their behalf by the Chairman and the President & Chief Executive.

Mohammed Layas
Chairman

Hassan Ali Juma
President & Chief Executive

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2010

All figures in US$ Million

	Note	***2010***	*2009*
OPERATING INCOME			
Interest and similar income	16	**976**	1,105
Interest and similar expense	17	**(536)**	(714)
Net interest income		**440**	391
Other operating income	18	**279**	250
Total operating income		**719**	641
Impairment provisions - net	10	**(77)**	(115)
NET OPERATING INCOME AFTER PROVISIONS		**642**	526
OPERATING EXPENSES			
Staff		**248**	216
Premises and equipment		**32**	31
Other		**79**	79
Total operating expenses		**359**	326
PROFIT BEFORE TAXATION		**283**	200
Taxation on foreign operations	12	**(84)**	(46)
PROFIT FOR THE YEAR		**199**	154
Income attributable to non-controlling interests		**(56)**	(32)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**143**	122
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US$)	31	**0.05**	0.06

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

All figures in US$ Million

	Note	***2010***	*2009*
PROFIT FOR THE YEAR		**199**	154
Other comprehensive income			
Net fair value movements during the year after impairment effect	15	**78**	181
Amortisation of fair value shortfall on reclassified securities	15	**20**	30
Unrealised gain on exchange translation in foreign subsidiaries		**8**	128
Total other comprehensive income for the year		**106**	339
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**305**	493
Comprehensive income attributable to non-controlling interests		**(68)**	(95)
Comprehensive income attributable to shareholders of the parent		**237**	398

The attached notes 1 to 33 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

All figures in US$ Million

	Note	***2010***	*2009*
OPERATING ACTIVITIES			
Profit attributable to the shareholders of the parent		**143**	122
Items not involving cash flow:			
Impairment provisions - net	10	**77**	115
Depreciation and amortisation		**13**	17
Amortisation of fair value shortfall on reclassified securities	15	**20**	30
Changes in operating assets and liabilities:			
Trading securities		**72**	21
Placements with banks and other financial institutions		**(2,663)**	285
Loans and advances		**(1,192)**	1,768
Interest receivable and other assets		**(1)**	351
Deposits from customers		**1,225**	(1,214)
Deposits from banks and other financial institutions		**57**	(646)
Securities sold under repurchase agreements		**(360)**	(1,735)
Interest payable and other liabilities		**70**	(386)
Other non-cash movements		**47**	(13)
Net cash used in operating activities		**(2,492)**	(1,285)
INVESTING ACTIVITIES			
Purchase of non-trading securities		**(1,073)**	(1,005)
Sale and redemption of non-trading securities		**2,587**	2,309
Purchase of premises and equipment		**(16)**	(38)
Sale of premises and equipment		**4**	1
Additional investment in an associate		**-**	(16)
Net cash from investing activities		**1,502**	1,251
FINANCING ACTIVITIES			
Increase in share capital - rights issue	15	**1,110**	-
Underwriting fees	15	**(110)**	-
Sale (purchase) of certificates of deposit - net		**8**	(3)
Issue of term notes, bonds and other term financing - net		**284**	-
Repurchase of subordinated debt	14	**(45)**	(88)
Repayment of other term notes, bonds and other term financing - net		**(400)**	(72)
Net cash from (used in) financing activities		**847**	(163)
Net change in liquid funds		**(143)**	(197)
Effect of exchange rate changes on liquid funds		**(18)**	20
Liquid funds at beginning of the year		**646**	823
LIQUID FUNDS AT THE END OF THE YEAR		**485**	646

The attached notes 1 to 33 form part of these consolidated financial statements

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

All figures in US$ Million

	Equity attributable to the shareholders of the parent								*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Statutory reserve*	*General reserve*	*Retained earnings**	*Foreign exchange translation*	*Cumulative changes in fair values*	*Total*		
At 31 December 2008	2,000	110	309	150	(261)	(81)	(434)	1,793	295	2,088
Profit for the year	-	-	-	-	122	-	-	122	32	154
Other comprehensive income for the year	-	-	-	-	-	65	211	276	63	339
Total comprehensive income for the year	-	-	-	-	122	65	211	398	95	493
Transfers during the year	-	-	12	-	(12)	-	-	-	-	-
At 31 December 2009	2,000	110	321	150	(151)	(16)	(223)	2,191	390	2,581
Profit for the year	-	-	-	-	143	-	-	143	56	199
Other comprehensive income for the year	-	-	-	-	-	(4)	98	94	12	106
Total comprehensive income for the year	-	-	-	-	143	(4)	98	237	68	305
Transfers during the year	-	-	14	-	(14)	-	-	-		-
Issue of share capital - rights issue (note 15)	1,110	(110)	-	-	-	-	-	1,000	-	1,000
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	(26)	(26)
At 31 December 2010	**3,110**	**-**	**335**	**150**	**(22)**	**(20)**	**(125)**	**3,428**	**432**	**3,860**

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US$ 373 million (2009: US$ 356 million).

1 INCORPORATION AND ACTIVITIES

The parent bank, Arab Banking Corporation (B.S.C.) [the Bank], is incorporated in the Kingdom of Bahrain by an Amiri decree and operates under a wholesale banking licence issued by the Central Bank of Bahrain. In 2010, the Central Bank of Libya increased its shareholding in the Bank from 29.53% to 59.37%, consequently becoming the ultimate parent of the Bank and its subsidiaries [together 'the Group'].

The Bank's registered office is at ABC Tower, Diplomatic Area, P.O. Box 5698, Manama, Kingdom of Bahrain. The shares of the Bank are listed on the Bahrain Stock Exchange.

2 BASIS OF PREPARATION

These consolidated financial statements are prepared under the historical cost convention, as modified by the measurement at fair value of derivatives, trading and available-for-sale financial assets. In addition, as more fully discussed below, assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to the risk being hedged.

The consolidated financial statements have been presented in United States Dollars, rounded to the nearest million unless otherwise stated, which is the functional currency of the Group.

Statement of compliance
The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards [IFRS] issued by the International Accounting Standards Board [IASB] and the relevant provisions of the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from consolidated equity attributable to the shareholders of the Bank.

3 CHANGES IN ACCOUNTING POLICIES

3.1 Standards effective for the year

The accounting policies adopted are consistent with those used in the previous year, except for the following amended IASB standards and amendments and International Financial Reporting Interpretations Committee [IFRIC] interpretations relevant to the Group effective as of 1 January 2010:

IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)*
IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.1 Standards effective for the year (continued)

IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended) (continued)*
IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010. The change in accounting policy was applied prospectively and did not have an impact on the financial position or performance of the Group, as the Group has not entered into any such transactions.

IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group concluded that the amendment did not have an impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Improvements to IFRSs (issued in April 2009)

IFRS 8 *Operating Segments*
The amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does not review segment liabilities, the Group has continued to disclose only segment assets in note 25.

IAS 7 *Statement of Cash Flows*
The amendment states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. The amendment did not have an impact on the Group.

IAS 36 *Impairment of Assets*
The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group.

IAS 39 *Financial Instruments: Recognition and Measurement*
The amendment clarifies that a prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.

It further clarifies that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges or recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

The amendments to IAS 39 did not have an impact on the Group.

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.2 Standards issued but not yet effective

The following IASB standards and amendments and IFRIC interpretations have been issued but are not yet effective:

IFRS 9 *Financial Instruments*
IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets, financial liabilities and some contracts to buy or sell non-financial items. The standard is effective for the annual period beginning on or after 1 January 2013. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IAS 24 *Related Party Disclosures (Amendment)*
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarifies 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 Group does not expect the amendment to have any impact on its consolidated financial statements.

IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues (Amendment)*
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 Group after initial application.

IFRIC 14 *Prepayments of a minimum funding requirement (Amendment)*
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in the consolidated statement of income. The adoption of this interpretation will have no effect on the consolidated financial statements of the Group.

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 Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Liquid funds
Liquid funds comprise of cash, nostro balances and balances with central banks.

Trading securities
Trading securities are initially recorded at fair value. Gains and losses arising from changes in fair values are included in the consolidated statement of income in the period in which they arise. Interest earned and dividends received are included in interest income and other operating income respectively.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Placements with banks and other financial institutions
Placements with banks and other financial institutions are stated at amortised cost net of any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged, with the resultant changes being recognised in the consolidated statement of income.

Non-trading securities
These are classified as follows:

- Held to maturity
- Available-for-sale
- Other non-trading securities

All non-trading securities are initially recognised at cost, being the fair value of the consideration given including incremental acquisition charges associated with the security.

Held to maturity
Securities which have fixed or determinable payments, fixed maturities and are intended to be held to maturity, are subsequently measured at amortised cost, less provision for impairment in value.

Available-for-sale
Available-for-sale investments are those which are designated as such or do not qualify to be classified as fair value through profit or loss, held to maturity or loans and advances. They include equity instruments and other debt instruments.

After initial recognition, these are remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. That portion of any fair value changes relating to an effective hedging relationship is recognised directly in the consolidated statement of income. Fair value changes which are not part of an effective hedging relationship, are reported under fair value movements during the year in the consolidated statement of comprehensive income until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair values" within equity, is included in consolidated statement of income for the year.

Other non-trading securities
Other non-trading securities are financial assets with fixed or determinable payments and fixed maturities that are not quoted in the active market. These instruments are not being held with the intent of sale in the near term. These investments are valued at fair value as at 1 July 2008, in accordance with the amendments to IAS 39 'Reclassification of Financial Assets'. Through the effective interest method, the new cost is amortised to the security's expected recoverable amount over the expected remaining life.

Derecognition of financial assets and financial liabilities
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired, or the Group 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 (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and advances
Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. After initial measurement, the loans and advances are subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedge less any amounts written off and provision for impairment. The losses arising from impairment of such loans and advances are recognised in the consolidated statement of income in 'impairment provisions - net' and in an impairment allowance account in the consolidated statement of financial position. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is recognised as 'interest and similar income' in the consolidated statement of income.

In relation to loans and advances which are part of an effective hedging relationship any gain or loss arising from a change in fair value is recognised directly in the consolidated statement of income. The carrying values of loans and advances which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

Investments in associates
Investments in associates are accounted for by the equity method. Associates are enterprises in which the Group exercises significant influence but not control, normally where it holds 20% to 50% of the voting power.

Premises and equipment
Premises and equipment are stated at cost, less accumulated depreciation and provision for impairment in value, if any.

Freehold land is not depreciated. Depreciation on other premises and equipment is provided on a straight-line basis over their estimated useful lives.

Impairment and uncollectability of financial assets
An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost and loans and receivables
For financial assets carried at amortised cost (such as amounts due from banks, loans and advances and held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of ‘interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectability of financial assets (continued)

Financial assets carried at amortised cost and loans and receivables (continued)
If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to 'impairment provisions - net'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Group has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial assets
For available-for-sale financial assets, the Group assesses at each statement of financial position date whether there is an objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the consolidated statement of income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in the fair value after impairment are recognised directly in equity.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deposits
All money market and customer deposits are carried at amortised cost. An adjustment is made to these, if part of an effective fair value hedging strategy, to adjust the value of the deposit for the fair value being hedged with the resultant changes being recognised in the consolidated statement of income.

Repurchase and resale agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not derecognised. The counterparty liability for amounts received under these agreements are shown as sale of securities under repurchase agreement in the consolidated statement of financial position. The difference between sale and repurchase price is treated as interest expense using effective yield method. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in placements with banks and other financial institutions or loans and advances, as appropriate. The difference between purchase and resale price is treated as interest income using effective yield method.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Financial guarantees
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in ‘other liabilities’, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in ‘impairment provisions - net’. The premium received is recognised in the consolidated statement of income in ‘other income’ on a straight line basis over the life of the guarantee.

Employee pension and other end of service benefits
Costs relating to employee pension and other end of service benefits are generally accrued in accordance with actuarial valuations based on prevailing regulations applicable in each location.

Recognition of income and expenses
For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Other fee income and expense are recognised when earned or incurred.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Where the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expenses (continued)
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Fair values
The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

For externally managed funds, the fair value is determined by reference to the net asset values provided by the fund administrators.

Taxation on foreign operations
There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided for in accordance with the fiscal regulations applicable in each location. No provision is made for any liability that may arise in the event of distribution of the reserves of subsidiaries. A substantial portion of such reserves is required to be retained to meet local regulatory requirements.

Foreign currencies
Monetary assets and liabilities in foreign currencies are translated into the Group's functional currency at the rates of exchange ruling at the date of the statement of financial position. Any gains or losses are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The assets and liabilities of foreign operations are translated into the Group's functional currency at rates of exchange ruling at the date of the statement of financial position. Income and expense items are translated at average exchange rates for the period. Foreign exchange translation gains and losses arising from translating the financial statements of the subsidiaries into functional currency, being US dollars, are recorded directly in the consolidated statement of comprehensive income under unrealised gain (loss) on exchange translation in foreign subsidiaries.

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 Group commits to purchase or sell the asset.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedge accounting
The Group enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in the foreign exchange, interest rate and capital markets. These are stated at fair value. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

Changes in the fair values of derivatives held for trading activities or to offset other trading positions or which do not qualify for hedge accounting are included in other operating income in the consolidated statement of income.

For the purposes of hedge accounting, hedges are classified into three categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction; and (c) net investment hedges which hedge the exposure to a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Changes in the fair value of derivatives that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in other operating income along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Changes in the fair value of derivatives that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in the statement of comprehensive income and the ineffective portion recognised in the consolidated statement of income. The gains or losses on cash flow hedges recognised initially in equity are transferred to the consolidated statement of income in the period in which the hedged transaction impacts the income. Where the hedged transaction results in the recognition of an asset or a liability the associated gain or loss that had been initially recognised in equity is included in the initial measurement of the cost of the related asset or liability.

Change in fair value of derivative or non-derivatives that are designated and qualify, as net investment hedges and that prove to be highly effective in relation to the hedged risk are accounted for in a way similar to cash flow hedges.

Hedge accounting is discontinued when the derivative hedging instrument either expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or is revoked. Upon such discontinuance:

- in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the consolidated statement of income over the remaining term to maturity.
- in the case of cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. When such transaction occurs the gain or loss retained in equity is recognised in the consolidated statement of income or included in the initial measurement of the cost of the related asset or liability, as appropriate. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

All figures in US$ Million

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedge accounting
Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of income. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of income.

Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the consolidated statement of financial position.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with the master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Term notes, bonds and other term financing
Issued financial instruments (or their components) are classified as liabilities under 'Term notes, bonds and other term financing', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, the term notes, bonds and other term financing are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management has made the following judgements and estimates which have the most significant effect on the amounts recognised in the consolidated financial statements:

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

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data.

Impairment losses on loans and advances
The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

All figures in US$ Million

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Impairment losses on loans and advances (continued)
Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in note 9.

Impairment losses on available-for-sale investments
The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

The internal grading process takes into consideration factors such as collateral held, deterioration in country risk, industry, technological obsolescence as well as identified structural weakness or deterioration in cash flows.

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS

As at 31 December, financial instruments have been classified for the purpose of measurement under IAS 39 *Financial Instruments: Recognition and Measurement* as follows:

As at 31 December 2010	***Held for trading***	***Available-for-sale***	***Amortised cost/ Loans and receivables***	***Total***
ASSETS				
Liquid funds	**-**	**-**	**485**	**485**
Trading securities	**65**	**-**	**-**	**65**
Placements with banks and other financial institutions	**-**	**-**	**6,573**	**6,573**
Non-trading securities *	**-**	**4,957**	**3,100**	**8,057**
Loans and advances	**-**	**52**	**12,134**	**12,186**
Interest receivable and other assets	**-**	**-**	**597**	**597**
	65	**5,009**	**22,889**	**27,963**

All figures in US$ Million

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

	Held for trading	***Available-for-sale***	***Amortised cost***	***Total***
LIABILITIES				
Deposits from customers	**-**	**-**	**11,175**	**11,175**
Deposits from banks and other financial institutions	**-**	**-**	**6,283**	**6,283**
Certificates of deposit	**-**	**-**	**41**	**41**
Securities sold under repurchase agreements	**-**	**-**	**3,719**	**3,719**
Interest payable, taxation and other liabilities	**-**	**-**	**844**	**844**
TERM NOTES, BONDS AND OTHER TERM FINANCING	**-**	**-**	**2,183**	**2,183**
	-	**-**	**24,245**	**24,245**

As at 31 December 2009	*Held for trading*	*Available-for-sale*	*Amortised cost/ Loans and receivables*	*Total*
ASSETS				
Liquid funds	-	-	646	646
Trading securities	135	-	-	135
Placements with banks and other financial institutions	-	-	3,949	3,949
Non-trading securities*	-	5,632	3,920	9,552
Loans and advances	-	89	10,860	10,949
Interest receivable and other assets	-	-	590	590
	135	5,721	19,965	25,821

	Held for trading	*Available-for-sale*	*Amortised cost*	*Total*
LIABILITIES				
Deposits from customers	-	-	9,909	9,909
Deposits from banks and other financial institutions	-	-	6,224	6,224
Certificates of deposit	-	-	34	34
Securities sold under repurchase agreements	-	-	4,079	4,079
Interest payable, taxation and other liabilities	-	-	794	794
TERM NOTES, BONDS AND OTHER TERM FINANCING	-	-	2,344	2,344
	-	-	23,384	23,384

* Included in the above are other non-trading securities amounting to US$ 3,082 million (2009: US$ 3,903 million) which were reclassified effective 1 July 2008. Refer note 8 for details.

All figures in US$ Million

6 TRADING SECURITIES

	2010	2009
Externally managed funds	**5**	6
Debt securities	**59**	129
Equities	**1**	-
	65	135

Externally managed funds represent investments in hedge funds (fund of funds) managed by internationally renowned asset managers. In 2007, the Group gave notice to the fund managers of the externally managed funds to exit the funds.

7 NON-TRADING SECURITIES

	2010			*2009*		
	Quoted	***Unquoted****	***Total***	*Quoted*	*Unquoted*	*Total*
Available-for-sale						
Debt securities	**1,425**	**3,947**	**5,372**	1,163	4,912	6,075
Equity securities	**32**	**68**	**100**	34	79	113
Held to maturity						
Debt securities	**-**	**18**	**18**	-	17	17
Other non-trading securities carried at amortised cost **	**3,082**	**-**	**3,082**	3,903	-	3,903
	4,539	**4,033**	**8,572**	5,100	5,008	10,108
Provision against non-trading securities	**(154)**	**(361)**	**(515)**	(146)	(410)	(556)
	4,385	**3,672**	**8,057**	4,954	4,598	9,552

* Includes unquoted equity securities net of provision of US$ 41 million (2009: US$ 55 million) carried at cost. This is due to the unpredictable nature of future cash flows and lack of suitable alternative methods to arrive at a reliable fair value. There is no market for these investments and the Group intends to hold them for the long term.

All other available-for-sale securities and other non-trading securities have been valued using observable market inputs.

** As explained in note 8, the Group has identified assets, eligible under the amendment to IAS 39, for which it has a clear intent to hold for the foreseeable future and are no longer quoted in an active market. The assets were reclassified with retrospective effect as on 1 July 2008 in accordance with the amendment to IAS 39 and are reflected as other non-trading securities carried at amortised cost.

Provisions against non-trading securities are primarily on collateralized debt obligations and for failed banks on account of market dislocations, mainly in North America and Europe.

All figures in US$ Million

7 NON-TRADING SECURITIES (continued)

The ratings distribution of non-trading securities is given below:

	2010	*2009*
AAA rated debt securities	**3,682**	4,727
AA to A rated debt securities	**2,338**	2,671
Other investment grade debt securities	**1,404**	1,198
Other non-investment grade debt securities	**541**	944
Unrated debt securities	**507**	455
Equity securities	**100**	113
	8,572	10,108
Provisions against non-trading securities	**(515)**	(556)
	8,057	9,552

The movements in provisions against non-trading securities during the year were as follows:

	2010	*2009*
At 1 January	**556**	1,178
Charge for the year	**31**	17
Write backs / recoveries	**(19)**	(23)
Write-offs	**(48)**	(610)
Foreign exchange translation and other adjustments	**(5)**	(6)
At 31 December	**515**	556

Gross amount of non-trading securities individually determined to be impaired before deducting any individually assessed impairment losses was US$ 567 million (2009: US$ 608 million). Interest income received during the year on impaired securities was US$ 2 million (2009: US$ 6 million).

8 RECLASSIFICATION OF FINANCIAL ASSETS

In October 2008, the 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 available-for-sale category to the other non-trading securities 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 were effective retrospectively to 1 July 2008.

Per the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified certain available-for-sale securities to other non-trading securities carried at amortised cost. The Group identified assets, eligible under the amendments, for which it had a clear intent to hold for the foreseeable future. The assets were reclassified with retrospective effect as on 1 July 2008. The significant market dislocations witnessed in the financial sector in 2008 is considered as a rare event.

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

	2010	*2009*
Carrying value	**3,082**	3,903
Fair value	**3,009**	3,751

Fair value gains that would have been recognised in other comprehensive income for the year ended 31 December 2010 had the other non-trading securities not been reclassified amounts to US$ 79 million (2009: US$ 273 million).

All figures in US$ Million

8 RECLASSIFICATION OF FINANCIAL ASSETS (continued)

The Group earns an effective interest rate of 1% to 9% (2009: 1% to 8%) on these investments and the carrying values reflect the cash flows expected to be recovered as of year end. Reclassified available-for-sale financial assets at cost include US$ 222 million (2009: US$ 276 million) which have been hedged for changes in fair value, on account of change in interest rates.

9 LOANS AND ADVANCES

	2010	*2009*
i) By industrial sector		
Financial services	**2,476**	2,239
Other services	**2,653**	3,108
Manufacturing	**4,494**	3,702
Construction	**583**	624
Mining and quarrying	**747**	456
Personal	**257**	309
Trade	**423**	306
Agriculture, fishing and forestry	**489**	299
Consumer	**341**	221
Government	**291**	216
	12,754	11,480
Loan loss provisions	**(568)**	(531)
	12,186	10,949

	2010	*2009*
ii) Loan loss provisions by industrial sector		
Financial services	**182**	154
Other services	**19**	23
Manufacturing	**64**	70
Construction	**4**	2
Personal	**1**	2
Trade	**53**	42
Agriculture, fishing and forestry	**3**	2
Consumer	**8**	7
Government	**65**	63
Collective impairment	**169**	166
	568	531

The movements in loan loss provisions during the year were as follows:

	Specific impairment		***Collective impairment***	
	2010	*2009*	***2010***	*2009*
At 1 January	**365**	265	**166**	162
Charge for the year	**67**	127	**6**	4
Write backs / recoveries	**(6)**	(10)	**(2)**	-
Write-offs	**(28)**	(29)	**-**	-
Foreign exchange translation and other adjustments	**1**	12	**(1)**	-
At 31 December	**399**	365	**169**	166

The gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance amounted to US$ 445 million (2009: US$ 405 million).

All figures in US$ Million

9 LOANS AND ADVANCES (continued)

The fair value of tangible collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2010 amounts to US$ 20 million (2009: US$ 20 million).

At 31 December 2010, interest in suspense on past due loans amounted to US$ 212 million (2009: US$ 205 million).

10 IMPAIRMENT PROVISIONS - NET

During the year the Group has made the following provisions for impairment - net:

	2010	*2009*
Non-trading securities (note 7)	**(12)**	6
Loans and advances (note 9)	**(65)**	(121)
	(77)	(115)

11 OTHER ASSETS

	2010	*2009*
Positive fair value of derivatives (note 20)	**134**	94
Margin dealing accounts	**9**	76
Bank owned life insurance	**31**	29
Staff loans	**17**	22
Investments in associates	**21**	21
Assets acquired on debt settlement	**6**	9
Securities sold awaiting value	-	5
Others	**156**	174
	374	430

The negative fair value of derivatives amounting to US$ 154 million (2009: US$ 122 million) is included in other liabilities (note 13). Details of derivatives are given in note 20.

12 TAXATION ON FOREIGN OPERATIONS

	2010	*2009*
Consolidated statement of financial position		
Current tax liability	**73**	102
Deferred tax liability	**14**	14
	87	116
Consolidated statement of income		
Current tax on foreign operations	**72**	50
Deferred tax on foreign operations	**12**	(4)
	84	46
Analysis of tax charge		
At Bahrain (income tax rate of nil)	**-**	-
On profits of subsidiaries operating in other jurisdictions	**84**	46
Income tax expense reported in the consolidated statement of income	**84**	46

In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of the effective tax rates.

All figures in US$ Million

13 OTHER LIABILITIES

	2010	*2009*
Negative fair value of derivatives (note 20)	**154**	122
Margin deposits including cash collateral	**86**	60
Cash export and credit assignment payables	**36**	58
Employee related payables	**53**	54
Deferred income	**22**	21
Cheques for collection	**24**	18
Non-corporate tax payable	**2**	8
Accrued charges and other payables	**198**	198
	575	539

The positive fair value of derivatives amounting to US$ 134 million (2009: US$ 94 million) is included in other assets (note 11). Details of derivatives are given in note 20.

14 TERM NOTES, BONDS AND OTHER TERM FINANCING

In the ordinary course of business, the Bank and certain subsidiaries raise term financing through various capital markets at commercial rates.

Total obligations outstanding at 31 December 2010

Aggregate maturities	***Parent bank***	***Subsidiaries***	***Total***
2011	**277**	**-**	**277**
2012	**955**	**200**	**1,155**
2014	**55**	**-**	**55**
2017	**412**	**-**	**412**
2020	**-**	**284**	**284**
	1,699	**484**	**2,183**
Total obligations outstanding at 31 December 2009	2,144	200	2,344

All obligations bear floating rates of interest.

During the year, subordinated debt of a nominal amount of US$ 300 million (2009: nil) was raised by a subsidiary of the Bank.

Additionally, the Bank repurchased a portion of its term loan borrowings with a nominal value of US$ 45 million (2009: US$ 88 million). The resultant net gain on the repurchase amounting to US$ 2 million (2009: US$ 34 million) is included as a part of "other operating income" in the consolidated statement of income (note 18).

The Group has not had any defaults of principal, interest or other breaches with regard to all liabilities during 2010 and 2009.

All figures in US$ Million

15 EQUITY

a) Share capital

	2010	*2009*
Authorised – 3,500 million shares of US$ 1 each (2009: 2,500 million shares of US$ 1 each)	**3,500**	2,500
Issued, subscribed and fully paid – 3,110 million shares of US$ 1 each (2009: 2,000 million shares of US$ 1 each)	**3,110**	2,000

Rights issue

At an Extraordinary General Meeting held on 28 January 2010, the shareholders resolved to increase the authorised share capital of the Bank from US$ 2,500 million to US$ 3,500 million and the issued and paid up capital from US$ 2,000 million to US$ 3,110 million by way of a priority rights to existing shareholders.

The priority rights share issue, amounting to US$ 1,110 million, was closed on 24 March 2010 and legal formalities relating to the issue have been completed.

The rights issue was fully underwritten by the Central Bank of Libya. The underwriting fee of US$ 110 million has been adjusted against the share premium outstanding as at 31 December 2009.

b) Statutory reserve

As required by the Articles of Association of the Bank and the Bahrain Commercial Companies Law, 10% of the profit for the year is transferred to the statutory reserve. Such annual transfers will cease when the reserve totals 50% of the paid up share capital. The reserve is not available except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

c) General reserve

The general reserve underlines the shareholders' commitment to enhance the strong equity base of the Bank. There are no restrictions on the distribution of this reserve after obtaining approval of the Central Bank of Bahrain.

d) Cumulative changes in fair values

	2010	*2009*
At 1 January	**(223)**	(434)
Transferred to consolidated statement of comprehensive income on impairment	**28**	11
Transferred to consolidated statement of comprehensive income on disposal	**1**	-
Net movement in fair value during the year	**49**	170
Amortisation of fair value short-fall on reclassified securities	**20**	30
At 31 December	**(125)**	(223)

16 INTEREST AND SIMILAR INCOME

	2010	*2009*
Loans and advances	**698**	794
Securities	**167**	233
Placements with banks and other financial institutions	**89**	59
Others	**22**	19
	976	1,105

All figures in US$ Million

17 INTEREST AND SIMILAR EXPENSE

	2010	2009
Deposits from banks and other financial institutions	**303**	482
Deposits from customers	**184**	174
Term notes, bonds and other term financing	**36**	52
Others	**12**	5
Certificates of deposit	**1**	1
	536	714

18 OTHER OPERATING INCOME

	2010	2009
Fee and commission income	**193**	187
Fee and commission expense	**(19)**	(30)
Gains on dealing in foreign currencies - net	**23**	20
Gains on dealing in derivatives - net	**32**	9
Gains on trading securities - net	**2**	1
Gain on repurchase of subordinated debt (note 14)	**2**	34
Other – net	**46**	29
	279	250

Included in the fee and commission income is US$ 13 million (2009: US$ 12 million) is fee income relating to trust and other fiduciary activities.

19 SUBSIDIARIES

The principal subsidiaries, all of which have 31 December as their year end, are as follows:

	Country of incorporation	*Interest of Arab Banking Corporation (B.S.C.)*	
		2010	*2009*
		%	%
ABC International Bank plc	United Kingdom	**100**	100
ABC Islamic Bank (E.C.)	Bahrain	**100**	100
Arab Banking Corporation (ABC) - Jordan	Jordan	**87**	87
Banco ABC Brasil S.A.	Brazil	**56**	56
ABC Algeria	Algeria	**88**	88
Arab Banking Corporation - Egypt [S.A.E.]	Egypt	**98**	98
ABC Tunisie	Tunisia	**100**	100
Arab Financial Services Company B.S.C. (c)	Bahrain	**55**	55

All figures in US$ Million

20 DERIVATIVES AND HEDGING

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments.

The table below shows the positive and negative fair values of derivative financial instruments. The notional amount is that of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of either market or credit risk.

	2010			*2009*		
	Positive fair value	***Negative fair value***	***Notional amount***	*Positive fair value*	*Negative fair value*	*Notional amount*
Derivatives held for trading						
Interest rate swaps	**71**	**63**	**2,263**	65	62	1,475
Currency swaps	**7**	**12**	**373**	1	-	14
Forward foreign exchange contracts	**29**	**17**	**3,005**	7	6	3,144
Options	**20**	**18**	**2,105**	21	24	3,053
Futures	**5**	**5**	**2,175**	-	-	1,714
	132	**115**	**9,921**	94	92	9,400
Derivatives held as hedges						
Interest rate swaps	**2**	**30**	**676**	-	29	514
Currency swaps	-	**-**	**-**	-	1	26
Forward foreign exchange contracts	-	**9**	**239**	-	-	44
Options	-	-	**-**	-	-	-
	2	**39**	**915**	-	30	584
	134	**154**	**10,836**	94	122	9,984
Risk weighted equivalents (credit and market risk)			**1,567**			1,596

Derivatives are carried at fair value using valuation techniques based on observable market inputs.

Derivatives held as hedges include:

a) Fair value hedges which are predominantly used to hedge fair value changes arising from interest rate fluctuations in loans and advances, placements, deposits and available-for-sale debt securities.

   For the year ended 31 December 2010, the Group recognised a net gain of US$ 8 million (2009: gain of US$ 12 million), on hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to US$ 8 million (2009: loss of US$ 13 million).

b) Net investment hedges comprise forward foreign exchange contracts of US$ 23 million (2009: US$ 15 million). As at 31 December 2010, the fair value of the forward foreign exchange contracts was immaterial.

   In addition to the forward foreign exchange contracts, the Group uses deposits which are accounted for as hedges of net investment in foreign operations. As at 31 December 2010, the Group had deposits amounting to US$ 417 million (2009: US$ 298 million) which were designated as net investment hedges.

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

All figures in US$ Million

20 DERIVATIVES AND HEDGING (continued)

Derivative product types (continued)

Swaps are contractual agreements between two parties to exchange interest or foreign currency amounts based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For cross-currency swaps, notional amounts are exchanged in different currencies. For cross-currency interest rate swaps, notional amounts and fixed and floating interest payments are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group. The majority of the Group's derivative contracts are entered into with other financial institutions and there is no significant concentration of credit risk in respect of contracts with positive fair value with any individual counterparty at the date of the statement of financial position.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Also included under this heading are any derivatives which do not meet IAS 39 hedging requirements.

Derivatives held or issued for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. The Board has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on an ongoing basis and hedging strategies used to ensure positions are maintained within established limits. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps are reviewed on an ongoing basis and hedging strategies used to reduce the interest rate gaps to within the limits established by the Board of Directors.

As part of its asset and liability management the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against overall statement of financial position exposures. For interest rate risk this is carried out by monitoring the duration of assets and liabilities using simulations to estimate the level of interest rate risk and entering into interest rate swaps and futures to hedge a proportion of the interest rate exposure, where appropriate. Since strategic hedging does not qualify for special hedge accounting related derivatives are accounted for as trading instruments.

The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified loans and securities bearing fixed interest rates. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as hedges.

All figures in US$ Million

21 CREDIT COMMITMENTS AND CONTINGENT ITEMS

Credit commitments and contingent items include commitments to extend credit, standby letters of credit, acceptances and guarantees, which are structured to meet the various requirements of customers.

At the statement of financial position date, the principal outstanding and the risk weighted equivalents were as follows:

	2010	*2009*
Short-term self-liquidating trade and transaction-related contingent items	**6,037**	5,987
Direct credit substitutes, guarantees and acceptances	**2,762**	1,913
Undrawn loans and other commitments	**1,049**	894
	9,848	8,794
Risk weighted equivalents	**3,275**	2,725

The table below shows the contractual expiry by maturity of the Group's credit commitments and contingent items:

	2010	*2009*
On demand	**929**	937
1 - 6 months	**3,301**	2,701
6 - 12 months	**2,056**	2,107
1 - 5 years	**3,392**	2,813
Over 5 years	**170**	236
	9,848	8,794

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Group is engaged in litigation in various jurisdictions. The litigation involves claims by and against the Group which have arisen in the ordinary course of business. The Directors of the Bank, after reviewing the claims pending against Group companies and based on the advice of relevant professional legal advisors, are satisfied that the outcome of these claims will not have a material adverse effect on the financial position of the Group.

22 SIGNIFICANT NET FOREIGN CURRENCY EXPOSURES

Significant net foreign currency exposures, arising mainly from investments in subsidiaries, are as follows:

	2010		*2009*	
Long (short)	***Currency***	***US$ equivalent***	*Currency*	*US$ equivalent*
Brazilian Real	**727**	**438**	663	377
Egyptian Pound	**834**	**144**	808	147
Jordanian Dinar	**90**	**128**	85	120
Pound Sterling	**48**	**75**	107	174
Algerian Dinar	**10,462**	**141**	9,331	130
Saudi Riyal	**-**	**-**	4	1
UAE Dirham	**11**	**3**	1,292	352

The UAE Dirham exposure in 2009 arose from net trading position and was entirely covered by currency options to minimise the risk of loss from adverse movements in the foreign currency rates.

All figures in US$ Million

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged or a liability settled between knowledgable 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 assets and financial liabilities which are not carried at fair value are not materially different from their carrying value except for the following:

	2010		*2009*	
	Carrying value	***Fair value***	*Carrying value*	*Fair value*
Other non-trading securities	**3,082**	**3,009**	3,903	3,751
Term notes, bonds and other term financing	**973**	**918**	1,089	932

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

Level 1 valuation: Directly observable quotes for the same instrument (market prices).

Level 2 valuation: Directly observable proxies for the same instrument accessible at valuation date (mark-to-model with market data).

Level 3 valuation: Derived proxies (interpolation of proxies) for similar instruments that have not been observed (mark-to-model with deducted proxies).

As at 31 December, the Group has used the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

	2010			*2009*		
	Level 1	***Level 2***	***Total***	*Level 1*	*Level 2*	*Total*
Financial assets						
Trading securities						
Externally managed funds	-	**5**	**5**	-	6	6
Debt securities	**53**	**6**	**59**	123	6	129
Equities	**1**	**-**	**1**	-	-	-
	54	**11**	**65**	123	12	135
Non-trading securities						
Available-for-sale						
Debt securities	**1,437**	**3,458**	**4,895**	1,039	4,512	5,551
Equity securities at fair value	**21**	**-**	**21**	26	-	26
	1,458	**3,458**	**4,916**	1,065	4,512	5,577
Loans and advances - available-for-sale	**-**	**52**	**52**	-	89	89
Derivatives held for trading	**-**	**132**	**132**	-	94	94
Derivatives held as hedges	**-**	**2**	**2**	-	-	-
Financial liabilities						
Derivatives held for trading	**-**	**115**	**115**	-	92	92
Derivatives held as hedges	**-**	**39**	**39**	-	30	30

Financial instruments recorded at fair value

The description of the determination of fair value for financial instruments recorded at fair value using valuation techniques is discussed in note 4, which incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

All figures in US$ Million

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Transfers between level 1 and level 2

None of the financial instruments were transferred from level 1 to level 2 during the year ended 31 December 2010.

24 RISK MANAGEMENT

Introduction

Risk is inherent in the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Group is exposed to credit risk, liquidity risk, operational and market risk, legal risk and strategic risk as well as other forms of risk inherent in its financial operations.

Over the last few years the Group has invested heavily into developing a comprehensive and robust risk management infrastructure. This includes risk identification processes under credit, market and operational risk spectrums, risk measurement models and rating systems as well as a strong business process to monitor and control these risks.

Risk management structure

Executive Management is responsible for implementing the Group's Risk Strategy/Appetite and Policy Guidelines set by the Board Risk Committee (BRC), including the identification and evaluation on a continuous basis of all significant risks to the business and the design and implementation of appropriate internal controls to minimise them. This is done through the following board committees, senior management committees and the Credit & Risk Group in Head Office.

Within the broader governance infrastructure, the board committees carry the main responsibility of best practice management and risk oversight. At this level, the BRC oversees the definition of risk appetite, risk tolerance standards, and risk process standards to be kept in place. The BRC is also responsible to coordinate with other board committees for monitoring compliance with the requirements of the regulatory authorities in the various countries in which the Group operates.

The Group Audit Committee is responsible to the Board for ensuring that the Group maintains an effective system of financial, accounting and risk management controls and for monitoring compliance with the requirements of the regulatory authorities in the various countries in which the Group operates.

The Group's Head Office Credit Committee (HOCC) is responsible for credit decisions at the higher levels of Group's lending portfolio, setting country and other high level Group limits, dealing with impaired assets and general credit policy matters.

Each subsidiary is responsible for managing its own risks and has its own Board Risk Committee, Credit Committee and (in the case of major subsidiaries) Asset and Liability Committee (ALCO), or equivalent, with responsibilities generally analogous to the Group committees.

The ALCO is chiefly responsible for defining long-term strategic plans and short-term tactical initiatives for directing asset and liability allocation prudently for the achievement of the Group’s strategic goals. ALCO monitors the Group’s liquidity and market risks and the Group’s risk profile in the context of economic developments and market fluctuations, to ensure that the Group’s ongoing activities are compatible with the risk/reward guidelines approved by the BRC. The above management structure, supported by teams or risk and credit analysts, as well as the IT systems provide a coherent infrastructure to carry credit and risk functions in a seamless manner.

The Operational Risk Management Committee (ORCO) is responsible for defining long-term strategic plans and short-term tactical initiatives for operational risk. It also has the overall responsibility to monitor and prudently manage exposure to operational risks including strategic and reputation risks.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Risk measurement and reporting system

Risk mitigation
As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group. The effectiveness of hedges is monitored monthly by the Group. In situations of ineffectiveness, the Group will enter into a new hedge relationship to mitigate risk on a continuous basis.

The Group actively uses collateral to reduce its credit risk (see below for details).

Excessive risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic 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 Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group policies and procedures include specific guidelines to focus on country and counter party limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk
Credit risk is the risk that the Group will incur a loss because its customers, clients and counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits.

The first level of protection against undue credit risk is through country, industry and other risk threshold limits, together with customer and customer group credit limits, set by the BRC and the HOCC and allocated between the Bank and its banking subsidiaries. Credit exposure to individual customers or customer groups is then controlled through a tiered hierarchy of delegated approval authorities based on the risk rating of the customer under the Group's internal credit rating system. Where unsecured facilities sought are considered to be beyond prudential limits, Group policies require collateral to mitigate the credit risk in the form of cash, securities, legal charges over the customer's assets or third-party guarantees. The Group also employs Risk Adjusted Return on Capital (RAROC) as a measure to evaluate the risk/reward relationship at the transaction approval stage. RAROC analysis is also conducted on a portfolio basis, aggregated for each business segment, business unit and for the whole Group.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

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

The Group's concentration of risk is managed by geographical region and by industry sector. The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including credit commitments and contingent items. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure	
	2010	*2009*
Liquid funds	**431**	610
Trading debt securities	**59**	129
Placement with banks and other financial institutions	**6,573**	3,949
Non-trading debt securities	**7,995**	9,471
Loans and advances	**12,186**	10,949
Other credit exposures	**596**	590
	27,840	25,698
Credit commitment and contingent items (note 21)	**9,848**	8,794
Total	**37,688**	34,492

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references should be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Risk concentration of the maximum exposure to credit risk

The Group's assets (before taking into account any collateral held or other credit enhancements), liabilities and equity and commitments and contingencies can be analysed by the following geographical regions:

	Assets		***Liabilities and equity***		***Credit commitment and contingent items***	
	2010	*2009*	***2010***	*2009*	***2010***	*2009*
Western Europe	**5,273**	4,077	**2,412**	2,020	**969**	1,746
Arab World	**9,869**	10,126	**17,467**	16,583	**4,748**	3,860
Asia	**940**	639	**296**	268	**385**	148
North America	**5,325**	6,248	**3,153**	3,609	**878**	1,015
Latin America	**5,719**	4,079	**4,411**	3,202	**2,398**	1,675
Other	**714**	529	**101**	16	**470**	350
Total	**27,840**	25,698	**27,840**	25,698	**9,848**	8,794

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Risk concentration of the maximum exposure to credit risk (continued)

An industry sector analysis of the Group's financial assets, before and after taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure		*Net maximum exposure*	
	2010	*2009*	***2010***	*2009*
Financial services	**11,748**	9,712	**10,480**	8,620
Other services	**3,568**	3,790	**3,088**	3,433
Manufacturing	**4,556**	3,693	**3,984**	3,283
Construction	**665**	693	**540**	548
Mining and quarrying	**762**	468	**754**	457
Agriculture, fishing and forestry	**491**	300	**489**	300
Trade	**314**	269	**249**	206
Consumer	**275**	214	**275**	214
Government	**5,170**	6,231	**5,154**	6,214
Personal	**291**	328	**172**	158
Total	**27,840**	25,698	**25,185**	23,433

An industry sector analysis of the Group's credit commitments and contingent items, before and after taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure		*Net maximum exposure*	
	2010	*2009*	***2010***	*2009*
Financial services	**4,646**	4,168	**4,284**	3,869
Other services	**1,360**	1,040	**1,354**	1,039
Manufacturing	**2,048**	1,983	**2,020**	1,961
Construction	**777**	795	**772**	793
Mining and quarrying	**468**	308	**468**	308
Agriculture, fishing and forestry	**17**	30	**17**	30
Trade	**472**	413	**469**	412
Government	**32**	34	**31**	34
Other	**28**	23	**26**	20
Total	**9,848**	8,794	**9,441**	8,466

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset, based on the Group's credit rating system.

31 December 2010	*Neither past due nor impaired*			*Past due*	
	High grade	*Standard grade*	*Sub-standard grade*	*or individually impaired*	*Total*
Liquid funds	**431**	**-**	**-**	**-**	**431**
Trading debt securities	**59**	**-**	**-**	**-**	**59**
Placements with banks and other financial institutions	**5,474**	**1,092**	**7**	**-**	**6,573**
Non-trading debt securities	**7,124**	**843**	**-**	**28**	**7,995**
Loans and advances	**4,586**	**7,460**	**-**	**140**	**12,186**
Other credit exposures	**497**	**99**	**-**	**-**	**596**
	18,171	**9,494**	**7**	**168**	**27,840**

31 December 2009	*Neither past due nor impaired*			*Past due*	
	High grade	*Standard grade*	*Sub-standard grade*	*or individually impaired*	*Total*
Liquid funds	610	-	-	-	610
Trading debt securities	129	-	-	-	129
Placements with banks and other financial institutions	2,948	994	7	-	3,949
Non-trading debt securities	8,358	1,090	-	23	9,471
Loans and advances	4,676	6,133	-	140	10,949
Other credit exposures	510	80	-	-	590
	17,231	8,297	7	163	25,698

As at 31 December 2010, the total amount of past due but not impaired assets was US$ 17 million (2009: US$ 12 million).

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio through a risk rating system. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty credit risk. All internal ratings are tailored to the various categories and are derived in accordance with the Group's credit policy. The attributable risk ratings are assessed and updated regularly. Each risk rating class has grades equivalent to Moody's, S&P and Fitch rating agencies.

Carrying amount per class of financial assets whose terms have been renegotiated as at year end

	2010	*2009*
Loans and advances	**115**	59

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Collateral and other credit enhancements
The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly includes cash and guarantees from banks.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Group also makes use of master netting agreements with counterparties.

Settlement risk
Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions, the Group mitigates this risk through a settlement agent to ensure that a trade is settled only when both parties fulfill their settlement obligations. Settlement approvals form a part of credit approval and limit monitoring procedure.

Market risk
Market risk is the risk that the Group's earnings or capital, or its ability to support business strategy, will be impacted by the change in market rates or prices related to interest rates, equity prices, credit spreads, foreign exchange rates, and commodity prices.

The Group has established risk management policies and limits within which exposure to market risk is monitored, measured and controlled by the Risk Management Department (RMD) with strategic oversight exercised by ALCO. The RMD's Market Risk Management (MRM) unit is responsible for developing and implementing market risk policy and risk measuring/monitoring methodology and for reviewing all new trading products and product limits prior to ALCO approval. MRM's core responsibility is to measure and report market risk against limits throughout the Group.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The most prominent market risk factor for the Group is interest rates. This risk is minimized as the Group's rate sensitive assets and liabilities are mostly floating rate, where the duration risk is lower. In general, the Group uses matched currency funding and translates fixed rate instruments to floating rate to better manage the duration in the asset book.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of income.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on financial assets and financial liabilities held at 31 December, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges and swaps. Substantially all the available-for-sale non-trading securities held by the Group are floating rate assets. Hence, the sensitivity to changes in equity due to interest rate changes is insignificant.

	Increase in basis points 2010	*Sensitivity statement of income 2010*	*Decrease in basis points 2010*	*Sensitivity statement of income 2010*
US Dollar	**25**	**12**	**25**	**(12)**
Euro	**25**	**1**	**25**	**(1)**
Pound Sterling	**25**	**1**	**25**	**(1)**
Brazilian Real	**25**	**4**	**25**	**(4)**
Others	**25**	**1**	**25**	**(1)**

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Interest rate risk (continued)

	Increase in basis points 2009	*Sensitivity statement of income 2009*	*Decrease in basis points 2009*	*Sensitivity statement of income 2009*
US Dollar	25	22	25	(22)
Euro	25	1	25	(1)
Pound Sterling	25	2	25	(2)
Brazilian Real	25	2	25	(2)
Others	25	3	25	(3)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The table below indicates the currencies to which the Group had significant exposure at 31 December 2010 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US$, with all other variables held constant on the consolidated statement of income (due to the fair value of currency sensitive trading and non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges) and the effect of the impact of foreign currency movements on the structural positions of the Bank in its subsidiaries. A negative amount in the table reflects a potential net reduction in the consolidated statement of income or equity, while a positive amount reflects a potential net increase.

Currency	***Change in currency rate in % 2010***	***Effect on profit before tax 2010***	***Effect on equity 2010***	*Change in currency rate in % 2009*	*Effect on profit before tax 2009*	*Effect on equity 2009*
Brazilian Real	**+/- 5%**	**-**	**+/-21**	+/- 5%	+/-1	+/-18
Pound Sterling	**+/- 5%**	**+/-1**	**+/-4**	+/- 5%	+/-1	+/-9
Egyptian Pound	**+/- 5%**	**-**	**+/-7**	+/- 5%	-	+/-7
Jordanian Dinar	**+/- 5%**	**-**	**+/-6**	+/- 5%	-	+/-6
Algerian Dinar	**+/- 5%**	**-**	**+/-6**	+/- 5%	-	+/-6

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's securities portfolio.

The effect on equity (as a result of a change in the fair value of trading equity instruments and equity instruments held as available for sale) due to a reasonably possible change in equity indices or the net asset values, with all other variables held constant, is as follows:

	% Change in equity price 2010	***Effect on statement of income/ equity 2010***	*% Change in equity price 2009*	*Effect on statement of income/ equity 2009*
Trading securities				
Change in NAVs of fund of funds in North America and Europe	**+/- 5%**	**-**	+/- 5%	-
Other equities	**+/- 5%**	**-**	+/- 5%	-
Available-for-sale equities	**+/- 5%**	**+/-3**	+/- 5%	+/-4

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems or from external events. Operational risk is inherent in all business activities and can never be eliminated entirely; however shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk. To achieve this goal the Operational Risk Management Unit has developed an operational risk framework, which includes identification, measurement, management, and monitoring and risk control/mitigation elements. A variety of underlying processes are being deployed across the Group including risk and control self-assessments, Key Risk Indicators (KRI), event management, new product review and approval processes and business contingency plans.

The Group intends to make operational risk transparent throughout the enterprise, to which end processes are being developed to provide for regular reporting of relevant operational risk management information to business management, senior management, the ORCO, the BRC and the Board of Directors generally.

Group policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions. Each business line – including Operations, Information Technology, Human Resources, Legal & Compliance and Financial Control - is further responsible for employing the aforementioned framework processes and control programmes to manage its operational risk within the guidelines established by the Group's policy and procedures. To ensure that all operational risks to which the Group is exposed are adequately managed, support functions are also involved in the identification, measurement, management, monitoring and control/mitigation of operational risk, as appropriate.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

The maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled or when they could be realised.

At 31 December 2010	*Within 1 month*	*1 -3 months*	*3 - 6 months*	*6 - 12 months*	*Total within 12 months*	*1 - 5 years*	*5-10 years*	*10 - 20 years*	*Over 20 years*	*Undated*	*Total over 12 months*	*Total*
ASSETS												
Liquid funds	485	-	-	-	485	-	-	-	-	-	-	485
Trading securities	-	-	6	59	65	-	-	-	-	-	-	65
Placements with banks and other financial institutions	5,862	347	199	165	6,573	-	-	-	-	-	-	6,573
Non-trading securities	5,796	37	643	201	6,677	1,192	118	6	3	61	1,380	8,057
Loans and advances	1,669	1,348	1,331	1,401	5,749	4,631	1,577	226	3	-	6,437	12,186
Others	-	-	-	-	-	-	-	-	-	739	739	739
Total assets	13,812	1,732	2,179	1,826	19,549	5,823	1,695	232	6	800	8,556	28,105
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	4,977	1,201	399	357	6,934	4,063	178	-	-	-	4,241	11,175
Deposits from banks and other financial institutions	3,403	1,543	515	512	5,973	310	-	-	-	-	310	6,283
Certificates of deposit	7	10	2	-	19	18	4	-	-	-	22	41
Securities sold under repurchase agreement	191	2,147	66	1,115	3,519	200	-	-	-	-	200	3,719
Term notes, bonds and other term financing	-	200	-	277	477	1,010	696	-	-	-	1,706	2,183
Others	-	-	-	-	-	-	-	-	-	844	844	844
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	3,860	3,860	3,860
Total liabilities, shareholders' equity and non-controlling interests	8,578	5,101	982	2,261	16,922	5,601	878	-	-	4,704	11,183	28,105
Net liquidity gap	5,234	(3,369)	1,197	(435)	2,627	222	817	232	6	(3,904)	-	-
Cumulative net liquidity gap	5,234	1,865	3,062	2,627		2,849	3,666	3,898	3,904	-		

Within 1 month are primarily liquid securities that can be sold under repurchase agreements. Deposits are continuously replaced with other new deposits or rollover from the same or different counterparties, based on available lines of credit.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

At 31 December 2009	*Within 1 month*	*1 -3 months*	*3 - 6 months*	*6 - 12 months*	*Total within 12 months*	*1 - 5 years*	*5-10 years*	*10 - 20 years*	*Over 20 years*	*Undated*	*Total over 12 months*	*Total*
ASSETS												
Liquid funds	407	239	-	-	646	-	-	-	-	-	-	646
Trading securities	-	-	30	105	135	-	-	-	-	-	-	135
Placements with banks and other financial institutions	3,457	64	428	-	3,949	-	-	-	-	-	-	3,949
Non-trading securities	7,339	65	722	167	8,293	1,038	125	14	1	81	1,259	9,552
Loans and advances	1,586	1,517	1,198	1,164	5,465	3,508	1,304	666	6	-	5,484	10,949
Others	-	-	-	-	-	-	-	-	-	734	734	734
Total assets	12,789	1,885	2,378	1,436	18,488	4,546	1,429	680	7	815	7,477	25,965
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	5,274	2,203	380	363	8,220	1,685	4	-	-	-	1,689	9,909
Deposits from banks and other financial institutions	3,098	1,328	475	392	5,293	914	17	-	-	-	931	6,224
Certificates of deposit	7	5	1	9	22	12	-	-	-	-	12	34
Securities sold under repurchase agreement	1,666	1,826	-	587	4,079	-	-	-	-	-	-	4,079
Term notes, bonds and other term financing	-	-	-	384	384	1,548	412	-	-	-	1,960	2,344
Others	-	-	-	-	-	-	-	-	-	794	794	794
Shareholders' equity and minority interests	-	-	-	-	-	-	-	-	-	2,581	2,581	2,581
Total liabilities, shareholders' equity and non-controlling interests	10,045	5,362	856	1,735	17,998	4,159	433	-	-	3,375	7,967	25,965
Net liquidity gap	2,744	(3,477)	1,522	(299)	490	387	996	680	7	(2,560)	-	-
Cumulative net liquidity gap	2,744	(733)	789	490		877	1,873	2,553	2,560	-		

All figures in US$ Million

24 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains liquid assets at prudential levels to ensure that cash can quickly be made available to honor all its obligations, even under adverse conditions. The Group is generally in a position of excess liquidity, its principal sources of liquidity being its deposit base, liquidity derived from its operations and inter-bank borrowings. The Minimum Liquidity Guideline (MLG) is used to manage and monitor daily liquidity. The MLG represents the minimum number of days the Group can survive the combined outflow of all deposits and contractual drawdowns, under market value driven encashability scenarios.

In addition, the internal liquidity/maturity profile is generated to summarize the actual liquidity gaps versus the revised gaps based on internal assumptions.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations. See the previous table for the expected maturities of these liabilities. Repayments which are subjected to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2010	***On demand***	***1 - 3 months***	***3 - 6 months***	***6 - 12 months***	***1 - 5 years***	***5-10 years***	***10 - 20 years***	***Total***
Financial liabilities								
Deposits from customers	**7,032**	**1,705**	**459**	**361**	**1,474**	**180**	**-**	**11,211**
Deposits from banks and other financial institutions	**3,405**	**1,547**	**517**	**513**	**332**	**-**	**-**	**6,314**
Securities sold under repurchase agreements	**192**	**2,151**	**68**	**1,123**	**200**	**-**	**-**	**3,734**
Certificates of deposits	**7**	**10**	**1**	**1**	**20**	**5**	**-**	**44**
Term notes, bonds and other term financing	**-**	**201**	**-**	**286**	**1,040**	**714**	**-**	**2,241**
Total non-derivative undiscounted financial liabilities on statement of financial position	**10,636**	**5,614**	**1,045**	**2,284**	**3,066**	**899**	**-**	**23,544**
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	**2,684**	**263**	**167**	**204**	**98**	**200**	**-**	**3,616**
Guarantees	**2,639**	**-**	**-**	**-**	**-**	**-**	**-**	**2,639**

All figures in US$ Million

24 RISK MANAGEMENT (continued)

At 31 December 2009	*On demand*	*1 - 3 months*	*3 - 6 months*	*6 - 12 months*	*1 - 5 years*	*5-10 years*	*10 - 20 years*	*Total*
Financial liabilities								
Deposits from customers	6,351	2,429	395	394	512	4	-	10,085
Deposits from banks and other financial institutions	3,100	1,338	485	424	1,089	29	-	6,465
Securities sold under repurchase agreements	1,666	1,828	-	589	-	-	-	4,083
Certificates of deposits	7	4	1	9	14	-	-	35
Term notes, bonds and other term financing	-	-	-	395	1,583	443	-	2,421
Total non-derivative undiscounted on balance sheet financial liabilities	11,124	5,599	881	1,811	3,198	476	-	23,089
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	1,394	933	301	586	2	-	11	3,227
Guarantees	1,806	-	-	-	-	-	-	1,806

All figures in US$ Million

25 OPERATING SEGMENTS

For management purposes, the Group is organised into five operating segments which are based on business units and their activities. The Group has accordingly been structured to place its activities under the distinct divisions which are as follows:

- **MENA subsidiaries** cover retail, corporate and treasury activities of subsidiaries in North Africa and Levant;
- **International wholesale banking** encompasses corporate and structured finance, trade finance, Islamic banking services and syndications;
- **Group treasury** comprises treasury activities of Bahrain Head Office, New York and London;
- **ABC Brasil** primarily reflects the commercial banking activities of the Brazilian subsidiary Banco ABC Brasil S.A., focusing on the corporate and middle market segments in Brazil; and
- **Other** includes activities of Arab Financial Services B.S.C. (c).

	2010					
	MENA subsidiaries	***International wholesale banking***	***Group treasury***	***ABC Brasil***	***Other***	***Total***
Net interest income	**83**	**58**	**59**	**231**	**9**	**440**
Other operating income	**43**	**98**	**35**	**83**	**20**	**279**
Total operating income	**126**	**156**	**94**	**314**	**29**	**719**
Profit before impairment provisions	**54**	**109**	**79**	**196**	**5**	**443**
Impairment (provisions) writeback - net	**(9)**	**(41)**	**(8)**	**(22)**	**3**	**(77)**
Profit before taxation and unallocated operating expenses	**45**	**68**	**71**	**174**	**8**	**366**
Taxation on foreign operations	**(12)**	**(6)**	**(2)**	**(63)**	**(1)**	**(84)**
Unallocated operating expenses	**-**	**-**	**-**	**-**	**-**	**(83)**
Profit for the year						**199**
Segment assets employed	**2,420**	**7,256**	**12,494**	**5,817**	**118**	**28,105**

	2009					
	MENA subsidiaries	*International wholesale banking*	*Group treasury*	*ABC Brasil*	*Other*	*Total*
Net interest income	77	57	89	172	(4)	391
Other operating income	45	102	54	22	27	250
Total operating income	122	159	143	194	23	641
Profit before impairment provisions	54	106	128	110	5	403
Impairment provisions - net	(4)	(69)	(4)	(27)	(11)	(115)
Profit (loss) before taxation and unallocated operating expenses	50	37	124	83	(6)	288
Taxation on foreign operations	(12)	1	1	(35)	(1)	(46)
Unallocated operating expenses	-	-	-	-	-	(88)
Profit for the year						154
Segment assets employed	2,460	7,595	11,545	4,278	87	25,965

All figures in US$ Million

25 OPERATING SEGMENTS (continued)

During the year ended 31 December 2010, the Group restructured the internal reporting lines for some of its segments. Previous year's figures have been reclassified accordingly.

Geographical information

The Group operates in six geographic markets: Middle East and North Africa, Western Europe, Asia, North America, Latin America and others. The following table show the external total operating income of the major units within the Group, based on the country of domicile of the entity for the years ended 31 December 2010 and 2009:

2010	*Bahrain*	*ABCIB*	*Banco ABC Brasil*	*Other*	*Total*
Total operating income	**133**	**90**	**314**	**182**	**719**
2009					
Total operating income	145	100	194	202	641

There were no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenue.

Non-current assets consist of premises and equipment and are not material to the Group.

26 REPURCHASE AND RESALE AGREEMENTS

Proceeds from assets sold under repurchase agreements at the year end amounted to US$ 3,719 million (2009: US$ 4,079 million). The carrying value of securities sold under repurchase agreements at the year end amounted to US$ 4,134 million (2009: US$ 4,358 million).

Amounts paid for assets purchased under resale agreements at the year end amounted to US$ 273 million (2009: US$ 64 million) and relate to customer product and treasury activities. The market value of the securities purchased under resale agreements at the year end amounted to US$ 276 million (2009: US$ 64 million).

All figures in US$ Million

27 TRANSACTIONS WITH RELATED PARTIES

Related parties represent the ultimate parent, major shareholder, associates, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

The year end balances in respect of related parties included in the consolidated financial statements are as follows:

	Ultimate parent	*Major shareholder*	*Directors*	***2010***	*2009*
Deposits from customers	2,707	-	1	**2,708**	1,536

The expenses in respect of related parties included in the consolidated financial statements are as follows:

Interest expense	**10**	9

Compensation of the key management personnel is as follows:

	2010	*2009*
Short term employee benefits	**20**	13
Post employment benefits	**4**	8
	24	21

28 FIDUCIARY ASSETS

Funds under management at the year end amounted to US$ 13,782 million (2009: US$ 10,103 million). These assets are held in a fiduciary capacity and are not included in the consolidated statement of financial position.

29 ISLAMIC DEPOSITS AND ASSETS

Deposits from customers and banks and financial institutions include Islamic deposits of US$ 619 million (2009: US$ 741 million). Loans and advances and non-trading securities include Islamic assets of US$ 835 million (2009: US$ 894 million) and US$ 391 million (2009: US$ 401 million).

30 ASSETS PLEDGED AS SECURITY

At the statement of financial position date, in addition to the items mentioned in note 26, assets amounting to US$ 151 million (2009: US$ 266 million) have been pledged as security for borrowings and other banking operations.

31 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares during the year. No figures for diluted earnings per share have been presented, as the Bank has not issued any capital based instruments which would have any impact on earnings per share, when exercised.

The Group's earnings for the year are as follows:

	2010	*2009*
Profit for the year	**143**	122
Weighted average number of shares outstanding during the year (millions)	**2,862**	2,000
Basic and diluted earnings per share (US$)	**0.05**	0.06

All figures in US$ Million

32 CAPITAL ADEQUACY

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The risk asset ratio calculations as at 31 December are based on standardised measurement methodology and in accordance with the CBB Basel II guidelines.

		Basel II	
CAPITAL BASE		***2010***	*2009*
Tier 1 capital		**3,828**	2,664
Tier 2 capital		**990**	683
Total capital base	[a]	**4,818**	3,347
RISK WEIGHTED EXPOSURES			
Credit risk weighted assets and off balance sheet items		**18,055**	17,164
Market risk weighted assets and off balance sheet items		**1,457**	1,511
Operational risk weighted assets		**1,311**	1,188
Total risk weighted assets	[b]	**20,823**	19,863
Risk asset ratio	[a/b*100]	**23.1%**	16.9%
Minimum requirement		12.0%	12.0%

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings, statutory reserve, general reserve, minority interests, foreign currency translation adjustments in equity and Tier 2 capital, which includes subordinated long term debt and collective provisions.

The Group has complied with all the requirements as set by the Central Bank of Bahrain.

33 AGREEMENT TO ACQUIRE STAKE IN MEDITERRANEAN BANK

The Bank has entered into an agreement to acquire a 49% stake for a total consideration of approximately US$ 60 million (Libyan Dinars 74 million) in Mediterranean Bank S.A.L, a Libyan Bank headquartered in Benghazi in the North East of Libya and with a branch in Tripoli. The Bank is awaiting necessary regulatory approval from the Central Bank of Libya and expects to conclude the acquisition during the first quarter of 2011. The Bank will also manage the acquiree bank on a day-to-day basis pursuant to a management agreement.