

Audited Financial Statements



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Auditors' Report



REPORT OF THE AUDITORS TO THE SHAREHOLDERS
GLOBAL BANKING CORPORATION B.S.C. (c)
Manama, Kingdom of Bahrain

Report on the financial statements

We have audited the accompanying financial statements of Global Banking Corporation B.S.C.(c) ("the Bank"), which comprise the balance sheet as at 31 December 2007, and the income statement, the statement of changes in equity, the statement of cash flows and the statement of changes in restricted investment accounts for the six month period ended 31 December 2007, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Directors are also responsible for the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with both the Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2007, and of its financial performance, its cash flows, the changes in its equity and changes in restricted investment accounts for the six months period then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

In addition, in our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2007 and of its financial performance and its cash flows for the six months period then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Bank has maintained proper accounting records and the financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the terms of the Bank's license or its memorandum and articles of association having occurred during the six months period ended 31 December 2007 that might have had a material effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

2 March 2008

Balance Sheet

as at 31 December 2007

(Expressed in US Dollars)

	Note	31 December 2007
ASSETS		
Cash and bank balances	3	44,785,629
Placements with financial institutions	4	94,239,497
Available-for-sale investment		12,000,000
Receivable from investment banking services		45,144,000
Advance for acquisition of a property	5	13,262,600
Other assets	6	23,472,947
Equipment and capital work-in-progress	7	3,285,348
Total assets		236,190,021
LIABILITIES AND EQUITY		
Liabilities		
Investors' funds	8	66,499,932
Accruals and other liabilities	9	8,795,890
Total liabilities		75,295,822
Equity		
Share capital	10	125,000,000
Statutory reserve		3,589,420
Retained earnings		32,304,779
Total equity		160,894,199
Total liabilities and equity		236,190,021
OFF-BALANCE SHEET ITEMS		
Restricted investment accounts (page 45)		158,309,313

The financial statements, which consist of pages 41 to 60, were approved by the Board of Directors on 2 March 2008 and signed on its behalf by:

Saleh Al Ali Al Rashed
Chairman

A. Rahman Mohammed Al Jasmi
Vice Chairman & Managing Director

Mark Hanson
Chief Executive

The accompanying notes 1 to 29 form an integral part of these financial statements.

Income Statement

for the six months ended 31 December 2007

(Expressed in US Dollars)

	Note	Six months ended 31 December 2007
Income from investment banking services		45,144,000
Placement and arrangement fees		2,095,000
Income from placements with financial institutions		1,988,305
Total income		49,227,305
Staff costs	11	10,315,088
Premises costs		350,488
Marketing and corporate communication expenses		625,292
Pre-operating expenses	12	576,470
Other expenses		1,465,768
Total expenses		13,333,106
Net profit for the period		35,894,199
Earnings per share (US cents)		
Basic	19	28.72

The accompanying notes 1 to 29 form an integral part of these financial statements.

Statement of Changes in Equity

for the six months ended 31 December 2007

(Expressed in US Dollars)

	Share capital	Statutory reserve	Retained earnings	Total
Share capital introduced	125,000,000	-	-	125,000,000
Net profit for the period	-	-	35,894,199	35,894,199
Total recognised income and expense	-	-	35,894,199	35,894,199
Transfer to statutory reserve	-	3,589,420	(3,589,420)	-
Balance at 31 December 2007	125,000,000	3,589,420	32,304,779	160,894,199

The accompanying notes 1 to 29 form an integral part of these financial statements.

Statement of Cash Flows

for the six months ended 31 December 2007

(Expressed in US Dollars)

Six months ended
31 December 2007

OPERATING ACTIVITIES

Investors' funds received, net	66,499,932
Payments for expenses	(5,249,914)
Short term financing for a project	(10,357,989)
Placement and arrangement fees received	770,000
Income received from placements with financial institutions	1,844,436
Payments for project costs	(906,586)
Cash flows from operating activities	52,599,879

INVESTING ACTIVITIES

Advance for acquisition of a property	(13,262,600)
Payment for purchase of equipment and capital work-in-progress	(3,312,153)
Purchase of available-for-sale investment	(12,000,000)
Advance for investment in a project promoted by the Bank	(10,000,000)
Cash flows from investing activities	(38,574,753)

FINANCING ACTIVITIES

Proceeds from issue of ordinary shares	125,000,000
Cash flows from financing activities	125,000,000
Net increase in cash and cash equivalents	139,025,126
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at 31 December 2007	139,025,126

Cash and cash equivalents comprise:

Cash and bank balances	44,785,629
Placements with financial institutions	94,239,497
	139,025,126

The accompanying notes 1 to 29 form an integral part of these financial statements.

Statement of Changes in Restricted Investment Accounts

for the six months ended 31 December 2007

(Expressed in US Dollars)

	Balance at 25 June 2007			Movements during the period					Balance at 31 December 2007			
	No of units (000)	Average value per share US\$	Total US\$	Investment US\$	Gross income US\$	Dividends paid US\$	Bank's fees as an agent US\$	Administrat- ion expenses US\$	No of units (000)	Average value per share US\$	Total US\$	Total % ownership
Makkah Hills' Cayman Islands	-	-	-	66,402,942	96,990	-	-	-	-	-	66,499,932	N/A
Funds accepted under restricted wakala contracts	-	-	-	90,000,000	1,809,381	-	-	-	-	-	91,809,381	N/A
				156,402,942	1,906,371						158,309,313	

The Bank has accepted funds under wakala contracts from financial institutions for short-term financing of the Makkah Hills project. These restricted investment accounts will be settled on full closure of subscriptions received by Makkah Hills - Cayman Islands.

The accompanying notes 1 to 29 form an integral part of these financial statements.

Notes to the Financial Statements

(Expressed in US Dollars)

1. INCORPORATION AND PRINCIPAL ACTIVITY

Global Banking Corporation B.S.C.(c), "the Bank", was incorporated on 25 June 2007 in the Kingdom of Bahrain under Commercial Registration No.65708. The Bank operates as an Islamic Wholesale Bank under a license granted by the Central Bank of Bahrain.

The Bank's activities are regulated by the Central Bank of Bahrain and supervised by a Shari'a Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association.

The principal activities of the Bank include investment banking services which comply with Islamic rules and principles according to the opinion of the Bank's Shari'a Supervisory Board.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. This being the first financial reporting period of the Bank, no comparative information has been presented.

(a) Statement of compliance

The financial statements have been prepared in accordance with both the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards (IFRS).

(b) Basis of preparation

The financial statements are presented in US dollars, being the principal currency of the Bank's operations. They are prepared on the historical cost basis except for the measurement at fair value of available-for-sale investments.

The preparation of financial statements in conformity with the IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 20.

(c) Foreign currency transactions

(i) Functional and presentation currency

Items included in the financial statements of the Bank are recorded using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in US dollars, which is the Bank's functional and presentation currency since a predominant portion of its transactions are denominated in US dollars.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items measured at fair values and classified as available-for-sale financial assets are included in the available-for-sale investments fair value reserve.

(d) Available-for-sale investments

(i) Classification

Available-for-sale investments are financial assets that are not investments carried at fair value through the income statement or held to maturity. These include investments in unquoted equities.

(ii) Measurement

Available-for-sale investments are measured initially at fair value, which is the fair value of the consideration given (in the case of an asset) including transaction costs. Subsequent to initial recognition available-for-sale assets are re-measured to fair value. Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values are stated at cost less impairment allowances.

Notes to the Financial Statements

(Expressed in US Dollars)

(iii) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in a separate fair value reserve in equity and when the investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the fair value reserve is transferred to the income statement.

(iv) Impairment

The Bank assesses at each balance sheet date whether there is objective evidence that an available-for-sale investment is impaired. A significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

(e) Placements with financial institutions

These comprise placements in the form of international commodity murabaha and/or wakala contracts which are stated at cost less impairment allowances.

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with banks with maturities of three months or less when acquired.

(g) Equipment

Equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method to write off the cost of the assets over their estimated useful lives ranging from three to five years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(h) Capital work-in-progress

Capital work-in-progress is carried at cost less impairment allowance, if any. On completion of construction, properties are classified as property and equipment or investment property based on intended usage.

(i) Impairment of other assets

The carrying amount of the Bank's assets, other than available-for-sale investments (refer note 2 (d)), is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

(j) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 per cent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 per cent of the paid up share capital.

Notes to the Financial Statements

(Expressed in US Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Revenue recognition

Income from investment banking services is recognised when the service is provided and income is earned. This is usually when the Bank has performed all significant acts in connection with the service being provided and it is highly probable that the economic benefits from the transaction will flow to the Bank.

Placement and arrangement fees are recognised as income when earned.

Income from placements with financial institutions is recognised on a time-apportioned basis over the period of the contract using the effective profit method.

Income from investment in sukuk is recognised on a time-apportioned basis over the term of the sukuk.

Income from investments (dividend income) is recognised when the right to receive is established.

(l) Restricted investment accounts

Restricted investment accounts represent assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Bank as an investment manager based on either a mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investment account holders. The Bank charges a management fee to restricted investment account holders based on agreed contractual terms. Administrative expenses incurred in connection with the management of the funds are borne directly by the Bank and are not charged separately to the restricted investment accounts.

(m) Earnings prohibited by Shari'a

The Bank is committed to avoiding recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account from which the Bank disburses those funds for charitable purposes.

(n) Zakah

The Bank is not required to pay zakah on behalf of its shareholders on its undistributed profits. However, the Bank is required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the zakah payable by them on distributed profits. These calculations are approved by the Bank's Shari'a Supervisory Board.

(o) Employee benefits

(i) Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a "defined contribution scheme" in nature under IAS 19 'Employee Benefits', and to which employees and employers contribute monthly on a fixed-percentage-of-salary basis.

(ii) Expatriate employees

Expatriate employees are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment, which is a "defined benefit scheme" in nature under IAS 19, has been made by calculating the notional liability had all employees left at the balance sheet date.

(p) Trade date accounting

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

Notes to the Financial Statements

(Expressed in US Dollars)

3. CASH AND BANK BALANCES

	31 December 2007
Cash	2,652
Balances with banks	44,782,977
	<u>44,785,629</u>

4. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2007
Placements through wakala contracts	94,239,497
	<u>94,239,497</u>

5. ADVANCE FOR ACQUISITION OF A PROPERTY

Advance for acquisition of a property represents advance payments in respect of the acquisition of a building in the Bahrain Financial Harbour. A substantial portion of the building will be classified as investment property on completion of the acquisition.

6. OTHER ASSETS

	31 December 2007
Subscription for investment in a project promoted by the Bank	10,000,000
Short term financing	10,357,989
Placement and arrangement fees receivable	1,325,000
Project costs recoverable	1,047,111
Prepayments and other receivables	742,847
	<u>23,472,947</u>

Notes to the Financial Statements

(Expressed in US Dollars)

7. EQUIPMENT AND CAPITAL WORK-IN-PROGRESS

	Fixtures and equipment	Furniture	Motor vehicles	Total
Cost				
Additions	136,377	12,953	96,540	245,870
At 31 December	136,377	12,953	96,540	245,870
Depreciation				
Charge for the period	19,012	1,051	6,742	26,805
At 31 December	19,012	1,051	6,742	26,805
Net book value	117,365	11,902	89,798	219,065
Capital work-in-progress	-	-	-	3,066,283
Total	117,365	11,902	89,798	3,285,348

8. INVESTORS' FUNDS

These represent funds received from investors (restricted investment account holders) in relation to a project promoted by the Bank. The funds are held by the Bank pending utilisation for project purposes.

9. ACCRUALS AND OTHER LIABILITIES

	31 December 2007
Employee-related accruals	7,994,323
Payables and other accruals	801,567
	8,795,890

10. SHARE CAPITAL

	31 December 2007
Authorised:	
500,000,000 ordinary shares of US\$ 1 each	500,000,000
Issued and subscribed:	
250,000,000 ordinary shares of US\$ 1 each	250,000,000
Paid up:	
250,000,000 ordinary shares partly paid US\$ 0.50 each	125,000,000

Notes to the Financial Statements

(Expressed in US Dollars)

Details of the shareholders and the number of shares held are as follows:

	No. of shares	% holding
Financial institutions	55,000,000	22%
Corporate and other entities	145,950,000	58%
Individual shareholders	49,050,000	20%

11. STAFF COSTS

31 December 2007

Salaries and benefits	10,109,979
Social insurance expenses	75,206
Other staff expenses	129,903
	<u>10,315,088</u>

12. PRE-OPERATING EXPENSES

31 December 2007

Recruitment and staff costs	529,280
Professional fees	6,476
Business travel	30,381
Other expenses	10,333
	<u>576,470</u>

The above expenses incurred prior to the incorporation of the Bank were approved by the Board of Directors on 24 June 2007.

13. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence or joint control over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors and executive management of the Bank.

The Bank's income from investment banking services is from an entity over which the Bank exercises influence. Although the entity is considered a related party, the Bank administers and manages the entity on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investment.

Notes to the Financial Statements

(Expressed in US Dollars)

13. RELATED PARTY TRANSACTIONS (continued)

The related party transactions and balances included in these financial statements are as follows:

31 December 2007

Assets

Receivable from investment banking services	45,144,000
Placements with financial institutions	20,285,276
Advance for acquisition of an investment property	13,262,600
Subscription for investment in a project promoted by the Bank	10,000,000
Short term financing	10,357,989
Project costs recoverable	1,047,111
Other receivables	196,926

Income

Income from investment banking services	45,144,000
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Details of Directors' interests in the Bank's ordinary shares as at the end of the period were:

Categories*	Number of shares	Number of Directors
Less than 1%	-	-
1% up to less than 5%	-	-
5% up to less than 10%	12,500,000	1
Above 10%	-	-

* Expressed as a percentage of total outstanding shares of the Bank.

Key management personnel of the Bank comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. The key management personnel compensation is as follows:

31 December 2007

Board remuneration	135,000
Board member fees	54,920
Salaries and other short-term benefits	3,935,816

14. ZAKAH

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. During the period no zakah is payable by the shareholders as the Bank was in operation for a period of six months only.

Notes to the Financial Statements

(Expressed in US Dollars)

15. EARNINGS PROHIBITED BY SHARI'A

During the period, there were no earnings from non-Islamic transactions that are prohibited by Shari'a.

16. SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board consists of three Islamic scholars who review the Bank's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Bank to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

17. SOCIAL RESPONSIBILITY

The Bank discharges its social responsibilities through donations to charitable causes and organisations.

18. PROPOSED APPROPRIATIONS

The Board of Directors proposes the following appropriations subject to the approval of the shareholders at the annual general meeting:

- a) capitalisation of US\$ 31,250,000 (equivalent to US\$ 0.125 per share) to increase the partly paid-up capital from US\$0.50 per share to US\$ 0.625 per share.
- b) remuneration to the Board of Directors of US\$ 1,050,000.

19. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the period by the weighted average number of equity shares outstanding during the period ended 31 December 2007 as follows:

Profit for the period (US\$)	35,894,199
Weighted average number of equity shares	125,000,000
Basic earnings per share (in US cents)	28.72

20. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

(i) Impairment on available-for-sale investments

The Bank determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment.

(ii) Special purpose entities

The Bank sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Bank does not consolidate SPE's that it does not have the power to control. In determining whether the Bank has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Bank's ability to make operational decisions for the SPE.

Notes to the Financial Statements

(Expressed in US Dollars)

21. MATURITY PROFILE

The maturity profile of assets and liabilities based on the remaining periods to contractual maturity dates was as follows:-

31 December 2007	Gross undiscounted cash flows					Total	Carrying amount
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years		
Assets							
Cash and bank balances	44,785,629	-	-	-	-	44,785,629	44,785,629
Placements with financial institutions	94,403,637	-	-	-	-	94,403,637	94,239,497
Available-for-sale investment	-	-	-	12,000,000	-	12,000,000	12,000,000
Receivable from investment banking services	-	45,144,000	-	-	-	45,144,000	45,144,000
Advance for acquisition of a property	-	-	-	-	13,262,600	13,262,600	13,262,600
Other assets	23,472,947	-	-	-	-	23,472,947	23,472,947
Equipment and capital work-in-progress	-	-	-	-	3,285,348	3,285,348	3,285,348
Total assets	162,662,213	45,144,000	-	12,000,000	16,547,948	236,354,161	236,190,021
Liabilities							
Investors' funds	66,499,932	-	-	-	-	66,499,932	66,499,932
Accruals and other liabilities	8,744,742	-	-	51,148	-	8,795,890	8,795,890
Total liabilities	75,244,674	-	-	51,148	-	75,295,822	75,295,822
Off-balance sheet items							
Restricted investment accounts	158,309,313	-	-	-	-	158,309,313	158,309,313
Capital commitments	54,176,496	-	-	-	-	54,176,496	54,176,496

Certain balances in the above table will not agree directly to the balances in the balance sheet as the table incorporates all cash flows, on an undiscounted basis.

Notes to the Financial Statements

(Expressed in US Dollars)

22. CONCENTRATION OF ASSETS, LIABILITIES, UNRESTRICTED AND RESTRICTED INVESTMENT ACCOUNTS

Industry sector

31 December 2007	Banks and financial institutions	Real Estate	Others	Total
Assets				
Cash and bank balances	44,782,977	-	2,652	44,785,629
Placements with financial institutions	94,239,497	-	-	94,239,497
Available-for-sale investment	-	12,000,000	-	12,000,000
Receivable from investment banking services	-	45,144,000	-	45,144,000
Advance for acquisition of a property	-	-	13,262,600	13,262,600
Other assets	-	21,405,100	2,067,847	23,472,947
Equipment and capital work-in-progress	-	-	3,285,348	3,285,348
Total assets	139,022,474	78,549,100	18,618,447	236,190,021
Liabilities				
Investors' funds	-	66,499,932	-	66,499,932
Accruals and other liabilities	-	-	8,795,890	8,795,890
Total liabilities	-	66,499,932	8,795,890	75,295,822
Off-balance sheet items				
Restricted investment accounts	158,309,313	-	-	158,309,313

23. COMMITMENTS AND CONTINGENCIES

Capital commitments contracted by the Bank in the normal course of business as at 31 December 2007 amounted to US\$ 54,176,496.

Notes to the Financial Statements

(Expressed in US Dollars)

24. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The classification of the financial instruments of the Bank is as given below:

31 December 2007	Available-for-sale	Loans and receivables	Others at amortised cost	Total
Assets				
Cash and bank balances	-	44,785,629	-	44,785,629
Placements with financial institutions	-	94,239,497	-	94,239,497
Available-for-sale investment	12,000,000	-	-	12,000,000
Receivable from investment banking services	-	45,144,000	-	45,144,000
Advance for acquisition of a property	-	13,262,600	-	13,262,600
Other assets	-	23,472,947	-	23,472,947
Total financial assets	12,000,000	220,904,673	-	232,904,673
Liabilities				
Investors' funds	-	-	66,499,932	66,499,932
Accruals and other liabilities	-	-	8,795,890	8,795,890
Total financial liabilities	-	-	75,295,822	75,295,822

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Other than the available-for-sale investment of US\$ 12,000,000 carried at cost, the estimated fair values of the Bank's other financial instruments are not significantly different from their book values.

The available-for-sale investment is carried at cost in the absence of a reliable measure of fair value.

26. FINANCIAL RISK MANAGEMENT

The principal risks associated with the Bank's business are credit risk, market risk, liquidity risk and operational risk. The Bank has a comprehensive risk management framework in place for managing these risks which is constantly evolving as the business activities change in response to credit, market, product and other developments.

This note presents information about the Bank's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO), which is responsible for developing and monitoring risk management policies in their specified areas. All committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Notes to the Financial Statements

(Expressed in US Dollars)

The Risk Management Department is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

The principal risks associated with the Bank's business and the related risk management processes are commented on as follows:-

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the placements with financial institutions, receivables and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the ALCO which is also responsible for oversight of the limits and guidelines set by the Board and ALCO.

The Risk Management Department (RMD) works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and conducts an independent review of every transaction. The Bank uses a risk grading system in determining where impairment provisions may be required against specific investment or credit exposures. The current risk grading framework consists of two broad grades "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment or receivable and is reviewed at least once a year. The Bank does not perform a collective assessment of impairment for its investment and credit exposures as the credit characteristics of each exposure is considered to be different. The responsibility for setting risk grades lies with the final approving authority as appropriate. Risk grades are subject to regular reviews by RMD.

Maximum credit exposure

The maximum credit risk exposure has been disclosed below:

31 December 2007	Bank balances	Placements with financial institutions	Available -for-sale investment	Receivable from investment banking services	Advance for acquisition of a property	Other assets
Total carrying amount (all GCC countries)	44,782,977	94,239,497	12,000,000	45,144,000	13,262,600	23,472,947

The Bank's credit risk on bank balances and placements with financial institutions is limited as these are placed with banks in Bahrain having good credit ratings. The other credit exposures have been evaluated on a case-by-case basis and the management has assessed that the exposures are currently performing and not impaired. The Bank has not obtained collateral of any kind against its credit exposures and did not have any past due or impaired balances as at 31 December 2007.

Market Risk

Market risk is the risk that changes in market prices, such as profit rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The different types of risks with exposures, objectives, policies and processes to manage the risk have been detailed hereunder.

Notes to the Financial Statements

(Expressed in US Dollars)

26. FINANCIAL RISK MANAGEMENT (continued)

Profit rate risk

Profit rate risk arises due to differences in timing of re-pricing of the Bank's assets and liabilities. The Bank's profit rate sensitive assets are mainly placements with financial institutions. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The effective profit rate on the placements with financial institutions during the period was 5.13%.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Bank's sensitivity to an increase or decrease in market financing rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	100 bps parallel increase / decrease
At 31 December 2007	± 430,512
Average for the period	± 490,479
Maximum for the period	± 575,084
Minimum for the period	± 430,512

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank's major exposure is in GCC currencies, which are primarily pegged to the US dollar. The Bank does not have significant net exposures denominated in other foreign currencies as at 31 December 2007.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. Liquidity risk is the financial risk that a bank is exposed to if its credit rating falls; it experiences sudden and unexpected cash flows; its counterparties avoid trading or lending to it; and/or the markets on which it depends are subject to loss of liquidity.

Management of liquidity risk

The Board of Directors approves significant policies and strategies related to the management of liquidity. The Management reviews the liquidity profile of the Bank on a regular basis and any material change in the Bank's current or prospective liquidity position is notified to the Board.

The ALCO supports the Board in managing liquidity by recommending policies, setting limits and guidelines and monitoring the risk and liquidity profile of the Bank on a regular basis. The ALCO provides guidance for day-to-day management of liquidity, oversees the establishment of effective internal controls and ensures that the Bank has adequate liquidity at all times.

The day-to-day management of the Bank's liquidity is the responsibility of the Liquidity Management Department. The Department ensures that adequate funds are available to meet the maturing obligations and growth in assets while cost is minimised. The Department ensures that all limits and guidelines set by the Board and ALCO are complied with and any adverse development is reported to the ALCO. The Department also obtains the required exceptional approvals when required as per this policy and manages the relationship with other banks and financial institutions.

The Risk Management Department reviews the limits set on an ongoing basis and ensures that the concerned department is complying with all limits set as per this policy. The Department ensures that any adverse development is reported to the people concerned. Whenever exceptional approvals are required, they are first subject to the review and approval of the Risk Management Department.

Notes to the Financial Statements

(Expressed in US Dollars)

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk of liquid assets is assessment of the net funding requirements. For this purpose liquid assets include cash and cash equivalents and placements with financial institutions for which there is an active and liquid market. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's lead regulator, the Central Bank of Bahrain. Furthermore, the Bank ensures that it has obtained approved lines of credit from financial institutions prior to execution of transactions relating to financial commitments.

Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human error which can result in financial and reputation loss, and legal and regulatory consequences. The Bank manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. In addition the Bank is committed to the training of its staff. The Bank is currently undertaking an operational risk assessment across all divisions in preparation for the implementation of the Basel II Capital Accord as mandated by the Central Bank of Bahrain.

27. CAPITAL MANAGEMENT

The Bank's regulator, the Central Bank of Bahrain (CBB), sets and monitors the capital requirements for the Bank.

In applying current capital requirements, the CBB requires the Bank to maintain a prescribed minimum ratio of total regulatory capital to total risk weighted assets. The CBB's minimum risk asset ratio is 12 per cent compared to the minimum ratio of 8 per cent prescribed by the Basel Committee on Banking Supervision. Under the CBB's guidelines, GCC governments and GCC government-owned companies are accorded preferential risk weightings of 0 per cent and 20 per cent respectively. For the purpose of calculating the capital adequacy ratio, the risk weighted assets of the Bank consist of the sum of the risk weighted assets financed by the Bank's own capital and liabilities and 50 per cent of the risk weighted assets financed by the Bank's Profit Sharing Investment Accounts (PSIAs). This applies to unrestricted PSIAs that are accounted for on the Bank's balance sheet and restricted PSIAs that are accounted for off the balance sheet of the Bank.

The Bank's regulatory capital is analysed into two tiers:-

Tier 1 core capital consists of:

- permanent share capital and disclosed reserves in the form of legal, general and other reserves created by appropriations of retained earnings, share premium, capital redemption reserves and other surpluses (as shown in its balance sheet), but excluding revaluation reserves and prudential reserves (profit equalisation reserve and investment risk reserve);
- minority interests, arising on consolidation, in the equity of subsidiaries that are less than wholly owned; minus
- goodwill;
- current year's cumulative net losses which have been reviewed by the external auditors.

Tier 2 supplementary capital consists of:

- interim retained profits reviewed by the external auditors;
- asset revaluation reserves;
- general provisions held against future, presently unidentified losses; and
- profit equalisation reserve and investment risk reserve up to a maximum amount equal to the capital charge (i.e. 12 per cent) pertaining to the 50 per cent risk weighted assets financed by unrestricted and restricted investment account holders.

The CBB applies various limits to elements of the capital base. The amount of innovative Tier 1 securities cannot exceed 15 per cent of total Tier 1 capital; qualifying Tier 2 capital cannot exceed Tier 1 capital; and qualifying subordinated term finance cannot exceed 50 per cent of Tier 1 capital. There are also restrictions on the amount of collective impairment provisions that may be included as part of Tier 2 capital. Collective impairment provisions cannot exceed 1.25 per cent of total risk weighted assets.

Notes to the Financial Statements

(Expressed in US Dollars)

27. CAPITAL MANAGEMENT (continued)

The Bank's policy is to carry a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' returns is also recognised as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Bank manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout, and the issue of new shares, subordinated term finance, and innovative Tier 1 capital securities.

The Bank has complied with all externally imposed capital requirements throughout the period ended 31 December 2007. There has been no material change in the Bank's management of capital during the period ended 31 December 2007.

28. CAPITAL ADEQUACY

The Bank's regulatory capital position as at 31 December 2007 was as follows:

Capital adequacy	31 December 2007
Total risk weighted assets	171,833,890
Tier 1 capital	
– Share capital	125,000,000
– Statutory reserve	3,589,420
– Retained earnings	32,304,779
Total Tier 1 capital	160,894,199
Tier 2 capital	-
Total regulatory capital	160,894,199
Total regulatory capital expressed as a percentage of total risk weighted assets	93.63%

29. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

During the period, the following new or amended IFRS standards and interpretations relevant to the activities of the Bank were issued which are not yet mandatory for adoption by the Bank:

- IAS 1 - Presentation of Financial Statements (effective for the annual period beginning on or after 1 January 2009);
- IAS 23 - Borrowing Costs (effective for the annual period beginning on or after 1 January 2009);
- IFRS 8 - Operating Segments (effective for the annual period beginning on or after 1 January 2009);
- IFRIC 11, IFRS 2 - Group and Treasury Shares Transactions (effective for the annual period beginning on or after 1 March 2007); and
- IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for the annual period beginning on or after 1 January 2009).

The adoption of these standards and interpretations are not expected to have a material impact on these financial statements.