

Consolidated Financial Statements

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Report of the Shari'a Supervisory Board

**In the name of Allah, the Beneficent,
the Merciful, Prayers and Peace upon the
Last Apostle and Messenger, Our Prophet
Mohammed, His Comrades and Relatives.**

The Shari'a Supervisory Board of GBCORP has reviewed the Bank's operations for the six months ended 31 December 2007 and found them to be in compliance with the fatwas and rulings issued during the financial year 2007 and compatible with all previously issued fatwas and rulings.

The Board believes that it has expressed its opinion in respect of the activities carried out by GBCORP and it is the responsibility of the management to ensure the implementation of such decisions as is found necessary based on the recommendations mentioned in the report. It is the duty of the Shari'a Supervisory Board to express an independent opinion on the basis of its review of the Bank's operations and to prepare a report about the Bank.

A representative of GBCORP's management has explained and clarified the contents of the balance sheet, income statement and attached notes for the six months financial

period ended 31 December 2007 to our satisfaction. The report of the Board has been prepared based on the information provided by the Bank.

The Board is satisfied that the operations and services of the Bank are in compliance with the Glorious Islamic Shari'a.

Peace be to Allah, Lord of the Worlds.

Prayers be upon Prophet Mohammed {Peace Be Upon Him}, all His Family and Companions.

Sheikh Dr. Mohammed Ali Elgari. Chairman
Sheikh Nizam Mohammed Yaquby. Member
Sheikh Osama Mohammed Saad Bahar. Member

Independent Auditors' Report to the Shareholders



Independent auditors' report to the shareholders Global Banking Corporation B.S.C. (c) Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements set out in pages 5 to 33 of Global Banking Corporation B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated statements of income, changes in equity, cash flows and changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors of the Bank is responsible for the preparation and fair presentation of these consolidated 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 control relevant to the preparation and fair presentation of the consolidated 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 Board of Directors is also responsible for the Group's undertaking to operate in accordance with Islamic Shari'a rules and principles.

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 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and its financial performance, cash flows, changes in equity and changes in restricted investment accounts for the year 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008 and of its financial performance and cash flows for the year 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 consolidated 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 consolidated 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 year ended 31 December 2008 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.

KPMG
Manama, Kingdom of Bahrain
5 February 2009

Consolidated Balance Sheet

as at 31 December 2008

(Expressed in US Dollars 000's)

	Note	31 December 2008	31 December 2007
ASSETS			
Cash and bank balances	4	1,074	44,786
Placements with financial institutions	5	297,872	94,240
Investment securities	6	23,982	12,000
Investment property	7	52,703	-
Advance for acquisition of a property		-	13,263
Receivable from investment banking services		42,975	45,144
Other assets	8	14,981	23,472
Property and equipment	9	22,281	3,285
Total assets		455,868	236,190
LIABILITIES AND EQUITY			
Liabilities			
Investors' funds	10	223,269	66,500
Financing from a bank	11	43,222	-
Accruals and other liabilities	12	8,317	8,796
Total liabilities		274,808	75,296
EQUITY			
Share capital	13	156,250	125,000
Statutory reserve		5,801	3,589
Retained earnings		19,009	32,305
Total equity		181,060	160,894
Total liabilities and equity		455,868	236,190
OFF-BALANCE SHEET ITEMS			
Restricted investment accounts		190,000	158,309

The consolidated financial statements, were approved by the Board of Directors on 5 February 2009 and signed on its behalf by:

Saleh Al Ali Al Rashed
Chairman

A. Rahman Mohammed Al Jasmi
Vice Chairman & Managing Director

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Consolidated Income Statement

for the year ended 31 December 2008

(Expressed in US Dollars 000's)

	Note	31 December 2008 (12 months)	31 December 2007 (6 months)
Income from investment banking services		40,570	45,144
Income from placements with financial institutions		8,257	1,988
Placement and arrangement fees		2,203	2,095
Income from investment securities	14	1,070	-
Rental income from investment property		1,093	-
Total income		53,193	49,227
Staff cost	15	14,637	10,315
Investment banking related expenses		6,251	474
Marketing and corporate communication expenses		2,564	625
Finance cost		1,344	-
Other operating expenses	16	7,181	1,343
Pre-operating expenses		-	576
Total expenses		31,977	13,333
PROFIT FOR THE YEAR		21,216	35,894
Earnings per share (us cents)			
Basic and diluted	20	13.58	28.72

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Consolidated Statement Of Changes In Equity

for the year ended 31 December 2008

(Expressed in US Dollars 000's)

2008 (12 months)	Share capital	Statutory reserve	Retained earnings	Total
Balance at 1 January 2008	125,000	3,589	32,305	160,894
Profit for the year	-	-	21,216	21,216
Total recognised income and expense	-	-	21,216	21,216
Capitalisation of retained earnings	31,250	-	(31,250)	-
Board remuneration declared for 2007	-	-	(1,050)	(1,050)
Transfer to statutory reserve	-	2,212	(2,212)	-
Balance at 31 December 2008	156,250	5,801	19,009	181,060

2007 (6 months)	Share Capital	Statutory reserve	Retained earnings	Total
Share capital introduced	125,000	-	-	125,000
Profit for the period	-	-	35,894	35,894
Total recognised income and expense	-	-	35,894	35,894
Transfer to statutory reserve	-	3,589	(3,589)	-
Balance at 31 December 2007	125,000	3,589	32,305	160,894

There are no income or expenses recognised directly in equity during the year (2007: Nil).

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Consolidated Statement Of Cash Flows

for the year ended 31 December 2008

(Expressed in US Dollars 000's)

	31 December 2008 (12 months)	31 December 2007 (6 months)
OPERATING ACTIVITIES		
Investors funds received	556,831	66,500
Investors funds paid	(400,061)	-
Investment banking income received	42,739	-
Payments for property related expenses	(913)	-
Rental income from investment property received	510	-
Payments for expenses	(22,172)	(5,247)
Payments for project costs	(6,190)	(907)
Project financing paid	-	(10,358)
Project financing repaid	10,358	-
Placement and arrangement fees received	3,319	770
Advance operating lease rentals	(2,759)	-
Income from placements with financial institutions received	8,257	1,844
Cash flows from operating activities	189,919	52,602
INVESTING ACTIVITIES		
Payment for acquisition of investment property	(39,962)	(13,263)
Payment for acquisition of property and equipment	(19,807)	(3,313)
Payments for acquisition of softwares	(1,147)	-
Purchase of investment securities	(2,205)	(12,000)
Advance for investments	(9,000)	(10,000)
Dividend received and other income	1,294	-
Cash flows from investing activities	(70,827)	(38,576)
FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares	-	125,000
Financing received, net	41,878	-
Board remuneration paid	(1,050)	-
Cash flows from financing activities	40,828	125,000
Net increase in cash and cash equivalents	159,920	139,026
Cash and cash equivalents at the beginning of the period	139,026	-
Cash and cash equivalents at 31 December	298,946	139,026
Cash and cash equivalents comprise:		
Cash and bank balances	1,074	44,786
Placements with financial institutions	297,872	94,240
	298,946	139,026

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Consolidated Statement Of Changes In Restricted Investment Accounts

for the year ended 31 December 2008

(Expressed in US Dollars 000's)

2008 (12 months)	Balance at 1 January 2008			Movements during the year					Balance at 31 December 2008		
	No of units (000) share	Average value per share US\$	Total US\$	Investment / (withdrawals) US\$	Gross income US\$	Dividends paid US\$	Bank's fees as an agent US\$	Administration expenses US\$	No of units (000)share	Average value per share US\$	Total US\$
Makkah Hills - Cayman Islands	-	-	66,500	123,500	-	-	-	-	-	-	190,000
Funds accepted under restricted Wakala contracts	-	-	91,809	(92,525)	716	-	-	-	-	-	-
			158,309	30,975	716	-	-	-			190,000

2007 (6 months)	Balance at 25 June 2007			Movements during the period					Movements during the period		
	No of units (000) share	Average value per share US\$	Total US\$	Investment US\$	Gross income US\$	Dividends paid US\$	Bank's fees as an agent US\$	Administration expenses US\$	No of units (000)share	Average value per share US\$	Total US\$
Makkah Hills - Cayman Islands	-	-	-	66,403	97	-	-	-	-	-	66,500
Funds accepted under restricted Wakala contracts	-	-	-	90,000	1,809	-	-	-	-	-	91,809
			-	156,403	1,906	-	-	-			158,309

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Notes To The Consolidated Financial Statements

for the year ended 31 December 2008

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 ("CBB").

The Bank's activities are regulated by the CBB and supervised by 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 Board.

Consolidated financial statements

The consolidated financial statements comprise the financial statements of the Bank and its significant wholly owned subsidiaries (collectively, "the Group").

The significant wholly owned subsidiaries established and consolidated during the year include Global Energy Financial Services Company SPC (GEFSCO) and Global Real Estate Development Company SPC (GREDCO).

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous period.

(a) Statement of compliance

The consolidated 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 consolidated financial statements are presented in US Dollars, being the principal currency of the Group's operations. They are prepared on the historical cost basis except for the measurement at fair value of certain 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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose vehicles) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

Notes To The Consolidated Financial Statements

for the year ended 31 December 2008

(d) Foreign currency transactions

(i) Functional and presentation currency

Items included in the consolidated financial statements of the Group's entities are recorded using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US Dollars, which is the Bank's functional and presentation currency since majority 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 value and classified as available-for-sale financial assets are included in the available-for-sale investments fair value reserve.

(iii) Group companies

The other Group companies functional currencies are either denominated in US dollars or currencies which are effectively pegged to the US Dollar, and hence, the translation of financial statements of the group entities do not result in exchange differences.

(e) Financial assets and liabilities

(i) Recognition and de-recognition

Financial assets comprise bank balances, placements with financial institutions, trading investments, available-for-sale investments and receivables. Financial liabilities comprise investors' funds, financing from a bank and payables. The Group initially recognises placements, receivables, investors' funds, payables and financing from a bank on the date at which they are originated. All other financial assets and liabilities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which the Group becomes party to the contractual provisions of the instrument.

A financial asset or liability is initially measured at fair value which is the value of the consideration given (in the case of an asset) or received (in the case of a liability), including transaction costs that are directly attributable to its acquisition or issue.

The Group derecognises a financial asset when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership. The Group writes off certain financial assets when they are determined uncollectible. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(ii) Measurement principles

Financial assets are measured either at fair value, amortised cost or in certain cases carried at cost.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

Notes To The Consolidated Financial Statements

for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial assets and liabilities (continued)

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

(f) Investments

(i) Classification

Investments, excluding investments in subsidiaries are classified as carried at fair value through profit or loss, held-to-maturity or available-for-sale.

Investments carried at fair value through profit or loss are financial assets that are held for trading or which upon initial recognition are designated by the Group as at fair value through profit or loss.

Trading investments are financial instruments acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin or part of a portfolio where there is an actual pattern of profit taking. These include investments in quoted equities.

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, and which are not designated as carried at fair value through profit or loss or as available-for-sale.

Available-for-sale investments are financial assets that are not investments carried at fair value through profit or loss or held-to-maturity or loans and receivables. These include investments in quoted and unquoted equity securities.

(ii) Recognition

Investments are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss or available-for-sale.

(iii) Subsequent measurement

Subsequent to initial recognition, trading investments and available-for-sale investments are re-measured to fair value. Held-to-maturity investments are measured at amortised cost less any impairment allowances. Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values, are carried at cost less impairment allowances.

(iv) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of investments carried at fair value through profit or loss are recognised in the income statement in the period in which they arise. 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.

(v) Fair value measurement principles

Fair value for quoted investments is their market bid price.

Notes To The Consolidated Financial Statements

for the year ended 31 December 2008

(g) Impairment of assets

The Bank assesses at each balance sheet date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

Available-for-sale investments

In the case of investments in equity securities classified as available-for-sale and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are 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 investment previously recognised in income statement – 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. For available-for-sale investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

Other non-financial assets

The carrying amount of the Group's assets, other than financial assets, are 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. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit 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.

(h) Placements with financial institutions

These comprise placements made in the form of international commodity murabaha contracts and wakala contracts. Placements are usually short term in nature and are stated at their amortised cost.

(i) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash, balances with banks and short-term highly liquid assets (commodity murabahas) with maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

(j) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. The Group follows the cost model to measure its investment property and carries it at cost less accumulated depreciation (except for land) and impairment losses, if any. Land is not depreciated. Building is depreciated over a period of 30 years.

Notes To The Consolidated Financial Statements

for the year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Property and equipment

Property and equipment comprise land, building and equipment held for own use. 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. Land is not depreciated. Building is depreciated over a period 30 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(l) Softwares (intangible assets)

Computer software and licenses are carried at cost less accumulated amortization and impairment losses, if any. Computer software and licenses are amortized on a straight-line basis over its estimated useful life of three years.

(m) Capital work-in-progress

Capital work-in-progress is carried at cost less impairment allowance, if any.

(n) Financing from a bank

Financing from a bank comprise shari'a compliant financing facility from a financial institution. Financing from a bank is initially measured at fair value plus transaction costs, and subsequently measured at its amortised cost using the effective profit rate method.

(o) Financing costs

Financing costs are capitalised if they are directly attributable to the acquisition of a qualifying asset. Capitalisation of financing costs commences when the activities to prepare the asset are in progress and expenditures and financing costs are incurred. Borrowing costs are capitalised until the assets are substantially ready for their intended use and allocated between the investment property and self-occupied property based on their determined usage. Other finance costs are charged to the income statement.

(p) Dividends and board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

(q) 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.

(r) 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 relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Bank. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/ contracts for each transaction. The assessment of whether economic benefits from a transaction will flow to the Bank is determined when legally binding commitments have been obtained from external investors for a substantial investment in the transaction. Income is then recognised on a pro-rata basis to the extent of such firm commitments received at the reporting date.

Placement and arrangement fees are recognised as income when earned and the related services are performed.

Income from placements with financial institutions are recognised on a time-apportioned basis over the period of the related contract.

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

Rental income from investment property leased out under operating lease is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

Notes To The Consolidated Financial Statements

for the year ended 31 December 2008

(s) Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or an agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Bank in the consolidated financial statements.

(t) Earnings prohibited by Shari'a

The Group is committed to avoiding recognising any income generated from non-Islamic sources. Accordingly, non-Islamic income (if any) will be credited to a charity account from which is utilised for charitable purposes.

(u) Zakah

The Group is not required to pay Zakah on behalf of its shareholders on its undistributed profits. However, the Group 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 Group's Shari'a Supervisory Board.

(v) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Post employment benefits

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-salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

Expatriate employees on fixed contracts 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. These benefits are in the nature of a "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the income statement.

(w) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that effect 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.

Judgements

(i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments designated at fair value through profit or loss, held-to-maturity or available-for-sale investment securities. The classification of investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification [refer note 2 (f)].

Notes To The Consolidated Financial Statements

for the year ended 31 December 2008

(Expressed in US Dollars 000's)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(ii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group 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 Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Estimations

(i) Impairment on available-for-sale investments

Available-for-sale investments are carried at cost and the recoverable amount of such investment is estimated to test for impairment. A significant portion of the Group's available-for-sale investments comprise of investments in long-term real estate development projects. In making a judgment of impairment, the Group evaluates among other factors, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

(ii) Impairment on receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation, level of subordination available to the Bank and the net realisable value of any underlying assets. Each asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department and approved by the Board of Directors.

4. CASH AND BANK BALANCES

	31 December 2008	31 December 2007
Cash	5	3
Balances with banks	1,069	44,783
	1,074	44,786

5. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2008	31 December 2007
Wakala contracts	287,850	94,240
Commodity murabaha contacts	10,037	-
Less: Deferred profits	(15)	-
	297,872	94,240

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6. INVESTMENT SECURITIES

Investment securities comprise

	31 December 2008	31 December 2007
Available-for-sale investments	23,780	12,000
Trading investments	202	-
	23,982	12,000

AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2008	31 December 2007
At 1 January	12,000	-
Acquisitions during the year / period	11,780	12,000
At 31 December	23,780	12,000

Available-for-sale investments are investments in unquoted equity securities carried at cost less impairment in the absence of a reliable measure of fair value. Such investments represent investments in projects promoted by the Group. The Group intends to exit these investments principally by means of strategic buy outs or through initial public offerings.

7. INVESTMENT PROPERTY

During the year, the Group acquired a property that was being developed. On completion of development, the carrying value was allocated between investment property and self-occupied property based on its determined usage.

Investment property comprises the portion of land and building amounting to US\$ 53 million attributable to property intended to be let out under operating leases. The carrying value of the investment property is given below

	Land	Building	2008 Total	2007 Total
Cost				
At 1 January	-	-	-	-
Additions during the year	15,701	37,523	53,224	-
At 31 December	15,701	37,523	53,224	-
Depreciation				
At 1 January	-	-	-	-
Charge for year	-	521	521	-
At 31 December	-	521	521	-
Net book value				
At 31 December	15,701	37,002	52,703	-

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7. INVESTMENT PROPERTY (continued)

The net results of operation of the investment property is as given below:

	31 December 2008 (12 months)	31 December 2007 (6 months)
Gross rental income	1,093	-
Depreciation	(521)	-
Property operating expenses	(913)	-
Net loss for the year	(341)	-

The fair value of the investment property at 31 December 2008 estimated by the management is US\$ 62.820 million.

8. OTHER ASSETS

	31 December 2008	31 December 2007
Subscription for investment	9,000	10,000
Advance operating lease rentals	2,759	-
Computer software and licenses, net	1,115	-
Project costs recoverable	1,069	1,047
Prepayments and other receivables	1,038	742
Short term financing	-	10,358
Placement and arrangement fees receivable	-	1,325
	14,981	23,472

9. PROPERTY AND EQUIPMENT

	Land	Building	Fixture and equipment	Furniture	Motor Vehicles	2008 Total	2007 Total
Cost							
At 1 January	-	-	137	13	96	246	-
Additions	4,399	10,512	5,841	1,074	-	21,826	246
At 31 December	4,399	10,512	5,978	1,087	96	22,072	246
Depreciation							
At 1 January	-	-	19	1	7	27	-
Charge for year / period	-	146	555	91	19	811	27
At 31 December	-	146	574	92	26	838	27
Net book value At 31 December	4,399	10,366	5,404	995	70	21,234	219
Capital work-in-progress	-	-	-	-	-	1,047	3,066
Total	4,399	10,366	5,404	995	70	22,281	3,285

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10. INVESTORS' FUNDS

These represent funds of projects set-up or promoted by the Bank which are placed with the Bank pending utilisation by the projects concerned.

11. FINANCING FROM A BANK

Financing from a bank comprises wakala financing obtained from a financial institution for the purpose of acquisition of a property (refer note 7). The financing from a bank is repayable over 4 years with a profit margin of 2.50% over a benchmark rate (BIBOR) and is secured by mortgage on both land and building and assignment of rent from the property.

During the year, financing costs of US\$ 889 has been capitalised to the cost of investment property.

12. ACCRUALS AND OTHER LIABILITIES

	31 December 2008	31 December 2007
Employee related accruals	5,671	7,994
Payables and other accruals	2,646	802
	8,317	8,796

13. SHARE CAPITAL

	31 December 2008	31 December 2007
Authorised:		
500,000,000 ordinary shares of US\$ 1 each	500,000	500,000
Issued and subscribed:		
250,000,000 ordinary shares of US\$ 1 each	250,000	250,000
Paid up:		
250,000,000 ordinary shares partly paid US\$ 0.625 each	156,250	125,000

In the annual general meeting on 26 March 2008, the shareholders resolved to increase the paid up capital of the Group from US\$ 125 million to US\$ 156.25 million by capitalisation of retained earnings.

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%

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14. INCOME FROM INVESTMENT SECURITIES

	31 December 2008 (12 months)	31 December 2007 (6 months)
Dividend received on available-for-sale investment	1,294	-
Fair value loss on trading investments	(224)	-
	1,070	-

15. STAFF COST

	31 December 2008 (12 months)	31 December 2007 (6 months)
Salaries and benefits	13,690	10,110
Social insurance expenses	423	75
Other staff expenses	524	130
	14,637	10,315

16. OTHER OPERATING EXPENSES

	31 December 2008 (12 months)	31 December 2007 (6 months)
Premises costs	1,866	350
Depreciation	1,364	27
Other expenses	3,951	966
	7,181	1,343

17. TOTAL FINANCE INCOME AND EXPENSE

	31 December 2008 (12 months)	31 December 2007 (6 months)
Income from placements with financial institutions	8,257	1,988
Finance cost	(1,344)	-
Net finance income	6,913	1,988

18. ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the balance sheet date, the Group had assets under management of US\$ 722,900 (2007: US\$ 66,500). During the year, the Bank has charged management fees amounting to US\$ 2,620 (2007: US\$ Nil) for activities related to management of assets.

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19. PROPOSED APPROPRIATIONS

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

	31 December 2008	31 December 2007
Proposed dividend	17,500	31,250
Directors' remuneration	1,080	1,050

The proposed dividend is in the form of capitalisation of reserves by increasing the partly paid-up capital from US\$ 0.625 per share (2007: US\$ 0.50 per share) to US\$ 0.695 per share (2007: US\$ 0.625 per share).

20. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year.

	31 December 2008	31 December 2007
Profit for the year	21,216	35,894
Weighted average number of equity shares (000's)	156,250	125,000
Basic earnings per share (in US cents)	13.58	28.72

The Bank has not issued any potentially dilutive instruments.

21. 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 Group exercises significant influence, major shareholders, directors and executive management of the Group.

The Group's income from investment banking services is from an entity over which the Group exercises influence. Although the entity is considered a related party, the Group 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.

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

	31 December 2008	31 December 2007
Assets / Transactions		
Placements with financial institutions	-	20,285
Investment securities	23,780	-
Receivable from investment banking services	42,975	45,144
Acquisition of an investment property	66,313	13,263
Subscription for investment in a project promoted by the Bank	-	10,000
Subscription for investment in a project promoted by a related party	9,000	-
Short term financing	-	10,358
Project costs recoverable	1,069	1,047
Other receivables	169	197

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21. RELATED PARTY TRANSACTIONS (continued)

	31 December 2008 (12 months)	31 December 2007 (6 months)
Income		
Income from investment banking services	40,570	45,144
Rental income from investment property	339	-

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

	31 December 2008	31 December 2007
Board remuneration	270	135
Board member fees	172	55
Salaries and other short-term benefits	1,268	3,936
Post employment benefits	31	21

22. 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.

23. EARNINGS PROHIBITED BY SHARI'A

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

24. SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of three Islamic scholars who review the Group'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 Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

25. SOCIAL RESPONSIBILITY

The Group intends to discharge its social responsibilities through donations to charitable causes and organisations.

26. MATURITY PROFILE

The following table discloses undiscounted residual maturities of the Group's assets and liabilities based on the management's estimate of realisation except for bank balances, placements with financial institutions, financing from a bank and certain other assets and other liabilities, which are based on contractual maturities.

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26. MATURITY PROFILE (continued)

2008	Gross undiscounted cash flows						Total	Carrying amount
	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 years			
Assets								
Bank balances	1,069	-	-	-	-	-	1,069	1,069
Placements with financial institutions	297,918	-	-	-	-	-	297,918	297,872
Investment securities	202	-	-	23,780	-	-	23,982	23,982
Receivable from investment banking services	-	1,000	39,370	2,605	-	-	42,975	42,975
Investment property	-	-	-	-	52,703	-	52,703	52,703
Property and equipment	-	-	-	-	22,281	-	22,281	22,281
Other assets	990	-	1,069	9,000	3,922	-	14,981	14,981
Total assets	300,179	1,000	40,439	35,385	78,906	455,909	455,909	455,863

2008	Gross undiscounted cash flows						Total	Carrying amount
	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 years			
Liabilities								
Investors' funds	193,790	29,479	-	-	-	-	223,269	223,269
Financing from a bank	3,973	3,882	7,684	28,903	3,375	-	47,817	43,222
Accruals and other liabilities	8,151	-	-	166	-	-	8,317	8,317
Total liabilities	205,914	33,361	7,684	29,069	3,375	279,403	279,403	274,808

Off-balance sheet items

Restricted investment accounts	-	-	-	190,000	-	-	190,000	-
Capital commitments	22,964	1,380	-	-	-	-	-	-

2007	Gross undiscounted cash flows						Total	Carrying amount
	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 years			
Assets								
Bank balances	44,783	-	-	-	-	-	44,783	44,783
Placements with financial institutions	94,404	-	-	-	-	-	94,404	94,239
Investment securities	-	-	-	12,000	-	-	12,000	12,000
Receivable from investment banking services	-	45,144	-	-	-	-	45,144	45,144
Advance for acquisition of a property	-	-	-	-	13,263	-	13,263	13,263
Other assets	23,472	-	-	-	-	-	23,472	23,472
Property and equipment	-	-	-	-	3,285	-	3,285	3,285
Total assets	162,659	45,144	-	12,000	16,548	236,351	236,351	236,186

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26. MATURITY PROFILE (continued)

2007	Gross undiscounted cash flows						Total	Carrying amount
	Up to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 years			
Liabilities								
Investors' funds	66,500	-	-	-	-	66,500	66,500	
Accruals and other liabilities	8,745	-	-	51	-	8,796	8,796	
Total liabilities	75,245	-	-	51	-	75,296	75,296	
Off-balance sheet items								
Restricted investment accounts	158,309	-	-	-	-	158,309	-	
Capital commitments	54,176	-	-	-	-	54,176	-	

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.

27. CONCENTRATION OF ASSETS, LIABILITIES AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

2008	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	1,069	-	5	1,074
Placements with financial institutions	297,872	-	-	297,872
Investment securities	202	23,780	-	23,982
Receivable from investment banking services	-	42,975	-	42,975
Investment property	-	52,703	-	52,703
Other assets	584	12,877	1,520	14,981
Property and equipment	-	14,764	7,517	22,281
Total assets	299,727	147,099	9,042	455,868
Liabilities				
Investors' funds	-	223,269	-	223,269
Financing from a bank	43,222	-	-	43,222
Accruals and other liabilities	-	-	8,317	8,317
Total liabilities	43,222	223,269	8,317	274,808
Off-balance sheet items				
Restricted investment accounts	-	190,000	-	190,000

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27. CONCENTRATION OF ASSETS, LIABILITIES AND RESTRICTED INVESTMENT ACCOUNTS (continued)

2007	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	44,783	-	3	44,786
Placements with financial institutions	94,240	-	-	94,240
Investment securities	-	12,000	-	12,000
Receivable from investment banking services	-	45,144	-	45,144
Advance for acquisition of a property	-	-	13,263	13,263
Other assets	-	21,404	2,068	23,472
Property and equipment	-	-	3,285	3,285
Total assets	139,023	78,548	18,619	236,190
Liabilities				
Investors' funds	-	66,500	-	66,500
Accruals and other liabilities	-	-	8,796	8,796
Total liabilities	-	66,500	8,796	75,296
Off-balance sheet items				
Restricted investment accounts	158,309	-	-	158,309

(b) Geographic region

The Group's concentration exposure as at 31 December 2008 and 31 December 2007 is limited to GCC countries.

28. COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group:

	31 December 2008	31 December 2007
Commitments to invest	21,000	-
Operating lease commitment	2,758	-
Capital commitments	586	54,176

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2008 due to the performance of any of its projects.

29. FINANCIAL INSTRUMENTS

(a) 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 available-for-sale investments of US\$ 23,780 carried at cost, the estimated fair values of the Group's other financial instruments are not significantly different from their book values.

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29. FINANCIAL INSTRUMENTS (continued)

(b) classification of financial instruments

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

2008	Available-for-sale	Loans and receivables	Fair value through profit or loss	Others at amortised cost	Total
Assets					
Bank balances	-	1,069	-	-	1,069
Placements with financial institutions	-	297,872	-	-	297,872
Investment securities	23,780	-	202	-	23,982
Receivable from investment banking services	-	42,975	-	-	42,975
Other assets	-	13,423	-	-	13,423
Total financial assets	23,780	355,339	202	-	379,321

2008	Available-for-sale	Loans and receivables	Fair value through profit or loss	Others at amortised cost	Total
Liabilities					
Investors' funds	-	-	-	223,269	223,269
Financing from a bank	-	-	-	43,222	43,222
Other liabilities	-	-	-	2,646	2,646
Total financial liabilities	-	-	-	269,137	269,137

2007	Available-for-sale	Loans and receivables	Fair value through profit or loss	Others at amortised cost	Total
Assets					
Bank balances	-	44,783	-	-	44,783
Placements with financial institutions	-	94,240	-	-	94,240
Investment securities	12,000	-	-	-	12,000
Receivable from investment banking services	-	45,144	-	-	45,144
Advance for acquisition of a property	-	13,263	-	-	13,263
Other assets	-	22,730	-	-	22,730
Total financial assets	12,000	220,160	-	-	232,160

Liabilities					
Investors' funds	-	-	-	66,500	66,500
Other liabilities	-	-	-	802	802
Total financial liabilities	-	-	-	67,302	67,302

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30. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risk

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Executive Risk Management Committee, 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 Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group, 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.

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

The principal risks associated with the Group'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 Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's bank balances, investment securities, placements with financial institutions, receivable from investment banking services and other receivables from project companies. For risk management reporting purposes, the Group 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 Executive Risk Management Committee which is also responsible for oversight of the limits and guidelines set by the Board.

Risk is assessed on an individual basis for each receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Credit exposures are subject to regular reviews by the Risk Management Department.

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30 FINANCIAL RISK MANAGEMENT (continued)

The maximum credit risk exposure has been disclosed below:

Exposure to credit risk

2008	Bank balances	Placement with financial institutions	Receivable from investment banking services	Other financial assets
Neither past due nor impaired				
Carrying amount	1,069	297,872	39,370	1,663
Past due but not impaired (above 180 days)	-	-	3,605	-
Individually impaired	-	-	-	-
Carrying amount	1,069	297,872	42,975	1,663

2007	Bank balances	Placement with financial institutions	Receivable from investment banking services	Other financial assets
Neither past due nor impaired				
Carrying amount	44,783	94,240	45,144	22,730
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Carrying amount	44,783	94,240	45,144	22,730

The Group's credit risk on bank balances and placements with financial institutions is limited as these are placed with banks in GCC 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.

Impaired receivables

Impaired receivables are those for which the Group determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the receivables agreement(s).

Past due but not impaired exposures

Receivable from investment banking services

The Bank has receivable from investment banking services receivables from project entities amounting to US\$ 3,605 which are considered past due. The Bank believes that impairment is not appropriate on the basis of the estimated cash flows from the projects and / or the stage of collection of amounts owed to the Bank.

Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic 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. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The geographical and industry wise distribution of assets and liabilities are set out in note 27.

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Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group'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.

Profit rate risk

Profit rate risk arises due to differences in timing of re-pricing of the Group's assets and liabilities. The Group'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 repricing bands. The effective profit rate on the profit bearing financial instruments are given below:

	2008	2007
Placements with financial institutions	3.13%	5.13%
Financing from a bank	5.61%	-

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group'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 Group'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:

	2008	2007
At 31 December 2008	± 2,547	± 431
Average for the period	± 2,086	± 491
Maximum for the period	± 3,936	± 575
Minimum for the period	± 586	± 431

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's major exposure is in GCC currencies, which are primarily pegged to the US Dollars. The Group does not have significant net exposures denominated in other foreign currencies as at 31 December 2008 and 31 December 2007.

Liquidity risk

Liquidity risk is the risk that the Group 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 Group 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 Group 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 Group has adequate liquidity at all times.

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(Expressed in US Dollars 000's)

30. FINANCIAL RISK MANAGEMENT (continued)

The day-to-day management of the Group'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 minimized. 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 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 Risk Management 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.

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 Group 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 right now in the process of conducting Risk Control Self Assessment of Operational risk in all departments of the Bank to identify the important Key Risk Areas and Key Risk Triggers. This process is expected to be completed by 2009.

31. CAPITAL MANAGEMENT

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. Capital requirements of CBB have been complied through out the year.

With effect from 1 January 2008, the Bank is required to comply with the provisions of the revised Capital Adequacy Module of the CBB (revised based on the Basel II framework) in respect of regulatory capital. The Bank has adopted the standardised approach to credit and operational risk management under the revised framework. There has been no significant change in the amount of available regulatory capital under the two norms. Further, as the Bank has not migrated to advanced approach for computation of risk weighted assets and it has not claimed any of the benefits under permissible credit risk mitigation, there is no significant change in the measurement of risk weighted assets for credit risk.

Notes To The Consolidated Financial Statements

for the year ended 31 December 2008

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

Capital adequacy	2008 Basel II actual	2007 Basel II pro forma	2007 Basel I actual
Total risk weighted assets	597,807	471,764	177,834
Tier 1 capital	181,060	160,894	160,894
Tier 2 capital	-	-	-
Total regulatory capital	181,060	160,894	160,894
Total regulatory capital expressed as a percentage of total risk weighted assets	30.29%	34.10%	93.63%

The Bank has complied with all externally imposed capital requirements through out the year.

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

During the year, the following new/ amended IFRS's standards and interpretations relevant to the activities of the Group have been issued which are not yet mandatory for adoption by the Group:

IAS 1 Presentation of Financial Statements (amended)

IAS 23 - Borrowing Costs (effective for annual period beginning on or after 1 January 2009)

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual period beginning on or after 1 January 2009)

The adoption of these standards and interpretations and certain other amendments to existing standards with varied effective dates made by International Accounting Standards Board as part of its first annual improvements project are not expected to have any material impact on the financial statements.

33. COMPARATIVES

Certain prior year amounts have been reclassified to conform to the current year's presentation. Such reclassifications do not affect previously reported net profit or equity.

The Bank was incorporated on 25 June 2007 and was in operation for 6 months only in 2007. Accordingly, the comparative income statement, statement of changes in equity, statement of cash flows and statement of changes in restricted investment accounts for the year ended 31 December 2007 are not directly comparable with the current year figures.

RISK AND CAPITAL MANAGEMENT DISCLOSURES (BASEL II - PILLAR III)

These disclosures have been prepared in accordance with the CBB requirements outlined in its Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Report under Volume II of the Rule Book issued by CBB for Islamic Banks. To avoid any duplication, Information required under PD module but already disclosed in other sections of annual report has not been reproduced.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

(BASEL II - PILLAR III)

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RISK AND CAPITAL MANAGEMENT DISCLOSURES

(BASEL II – PILLAR III)

1. INTRODUCTION

Global Banking Corporation B.S.C. (c) (the “Bank”) was incorporated on 25th June 2007 under the commercial registration number 65708 in the Kingdom of Bahrain and licensed by the Central Bank of Bahrain (“CBB”) as an Islamic whole sale bank. The Bank’s business model enables the Bank to offer a comprehensive range of investment banking products and services to high net worth individuals, corporate entities, and financial institutions in compliance with Shari’a principles.

CBB Basel II guidelines are effective from 1st January 2008 as the common framework for the implementation of Basel II capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The new framework intends to strengthen the risk management practices and processes within financial institutions. The Bank has accordingly taken steps to comply with these requirements. The CBB’s capital management framework, consistent with the Basel II accord, is built on three pillars:

- Pillar I: calculation of the risk weighted amounts and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process.
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

The Public Disclosure (PD) module Section 1.3 of Volume 2 of the CBB rule book governs the disclosure requirements to be made by Islamic banks in their annual report. In April 2008, the Central Bank revised the PD module to cover the detailed disclosure requirements to be followed by licensed banks in Bahrain to be in compliance with Pillar 3 of Basel II and the Islamic Financial Services Board’s (IFSB) recommended disclosures for Islamic banks. Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year-end reporting.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31 December 2008, presented in accordance with the Financial Accounting Standards (FAS) issues by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and International Financial Reporting Standards (IFRS). To avoid any duplication, information required under PD module but already disclosed in other sections of Annual report has not been produced in these disclosures.

2. EXECUTIVE SUMMARY

The Bank maintains an adequate capital base to cover risks inherent in the business. The adequacy of the Bank’s capital is monitored using, among other measures, the regulations and ratio established by the CBB in accordance with Basel II capital adequacy framework. Since incorporation, the Bank had complied with all the prescribed capital requirements.

The Bank’s capital adequacy ratio is well above the minimum capital requirement of 12% required by the CBB. The Bank’s capital adequacy ratio as at 31 December 2008 was 30.29% compared with 34.10% as at 31 December 2007. The Bank ensures adherence to the CBB’s requirements by monitoring its capital adequacy against higher internal limits.

The prime objective of the Bank’s capital management is to ensure compliance with all the prudential requirements and to maintain healthy capital ratios in order to effectively support its business and to maximize shareholders’ value. To assess its capital adequacy requirements in accordance with the CBB requirements, the Bank adopts the Standardized Approaches for its Credit Risk and Market Risk, and the Basic Indicator Approach for its Operational Risk. The Bank intends to adopt more sophisticated methods of capital allocation after building up the required internal systems and models.

3. GROUP STRUCTURE

The Group’s consolidated financial statements comprises the financial statements of the Bank and its wholly owned subsidiaries (together the “Group”) prepared in accordance with the Financial Accounting Standards (‘FAS’) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (‘AAOIFI’) and International Financial Reporting Standards (‘IFRS’). However, under the CBB prudential consolidation and deduction requirements non-

RISK AND CAPITAL MANAGEMENT DISCLOSURES

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financial subsidiaries are not required to be consolidated and different treatments are prescribed for regulatory capital computation purposes.

Following is the structure of the Group for prudential consolidation purposes:

Entities	Ownership	Consolidation basis
Global Energy Financial Services SPC	100%	Full consolidation
Global Real Estate Development Company SPC	100%	Risk weighted

All the above entities are incorporated in the Kingdom of Bahrain and there are no restrictions on the transfer of funds or regulatory capital within the Group.

4. RISK MANAGEMENT FRAMEWORK

The Bank perceives strong risk management capabilities to be the foundation in delivering results to customers, investors and shareholders. The Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. An understanding of risk-taking and transparency in risk-taking are key elements in the Bank's business strategy. The Bank maintains a prudent and disciplined approach towards risk taking, and embeds a structured risk management process as an integral part of its decision making practice.

The Risk Management Department (RMD) is empowered to independently identify and assess risks that may arise from the Bank's investing and operating activities; as well as recommend directly to the Executive Management Committee any prevention and mitigation measures as it deems fit. In addition, the Internal Audit Department, which is also independent of both operations and the Bank's investments units, also assists in the risk management process. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

The Bank is exposed to various types of risk, such as credit, market, operational, liquidity risk etc., all of which require comprehensive controls and ongoing oversight. The risk management framework encapsulates the spirit behind Basel II, which includes management oversight and control, risk culture and ownership, risk recognition and assessment, control activities and segregation of duties, adequate information and communication channels, monitoring risk management activities and correcting deficiencies.

The Bank has established an adequate system for monitoring and reporting risk exposures and capital adequacy requirements. These reports include periodic risk reviews, monthly reports, quarterly risk reports etc.

These reports aim to provide the Bank's senior management with an up-to-date view of the risk profile of the Bank. Moreover, external consultants are also engaged to enhance and improve the risk management standard procedures.

4.1. Risks In Pillar I

Basel II Pillar I prescribed three specific risks which are:

4.1.1. 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 its bank balances, investment securities, placements with financial institutions, receivable from investment banking services and other receivables from project companies.

The Bank is not involved in the granting of credit facilities in the normal course of its business activities. The Bank is primarily exposed to credit risk from its own short term liquidity related to placements with other financial institutions, receivable from its investment banking services and in respect of investment related funding made (in the form short-term liquidity facility) to its projects. These exposures arise in the ordinary course of its investment banking activities and are generally transacted without any collateral or other credit risk mitigants.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

(BASEL II - PILLAR III)

The Bank has a strong internal process for assessing credit risk. This process takes into account the financial strength of the counterparty, the technical feasibility and economic viability of the business, the adequacy and quality of the cash flow available for repayment etc. The availability of collateral security by way of physical assets or guarantees to mitigate the credit risk is also taken into consideration.

The Bank's internal rating system for exposures to banks and financial institutions is based on a 10-point scale (ranging from A (Strong) to F (unrated)) which takes into account the financial strength as well as qualitative aspects of the obligor. The Bank has established a limit structure to avoid concentration of risks for counterparty, sector and geography. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank.

4.1.2. Market Risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, equity prices, profit rates and credit spreads will reduce the Bank's income or the value of its portfolios. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its FX open positions, maximum loss limits, currency mismatch limits and maturity limits.

The different types of risks with exposures, objectives, policies and processes to manage the risk have been detailed hereunder:

4.1.2.1. Foreign Exchange Risk

Foreign exchange 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 Dollars.

The Bank does not engage in any foreign exchange trading operations. The open position limits also take into account structural positions arising out of currency mismatch in assets and liabilities. Risk Management periodically performs sensitivity analysis on the open positions to assess the risk of loss from exchange rate movements to ensure that the risk is well under control.

4.1.2.2. 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 equity price risk exposure arises from the Bank's trading activities. The Bank manages and monitors the positions using sensitivity analysis.

4.1.2.3. Profit Rate Risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. 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 repricing bands.

4.1.3. 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.

Though operational risk cannot be entirely eliminated, however the Bank aims to minimise the risk by strengthening its internal control environment, continuing its efforts to identify, assess, measure and monitor its risks, evolving in its risk management sophistication and promoting a strong control culture within the Bank. The material operational risks of the Bank are:

RISK AND CAPITAL MANAGEMENT DISCLOSURES

(BASEL II - PILLAR III)

- Inappropriate design of processes for the appraisal of credit and investment projects
- Shortcomings in documentation and processes for monitoring and control of credit and investment exposures
- Absence of an efficient process to capture internal losses and near misses
- Inadequacies in the process for execution of projects including selection of consultants and contractors as well as monitoring time and cost overruns.
- Legal risks arising from product documentation and faulty execution of transactions.
- Loss from staff negligence or fraudulent transactions perpetrated by employees or customers.
- Delay in updating records and misreporting

The Bank manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, effective training of staff, appropriate controls to safeguard assets, monitoring of various risk limits, periodic accounts reconciliations, financial management and reporting, including internal audit and compliance functions. In addition to these controls the Bank has developed a Business Continuity Plan based on risk review of the Bank's activities and insurance is also in place to complement the associated controls.

Moreover, The Bank has established a risk control and self assessment process necessary for identifying and measuring its operational risks. This exercise covers the Bank's business lines and associated critical activities, exposing the Bank to operational risks. The process of identification and implementation is expected to be completed by the end of 2009.

4.2. Risks In Pillar II

Pillar II covers key principles of supervisory review and evaluation process which intends not only to ensure that the Bank has adequate capital to support all the associated risks, but also requires Bank to develop an Internal Capital Adequacy Assessment Plan (ICAAP) and setting internal capital targets that commensurate with the Bank's risk profile and control environment. ICAAP requires assurance that the Bank has adequate capital to support its risks beyond the core minimum requirements which must not be limited to credit, market and operational risk charges.

4.2.1. Liquidity Risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

As an investment bank, the Bank's operating model has insignificant reliance on short-term liabilities to fund its medium and long-term assets. This ensures against a sudden and unanticipated liquidity crisis.

The Bank as a matter of policy regularly reviews and monitors policy limits for its key liquidity ratios, future contractual cash flows and any mismatches between the cash flows of assets and liabilities, diversification of funding resources and available bank lines, cross currency cash flows requirements and strategy, availability of sufficient liquid assets in case of any unforeseeable event, monitoring of receivables and late payments etc. These all factors are strictly monitored by Risk Management Department and being further reviewed and discussed regularly by the Assets and liability committee of the Bank.

For maturity profile of assets and liabilities and key measures used for management of liquidity risk, refer note 26 of the consolidated financial statements.

4.2.2. Concentration Risk

Concentration risk is the credit risk arising from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector or geographic region. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

(BASEL II – PILLAR III)

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

For sectoral classification of assets and liabilities, refer note 27 of the consolidated financial statements.

4.2.3. Counterparty Credit Risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. The Bank does not enter into any trading positions in foreign exchange contracts and also does not engage in proprietary trading of foreign exchange or profit rate derivatives. For other credit markets transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks by counterparties. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank.

4.2.4. Profit Rate Risk In Banking Book

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

Currently Bank's assets and liabilities are benchmarked to floating rate indices. The Bank has set policy limits for such risk. Quarterly repricing gap analysis are being performed on the portfolio to ensure that the extent of such risk is measured and monitored.

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 include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide.

An analysis of the Group's sensitivity to an increase or decrease in market financing rates is provided in note 30 of the consolidated financial statements.

4.2.5. Equity Risk In Banking Book

The equity risk in the banking book primarily arises from the banks unquoted available-for-sale investments. These investments comprise unquoted equity stake in the projects promoted by the Bank and are carried at cost and tested for impairment on a regular basis. The intent of such investments is a later stage exit along with the investors principally by means of strategic buy outs at the project level. The RMD works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A quarterly investment update report is presented to the Board of Directors by the Investment Department.

4.2.6. Displaced Commercial Risk

Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

Currently the Bank is not exposed to any displaced commercial risk.

4.2.7. Regulatory and Shari'a compliance risk

Regulatory and Shari'a compliance risk is the risk arising from non-compliance with the regulatory guidelines issued by the Central Bank Bahrain or the Shari'a principles prescribed by the Bank's Shari'a Board or other eminent scholars.

The Bank is taking due care to comply with all the regulations. The Bank has adequate internal controls in place which include but not limited to adequate training to staff, engagement of third party consultant wherever required, pre-approval from regulator wherever necessary, independent internal reviews by risk management department, compliance department and internal audit department etc.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

(BASEL II - PILLAR III)

The Shari'a Supervisory Board (SSB) is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'a. The Bank also has a dedicated internal shari'a reviewer who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'a standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with shari'a rules and principles.

4.2.8. Legal Risk

Legal risk includes the risk of non-compliance with applicable laws or regulations, the illegality or unenforceability of counterparty obligations under contracts and additional unintended exposure or liability resulting from the failure to structure transactions or contracts properly. The Bank has a dedicated in-house legal counsel who is consulted on all major activities conducted by the Bank. All contracts, documents, etc have to be reviewed by the legal department as well. As on the reporting date, the Bank had no material legal contingencies including pending legal actions.

4.2.9. Other Risks

Other risks include reputational, strategic, fiduciary risks etc. which are inherent in all business and are not easily measurable or quantifiable. However, the Bank has proper policies and procedure to mitigate and monitor these risks. The Bank's Board is overall responsible for approving and reviewing the risk strategies and significant amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank.

The Bank as a matter of policy regularly reviews and monitors financial and marketing strategies, business performance, new legal and regulatory development and its potential impact on the Bank's business, best corporate governance practices and implementation etc.

4.3. Pillar III

Pillar III complements the other two pillars and focuses on enhanced transparency in disclosure of information by the Banks to promote better market discipline. The information to be disclosed covers all areas including business performance, capital adequacy, risk management etc. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

In April 2008, the Central Bank published a paper covering the detailed disclosure requirements to be followed by licensed banks in Bahrain to be in compliance with Pillar III under the Basel II frame work.

5. CAPITAL MANAGEMENT AND INTERNAL CAPITAL ADEQUACY ASSESSMENT PLAN (ICAAP)

5.1. Capital Management

The Bank's policy is to maintain a strong capital base and also the minimum capital requirements imposed by the regulator CBB, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises 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 allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

(BASEL II – PILLAR III)

The Bank ensures that the capital adequacy requirements are met and complied with regulatory capital requirements throughout the period. A prior approval of the CBB is obtained by the Bank before submitting a proposal for distribution of profits i.e. dividend for shareholders approval.

5.2. Internal Capital Adequacy Assessment Plan (ICAAP)

The Internal Capital Adequacy Assessment Process (“ICAAP”) is a requirement under Pillar II of Basel II for capital management. The objective of the Bank’s ICAAP is to ensure that adequate capital is retained at all times to support the risks the Bank undertakes in the course of its business. The Bank’s ICAAP identifies risks that are material to the Bank’s business and the regulatory capital that is required to be set aside for such risks. The Bank is in the process of implementation of ICAAP which is expected to be completed by 2009.

The Bank recognises that earnings are the first line of defense against losses arising from business risks and that capital is one of the tools to address such risks; also important are establishing and implementing documented procedures, defining and monitoring internal limits of the Bank’s activities/exposures, strong risk management, compliance and internal control processes as well as adequate provisions for credit, market and operational losses. However since capital is vital to ensure continued solvency, the Bank’s objective is to maintain sufficient capital such that a buffer above regulatory capital adequacy requirements is available to meet risks arising from fluctuations in asset values, business cycles, expansion and future requirements.

The Bank seeks to achieve the following goals through the implementation of its ICAAP framework:

- Meet the regulatory capital adequacy requirement and maintain a prudent buffer
- Generate sufficient capital to support overall business strategy
- Integrate capital allocation decisions with the strategic and financial planning process
- Enhance Board and senior management’s ability to understand how much capital flexibility exists to support the overall business strategy
- Enhance the Bank’s understanding on capital requirements under different economic and stress scenarios; and
- Build and support the link between risks and capital and align performance to these.

As an internal target ratio, the Bank will seek to maintain its internal capital adequacy computed under ICAAP (after considering all identified material risks, including those not considered under Pillar 1) at a minimum level of 100% of the minimum Basel II Pillar 1 regulatory capital adequacy ratio stipulated by the CBB. Currently, the CBB has fixed a minimum Capital Adequacy Ratio of 12% and a trigger ratio of 12.5% for all locally incorporated banks in Bahrain. The Bank will monitor the ICAAP capital adequacy ratio against an internal trigger ratio which will be higher than the minimum prescribed ratio based on additional risk charges for risks not addressed in Pillar I. If the ICAAP capital adequacy ratio reaches the internal trigger ratio, the Bank will initiate action to reduce its risk or increase capital before the target ratio is breached.

6. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL BASE

6.1 Capital Adequacy Computations

The prime objective of the Bank’s capital management is to ensure compliance with all the prudential requirements and to maintain healthy capital ratios in order to effectively support its business and to maximize shareholders’ value.

The Bank’s regulator CBB sets and monitors capital requirements for the Bank as a whole (i.e. at a consolidated level). In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of 12% of total capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The CBB also requires banks incorporated in Bahrain to maintain a buffer of 0.5 per cent above the minimum capital adequacy ratio.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

(BASEL II - PILLAR III)

As at 31 December 2008 and throughout the year, the Bank complied with the capital requirements that were in force as set out by the CBB. The Bank's capital adequacy ratio as at 31 December 2008 was:

	Total eligible capital USD'000'
Credit risk weighted assets	329,321
Market risk weighted assets	14,546
Operational risk weighted assets	253,940
Total risk weighted assets	597,807
Eligible capital	181,060
Capital adequacy ratio	30.29%

6.2. Capital Base

The following table shows the breakdown of the total available capital for the as of 31 December 2008:

	Tier 1 capital USD'000'	Tier 2 capital USD'000'	Total eligible capital USD'000'
Share capital	156,250	-	156,250
Statutory reserves	5,801	-	5,801
Retained earnings	19,009	-	19,009
Current interim profits	-	-	-
	181,060	-	181,060

Regulatory capital consists of Tier 1 capital (core capital) and Tier 2 capital (supplementary capital). Tier 1 comprises share capital, share premium, retained earnings, statutory reserves and minority interests less goodwill. Tier 2 capital includes current interim profits and assets revaluation reserves. The Bank's capital base was not subject to any requirements of prudential deductions.

6.3. Regulatory Capital Requirements For Credit Risk

To assess its capital adequacy requirements in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the Standardized Approach for its Credit Risk. The Bank intends to adopt more sophisticated methods of capital allocation after building up the required internal systems and models.

According to standardized approach, on and off balance sheet credit exposures are assigned to various defined categories based on the type of counterparty or underlying exposure. The main relevant categories are claims on banks, claims on investment firms, investment in equities, holdings in real estate, claims on corporate portfolio and other assets. Risk Weighted Assets are calculated based on prescribed risk weights by CBB relevant to the standard categories and counterparty's external credit ratings, where available. The Bank uses the ratings of Standard & Poor's, Fitch and Moody's ratings for such counterparties. However, preferential risk weight of 20% is used which is applicable to short term claims on locally incorporated banks where the original maturity of these claims are three months or less and these claims are in Bahraini Dinar or US Dollar.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

(BASEL II - PILLAR III)

Following is the analysis for credit risk:

	Funded exposure USD'000'	Unfunded exposure USD'000'	Gross exposure USD'000'	Risk weighted Assets USD'000'	Capital requirement USD'000'
Cash	5	-	5	-	-
Claims on banks	287,789	-	287,789	63,657	7,639
"Claims on Corporates including Takaful Companies & Category 3 Investment Firms"	53,995	-	53,995	53,995	6,479
Investments in Securities and Sukuk	133	-	133	200	24
Holding of Real Estate (indirect holding)	23,779	10,500	34,279	68,558	8,227
Holding of Real Estate (direct holding)	67,467	-	67,467	120,170	14,420
Other Assets and Specialized Financing	22,741	-	22,741	22,741	2,729
	455,909	10,500	466,409	329,321	38,518

The classification of assets is in accordance with the Capital Adequacy Module of the cbb.

The Bank does not finance its assets using unrestricted investment accounts and hence all credit exposures are self-financed exposures.

The Bank's concentration of funded and unfunded exposures is limited to GCC countries.

6.4. Regulatory Capital Requirements For Market Risk

To assess its capital adequacy requirements in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the Standardized Approach for its Market Risk.

Market risk charge consists of equity position risk and foreign exchange risk charges. Specific market equity risk charge is computed at the rate of 8% on gross equity positions for each country or market. General market equity risk charge is computed based on 8% of the overall net position in each equity market.

Foreign exchange risk charge is computed based on 8% of overall net open foreign currency position of the Bank.

The market risk charge and foreign exchange risk charge is multiplied by 12.5 to evaluate market risk weighted assets.

Following is the computation of market risk charge:

	Risk weighted assets			Capital requirement		
	Maximum USD'000'	Minimum USD'000'	Closing USD'000'	Maximum USD'000'	Minimum USD'000'	Closing USD'000'
Foreign Exchange Risk Charge	14,142	12,000	14,142	1,697	1,440	1,697
Market Risk Charge						
Specific	404		202	48	-	24
General	404		202	48	-	24
	14,950	12,000	14,546	1,794	1,440	1,746

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6.5. Regulatory Capital Requirements For Operational Risk

The Bank adopts the Basic Indicator Approach to evaluate Operational Risk Charge in accordance with the CBB capital adequacy module for Islamic Banks. According to this approach, Bank's average gross income for three past financial years is multiplied by a fixed coefficient alpha which is 15% set by CBB. Since the Bank was incorporated on 25 June 2007, the Bank has calculated the operational risk charge based on the annualized audited income for the year 2007 and projected income data from its approved business plan for the year 2008 and 2009.

Operational risk weighted assets and operation capital requirement as at 31 December 2008 was:

	USD'000'
Gross income (average of three years)	135,435
Operational Risk Weighted Assets	253,940
Capital Requirement	30,473

7. QUANTITATIVE DISCLOSURES FOR CREDIT RISK

7.1. Gross Credit Exposures

The gross and average gross credit exposure are as follow:

	Gross credit exposure USD'000'	Average Gross credit exposure USD'000'
On balance sheet items:		
Cash and bank balances	936	4,151
Placements with financial institutions	297,872	261,649
Receivable from investment banking services	42,975	20,371
Other assets	1,663	5,678
	343,446	291,849
Off balance sheet items:		
Commitment to invest	21,000	1,750
	364,446	293,599

The average balances are based on month end average balances during the year 2008.

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7.2. Industry Concentration

The industry concentration of credit exposures are as follows:

	Financial institutions USD'000'	Real estate and construction USD'000'	Total USD'000'
On balance sheet items:			
Cash and bank balances	936	-	936
Placements with financial institutions	297,872	-	297,872
Receivable from investment banking services	-	42,975	42,975
Other assets	-	1,663	1,663
	298,808	44,638	343,446
Off balance sheet items:			
Commitment to invest	-	21,000	21,000
	298,808	65,638	364,446

7.3. Geographic Concentration

The Bank's concentration exposure as at 31 December 2008 is limited to GCC countries.

7.4. Credit Exposure By Internal Rating

The analysis of credit exposures by internal rating is as follows:

	Rating A to B USD'000'	Rating C to E USD'000'	Rating F (Unrated) USD'000'	Total USD'000'
On balance sheet items:				
Financial institutions				-
Corporates	277,574	10,201	11,033	298,808
Others	-	-	44,627	44,627
	277,574	10,201	55,671	343,446
Off balance sheet items:				
Corporates			21,000	21,000
	277,574	10,201	76,761	364,446

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7.5. Credit Exposure by Residual Maturity

The analysis of credit exposures by residual maturity is as follows:

	Upto 3 months USD'000'	Over 3 months to 6 months USD'000'	Over 6 months to 1 year USD'000'	Over 1 year to 3 years USD'000'	Over 3 years USD'000'	Total USD'000'
On balance sheet items:						
Cash and bank balances	936	-	-	-	-	936
Placements with financial institutions	297,872	-	-	-	-	297,872
Receivable from investment banking services	-	1,000	39,370	2,605	-	42,975
Other assets	1,663	-	-	-	-	1,663
	300,471	1,000	39,370	2,605	-	343,446
Off balance sheet items:						
Commitment to invest	21,000	-	-	-	-	21,000
	321,471	1,000	39,370	2,605	-	364,446

7.6. Restructured/ Renegotiated Exposures

The Bank did not restructure or renegotiate any exposures as at 31 December 2008.

7.7. Exposure On Highly Leveraged Counterparties

The Bank has no exposure to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24.

7.8. Related Party Transactions

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties, and all such transactions have been done on commercial terms that bring no disadvantage to the Bank. For the purpose of identification of related parties, the Bank follows the guidelines issued by Central Bank of Bahrain. For details on related party transactions and balances, refer note 21 to the consolidated financial statements.

7.9. Exposure in excess of 15% Of Capital Base

Single exposures in excess of 15% of the Bank's capital base on individual counterparties require prior approval of CBB and are subject to prudential deduction treatment unless considered as exempt. As on date of balance sheet the Bank has certain exposures with banks which are exempt as per CBB rules hence the Bank does not have any such 'large exposures' that need prior approval of CBB. Exposure exceeding single exposure limit as of 31 December 2008 to a financial institution was USD235.3 Million and to a corporate was USD40.0 Million. In addition to this, bank has restricted investment account exposure amounting to USD 190 Million; this restricted investment account is specific in relation to a project promoted by the bank and was part of the overall investment structure.

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8. OTHER DISCLOSURES

8.1. External Communication

The Bank communicates with its customers and stakeholders through various channels. Information on developments, financial results, new products or any updates of existing products are placed on the Bank's website www.gbcorponline.com and/or published in the media as well. Product details are also disseminated to customers and other interested parties through prospectus, brochures, and/or periodic investment updates.

8.2. Complaint Handling

The Bank takes disputes and complaints from all customers very seriously. These have the potential for a breakdown in relationships and can adversely affect the Bank's reputation. Left unattended these can also lead to litigation and possible censure by the regulatory authorities. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy.

8.3. Unrestricted Investment accounts

Currently, the Bank does not offer any unrestricted investment accounts.

8.4. Restricted Investment accounts

The Bank does not currently offer Restricted Investment Accounts ("RIAs") as normal product offering. The RIA as at the balance sheet date is specific in relation to a project promoted by the Bank and was part of the overall investment structure. The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. For further details on RIA balances and policies refer to the consolidated financial statements.

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