



United International Bank



ANNUAL REPORT 2007

UIB mission is to offer Shari'a compliant quality private equity investments, which provide appealing risk-adjusted returns.

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**His Highness Shaikh
Khalifa bin Salman
Al Khalifa**

The Prime Minister of
the Kingdom of Bahrain



**His Majesty King
Hamad bin Isa
Al Khalifa**

The King of the Kingdom
of Bahrain



**His Highness Shaikh
Salman bin Hamad
Al Khalifa**

The Crown Prince
& Commander-in-Chief of
the Bahrain Defence Force

Message From The Chairman



I am pleased to present to you on behalf of the Board of Directors the first annual report of United International Bank for the period ending 31 December 2007. We started over a year ago as a newly founded Investment Bank based in the Kingdom of Bahrain with the vision to becoming a leading Islamic investment bank in the region setting the direction for management to align its efforts with this long term goal.

Since the start of operations in late 2006, the Bank's management has sought to put the right base for its operations starting with the recruitment of well qualified and highly experienced professionals. The next step was to look for investment opportunities that meet our criteria and which are in line with Shari'a principles. The success of these efforts is evident in the results at the end of 2007 where by the grace of Allah and the support of its shareholders the Bank has not only been able to successfully establish itself but has also managed to position itself for sustainable long term growth.

Since its establishment, the Bank has focused on the offering of distinctive investment opportunities which generate attractive returns. A number of completed transactions have enabled the Bank to deliver good performance for both our investors and our shareholders. I am pleased to report that, the Bank has generated total income of US\$55.1 million and net income of US\$20.9 million during the period ending 31st December 2007. The Bank's total assets grew to US\$383 million, with 45% of these assets in amounts receivable from rated banks and financial institutions in the GCC.

On the business front, the Bank has focused its efforts on its core lines of business namely corporate investments and asset based investments.

Under the corporate investments line of business, the Bank seeks to take controlling ownership stake in small to mid-size companies with strong management team, established product lines, leading industry position, a strong track record and a potential for growth and which require growth capital. The Bank's approach in these types of investments is to develop an investment thesis with the management and provide financial and operational resources or industry expertise as required to most effectively increasing value during our target three to five year holding period. The Bank completed in early 2008 its first corporate investment acquisition transaction in Europe.

The Bank's asset based investment business line focuses on investing in asset classes which generate cash flow and have relatively lower risk profile. The Bank normally participates in such investments together with a lead partner having relevant industry expertise. The returns would normally be derived from the cash flows and capital gain through exit from a single or portfolio of tangible assets. We have identified a number of sectors suited for this line of business such as aviation, power, oil & gas, infrastructure and other similar asset-rich industries. The Bank's first initiative in the asset-based investments area was the launch of its US\$150 million aviation fund focused on leasing aircrafts to established airlines.

Real estate continues to be an important investment sector for the MENA region and in particular the GCC and offers some excellent opportunities. The Bank selectively invests in this asset class by partnering with leading developers for prime developments within the region. The investment team has evaluated a number of such opportunities during the period and have

Looking at what has been achieved since the Bank's start of operations, a strong pipeline of transactions identified within all lines of business, a strong & qualified management team in place and with the infrastructure of the Bank developed, we feel that the Bank has been tremendously successful in achieving its set goals and laying the foundation for future growth.

actually participated as a co-investor in the housing sector in the MENA region.

While focusing on business development and expansion, the Bank also endeavored to put in place the key enablers for future growth. In the time of high oil prices and an economic boom in the region, recruiting a professional and high caliber management team is no doubt a big challenge. However, the Bank has been able to attract experienced professionals with both investment and Islamic banking expertise. Furthermore, the Bank has put in place the necessary infrastructure and corporate governance framework which would effectively support an ever increasing deal flow.

We have all been watching the turbulence in the global credit markets in the wake of the sub-prime mortgage crisis. With the possibility of key world economic powers going into recession and the US Dollar at an all time low, the times ahead are no doubt challenging. However, we also see the current economic events providing good investment opportunities at attractive valuations. With liquidity an issue for a number of institutions particularly in Europe and North America, UIB with a strong capital base and access to liquidity with its GCC based co-investors is positioned to take advantage of these opportunities.

Looking at what has been achieved since the Bank's start of operations, a strong pipeline of transactions identified within all lines of business, a strong & qualified management team in place and with the infrastructure of the Bank developed, we feel that the Bank has been tremendously successful in achieving its set goals and

laying the foundation for future growth. In summary, we feel that 2007 was a landmark year for the Bank.

We also see 2008 as a milestone year given the strong start where the Bank has already initiated a number of investments which are expected to contribute to the Bank's growth objectives. The Bank is in advanced stages of completing a couple of corporate acquisitions in Europe and the GCC as well as embarking on a major real-estate development project in the Kingdom of Bahrain.

On behalf of the Board of Directors, I would like to thank the Government of the Kingdom of Bahrain and the Central Bank of Bahrain for all their support during the establishment of the Bank and look forward to their continuing support for the years to come. I would also like to thank UIB's Shari'a Board and all shareholders and investors for their continued confidence and support. Last but not least I wish to thank UIB's management and staff for their professionalism and contribution to the Bank success.



Asaad Ahmed Al Banwan
Chairman of the Board

Message from the CEO



UIB has made tremendous strides since its establishment in late 2006. The considerable achievements we report on for the end of 2007 are an outcome of an approach to balance between the short-term goals and building a strong foundation for future growth and stability.

For the period ending 31st December 2007, the Bank generated a total income of over US\$55 million through a number of diversified investments in various sectors such as telecommunications, aviation, shipping, real estate and power yielding an average return on equity of 6.6% for its first period of operations.

On the business front, the Bank has managed to successfully close a number of transactions in several sectors. The Bank entered into a one year syndicated term financing for a major telecommunications company where the Bank acted as Mandated Lead Arranger. The Bank also succeeded in winning a mandate to arrange a long term vessel financing and a short term Murabaha facility for a major shipping group. UIB was also one of the leads for a landmark IPO in Bahrain and acted as a co-promoter in a fund which invests in affordable housing projects targeted for low and middle income groups in the MENA region.

Investment in leases, representing the Bank's investment in the aviation fund, have totaled US\$83.5 million representing 21.8% of total assets while other investments totaled US\$97.9 million representing 25.5% of total assets.

The Bank's asset portfolio is well diversified across a wide range of asset classes, counterparties, industries and countries. At the end of 2007, UIB's Capital Adequacy Ratio stood at 91.3% compared to a minimum Central Bank of Bahrain requirement of 12.0%.

The Bank initiated a number of transactions with results expected to materialize in 2008. This includes the acquisition of 92% of the shares of a leading European company which is a global leader in the provision of systems and solutions for filling and reconditioning of liquefied petroleum gas cylinders. The Bank is also in advanced stages of finalizing a milestone corporate buyout transaction in the UAE and a major real estate development project in the Kingdom of Bahrain.

The Bank also structured an aviation fund "Falak" which is soon to be launched. The US\$150 million fund comprises of a portfolio of wide and narrow body aircraft leased to commercial airlines in the GCC, Europe, Far East and Asia. Aviation leasing offers a stable income with the potential for significant growth and the fund has already generated great interest from investors. The Bank's investment team together with our aviation industry expert and partner has established a diversified and well balanced portfolio which we believe would provide superior risk adjusted returns for both the bank and its investors.

The considerable achievements we report on for the end of 2007 are an outcome of an approach to balance between the short-term goals and building a strong foundation for future growth and stability.

In addition to the transactions that have been brought forward, we have also focused on the Bank's corporate governance and infrastructure. The strategy has been to strengthen our team of professionals and to establish robust systems of checks and balances. Senior professionals were recruited in the areas of Investments, Treasury, Risk, Legal and Operations. We moved to new offices and have selected a core banking system especially designed for Shari'a compliant investment banks. During 2008, we will continue to strengthen our business and marketing teams which will enable us to achieve our strategic objectives. We also expect to complete the implementation of the core banking system including enhancing the IT infrastructure which is considered to be a key enabler for our future success and competitive advantage.

We expect that the current macroeconomic conditions will present both opportunities and challenges for the Bank in 2008. Today's conditions of weakening global capital markets, a weakening US Dollar and inflationary pressures in the GCC region will require careful evaluation of all prospect transactions. However, we also expect better access to capital in the region than Europe and North America and more attractive valuations in these regions bringing forth interesting investment opportunities. These combined factors promise a very dynamic year for the Bank.

To summarize UIB's performance by the end of 2007, the Bank was in a profitable position following considerable investments pursuant to its inception

and during the rigorous course of its infrastructure and capacity building. With the Bank's infrastructure already established and a professional and experienced management team in place, UIB is in position for strong growth in 2008 and beyond. Looking ahead, the world's economy is expected to face a difficult and challenging time, however with the progress already made by the Bank and the favorable economic conditions in the GCC, with the grace of Allah I look forward to an even stronger performance in 2008 and the years to come.



Abdulla Janahi
General Manager and Acting CEO

Board of Directors



Mr. Asaad Ahmed Albanwan
Chairman of the Board

**H.R.H. Prince Khalid Bin Alwaleed
Bin Talal Al Saud**
Deputy to the Chairman

Mr. Khalid Bin Nasser Bin Abdulla Alnasser
Board Member

Mr. Yousef S. M. Almajid
Board Member

Mr. Khamis Mohamed Buharoon
Board Member

Dr. Abdulla Bin Abdul Muhsin Al Turki
Board Member

Mr. Mohamed Hani Abdulkader Al Bakri
Board Member

Mr. Waleed Khalifa Al Felajj
Board Member

Mr. Waleed Abdulla A. Aleisa
Board Member

Shari'a Board



Sheikh Esam M. Ishaq

Chairman of Shari'a Board

Chairman: UIB's Shari'a Board, Muslim Educational Society, Bahrain.

Director and Shari'a Advisor: Discover Islam, Bahrain.

Member: Shari'a Supervisory Board of ArCapita; Member of Board of Trustees, Al Iman Islamic School, Bahrain; Member of Shari'a Supervisory Board of Meezan Islamic Bank, Islamic Republic of Pakistan; Member, Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI), Bahrain; Member of the Shari'a Supervisory Boards of a number of Islamic banks and financial institutions. **Instructor:** Islamic jurisprudence, theology and Qur'anic exegeses (Tafseer) courses in English and Arabic, in various centers in Bahrain.

Director: Zawayya Property Development, Kingdom of Bahrain.

Dr. Ishaq obtained his Bachelor Degree in Political Science from McGill University, Montreal, Canada 1982.

Dr. Yousif Abdulla Al Shubaily

Shari'a Board Member

Assistant Professor: Al Imam Mohamed Bin Saud Islamic University; Visiting Professor in the Open American University.

Shari'a Advisor: Al Zad International Investment Company.

Member: Of the Academy of Shari'a Jurists in North America and in the Permanent Fatwa Committee; Former member of Fatwa Committee in Islamic Institutions in North America; Former member in the Council of Board of Directors of the college of Islamic Studies in Kenya; Committee of Islamic Endowment.

Shari'a Researcher: Board of Grievances, Saudi Arabia.

Deputy Dean: Comparative Fiqh Department in the Juridical Higher Institution.

Dr. Al Shubaily has several researches and publications in the Islamic Studies and participated in a number of Islamic Conferences in the Kingdom of Saudi Arabia, United States and other countries. He has obtained his PhD from the Al Imam Mohamed Bin Saud Islamic University, Kingdom of Saudi Arabia.

Dr. Mohammad AbdulRazzaq Al Tabtabaei

Shari'a Board Member

Dean: Shari'a and Islamic Studies faculty in the Kuwait University.

Shari'a Board member: In a number of Islamic Institutions; Ministry of Awqaf and Islamic Affairs; member of Shari'a Committee in Zakat House, Kuwait.

Professor: Kuwait institute for Juridical Studies, Kuwait.

Dr. Al Tabtabaei has several books and publications in Islamic jurisprudence related topics. He has obtained a PhD in Islamic jurisprudence from Imam Mohamed bin Saud Islamic University, Kingdom of Saudi Arabia.

Dr. Mohammed Burhan Arbouna

Shari'a Board Member

Former Head: Of the Shari'a department at Kuwait Finance House, Bahrain, worked for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Bahrain.

Instructor: Islamic banking and finance in several academic institutions, including the Bahrain Institute of Banking and Finance.

Dr. Arbouna is a frequent speaker in a number of forums and conferences on Islamic banking and finance and has number of publications. He has obtained his PhD in Islamic banking and finance from International Islamic University in Malaysia.

Dr. Khaled Shuja'a Al Otaibi

Shari'a Board Member

Assistant Professor: Faculty of Islamic Studies, Kuwait; Officially appointed Imam and Sermonic (Khatib) in the Ministry of Awqaf and Islamic Affairs, Kuwait.

Shari'a Board member: At the General Secretariat of Awqaf, Kuwait, Al Emteyaz Investment Company; Dar for Shari'a supervisory services, Kuwait and Al Haj and Al Omra Services Company.

Dr Al Otaibi has several books, publications and contributions in conferences both in Kuwait and other countries. He has obtained his Masters and PhD in the Islamic Jurisprudence (Usul AlFiqh) from the Islamic University, Medina.

Dr. Nayef Mohammed Al Ajmi

Shari'a Board Member

Chairman of the Board of Director and the Shari'a Board: Islamic Advisor Company.

Member of Shari'a Board: Al Emteyaz Investment Company, Al Waseelah Company, Istehwath Company

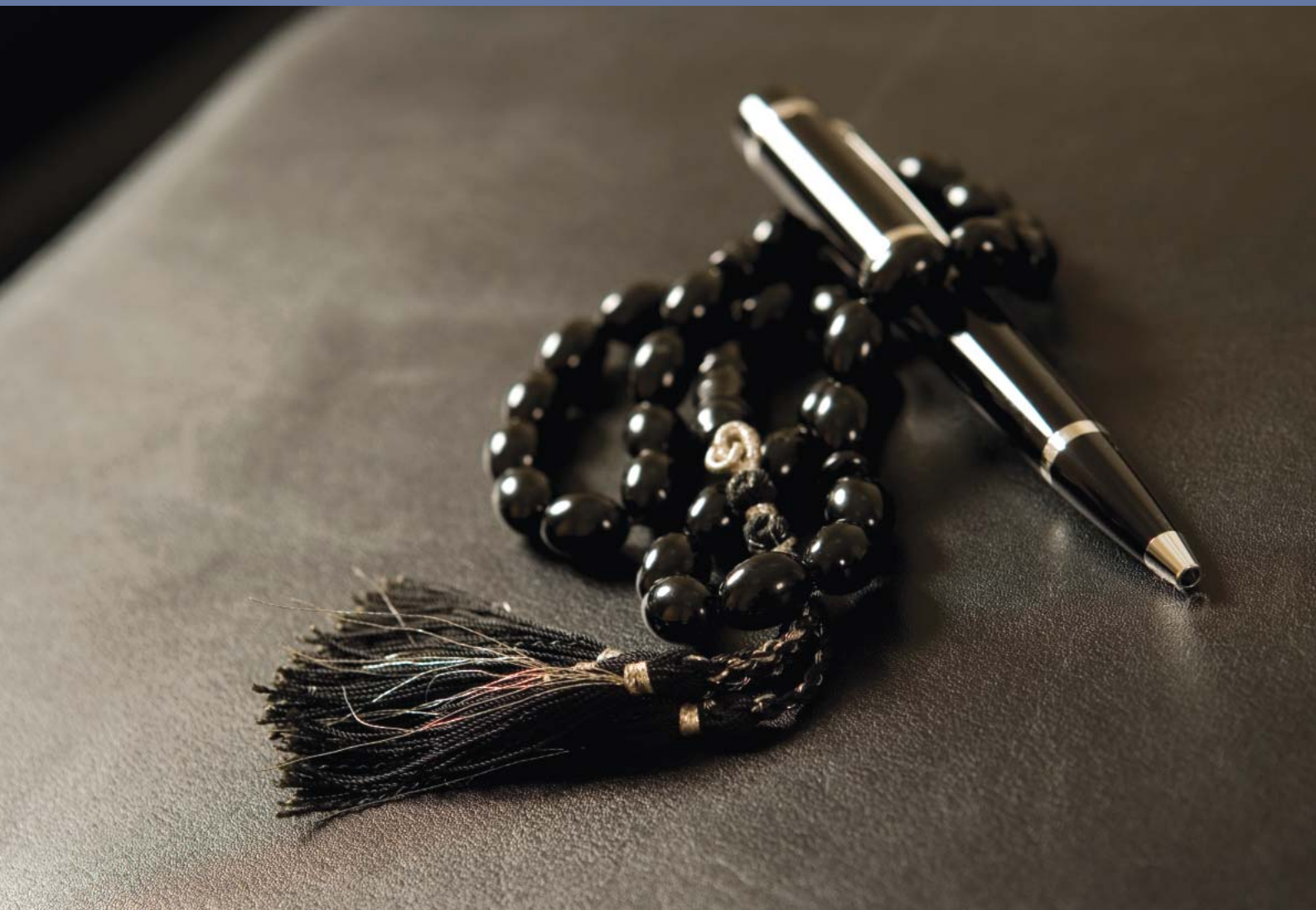
Deputy Chairman: Mabarar Al Ehsan Charity.

Assistant professor: Kuwait University.

Founding member: Higher Diploma Program in Islamic Finance in Kuwait University.

Dr. Al Ajmi involved in a number of committees in the department of Islamic jurisprudence, Kuwait University. He has developed a system to calculate Zakat and participated in developing Islamic financial products and a number of conferences and seminars both in Kuwait and other countries. He has obtained his PhD from Faculty of Dar Al Oloom, Kuwait.

Shari'a Board Report



Shari'a Board Report on the activities of United International Bank for the period ended 31 December 2007

In the name of Allah, the most beneficent, the most merciful.

Prayers and Peace be Upon the Last Apostle and Messenger, Our prophet Mohammed, His Relatives and Comrades.

The Shari'a Board of United International Bank, an investment bank, have reviewed the Bank's investment activities and compared them with the previously issued fatwas and rulings during the period ended 31st December 2007 and found them compatible with the already issued fatwas and rulings.

The Shari'a Board believes that it has expressed its opinion in respect of the activities carried on by the Bank and it is the responsibility of the management to ensure the implementation of such decisions. It is the duty of the Shari'a Board to express an independent opinion, review Bank's operations and to prepare a report about them.

A representative of the Bank's management explained and clarified the contents of consolidated Balance Sheet, attached notes and Consolidated statement of Income for the period ended on 31st December 2007 to our satisfaction. The report of the Shari'a Board has been prepared based on the contents provided by the Bank.

The Shari'a Board is satisfied that the investment activities and banking services are in compliance with the Glorious Islamic Shari'a.

We Pray that Allah may grant all of us further success and prosperity.



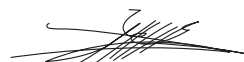
Shaikh Esam M. Ishaq
Chairman



Dr. Mohammed Altabtabaei
Member



Dr. Yousif A. Alshubaily
Member



Dr. Mohammed Arbouna
Member



Dr. Khalid S. Al Otaibi
Member



Dr. Nayif M. Al Ajmi
Member

Investments

The Bank has been successful in exploring opportunities in various sectors that have been experiencing growth globally such as petrochemicals, oil and gas, manufacturing, shipping, aviation, real estate, telecommunications and consumer products with particular focus on the GCC and MENA region.

UIB has four lines of business: Corporate Investments, Asset based investments, Real Estate Investments, and Treasury and Asset Management. The Bank has been successful in exploring opportunities in various sectors that have been experiencing growth globally such as petrochemicals, oil and gas, manufacturing, shipping, aviation, real estate, telecommunications and consumer products with particular focus on the GCC and MENA region.

Equity investments which comprises the Corporate Investments and Asset Based Investments business lines is UIB's main strategic focus area. Within Corporate Investments, UIB's strategy is to acquire controlling interests in established companies that exhibit an attractive growth value proposition. The Bank has completed its first corporate investment transaction by acquiring 92% of a leading European company, Kosan Crisplant which is a global leader in the provision of systems and solutions for filling and reconditioning of liquefied petroleum gas cylinders. The acquisition of Kosan Crisplant; a company with a market leadership position and global growth potential, is in line with the Bank's Corporate Investments strategy of seeking transactions which provide attractive risk adjusted returns.

On the Asset based Investments front, UIB acquired a fleet of second hand aircrafts and embarked on establishing an aviation fund partnering with a leading aircraft management company based in Geneva, Switzerland. The US\$150 million fund known as FALAK comprises of eleven aircrafts which are on lease to established airlines within the GCC, Europe and Asia. The creation of the aviation fund is in line with the Bank's strategy of providing investment opportunities with a steady income and favorable risk profile.

Furthermore, the Bank has completed a number of other transactions in the period since its founding. In December 2006 the Bank acted as a mandated lead arranger for a US\$1.2 Billion Syndicated Murabaha facility for a major telecommunications company. The Bank also acted as co-promoter of a fund which invests in housing projects targeted for low and middle income groups in the MENA region. Furthermore, UIB also acted as one of the lead underwriters for a landmark IPO in Bahrain and succeeded in winning a mandate to arrange a long term vessel financing facility for a major shipping group.



Management, Shari'a and Audit



Abdulla Janahi
General Manager and
Acting CEO



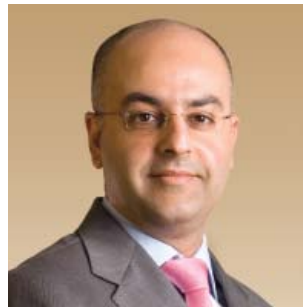
Dr. Raed Sarhan
Chief Investment Officer



Shahzad Iqbal
Chief Operating Officer



**Dr. Mohammed
Burhan Arbouna**
Head of Shari'a
Compliance



Nabeel Kazerooni
Head of Equity Investment



Essa Abdulla Bohijji
Chief Auditor



Abdulrahman Kooheji
Head of Investment
Placement



Amr Elimam
Head of Strategic
Planning and Corporate
Communications



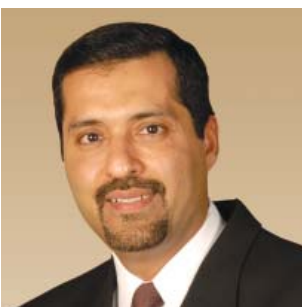
Fulya Koch
Head of Risk & Legal



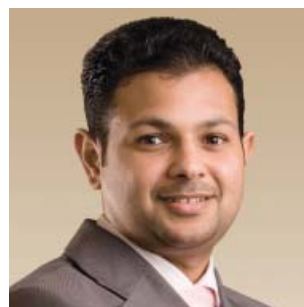
Jaffar Hussain
Head of Post Acquisition
Monitoring



Ismail Younis Ahmed
Head of Human Resources
and Administration



Abdunasser Bukamal
Vice President,
Operations



Tawfiq Al-Sari
Vice President,
Financial Control



Auditors' Report

Independent Auditors' Report to the Shareholders of United International Bank B.S.C. (c)

We have audited the accompanying consolidated financial statements of United International Bank B.S.C. (c) ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated statement of income, statement of changes in equity and cash flow statement for the period from 5 August 2006 to 31 December 2007, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, 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, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.

An audit also includes evaluating the appropriateness of accounting policies 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 of 31 December 2007 and its financial performance and its cash flows for the period then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Group.

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank have occurred during the period ended 31 December 2007 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position, and that the Bank has complied with the terms of its banking license.



5 March 2008
Manama, Kingdom of Bahrain



Financial Highlights

Total operating Income	55.1 million USD
Net Profit	20.9 million USD
Total Assets	383 million USD
Total Equity	319 million USD
Return on Average Equity	6.6%
Return on Average Assets	6.0%



**Consolidated
Financial Statements**
31 December 2007

United International Bank B.S.C. (c)

Consolidated Balance Sheet

at 31 December 2007

	<i>Notes</i>	31 December 2007 US\$ '000
Assets		
Cash and balances with banks	3	16,249
Due from banks and other financial institutions	4	172,922
Trading investments	5	30,913
Non-trading investments	6	49,504
Investments in leases	7	83,535
Investment property	8	17,460
Other assets	9	4,829
Property and equipment	10	7,952
Total Assets		383,364
Liabilities, Unrestricted Investment Accounts and Equity		
Due to banks and other financial institutions		47,449
Other liabilities	11	7,236
Total Liabilities		54,685
Unrestricted Investment Accounts	12	10,000
Equity	13	
Share capital		291,286
Retained earnings		11,594
Reserves		8,426
		311,306
Minority Interest		7,373
Total Equity		318,679
Total Liabilities, Unrestricted Investment Accounts and Equity		383,364

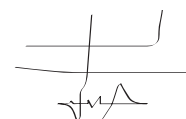
The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 5 March 2008.



Mr. Asaad Al Banwan
Chairman



Mr. Abdulla Janahi
GM and Acting CEO



Mr. Khalid Al Nasser
Board Member

United International Bank B.S.C. (c)

Consolidated Statement of Income

Period from 5 August 2006 to 31 December 2007

	<i>Notes</i>	For the period from 5 August 2006 to 31 December 2007 US\$ '000
Income		
Rental income from investments in leases		27,653
Profit on amounts due from banks and other financial institutions		15,214
Profit on amounts due from non banks		3,307
Trading gains		913
Income from non-trading investments	14	1,347
Unrealized gain on investment property	8	6,424
Fee income		221
Total Income		55,079
Expenses		
Rental expense from investments in leases		17,449
Staff compensation and benefits		11,497
General and administration expenses	15	3,206
Management fees relating to leases		901
Profit on amounts due to banks and other financial institutions		650
Depreciation	10	447
Total Expenses		34,150
Net Income For The Period		20,929
Attributable to:		
Equity holders of the Parent		20,020
Minority interest		909

The attached explanatory note 1 to 25 form part of these financial statements.

United International Bank B.S.C. (c)

Consolidated Statement of Cash Flows

Period from 5 August 2006 to 31 December 2007

	<i>Notes</i>	For the period from 5 August 2006 to 31 December 2007 US\$ '000
Operating Activities		
Net profit for the period		20,929
Adjustments for:		
Provision for employees' end of service benefits		586
Depreciation	10	447
Loss on sale of property and equipment		17
Revaluation of investment property	8	(6,424)
		15,555
Changes in operating assets and liabilities:		
Due from banks and other financial institutions		(15,099)
Trading investments	5	(17,722)
Unrestricted investment accounts		10,000
Due to banks and other financial institutions		47,449
Other assets		(4,829)
Other liabilities		6,937
Cash from operations		42,291
Employees' end of service benefits paid		(287)
Net cash from operating activities		42,004
Investing Activities		
Investment in non-trading investments	6	(49,504)
Investment in property	8	(11,036)
Investments in leases	7	(83,535)
Purchase of property and equipment	10	(8,494)
Disposal of property and equipment		78
Net cash used in investing activities		(152,491)
Financing Activities		
Issue of share capital	13	291,286
Minority interest		6,464
Net cash from financing activities		297,750
Increase In Cash And Cash Equivalents		187,263
Cash and cash equivalents at beginning of the period		-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	16	187,263

The attached explanatory note 1 to 25 form part of these financial statements.

Consolidated Statement of Changes in Equity

Period from 5 August 2006 to 31 December 2007

Attributable to equity holders of the parent

	Share capital		Retained earnings		Statutory reserve		Investment fair value reserve		Minority interest		Total Equity	
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Issue of share capital	291,286	-	-	-	-	-	-	-	-	-	-	291,286
Investment in subsidiaries	-	-	-	-	-	-	-	-	7,144	-	7,144	7,144
Dividends paid by subsidiaries	-	-	-	-	-	-	-	-	(680)	-	(680)	(680)
Net profit for the period	-	-	20,020	-	-	-	-	-	909	-	909	20,929
Transfer to statutory reserve	-	-	(2,002)	-	2,002	-	-	-	-	-	-	-
Unrealized gain on investment property (note 8)	-	-	(6,424)	-	-	-	6,424	-	-	-	-	-
Balance at 31 December 2007	291,286	11,594	2,002	6,424	2,002	6,424	7,373	318,679				

The attached explanatory note 1 to 25 form part of these financial statements.

Notes to the Consolidated Financial Statements

at 31 December 2007

1. INCORPORATION AND ACTIVITIES

United International Bank B.S.C (c) ("the Bank") was incorporated on 5th of August 2006, under commercial registration number 62003 as a Bahrain Joint Stock Company (closed). The Bank's registered office is Building 2431, Road 2831, Block 428, Seef, Kingdom of Bahrain.

The Bank operates under an Islamic Wholesale Banking License issued by the Central Bank of Bahrain (previously known as The Bahrain Monetary Agency). The core business activities of the Bank include investing on its own account and providing a full range of investment banking products and services that are in conformity with Islamic Shari'a.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

a. Basis of preparation

These consolidated financial statements have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and in conformity of the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law. In accordance with the requirement of AAOIFI, for matters for which no AAOIFI standards exist, the Bank uses the relevant International Financial Reporting Standards issued by the International Accounting Standards Board.

b. Accounting convention

The consolidated financial statements have been prepared under the historical cost convention as modified for the re-measurement at fair value of investment property and certain non-trading investments.

These consolidated financial statements have been presented in United States Dollars (US\$ '000), unless otherwise stated, which is the functional currency of the Group.

c. Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Bank and its subsidiaries. A subsidiary is an entity over which the Bank has power to control, which is other than fiduciary in nature. The financial information of the subsidiaries (including special purpose entities that the Group controls) is prepared using consistent accounting policies. The audited financial statements of the subsidiary were adjusted for the effects of significant transactions and events that occurred between 30 September 2007 and 31 December 2007, before being incorporated in the consolidated financial statements.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of net income and net assets not owned, directly or indirectly, by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

The following are the Group's significant subsidiaries as at 31 December 2007:

<i>Name of subsidiary</i>	<i>Country of incorporation</i>	<i>Equity interest</i>
Falak Aviation Limited	Bahamas	100%
Falak Investment Limited	Bahamas	90%
Falak Lease One Limited	Bahamas	90%
Falak Lease Two Limited	Bahamas	90%
Falak Lease Three Limited	Bahamas	90%
Falak Lease Four Limited	Bahamas	90%
Falak Lease Five Limited	Bahamas	90%
Falak Lease Six Limited	Bahamas	90%
Falak Lease Eight Limited	Bahamas	100%

Notes to the Consolidated Financial Statements

at 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Basis of consolidation (Continued)

All of the above subsidiaries were created by the Group during the period for the purpose of entering into arrangements for leasing aircraft.

d. Due from banks and other financial institutions

Due from banks and other financial institutions and non-banks comprise commodity murabaha receivables stated net of deferred profits and provision for impairment.

Murabaha receivables are sales on deferred terms. The Group arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the client after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in instalments by the client over the agreed period.

e. Trading investments

These are initially recognized at cost and subsequently stated at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

f. Non-trading investments

These are classified as either held to maturity or available for sale.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. Transaction costs associated with the acquisition of investments available for sale are included in cost of such investments. Transaction costs include fees and commissions paid to agents, advisors and consultants, levies by regulatory agencies and transfer taxes and duties.

Held to maturity

Investments which have fixed or determinable payments that the Group has both the intent and ability to hold to maturity are classified as held to maturity. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is derecognised or impaired.

Available for sale

After initial recognition, investments that are classified as "available for sale" are re-measured at fair value. The fair value changes of investments available for sale are reported in equity until such time as the investments are sold, realised or deemed to be impaired, at which time the realised gain or loss is reported in the consolidated statement of income.

g. Investments in leases

Investments in leases are initially recognised at cost, being the fair value of consideration paid, and subsequently carried at cost less provision for impairment in value. Initial direct costs incurred in negotiating aviation lease arrangements are added to the carrying amount of the investment.

The Group assesses at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying value of investment in leases may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and any impairment loss is recognised in the consolidated statement of income.

h. Investment property

Investment properties are those held to earn rentals, for capital appreciation and if it is being held for currently undetermined future use. These are initially recorded at cost, including acquisition charges associated with the property.

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated statement of income as unrealised gain on revaluation of investment properties. The fair value of the investment properties is determined based on valuations made by independent valuers.

In accordance with AAOIFI unrealised gains or losses are appropriated to an investment fair value reserve and are transferred to retained earnings only when realised.

i. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value. Depreciation is provided on the straight line method at rates intended to write-off the cost of the assets over their estimated useful life.

Notes to the Consolidated Financial Statements

at 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Property and equipment (Continued)

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Freehold land	Indefinite
Buildings	20 years
Others	3-5 years

Expenditure for maintenance and repairs is expensed as incurred.

j. Due to banks and other financial institutions

Amounts due to banks and other financial institutions are initially recognised at cost, being the fair value of consideration received plus accrued profit less amount repaid.

k. Employees' end of service benefits

The Group provides end of service benefits to its employees in accordance with the requirement of Bahrain Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the group makes contributions to the General Organisation for Social Insurance calculated as a percentage of the employees' salaries in accordance with the relevant regulation. The Group's obligations are limited to these contributions, which are expensed when due.

l. Fair values

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

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on an assessment of the value of future cash flows. For financial contracts, future cash flows are determined by the Group at current profit rates for financing contracts with similar terms and risk characteristics.

m. Provisions

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

n. Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet, if and only if there is a legally enforceable or religious right to set off the recognised amounts and the Group intends to settle on a net basis.

o. Revenue recognition

Rental income and rental expense

Rental income and rental expense are recognised on the basis of contractual amounts receivable/payable on a time apportioned basis.

Profit on amounts due from banks and other financial institutions and non banks

Profit on amounts due from banks and other financial institutions and non banks is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

Dividends

Dividends revenue is recognised when the right to receive the dividend is established.

Fee income

Fee income is recognised when earned.

p. Derecognition of financial instruments

Financial instruments consist of cash and balances with banks, due from financial institutions, trading investments, non-trading investments and receivables.

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

Notes to the Consolidated Financial Statements

at 31 December 2007 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. Derecognition of financial instruments (Continued)

- (i) the right to receive cash flows from the asset has expired;
- (ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- (iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

q. Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired as a result of one or more events that has occurred after the initial recognition of the asset. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the net present value of anticipated future cash flows, is recognised in the consolidated statement of income.

The carrying amount of the asset is reduced through the use of an allowance account. Financial assets, together with their associated allowances, are written off only when there is no realistic prospect of future recovery.

r. Foreign currencies

Transactions denominated in foreign currencies are translated into United States Dollars at the rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars at the rate of exchange prevailing on the date of financial statements. Gains or losses resulting from retranslation of monetary assets and liabilities are taken to the consolidated statement of income

s. Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and murabaha balances with original maturities of less than ninety days.

t. Zakah

In accordance with the advice of the Shari'a Board, the responsibility of payment of zakah is on individual shareholders of the Group.

3. CASH AND BALANCES WITH BANKS

	31 December 2007
	US\$ '000
Bank balances	16,243
Cash in hand	6
	16,249

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2007
	US\$ '000
Commodity murabaha	173,745
Less: deferred income	(823)
	172,922

Notes to the Consolidated Financial Statements

at 31 December 2007

5. TRADING INVESTMENTS

	31 December 2007 US\$ '000
Quoted equity investments	17,722
Cash and bank balances with portfolio manager	13,191
	30,913

This represent an investment in a portfolio of investments quoted on the Kuwait Stock Exchange and managed by National Investment Company K.S.C. (a major shareholder of the Bank - see note 20).

6. NON-TRADING INVESTMENTS

	Available-for-sale US\$ '000	Held-to-maturity US\$ '000	31 December 2007 Total US\$ '000
Unquoted investments			
Equity investments	24,485	-	24,485
Sukuk	-	25,019	25,019
	24,485	25,019	49,504

The equity investment comprises of:

An investment amounting to US\$ 14,554 thousand in Real Maroc, a subsidiary of Real Capita. The Group owns 19.18% of this entity. As the investment was made in the last quarter its cost approximates its fair value.

The balance represents an investment in an unquoted investment relating to a private equity investment where the fair value of which cannot be reliably estimated due to uncertainty of cash flows.

7. INVESTMENTS IN LEASES

During 2007 the Bank, through its newly created subsidiaries, has entered into arrangements for leasing aircrafts. Future minimum rentals receivable are as follows:

	Falak Investment Limited US\$ '000	Falak Lease Eight Limited US\$ '000	31 December 2007 US\$ '000
Receivable during 2008	29,670	5,100	34,770
Receivable from 2009-2014	153,211	30,600	183,811
Receivable from 2015-2017	17,603	2,125	19,728
	200,484	37,825	238,309

Future minimum rentals payable are as follows:

	Falak Investment Limited US\$ '000	Falak Lease Eight Limited US\$ '000	31 December 2007 US\$ '000
Payable during 2008	19,714	3,786	23,500
Payable from 2009-2014	94,829	22,715	117,544
Payable from 2015-2017	1,852	1,577	3,429
	116,395	28,078	144,473

Notes to the Consolidated Financial Statements

at 31 December 2007

7. INVESTMENTS IN LEASES (Continued)

In addition to the above, the lease call for lump sum payments for the acquisition of the aircrafts at the end of the lease terms. The payments are as follows:

	Falak Investment Limited	Falak Lease Eight Limited	31 December 2007
	US\$ '000	US\$ '000	US\$ '000
Payable from 2009-2014	72,500	-	72,500
Payable from 2015-2017	-	12,000	12,000
	72,500	12,000	84,500

In consideration of the above, the Group has acquired head leases for the total value of US\$ 83,535 thousand, which give it the right to acquire the underlying aircraft based on agreed formula.

The Group is currently in the process of preparing a private placement memorandum with the intention of selling down the majority stake in Falak Investments Limited, in which it holds a 90% stake, to private investors. Falak Investments Limited holds 100% of each of Falak Lease One Limited, Falak Lease Two Limited, Falak Lease Three Limited, Falak Lease Four Limited, Falak Lease Five Limited and Falak Lease Six Limited, each of which sublease the aircraft to operating airlines, in some cases through further subsidiaries established for this purpose.

The Group owns a 100% stake in Falak Lease Eight Limited with the intention of selling it down via a private placement memorandum at a later date.

8. INVESTMENT PROPERTY

	31 December 2007
	US\$ '000
Cost	11,036
Cumulative fair value adjustments	6,424
	17,460

The investment property is a Land situated in Kingdom of Bahrain and is stated at fair value, determined based on a valuation performed by an independent professional valuer as of 31 December 2007.

9. OTHER ASSETS

	31 December 2007
	US\$ '000
Receivables related to leases	2,136
Deposits*	1,000
Others	1,693
	4,829

* Represent deposits for four head leases paid by the Group during the period. Refer to note 21 for lease related commitments.

Notes to the Consolidated Financial Statements

at 31 December 2007

10. PROPERTY AND EQUIPMENT

	Freehold land US\$ '000	Building US\$ '000	Others US\$ '000	Total US\$ '000
Cost				
Additions	3,163	4,072	1,259	8,494
Disposals	-	-	(104)	(104)
Closing balance	3,163	4,072	1,155	8,390
Accumulated depreciation				
Charge for the period	-	220	227	447
Disposals	-	-	(9)	(9)
Closing balance	-	220	218	438
Net book value				
At 31 December 2007	3,163	3,852	937	7,952

11. OTHER LIABILITIES

	31 December 2007 US\$ '000
Accrued expenses	2,655
Unearned rental income	1,667
Legal and professional fees payable	952
Rental expenses payable	962
Provision for employees end of service benefits	299
Other liabilities	701
	7,236

11.1 The movement in provision for employees end of service benefits during the period is as follows:

	31 December 2007 US\$ '000
Charge created during the year	586
Utilized and paid during the year	(287)
	299

12. UNRESTRICTED INVESTMENT ACCOUNTS

Unrestricted investment accounts (URIA) are funds of clients and investors held by the Group which it can invest as it deems appropriate without restriction as to where, how and for what purpose the funds are invested. The funds were invested on 31 December 2007. The Group does not charge management (Mudarib) fees or other expenses to investors.

Notes to the Consolidated Financial Statements

at 31 December 2007

13. EQUITY

(i) Share Capital

	31 December 2007
	US\$ '000
Authorized: 2,500,000,000 ordinary shares of US\$ 1 each	2,500,000

Issued and fully paid: 291,286,000 ordinary shares of US\$ 1 each	291,286
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The ordinary shares were issued at par on 5th of August 2006

(ii) Reserves

	31 December 2007
	US\$ '000
Statutory reserve	2,002
Investment fair value reserve	6,424
	8,426

Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the period is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital.

Investment fair value reserve

This represents the net unrealized gain on revaluation of investment properties as required by AAOIFI. This reserve is distributable upon value realization, which takes place at the time of actual exit or derecognition.

14. INCOME FROM NON-TRADING INVESTMENTS

	Period from 5 August 2006 to 31 December 2007
	US\$ '000
Income from sukuk	846
Dividend income	501
	1,347

15. GENERAL AND ADMINISTRATION EXPENSES

	Period from 5 August 2006 to 31 December 2007
	US\$ '000
Legal and professional	967
Travel and entertainment	380
Marketing and advertisement	445
Rent and maintenance	366
Board of Directors and Committees meetings' expenses and attendance allowances	260
Others	788
	3,206

Notes to the Consolidated Financial Statements

at 31 December 2007

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	31 December 2007
	US\$ '000
Cash and balances with banks	16,249
Cash and bank balances with portfolio manager	13,191
Due from financial institutions with an original maturity within 90 days	157,823
	187,263

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments, with the exception of certain available for sale investments carried at cost (note 6), are not materially different from their carrying values.

18. CAPITAL MANAGEMENT

The adequacy of the Bank's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Bahrain.

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

Regulatory capital consists of Tier I Capital, which comprises principally of share capital, share premium, retained earnings and minority interest. The other component of regulatory capital, Tier II Capital, consists principally of investment fair value reserves and provisions. Certain adjustments are made to these balances as prescribed by the Central Bank of Bahrain. Risk-weighted assets are calculated in accordance with the prudential rules laid down by the Central Bank of Bahrain.

The Bank complied in full with all externally imposed capital requirements during the period ended 31 December 2007.

Regulatory capital

	31 December 2007
	US\$'000
Tier 1 capital	312,255
Tier 2 capital	2,621
Total capital base (a)	314,876
Risk weighted assets (b)	345,023
Capital adequacy (a/b x 100)	91.3%
Minimum requirement	12.0%

19. SEGMENTAL INFORMATION

The activities of the Group are all related to investment banking activities.

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

20. RELATED PARTIES

Related parties comprise major shareholders, directors of the Group, Shari'a Supervisory Board, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Group.

Notes to the Consolidated Financial Statements

at 31 December 2007

20. RELATED PARTIES (Continued)

The significant transactions in respect of related parties were as follows:

	Period from 5 August 2006 to 31 December 2007
	US\$'000
Trading gains from a shareholder (National Investment Company K.S.C.)	913
Profit on amounts due from non banks	3,307
Fee income	90
Board of Directors and Committees meetings' expenses and attendance allowances	260
Shari'a Supervisory Board meetings' expenses and attendance allowances	77

The significant balances with related parties were as follows:

	31 December 2007
	US\$'000
Investment with a shareholder (National Investment Company K.S.C.) (see note 5)	30,913
Due from banks and other financial institutions	12,808
Due to banks and other financial institutions	(12,808)

Compensation of the key management personnel is as follows:

	31 December 2007
	US\$'000
Short term employee benefits	3,577
Termination benefits	1,164
Total compensation of the key management personnel	4,741

21. COMMITMENTS

	Less than 1 year	1 to 5 years	More than 5 years	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Lease related commitments	105,000	-	-	105,000
Investment related commitments	15,000	-	1,445	16,445
Capital commitments	1,176	330	-	1,506
	121,176	330	1,445	122,951

Lease related commitments represent commitments towards investments in leases committed by the Group to Royal Bank of Scotland.

Investment related commitments includes commitments towards future investments.

Capital commitments comprise mainly of core banking software commitments and other related commitments.

22. SHARI'A SUPERVISORY BOARD

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

Notes to the Consolidated Financial Statements

at 31 December 2007

23. ESTIMATION UNCERTAINTY

The only sources of estimation uncertainty during the period ended 31 December 2007, were the estimation of the residual values of aircrafts for the purpose of determining impairment and the fair value of investment property. The Group used independent professional valuers to carry out the valuation of residual value of aircrafts and the valuation of investment property.

24. RISK MANAGEMENT

Risk management plays a critical role in the Group's decision making process. It is managed through a Management Investment Committee and the Asset Liability and Risk Management Committee. Both committees comprise of senior management drawn from key areas of the Bank in implementing risk strategy and policies, monitoring and managing the key risks to which the bank is exposed. The Bank is exposed to credit risk, concentration risk, profit return risk, liquidity risk, equity price risk, currency risk and operational risk.

Although management responsible for the key areas of the bank are accountable for the risks that arise within their respective areas, Risk Management Group independently identifies, measures, monitors and recommends appropriate steps to manage each type of risk. The Chief Risk Officer has independent access to the Board of Directors and updates them on the overall risk profile of the bank on a regular basis.

a. Risk Management Structure

Board of Directors

The Board of Directors is ultimately responsible for the overall risk management approach and for approving risk policies and procedures.

Management Investment Committee

One of the key risks the Group is exposed to is the underwriting of investments and proprietary investments. It is the role of the Management Investment Committee to approve or disapprove such investments based on gaining an understanding of the risks highlighted by the Risk Management Group and the relevant mitigating factors presented by the relevant business team.

Risk Management Group

The Risk Management Group is responsible for developing and implementing the appropriate risk management strategy and methodology for the Group. It ensures that there are adequate control procedures in place such that the risks exposed to are within the approved limits.

Asset Liability and Risk Management Committee

The Asset Liability and Risk Management Committee's responsibility is to manage all risks including liquidity, rate of return, credit, market and operational risks within the Policies of the Bank and regulatory requirements. It recommends liquidity limits and concentration limits to the Board of Directors

Treasury

Treasury is responsible for managing the liquidity risk of the Group.

b. Risk management and reporting systems

The Risk Management Group is responsible for managing and monitoring risk exposures. The Risk Management Group measures risk through the use of risk models and provides reports to the Asset Liability and Risk Management Committee. Monitoring and controlling risks are managed through limits set by the Board. The Risk Management Group presents reports to the Board of Directors, Asset Liability and Risk Management Committee and other relevant departments as required. These reports include analysis of capital adequacy, credit exposure, investment exposure, and foreign currency exposures.

c. Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by setting limits for individual counterparties. Counterparty limits are set by the Board of Directors and monitored by the Risk Management Group and reviewed regularly.

The Group's exposure to credit risk mainly arises from placement of liquid funds on Banks accounts, Murabaha contracts and receivables.

Notes to the Consolidated Financial Statements

at 31 December 2007

24. RISK MANAGEMENT (continued)

c. Credit Risk (continued)

(i) Maximum exposure to credit risk

		31 December 2007
	Notes	US\$ '000
Cash and balances with banks (excluding cash in hand)	3	16,243
Due from banks and other financial institutions	4	172,922
Cash and balances with banks (part of Trading portfolio, see note 5)	5	13,191
Investment in sukus	6	25,019
Receivables		4,111
Total credit risk exposures		231,486

The Group has not obtained collateral of any kind. However, in placing short-term funds with financial institutions the Group performs a credit analysis of each counterparty (including consideration of external credit rating if any), sets limits and monitor such limits.

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

Concentration of risk is managed according to counterparty. The following table analyzes the geographical and industrial sector concentrations of the Group's maximum exposure to credit risk.

	31 December 2007
	US\$ '000
Geographical region:	
Bahrain	113,787
Other Gulf Cooperation Council (GCC) Countries	98,605
Europe	5,569
Other Middle East and Asia	1,854
North America	11,671
	231,486
Industry sector:	
Banking and financial institutions	202,356
Aviation	3,513
Real Estate	15,130
Others	10,487
	231,486

(iii) Analysis of exposure to credit risk by external credit ratings

No financial assets are past due or impaired. The table below analyzes the Group's maximum credit exposure where the credit quality is reflected by Standard and Poor's, Moody's, Fitch, Capital Intelligence and International Islamic Rating Agency credit ratings where relevant of the counter parties:

	31 December 2007
	US\$ '000
AA to A-	69,072
BBB+ to BBB-	81,652
Not rated	80,762
	231,486

Notes to the Consolidated Financial Statements

at 31 December 2007

24. RISK MANAGEMENT (continued)

d. Concentration Risk

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration indicates relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. The Group has established guidelines assigning limits for countries, industry, currencies etc.

The distribution of assets, liabilities and equity by geographical region and industry sector was as follows:

	31 December 2007		
	Assets US\$'000	Liabilities US\$'000	Unrestricted investment accounts US\$'000
Geographical region:			
Bahrain	178,384	38,649	-
Other Gulf Cooperation Council (GCC) Countries	131,120	13,568	10,000
Europe	33,193	998	-
Other Middle East and Asia	28,997	517	-
North America	11,670	953	-
	383,364	54,685	10,000
Industry sector:			
Banking and financial institutions	211,822	47,498	-
Aviation	87,049	3,983	-
Real estate	47,143	-	-
Utilities	9,932	-	-
Others	27,418	3,204	10,000
	383,364	54,685	10,000

e. Market Risk

Profit rate risk

The fair value of financial assets may be affected by current market forces including profit rates. The Group manages profit return risk through having fixed rates on its financial assets. Therefore, an adverse movement of market rates would not have significant impact on the bank's income or the value of its financial assets.

The following table indicates the effective profit rates on such financial instruments:

	31 December 2007
Due from banks and other financial institutions	5.28%
Investments in Sukuk	7.15%
Due to banks and other financial institutions	5.72%

Currency risk

Most of the transactions completed by the Group are in US Dollars. However, in the normal course of business certain investments and other financial assets and liabilities are in other currencies and give rise to currency risk. In order to mitigate currency risk there are currency and stop loss limits in place. Furthermore, the Group manages the currency risk through various hedging techniques as allowed by its Shari'a Supervisory Board.

Notes to the Consolidated Financial Statements

at 31 December 2007

24. RISK MANAGEMENT (continued)

e. Market Risk (continued)

The Group had the following significant foreign currency exposures at the balance sheet date:

	31 December 2007		
	Assets	Liabilities & URIA	Net
	US\$'000	US\$'000	US\$'000
Kuwaiti Dinars	26,049	(12,808)	13,241
Great Britain Pounds	10,072	(9,982)	90
Euro	14,640	(14,659)	(19)
Japanese Yen	52	-	52
	50,813	(37,449)	13,364

The table below indicates the impact of reasonably possible changes in exchange rate on the Group's net foreign currency exposure. The impact has been calculated using the net foreign currency exposure as at the balance sheet date and calculating the impact of the change in exchange rate.

	Change in exchange rates (+/-)	Effect on net income and equity (+/-)
	%	US\$'000
Kuwaiti Dinars	5	662
Great Britain Pounds	10	9
Euro	10	(2)
Japanese Yen	10	5

Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases due to fluctuations in the respective stock market indices. As of period ended 31 December 2007 the Group had investments in quoted equities in one of the GCC stock markets.

The table below reflects the sensitivity of the investment portfolio to changes in these inputs. The sensitivity of trading investments is calculated by considering the impact of reasonably expected changes in the capitalization rate.

	Change in equity price (+/-)	Effect on net income and equity (+/-)
	%	US\$'000
Kuwait Stock Exchange	10	1,772

The Group also has unquoted investments carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the statement of income will be impacted, or when a third party transaction in the investment gives a reliable indication of fair value which will be reflected in equity.

f. Operational risk

Operational risk is the risk of loss arising from human error, fraud, and control or system failure which may cause legal, regulatory and financial loss. The Group has implemented a strong corporate governance framework and control mechanism to prevent such potential operational risks. The controls in place include segregation of duties, access controls, authorization, approval and reconciliation procedures, staff education and appraisal processes.

The Group's internal audit function performs regular independent audits of each critical area and reports to the Board Audit Committee on a regular basis.

Notes to the Consolidated Financial Statements

at 31 December 2007

24. RISK MANAGEMENT (continued)

g. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due under normal and stress circumstances. Treasury manages liquidity requirements of the Group through consultations with the various business groups to meet their funding requirements and maintaining adequate levels of cash and cash equivalents. The maturity profile of assets, liabilities and unrestricted investment accounts as at 31 December 2007 based on contractual maturity is as follows:

	Upto 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Assets								
Cash and balances with banks	16,249	-	-	-	-	-	-	16,249
Due from banks and other financial institutions	115,561	42,262	15,099	-	-	-	-	172,922
Trading investments	13,191	-	-	-	-	-	17,722	30,913
Non-trading investments	9,994	-	-	-	7,025	8,000	24,485	49,504
Investments in aviation leases	-	-	-	-	-	83,535	-	83,535
Investment properties	-	-	-	-	-	-	17,460	17,460
Other assets	2,511	2,314	-	-	-	4	-	4,829
Property and equipment	-	-	-	-	-	-	7,952	7,952
	157,506	44,576	15,099	-	7,025	91,539	67,619	383,364
Liabilities and unrestricted investment accounts								
Due to banks and other financial institutions	22,809	9,982	14,658	-	-	-	-	47,449
Other liabilities	3,907	3,030	-	-	-	-	299	7,236
Unrestricted Investment Accounts	10,000	-	-	-	-	-	-	10,000
	36,716	13,012	14,658	-	-	-	299	64,685
Net	120,790	31,564	441	-	7,025	91,539	67,320	318,679

25. COMPARATIVE FIGURES

The Group's financial statements cover the period from 5 August 2006 to 31 December 2007. This being the first period of operations, no comparatives are available.