Seera Investment Bank B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008

ERNST & YOUNG

P.O. Box 140
14th Floor – The Tower
Bahrain Commercial Complex
Manama, Kingdom of Bahrain.
Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SEERA INVESTMENT BANK B.S.C. (c)

We have audited the accompanying consolidated financial statements of Seera Investment Bank B.S.C. (c) (formerly United International Investment Bank B.S.C. (c)) ("the Bank") and its subsidiaries (" the Group"), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statements of income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements
The Board of Directors 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 ("AAOIFI"). 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 issued by the AAOIFI. Those standards require that we comply with relevant 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 the Board of Directors, as well as evaluating the overall presentation of the financial statements.

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SEERA INVESTMENT BANK B.S.C. (c)
(Continued)

Auditors' Responsibility (continued)

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 2008 and its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards issued by the AAOIFI and the Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

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 year ended 31 December 2008 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.

26 February 2009
Manama, Kingdom of Bahrain

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	**2008 US$ '000**	2007 US$ '000
ASSETS			
Cash and balances with banks	3	**5,809**	16,249
Due from banks and financial institutions	4	**60,531**	172,922
Trading investments	5	**-**	30,913
Non-trading investments	6	**51,317**	49,504
Investments in leases	7	**101,390**	83,535
Net assets of disposal group classified as held for sale	8	**125,394**	-
Investment property	9	**17,460**	17,460
Other assets	10	**3,301**	4,829
Property and equipment	11	**11,536**	7,952
TOTAL ASSETS		**376,738**	383,364
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
Due to banks and financial institutions		**57,917**	47,449
Other liabilities	12	**6,808**	7,236
TOTAL LIABILITIES		**64,725**	54,685
UNRESTRICTED INVESTMENT ACCOUNTS	13	**-**	10,000
EQUITY			
Share capital	14	**291,286**	291,286
Reserves	14	**8,426**	8,426
(Accumulated losses) / retained earnings		**(2,693)**	11,594
Equity attributable to shareholders of the parent		**297,019**	311,306
Minority interest		**14,994**	7,373
TOTAL EQUITY		**312,013**	318,679
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		**376,738**	383,364

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 26 February 2009.

Asaad Al Banwan
Chairman

Abdulla Janahi
Chief Executive Officer

Khalid Al Nasser
Board Member

The attached explanatory notes 1 to 26 form part of these financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2008

	Notes	**2008** US$ '000	For the period from 5 August 2006 to 31 December 2007 US$ '000
Rental income from investments in leases		**38,438**	27,653
Rental expense on investments in leases		**(28,620)**	(17,449)
Management fees relating to leases		**(1,738)**	(901)
Loss on sale of investments in leases		**(1,876)**	-
Net income from investment in leases		**6,204**	9,303
Profit on amounts due from banks and financial institutions		**5,176**	15,214
Profit on amounts due to banks and financial institutions		**(5,003)**	(650)
Net income on due from banks		**173**	14,564
Profit on amounts due from non banks		**-**	3,307
Trading gains	21	**2,894**	913
Income from non-trading investments	15	**1,934**	1,347
Unrealised gain on investment property	9	**-**	6,424
Gain on disposal of assets held for sale		**6,167**	-
Fee income		**792**	221
TOTAL INCOME		**18,164**	36,079
Expenses			
Staff expenses		**8,645**	11,497
General and administration expenses	16	**6,467**	3,206
Depreciation	11	**620**	447
TOTAL EXPENSES		**15,732**	15,150
NET INCOME BEFORE IMPAIRMENT LOSSES		**2,432**	20,929
Provision for impairment on available for sale investments	6.1	**(16,214)**	-
NET (LOSS) / INCOME FOR THE YEAR / PERIOD		**(13,782)**	20,929
Attributable to:			
Shareholders of the Parent		**(14,287)**	20,020
Minority interest		**505**	909
		(13,782)	20,929

The attached explanatory notes 1 to 26 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2008

	Notes	**2008** US$ '000	*For the period from 5 August 2006 to 31 December 2007* US$ '000
OPERATING ACTIVITIES			
Net (loss) / income for the year / period		**(13,782)**	20,929
Adjustments for:			
Provision for employees' end of service benefits	12.1	**529**	586
Depreciation	11	**620**	447
Loss on sale of property and equipment		**13**	17
Loss on sale of investments in leases		**1,876**	-
Provision for impairment on available for sale investments		**16,214**	-
Gain on disposal of assets held for sale		**(6,167)**	-
Trading gains		**(2,894)**	(913)
Unrealised gain on investment property	9	**-**	(6,424)
		(3,591)	14,642
Changes in operating assets and liabilities:			
Due from banks and other financial institutions		**15,099**	(15,099)
Trading investments	5	**-**	(16,809)
Unrestricted investment accounts		**(10,000)**	10,000
Due to banks and other financial institutions		**11,185**	47,449
Other assets		**400**	(4,829)
Other liabilities		**(957)**	6,650
Net cash from operating activities		**12,136**	42,004
INVESTING ACTIVITIES			
Investment in non-trading investments		**(13,013)**	(49,504)
Proceeds from sale of non-trading investments		**12,413**	-
Purchase of investment property	9	**-**	(11,036)
Purchase of investments in leases		**(35,544)**	(83,535)
Proceeds from sale of investments in leases		**15,813**	-
Investment in assets held for sale		**(181,127)**	-
Proceeds from sale of assets held for sale		**65,678**	-
Purchase of property and equipment	11	**(4,278)**	(8,494)
Disposal of property and equipment		**61**	78
Net cash used in investing activities		**(139,997)**	(152,491)
FINANCING ACTIVITIES			
Issue of share capital	14	**-**	291,286
Minority interest		**7,116**	6,464
Net cash from financing activities		**7,116**	297,750
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(120,745)**	187,263
Cash and cash equivalents at beginning of the year / period		**187,263**	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR / PERIOD	17	**66,518**	187,263

The attached explanatory notes 1 to 26 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Equity attributable to shareholders of the parent					
	Share capital US$ '000	*Statutory reserve US$ '000*	*Investment fair value reserve US$ '000*	*(Accumulated losses) / retained earnings US$ '000*	*Minority interest US$ '000*	*Total equity US$ '000*
Balance at 1 January 2008	291,286	2,002	6,424	11,594	7,373	318,679
Investment in subsidiaries	-	-	-	-	7,851	7,851
Dividends paid by subsidiaries	-	-	-	-	(735)	(735)
Net loss for the year	-	-	-	(14,287)	505	(13,782)
Balance at 31 December 2008	**291,286**	**2,002**	**6,424**	**(2,693)**	**14,994**	**312,013**
Issue of share capital (note 14.1)	291,286	-	-	-	-	291,286
Investment in subsidiaries	-	-	-	-	7,144	7,144
Dividends paid by subsidiaries	-	-	-	-	(680)	(680)
Net profit for the period	-	-	-	20,020	909	20,929
Transfer to statutory reserve (note 14.2)	-	2,002	-	(2,002)	-	-
Unrealised gain on investment property (note 9)	-	-	6,424	(6,424)	-	-
Balance at 31 December 2007	291,286	2,002	6,424	11,594	7,373	318,679

1 INCORPORATION AND ACTIVITIES

Seera Investment Bank B.S.C. (c) ("the Bank") (formerly United International Bank B.S.C. (c)) 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 ("the CBB"). The Bank and its subsidiaries ("the Group") aim to provide a full range of investment banking products and services that are compliant with Shari'a principles.

The Bank changed it's name from United International Bank B.S.C. (c) to Seera Investment Bank B.S.C. (c), as part of a rebranding exercise, effective from 22 November 2008.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and in conformity with the Bahrain Commercial Companies Law ("BCCL") 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 ("IFRS") issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been presented in US$, being the functional currency of the Group. All values are rounded to the nearest thousand (US$ '000) except when indicated otherwise.

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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December each year. 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, with the exception of the carrying value of invesments in leases which are fair valued by the subsidiaries but carried at cost less impairment at the consolidated level. Appropriate adjustments have been processed as required to ensure consistency with the Group's accounting policies.

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. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
Minority interest represents the portion of net income and net assets not held, directly or indirectly, by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from equity attributable to shareholders of the parent.

The following are the Group's significant subsidiaries as at 31 December 2008:

Name of subsidiary	*Country of incorporation*	*Equity interest*
Falak Aviation Fund Company	Kingdom of Bahrain	86%
Falak Investments Limited	Bahamas	86%
Falak Lease One Limited	Bahamas	86%
Falak Lease Two Limited	Bahamas	86%
Falak Lease Three Limited	Bahamas	86%
Falak Lease Four Limited	Bahamas	86%
Falak Lease Seven Limited	Bahamas	86%
Falak Lease Eight Limited	Bahamas	86%
Falak Lease Nine Limited	Bahamas	86%
Falak Lease Ten Limited	Bahamas	86%
Falak Lease Eleven Limited	Bahamas	86%

During the year, the Group setup Falak Lease Seven Limited, Falak Lease Nine Limited, Falak Lease Ten Limited and Falak Lease Eleven Limited for the purpose of entering into arrangements for leasing aircraft, in addition to the existing subsidiaries.

Changes in accounting policies and disclosures
Amendment to FAS 17 adopted in the current year
On 30 October 2008, AAOIFI issued a guidance statement on accounting for investments and amendment in FAS 17 Investments with respect to the treatment of negative fair values relating to available for sale investments in sukuk and shares. As a result of the application of this amendment, any unrealised lossses resulting from the re-measurement at fair value of investments in sukuk and shares available for sale have now been allowed to be presented in the balance sheet under "investments fair value reserve" provided there is no impairment. Previously, any net negative unrealised losses were to be taken to the statement of income. The amendment is effective from 1 July 2008 and has been adopted by the Group.

Standards and Interpretations issued at 31 December 2008 but not effective
Following are the relevant IFRS and International Financial Reporting Interpretation Committee ("IFRIC") interpretations that have been issued during the year by the IASB, to be applied to financial statements for financial years commencing on or after the following dates:

IAS 1 – Presentation of financial statements (Revised), 1 January 2009;
IFRS 8 – Operating segments, 1 January 2009;

Management does not anticipate the adoption of these standards and interpretations to have a material impact on the consolidated financial statements in the year of initial application.

Significant accounting judgments and estimates
The application of the Group accounting policies requires management to make judgements, estimates and assumptions that affect the reported amounts in the consolidated financial statements. However, uncertainity about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant judgements and estimates are discussed below:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Fair value of financial instruments
The determination of fair value for each financial instrument on the balance sheet depends on the accounting policy as set out below:

(i) For investments quoted in an active market, fair value is determined by reference to quoted market prices.

(ii) For investments in unit funds, fair value is determined based on the latest net asset value provided by the fund manager.

(iii) For unquoted investments, fair value is determined using net asset valuation on disposal of significant portion or on occurrence of an arm's length transaction involving a third party. Should a reliable fair value not be available, such investments are carried at cost.

Classification of investments
Real estate investments acquired to earn rentals or for capital appreciation are classified as investment property.

Management decides on acquisition of a financial asset whether it should be classified as "held for trading", "available for sale" or "held to maturity".

Impairment
The Group assesses at each balance sheet date whether there is objective evidence that a specific asset or a group of assets may be impaired. An asset or a group of assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event(s) have an impact on the estimated future cash flows of the asset or the group of the assets that can be reliably estimated.

The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

The Group assesses at each reporting date, or more frequently if events or changes in circumstances indicate so, whether the carrying value of investments in leases may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of each asset in the portfolio individually. 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.

Due from banks and financial institutions
Due from banks and financial institutions comprise commodity murabaha receivables stated net of deferred profits and provision for impairment, if any.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Non-trading investments
These are classified as either held to maturity or available for sale.

Initial recognition
All investments are initially recognised at cost, being the fair value of the consideration on acquisition including related direct expenses. Direct expenses are transaction costs and 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 cost, less provision for impairment in value. 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.

The losses arising from impairment of such investments are recognised in the consolidated statement of income in "provision for impairment" and removed from the investment fair value reserve. Impairment losses recognised in the consolidated statement of income for an equity instrument classified as available for sale are not reversed through the consolidated statement of income.

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.

Net assets of disposal group classified as held for sale
Net assets of disposal group classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of reclassification.

Investment property
Investment property is held to earn rentals, for capital appreciation or for currently undetermined future use. It is initially recorded at cost, including acquisition charges associated with the property.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property (continued)
Subsequent to initial recognition, investment property is remeasured at fair value and changes in fair value are recognised in the consolidated statement of income as unrealised gain / loss on revaluation of investment property. The fair value of the investment property 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" in equity and are transferred to retained earnings only when realised.

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

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

Freehold	Indefinite
Buildings	20 years
Others	3-5

Expenditure for maintenance and repairs is expensed as incurred.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognised.

The residual values, useful lives and methods of depreciation for porperty and equipment is reviewed, and adjusted if appropriate, at each finacial year end.

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.

Employees' end of service benefits
The Bank 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 employees who are Bahraini nationals, the Bank 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 (as determined by Shari'a) to set off the recognised amounts and the Group intends to settle on a net basis.

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

Profit on amounts due from banks and financial institutions
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
Dividend revenue is recognised when the Group's right to receive the dividend is established.

Fee income
Fee income is recognised when earned.

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:

(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'

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies
Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities deniominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

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.

Zakah
In the absence of appointment of the Bank to pay Zakah on behalf of Shareholders, the responsibility of payment of zakah is on individual shareholders of the Group.

3 CASH AND BALANCES WITH BANKS

	2008 ***US$ '000***	*2007* *US$ '000*
Bank balances	**5,808**	16,243
Cash in hand	**1**	6
	5,809	16,249

4 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2008 ***US$ '000***	*2007* *US$ '000*
Commodity murabaha	**60,671**	173,745
Deferred income	**(140)**	(823)
	60,531	172,922

5 TRADING INVESTMENTS

	2008 ***US$ '000***	*2007* *US$ '000*
Quoted equity investments	**-**	30,913

5.1 During the year 2008, management decided to reclassify this portfolio as "non-trading investments" (available for sale), effective 1 July 2008.

6 NON-TRADING INVESTMENTS

	2008		
	Available for sale US$ '000	***Held to maturity US$ '000***	***Total US$ '000***
Quoted investments			
Equity investments (note 6.1)	**15,180**	**-**	**15,180**
Unquoted investments			
Equity investments (note 6.2)	**21,123**	**-**	**21,123**
Sukuk (note 6.3)	**-**	**15,014**	**15,014**
	36,303	**15,014**	**51,317**

6 NON-TRADING INVESTMENTS (continued)

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

6.1 This represents a portfolio of investments quoted on the Kuwait and Tadawal (Saudi Arabia) Stock Exchanges and managed by National Investment Company K.S.C. (a major shareholder of the Bank) ("NIC"). During the year 2008, management decided to reclassify this portfolio as "non-trading investments" (available for sale), effective 1 July 2008. Since reclassification, this portfolio has suffered a net decline in fair value of US$ 16,214 thousand.

6.2 This portfolio includes an investment amounting to US$ 13,906 thousand in Real Maroc, an investment of Real Capita (the lead arranger). The Group owns 19.2% of this entity. The balance represents an unquoted private equity investment. The fair value of these investments cannot be reliably estimated due to uncertainty of cash flows.

6.3 This represents investments in two sukuk classified as held to maturity issued by Dar Al Arkan (Kingdom of Saudi Arabia) and Diyaar Al Muharraq (Kingdom of Bahrain). The fair value of the Dar Al Arkan Sukuk is 83% of cost and the fair value of the Diyaar Al Muharraq sukuk cannot be reliably measured.

7 INVESTMENTS IN LEASES

	2008 US$ '000	*2007 US$ '000*
Falak Lease One Limited	**12,305**	12,305
Falak Lease Two Limited	**12,306**	12,306
Falak Lease Three Limited	**13,375**	13,375
Falak Lease Four Limited	**15,264**	15,264
Falak Lease Five Limited	**-**	8,864
Falak Lease Six Limited	**-**	8,921
Falak Lease Seven Limited	**17,309**	-
Falak Lease Eight Limited	**12,500**	12,500
Falak Lease Nine Limited	**3,130**	-
Falak Lease Ten Limited	**2,884**	-
Falak Lease Eleven Limited	**12,317**	-
	101,390	83,535

7 INVESTMENTS IN LEASES (continued)

The Bank, through its Falak subsidiaries, has entered into arrangements for leasing aircrafts. Future minimum rentals receivable and payables are as follows:

	2008		
	Receivable	***Payables***	***Net***
	US$ '000	**US$ '000**	***US$ '000***
During 2009	**40,736**	**28,769**	**11,967**
From 2010-2015	**162,119**	**111,223**	**50,896**
	202,855	**139,992**	**62,863**

	2007		
	Receivable	*Payables*	*Net*
	US$ '000	US$ '000	*US$ '000*
During 2008	34,770	23,500	11,270
From 2009-2014	183,811	117,544	66,267
From 2015-2017	19,728	3,429	16,299
	238,309	144,473	93,836

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:

	2008	*2007*
	US$ '000	*US$ '000*
Payable from 2009-2014	**94,700**	72,500
Payable from 2015-2017	**27,000**	12,000
	121,700	84,500

In consideration of the above, the Group has acquired head leases, which give it the right to acquire the underlying aircraft based on agreed formulae.

8 NET ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

The Group has investments in two European based companies as part of its private equity investments portfolio.

The first is a company incorporated in Cayman Islands which has a stake of 92.02% in a Danish operator that is a global leader in the provision of systems and solutions for filling and reconditioning of liquefied petroleum gas cylinders. As at 31 December 2008, the Group retained a 21.5% stake in this Danish company (total assets and liabilities amounted to US$ 63,433 thousand and US$ 36,969 thousand) through the Cayman Islands holding company.

The other disposal group is a company incorporated in Cayman Islands which has a stake of 88.9% of a UK based company selling water treatment products. As at 31 December 2008, total assets and liabilities of this UK based company amounted to US$ 224,906 thousand and US$ 116,697 thousand respectively.

9 INVESTMENT PROPERTY

	2008	*2007*
	US$ '000	*US$ '000*
Opening carrying value	**17,460**	11,036
Fair value adjustment	**-**	6,424
Closing carrying value	**17,460**	17,460

9.1 The investment property represents land in the Kingdom of Bahrain. It is stated at fair value, determined based on valuations performed by independent professional valuers as of 31 December 2008 which were based on the last transaction values in the relevant market.

10 OTHER ASSETS

	2008	*2007*
	US$ '000	*US$ '000*
Receivables related to leases	**960**	2,136
Others	**2,341**	1,693
Deposits (note 10.1)	**-**	1,000
	3,301	4,829

10.1 Represent deposits for four head leases paid by the Group during the period.

11 PROPERTY AND EQUIPMENT

	Freehold land	***Building***	***Others***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Cost				
Opening balance	3,163	4,072	1,155	8,390
Additions	-	7	4,271	4,278
Disposals	-	-	(107)	(107)
Closing balance	3,163	4,079	5,319	12,561
Accumulated depreciation				
Opening balance	-	220	218	438
Charge for the year	-	204	416	620
Disposals	-	-	(33)	(33)
Closing balance	-	424	601	1,025
Net book value				
At 31 December 2008	**3,163**	**3,655**	**4,718**	**11,536**
At 31 December 2007	3,163	3,852	937	7,952

12 OTHER LIABILITIES

	Note	***2008*** ***US$ '000***	*2007* *US$ '000*
Accrued expenses		**1,728**	2,655
Unearned rental income		**1,590**	1,667
Rental expenses payable		**1,273**	962
Provision for employees end of service benefits	12.1	**499**	299
Legal and professional fees payable related to investment in leases		**256**	952
Other liabilities		**1,462**	701
		6,808	7,236

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

	2008 ***US$ '000***	*2007* *US$ '000*
Opening balance	**299**	-
Charge for the year / period	**529**	586
Utilised and paid during the year / period	**(329)**	(287)
	499	**299**

13 UNRESTRICTED INVESTMENT ACCOUNTS

Unrestricted investment accounts (URIA) are funds of clients and investors held by the Group which the unrestricted investment account holders authorizes the Group to invest in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Group is entitled to Mudarib profit in consideration for management of unrestricted investment accounts. Of the total income from URIA, the income attributable to customers is allocated to investment accounts after setting aside provisions and deducting the Group's share of income. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the URIA. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts.

14 EQUITY

14.1 Share capital

	2008 ***US$ '000***	*2007* *US$ '000*
Authorised: 2,500,000,000 ordinary shares of US$ 1 each	**2,500,000**	2,500,000
Issued and fully paid: 291,286,000 ordinary shares of US$ 1 each	**291,286**	291,286

14 EQUITY (continued)

14.2 Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. This reserve is not distributable, but can be utilised as security for the purpose of distribution in such circumstances as stipulated in the BCCL and other applicable statutory regulations. As the Group made a consolidated loss during the year, no transfers have been made during the year.

14.3 Investment fair value reserve

This represents the net unrealised 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.

15 INCOME FROM NON-TRADING INVESTMENTS

	2008	*Period from 5 August 2006 to 31 December 2007*
	US$ '000	*US$ '000*
Income from sukuk	**1,047**	846
Dividend income	**887**	501
	1,934	1,347

16 GENERAL AND ADMINISTRATION EXPENSES

	2008	*Period from 5 August 2006 to 31 December 2007*
	US$ '000	*US$ '000*
Legal and professional	**2,728**	967
Marketing and advertisement	**962**	445
Travel and entertainment	**691**	380
Foreign exchange losses, net	**657**	32
Rent and maintenance	**170**	366
Board of Directors and Committees meetings' expenses and attendance allowances	**186**	260
Others	**1,073**	756
	6,467	3,206

17 CASH AND CASH EQUIVALENTS

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

	2008 ***US$ '000***	*2007* *US$ '000*
Cash and balances with banks	**5,809**	16,249
Due from financial institutions with an original maturity within 90 days	**60,531**	157,823
Cash and bank balances with portfolio manager	**178**	13,191
	66,518	187,263

18 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.

19 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 CBB.

The primary objectives of the Bank's capital management are to ensure that the Group 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 1 Capital, which comprises principally of share capital, share premium, retained earnings and minority interest. The other component of regulatory capital, Tier 2 Capital, consists principally of investment fair value reserves and provisions. Certain adjustments are made to these balances as prescribed by the CBB. Risk-weighted assets are calculated in accordance with the prudential rules laid down by the CBB.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by the CBB.

The primary objectives of the Bank's capital management are to ensure that the Group complies with regulatory capital requirements and that the Bank maintains healthy capital ratios in order to support its business and to maximise shareholders' value. During the past year, the Group has complied in full with all its externally imposed capital requirements.

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

Basel II as adopted by CBB became applicable from 1 January 2008. For the purposes of comparison, the proforma capital position as at 31 December 2007, regulatory capital and risk weighted assets have been recalculated in accordance with the Basel II.

19 CAPITAL MANAGEMENT (continued)

Regulatory capital

	2008	*2007*
	US$'000	*US$'000*
Tier 1 capital (note 19.1)	**245,124**	312,255
Tier 2 capital	**-**	2,891
Total capital base (a)	**245,124**	315,146
Risk weighted assets (b) (note 19.2)	**465,437**	461,354
Capital adequacy (a/b x 100)	**52.7%**	68.3%
Minimum requirement	**12.0%**	12.0%

19.1 Tier 1 Capital

	2008	*2007*
	US$'000	*US$'000*
Share capital	**291,286**	291,286
Statutory reserve	**2,002**	2,002
(Accumulated losses) / retained earnings	**(2,693)**	11,594
Minority Interest	**14,994**	7,373
Core Tier 1 Capital	**305,589**	312,255
Deductions	**(31,678)**	-
Tier 1 Capital	**273,911**	312,255
Negative balance of Tier 2	**(28,787)**	-
Tier 1 Capital net of negative Tier 2 Capital	**245,124**	312,255

19.2 Risk weighted assets

	2008	*2007*
	US$ '000	*US$ '000*
Credit risk weight assets	**379,213**	300,013
Operational risk weight assets	**66,074**	69,738
Market risk weight assets	**20,150**	91,603
	465,437	461,354

Credit risk weighted assets
The Bank uses the standardised approach, which requires banks to use external credit ratings to combine them into categories to which standardized risk weightings are applied. For regulatory purposes, credit risk-weighted assets include investments and receivables.

Market risk weighted assets
The Bank does not maintain a trading book and, as a result, market risk-weighted assets result from the net foreign currency positions of the Group.

Operational risk weighted assets
In calculating operational risk-weighted assets, the Bank uses the basic indicator approach which calculates operational risk-weighted assets as a proportion of the average of three years' revenues.

20 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.

21 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.

The significant balances with related parties were as follows:

	2008	*2007*
	US$'000	*US$'000*
Assets		
Qouted investments managed by a shareholder - NIC (note 6.1)	**15,180**	30,913
Due from banks and other financial institutions	**10,009**	12,808
Liabilities		
Due to banks and other financial institutions	**-**	(12,808)

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

		Period from 5 August 2006 to
	31 December 2008	*31 December 2007*
	US$'000	*US$'000*
Income		
Profit on amounts due from banks and other financial institutions	**136**	-
Profit on amounts due from non banks	**-**	3,307
Fee income	**231**	90
Gain on disposal of assets held for sale	**2,141**	-
Expenses		
Board of Directors and Committees meetings' expenses and attendance allowances	**109**	260
Shari'a Supervisory Board meetings' expenses and attendance allowances	**78**	77

Compensation of the key management personnel of the Bank is as follows:

		Period 5 August 2006 to
	31 December 2008	*31 December 2007*
	US$'000	*US$'000*
Short term employee benefits	**1,933**	3,577
Termination benefits	**1,156**	1,164
Total compensation of the key management personnel	**3,089**	4,741

22 COMMITMENTS

	Less than 1 year US$ '000	*1 to 5 years US$ '000*	*More than 5 years US$ '000*	*Total US$ '000*
At 31 December 2008				
Capital and other commitments	**211**	**287**	**58**	**556**
	211	**287**	**58**	**556**
At 31 December 2007				
Lease related commitments	105,000	-	-	105,000
Investment related commitments	15,000	-	1,445	16,445
Capital and other commitments	1,176	330	-	1,506
	121,176	330	1,445	122,951

Investment related commitments includes commitments towards future investments.

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

23 SHARI'A SUPERVISORY BOARD

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

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 rate risk, liquidity risk, equity price risk, foreign 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 Risk Management Group has independent access to the Board of Directors and updates them on the overall risk profile of the Group on a regular basis.

24 RISK MANAGEMENT (continued)

Risk management structure

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

Shari'a Supervisory Board
The Shari'a Supervisory Board reviews the principles and contracts relating to the transactions conducted by the Group to judge whether it followed the principles of the Islamic Shari'a, specific fatwas and guidelines issued by the Board of Directors.

Executive Committee
The Executive Committee of the Board considers and approves requests to purchase and sell individual investments up to the limit imposed by the Board.

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 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 appropriate risk management strategies and methodologies 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 Policy framework 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.

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.

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 does not engage in commercial or retail banking. Its exposure to credit risk arises largely through placement of liquid funds on banks accounts, murabaha contracts and receivables. The Group deploys is excess funds in a conservative manner, targeting highly related financial institutions locally and regionally.

24 RISK MANAGEMENT (continued)

Credit risk (continued)

(i) Maximum exposure to credit risk

	Note	2008 US$ '000	2007 US$ '000
Cash and balances with banks (excluding cash in hand)	3	**5,808**	16,243
Due from banks and other financial institutions	4	**60,531**	172,922
Investment in sukuk	6	**15,014**	25,019
Receivables		**1,980**	4,111
Total credit risk exposures		**83,333**	218,295

The Group has not obtained any kind of collateral. 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 maximum credit exposure to any client or counterparty as of 31 December 2008 was US$ 29,020 thousand (2007: US$ 27,692 thousand). The following table analyses the geographical and industrial sector concentrations of the Group's maximum exposure to credit risk.

	2008 US$ '000	2007 US$ '000
Geographical region:		
Bahrain	**56,581**	113,787
Other Gulf Cooperation Council (GCC) Countries	**17,734**	85,414
Europe	**7,709**	5,569
Other Middle East and Asia	**487**	1,854
North America	**822**	11,671
	83,333	218,295

	2008 US$ '000	2007 US$ '000
Industry sector:		
Banking and financial institutions	**66,925**	189,165
Aviation	**487**	3,513
Real Estate	**15,077**	15,130
Manufacturing	**18**	-
Others	**826**	10,487
	83,333	218,295

24 RISK MANAGEMENT (continued)

Credit risk (continued)

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

No financial assets are past due or impaired. The table below analyses 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

The majority of exposures which are not rated are related to Due from banks and financial institutions and investment in Sukuk of US$ 19,366.

	2008	*2007*
	US$ '000	*US$ '000*
Credit rating:		
AA to A-	**8,267**	69,072
BBB+ to BB-	**50,164**	81,652
Unrated	**24,902**	67,571
	83,333	218,295

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:

	2008	
	Assets	***Liabilities***
	US$'000	***US$'000***
Geographical region:		
Bahrain	**124,385**	**60,156**
Other Gulf Cooperation Council (GCC) Countries	**47,468**	**501**
Europe	**176,880**	**3,220**
Other Middle East and Asia	**27,183**	**848**
North America	**822**	**-**
	376,738	**64,725**

	2008	
	Assets	***Liabilities***
	US$'000	***US$'000***
Industry sector:		
Banking and financial institutions	**74,759**	**57,917**
Aviation	**101,876**	**2,863**
Real estate	**48,102**	**-**
Utilities	**7,218**	**-**
Manufacturing	**128,320**	**-**
Services	**2,779**	**-**
Others	**13,684**	**3,945**
	376,738	**64,725**

24 RISK MANAGEMENT (continued)

Concentration risk (continued)

As at 31 December 2008, the Group has significant exposures to recent acquisitions amounting to 33% (2007: 0%) of total assets. Out of these recent acquisitions, the amounts available for placement with investors and which are short term in nature amount to 29% (2007: 0%) of total assets.

	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

	2007		
	Assets US$'000	*Liabilities US$'000*	*Unrestricted investment accounts US$'000*
Industry sector:			
Banking and financial institutions	211,822	47,498	-
Aviation	87,049	3,983	-
Real estate	47,143	-	-
Utilities	9,932	-	-
Manufacturing	8,263	-	10,000
Others	19,155	3,204	-
	383,364	54,685	10,000

Market Risk

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Group currently has limited exposure to profit rate risk. The Group's assets that are exposed to profit rate risk comprise of due from financial institutions, investments in sukuk and due to banks and other financial institutions and have repricing dates no longer than three months. During 2008, a +/- 0.25% change in the profit rate, with all other variables constant, would have resulted in a +/- US$ 621 thousand (2007: +/- 1% resulted in US$ 2,907 thousand) impact on the statement of income.

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

	2008	*2007*
Investments in leases	**10.60%**	12.20%
Due from banks and other financial institutions	**3.87%**	5.28%
Investments in Sukuk	**5.07%**	7.15%
Due to banks and other financial institutions	**5.12%**	5.72%

24 RISK MANAGEMENT (continued)

Market risk (continued)

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 currency risk through various risk management techniques such as on balance sheet currency risk management as allowed by its Shari'a Supervisory Board.

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

		2008	
	Assets US$'000	***Liabilities US$'000***	***Net US$'000***
Danish Krone	**15,767**	**(11,384)**	**4,383**
Kuwaiti Dinars	**12,247**	**-**	**12,247**
Great Britain Pounds	**7,305**	**(8,448)**	**(1,143)**
Euro	**14,604**	**(14,073)**	**531**
Saudi Riyals	**2,982**	**-**	**2,982**
Qatari Riyals	**9**	**-**	**9**
Emirates Dirhams	**4**	**-**	**4**
	52,918	**(33,905)**	**19,013**

		2007	
	Assets US$'000	*Liabilities & URIA US$'000*	*Net 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 (+/-) %	***net income and equity (+/-) US$'000***
Danish Krone	**10**	**438**
Kuwaiti Dinars	**5**	**612**
Great Britain Pounds	**10**	**(114)**
Euro	**10**	**53**
Saudi Riyals	**5**	**-**
Qatari Riyals	**5**	**-**
Emirates Dirhams	**5**	**-**

24 RISK MANAGEMENT (continued)

Market risk (continued)

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 year ended 31 December 2008 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 capitalisation rate.

	Change in equity price (+/-)	***Effect on net equity (+/-)***
	%	***US$'000***
Kuwait Stock Exchange	**10**	**1,500**

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 consolidated 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.

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

24 RISK MANAGEMENT (continued)

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 2008 based on contractual maturity is as follows:

	Upto 1 month US$'000	*1 to 3 months US$'000*	*3 to 6 months US$'000*	*to 1 year US$'000*	*1 to 3 years US$'000*	*Over 3 years US$'000*	*No fixed maturity US$'000*	*Total US$'000*
Assets								
Cash and balances with banks	**5,809**	**-**	**-**	**-**	**-**	**-**	**-**	**5,809**
Due from banks and other financial institutions	**43,475**	**17,056**	**-**	**-**	**-**	**-**	**-**	**60,531**
Non-trading investments	**178**		**-**	**-**	**15,014**	**-**	**36,125**	**51,317**
Investments in aviation leases	**-**	**-**	**-**	**-**	**6,014**	**95,376**	**-**	**101,390**
Net assets of disposal group classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**125,394**	**125,394**
Investment properties	**-**	**-**	**-**	**-**	**-**	**-**	**17,460**	**17,460**
Other assets	**-**	**64**	**-**	**-**	**-**	**-**	**3,237**	**3,301**
Property and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**11,536**	**11,536**
	49,462	**17,120**	**-**	**-**	**21,028**	**95,376**	**193,752**	**376,738**
Liabilities								
Due to banks and other financial institutions	**23,621**	**14,036**	**20,260**	**-**	**-**	**-**	**-**	**57,917**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**6,808**	**6,808**
	23,621	**14,036**	**20,260**	**-**	**-**	**-**	**6,808**	**64,725**
Net	**25,841**	**3,084**	**(20,260)**	**-**	**21,028**	**95,376**	**186,944**	**312,013**

24 RISK MANAGEMENT (continued)

Liquidity risk (continued)

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 US$'000	*1 to 3 months US$'000*	*3 to 6 months US$'000*	*to 1 year US$'000*	*1 to 3 years US$'000*	*Over 3 years US$'000*	*No fixed maturity US$'000*	*Total US$'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 SOCIAL RESPONSIBILITY

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

26 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect the previously reported net income for the period or total equity.