SYNERGY

بنك الإثمار
Ithmaar Bank

ANNUAL REPORT '08

Synergy

The Ithmaar banking group is a global financial services powerhouse with flagship subsidiaries and associates that include Ithmaar Bank, Shamil Bank, Solidarity, Faisal Private Bank (Switzerland), Faysal Bank Limited (Pakistan), BBK, First Leasing Bank and Ithmaar Development Company.

This year, we establish the synergy of this dynamic group. The word 'synergy' comes from the Greek 'syn-ergo' which means working together. It is the coming together of two or more forces in such a way that the resultant force is greater than the sum of its parts.

This is at the core of the success of the Ithmaar banking group. It is the mutually advantageous conjunction of expertise and experience, passion and productivity, innovation and insight. Together, these dynamic forces have delivered positive and sustained growth, and successfully weathered the recent turbulent financial times.

It seems that now, more than ever, the theme of synergy is appropriate in the context of the group's annual reports for 2008.

Contents

Vision, Mission & Values

Our Vision

- To be the benchmark international investment bank from the Middle East; and,
- With our subsidiaries and associates, to be the premier global Islamic financial services group.

Our Mission

- While being an exemplary corporate citizen and employer, to deliver superior returns to our shareholders.
- To provide excellent group services and value to our multilateral, governmental, corporate, financial, institutional and high net worth clients, through a wide range of Islamic financial services. These include: investments, asset management, commercial and private banking, private equity, public and private issue of securities, mergers and acquisitions advice, takaful, equipment leasing, and real estate development.

Our Values

- Expertise
- Innovation
- Transparency
- Sophistication
- International focus

Financial Highlights

	2008	2007	2006	2005	2004
Net profit **($ million)**	85.2	188.3	181.1	37.6	22.1
Net profit attributable to shareholders **($ million)**	22.2	102.8	167.6	36.5	22.1
Total equity **($ million)**	1,149.4	1,284.4	1,123.7	252.8	219.3
Total equity attributable to shareholders **($ million)**	923.9	1,087.8	792.1	247.4	214.5
Net book value per share **($)***	0.44	0.51	0.56	1.65	1.43
Earnings per share **(cents)***	1.04	5.79	11.10	24	18
Total assets **($ million)**	5,380.4	4,078.8	3,318.8	442	435
Funds under management **($ million)**	1,991.7	1,723.8	1,059.9	1,500	1,100
Return on average equity **(%)**	7	15.64	26.31	15.8	16
Return on average paid in capital **(%)**	4.16	23.07	66.55	24.4	18.4
Cost to operating income **(%)**	51.51	41.27	42.10	69	79
Cash dividends **($ million)**	-	53.7	47.5	20	10
Dividends per share **(cents)**	-	2.50	3.38	13.3	6.7
Capital adequacy **(%)****	14.41	18.63	29.52	36.8	37.3

* The 2007 and 2006 numbers reflect the four for one share split.

** Capital adequacy ratio for 2008 and 2007 is under Basel II regulations, whereas for previous years it was calculated under Basel I regulations.

Chairman's Message

In the name of Allah, most Gracious, most Merciful

On behalf of the Board of Directors, it gives me great pleasure to present the annual report of Ithmaar Bank and its subsidiaries, associates and joint ventures for the year ended 31 December 2008. It was a challenging year that might well be remembered as the year of the global financial meltdown. The year that forced a complete re-think of the world financial industry, redefined global landscapes and reshaped our collective futures.

Widely described as the greatest since the Great Depression, the 2008 financial crisis proved a ruthlessly efficient sorting arena where once revered banks, investments houses and other financial institutions were brought crashing to their knees. In much the same way, the challenges of 2008 have put our vision, our ideologies and our very existence to test – and I am pleased to report that, having weathered the financial storm, we emerged with a renewed sense of focus, determination and confidence.

In particular, our long-standing commitments to developing our group synergies, to playing real and meaningful roles as global corporate citizens, to serving the needs of the real economy and, perhaps most importantly, to enforcing a strict standard of ethics in all our investments, have proved rock solid. Our 2008 success, albeit dwarfed by our record-setting 2007 financial performance, is testimony to these very commitments, and sets the stage for our continued success.

The unprecedented crisis has also created equally unprecedented opportunities. History has repeatedly proved that, in times of crisis, those with the vision, the courage and the ability to recognise opportunities amidst the fear and confusion, will be able to leverage maximum gains.

Ithmaar Bank heads a regional banking and financial services group, with a global outlook that comprises more than 20 subsidiaries, associates and joint ventures. Their combined activities, covering investment, private, retail, and commercial banking, private equity, Islamic insurance and assurance, equipment leasing, and real estate development, form a unique 360 degrees value chain that embraces the entire spectrum of banking and financial services. Our committed goal is to leverage the synergies inherent in this consolidated base to become the premier global financial services institution offering Sharia-compliant products and services. In pursuit of this challenging vision, we committed ourselves to setting a new regional benchmark for personal and professional integrity, transparency and disclosure, and stakeholder value.

These are commitments we take very, very seriously – and they have helped, in a big way, guide us through the challenges of 2008. More importantly, these very commitments have left us uniquely positioned to capitalise on the unprecedented opportunities that were being created.

Consequently, Ithmaar Bank posted relatively strong financial performance in 2008, full details of which are covered by subsequent sections of this annual report. The Bank's subsidiaries and associates contributed significantly to the overall financial results. Summaries of their business and operational achievements are included later in this annual report, so I will just mention some of our key strategic achievements.

In mid 2008, we announced that we had successfully arranged a consortium of regional institutional investors to launch Naseej (Under Formation), the region's first fully integrated infrastructure and real estate development company. Naseej will manage the entire spectrum of the construction and real estate business, from the initial planning stages to the manufacture of building materials, financing and marketing advisory services for developments. In doing so, it will create unprecedented synergies that will help create affordable housing solutions for the general public. Before the end of the year, the Promoter Shareholders had signed a formal agreement to create the company with an issued share capital of BHD180 million ($477.5 million).

Well before the crisis broke out, we took our ideologies a bold step further and forged a strategic alliance with two equally visionary financial institutions to create Vision^3. This strategic alliance with Gulf Finance House and Abu Dhabi Investment House followed nearly 14 months of due diligence and marked a turning point in the systematic approach to specialist investments.

In August, Vision3 announced plans to create three visionary new initiatives worth $10 billion. These initiatives, which focus on driving market-specific innovation across the Middle East, North Africa, South Asia (MENASA) region and beyond, consist of InfraCapital, the GCC's first investment bank specialising in the provision of tailored infrastructure development and finance; AgriCap, a new investment vehicle focused entirely on serving agricultural ventures and communities, and the Hospitality Development Fund (HDF), which will nurture and support opportunities across the global hospitality and tourism sector.

We have since moved quickly to translate these ideas into reality and, by October, Vision3 had signed a Memorandum of Understanding with the Government of The Republic of Turkey that will see the Investment Development Authority of Turkey work alongside AgriCap towards the identification of innovative agricultural investment opportunities across the country.

These two strategic initiatives – Vision3 and Naseej – underscore, perhaps more than anything else, just how seriously we take our long-term commitments. They present innovative solutions to some of the region's most pressing socio-economic challenges. More importantly, they contribute, directly, to helping develop our region and, in doing so, make us part of the solution, not part of the problem. This, we believe, is key to our continued success.

As responsible global corporate citizens, we must continue to focus our efforts on developing our region, addressing the real economy's needs and contributing to our region's sustainable development. To that end, in addition to our long-term strategic objectives, we continue to focus on developing our own resources and, by extension, the Kingdom's banking and finance industry.

I have repeatedly stressed that banking is all about people – and, at Ithmaar, we place particular emphasis on attracting, developing and retaining the best people in the business. We practise what we preach, providing equal opportunities for advancement in a challenging work environment, where everyone, regardless of background or status, is encouraged to contribute and make a difference.

Our corporate culture embraces the values of leadership, professionalism, integrity and honesty, while recognising and rewarding performance. I am convinced that, above all else, it is the quality of our people that will ultimately determine the continued success of the Bank. This is particularly true in these challenging times, and I take this opportunity to express my sincere appreciation to our people – the management and staff of our subsidiaries, associates and joint ventures around the world – for helping make 2008 a success despite the crisis.

I also take this opportunity to thank my fellow board members across the group, our shareholders, investors and clients, and the regulatory authorities of all countries in which we operate, for their support and guidance during the year.

Khalid Abdulla-Janahi
CHAIRMAN

CEO and Co-CEO statement

We are pleased to report that 2008 has proved a positive year for us at Ithmaar, and for our subsidiaries and associates. Collectively, we have weathered the global 2008 financial storm and concluded the year with a satisfactory performance.

In particular, we are pleased to report that our subsidiaries and associates have generally managed, relative to the unprecedented market conditions under which they were operating, to have performed well both for themselves and the group at large.

Our overall achievements, made all the more significant by the severity of the 2008 global financial crisis, are a direct consequence of the diversity of the Ithmaar banking group, and a demonstration of the powerful synergies created among its members.

The Ithmaar banking group is widely recognised as one of the most diversified financial services groups in the Middle East and, in some respects, 2008 has been a true celebration of our diversity.

Our group holdings, for example, include both retail and commercial banks that have helped us, collectively, maintain stability even in the most turbulent of times - particularly in terms of business-critical issues such as funding and current income on core activities. The fact that the diversification of our business activities is further bolstered by our geographical spread, with investments in the GCC, Europe, Asia and the Near East, has also contributed to helping us conclude a successful 2008.

In the first half of 2008, while the world's financial industry was continuing to struggle with the ripple effects of the sub-prime crisis and rising inflationary pressures, we continued to buck the global trend, reporting instead a 115 percent surge in our half-year net profits. In fact, our record $141.9 million in profits marked the Bank's strongest mid-year financial performance since it went public in early 2006. The second half of the year was much more challenging, but we quickly adapted to the changing landscape and continued working towards achieving our goals and realising our vision. This focused, unwavering determination has translated into end-of-year results that are impressive within both the global and regional contexts.

We reported, for example, a net profit of $85 million for the year ended 31 December 2008. We also reported significant growth in both the total assets and funds under management, and proposed, subject to approval from the Central Bank of Bahrain (CBB) and shareholders at the Annual General Meeting (AGM), to issue one bonus share for every ten shares held. The appropriation is proposed from the share premium.

At the outset of the current global financial crisis, the group, following Board directives, focused upon protection of the group's assets and liquidity, rather than upon pursuing new business initiatives. This prudent approach has been reflected in a stringent review of the carrying value of the group's assets and an unrealised impairment provision of $52.9 million has been made.

We are pleased to report that Ithmaar Bank's balance sheet remains strong, with liquid assets at $1.3 billion, representing around 23 percent of the total assets, up from $0.6 billion or 14.5 percent at year-end 2007. Our capital adequacy ratio is 14.4 percent.

Total assets also increased by 31.9 percent to $5.4 billion, and funds under management increased by 15.5 percent to $2 billion.

The growth from the group's retail and corporate banking operations has continued, although the timing of certain investment banking initiatives has been impacted by the global financial crisis. Operating income, at $279.9 million, is 19.3 percent lower than for 2007, and during the year we initiated several cost control measures - as a result, operating costs, at $115.1 million, are $7.6 million lower than for 2007. Of the unrealised impairment provision of $52.9 million, $21.1 million is attributable to declines in the value of certain listed investments in the GCC and Asian stock markets. These investments are held as part of "available-for-sale investments".

We are pleased that, even with the fourth quarter $40.4

million deficit, mainly reflecting unrealised impairment provisions, we still produced $85.2 million in consolidated profits for 2008.

The areas in which we continued in 2008 to develop our strategic new lines of direct business at Ithmaar Bank, Private Equity, Investment Banking and, to a lesser extent, Capital Market products, are ones that continue to interest regional investors in the GCC and in Asia, where we have a geographical focus upon institutional investors, complementing our local and broader Middle East investment business with high net worth individuals.

In private equity, we remain focused upon infrastructure and agriculture-related investments, and we are pleased to report that these two specific areas continue to attract significant interest from institutional investors. Throughout 2008, for example, there has been a consistent commitment to infrastructure development in the Middle East, North Africa and South Asia (MENASA) region. There has also been recent interest in developing the fundamental agriculture business.

Infrastructure and infrastructure-related investments are particularly appealing, especially in such challenging general market conditions, because they offer potentially high rewards for relatively low risks. Infrastructure investments are often government-supported, involve projects that operate with no or limited competition, and provide products and services to meet stable or growing demand. Recently, the MENA region has accounted for one in every three US dollars spent on worldwide infrastructure initiatives. Over the next decade, the GCC alone will require up to $545 billion of investment across the transport, power, water, energy, education and social infrastructure sectors.

Agriculture-related investments are also particularly appealing asset classes in current market conditions: recent reports indicate that the growing world population and the subsequent growth in consumption, together with extreme global weather conditions, rising energy prices and increasing demand for bio-fuels, have forced global food prices to leap by 60 percent over the past two years.

We are particularly well-positioned, with our existing funds and in-house expertise to capitalise upon these opportunities.

The Ithmaar banking group's main shareholder was a Co-Founder, along with Islamic Development Bank and Emerging Markets Partnership, of the successful $730.5 million IDB Infrastructure Fund L.P., the first private equity infrastructure investment fund in the Middle East. The Ithmaar banking group has been directly involved throughout the fund's life as a 40 percent shareholder in the fund's General Partner. Some of the key members of the current Ithmaar Private Equity team were instrumental in the formation and development of that pioneering fund, thereby helping to set the stage for other major infrastructure funds to follow suit. This Ithmaar in-house capability has helped to keep us at the forefront of the infrastructure investment business and will ensure that we remain in the best possible position to capitalise upon the above-mentioned opportunities.

We were also founders, alongside Abraaj Capital and Deutsche Bank, of the $2 billion Infrastructure and Growth Capital Fund (IGCF). IGCF is the largest-ever private equity fund invested in the MENASA region: it has now, in just two years, made or committed to specific investments which deploy IGCF's investment capacity. Ithmaar has a 24.5 percent interest – as does Deutsche Bank (with Abraaj Capital owning 51 percent) in IGCF's general partner, which is responsible for all investment and divestment decisions.

In terms of the agricultural opportunities, we have co-founded, and invested in, the SISL Ithmaar Cane Farm Trust (CFT) in Australia. We have a 100 percent ownership at the development stage. Opportunities to expand CFT's farmland portfolio continue to arise, and in due course we will be admitting additional investors.

In investment banking, in 2008 we remained focused upon fee-generating businesses and paid particular attention to three major joint ventures that we have created, and are subsequently developing, together with Gulf Finance House (GFH) and Abu Dhabi Investment House (ADIH) as part of our joint strategic initiative called Vision^3.

The main Vision^3 initiatives, which focus upon driving

CEO and Co-CEO statement

market-specific innovation across the MENASA region and beyond, consist of InfraCapital, the GCC's first investment bank specialising in the provision of tailored infrastructure development and finance, AgriCap, a new investment vehicle focused entirely upon serving agricultural ventures and communities, and the Hospitality Development Fund (HDF), which will be established to nurture and support opportunities across the global hospitality sector. This trio of Sharia-compliant initiatives represent a turning point in the systematic approach to specialist investments.

The InfraCapital and AgriCap initiatives are tied directly to our strategic commitments to the infrastructure and agricultural industries, and the HDF initiative, which will help to develop a global Sharia-compliant leisure and tourism industry, ties right into our Islamic banking heritage.

In 2008, we acquired a 25.4 percent stake in BBK, a leading Bahrain-based retail bank which also has overseas operations in Kuwait and India – and we are pleased to report that the Bank outperformed its 2007 results, despite having significant international exposure.

We are also especially pleased to report that, among our subsidiaries, Ithmaar Development Company has done exceptionally well in 2008.

Ithmaar Development Company is the developer and manager of Ithmaar Bank's infrastructure development projects and other high quality real estate and tourism-related ventures. Its initial portfolio of projects consists of Dilmunia, a health island project, Aljazayer Beach Resort, and a hotel/office tower project.

Ithmaar Development Company's remarkable 2008 success is a result of its focus upon Dilmunia, a project that has received high levels of interest from clients, owing largely to its modest costs and to its perceived high potential for making capital gains.

Thus, because of our broad diversification by type and geography of business, Ithmaar Bank and its subsidiaries and associates were not affected by the 2008 financial crisis to the same extent as many other financial institutions, particularly those with high exposure to selective classes of international credit or to highly-leveraged investments.

In the most challenging year for financial institutions worldwide over many decades, our 2008 achievements stand testimony to our group's cautious strategies, which also make us well-positioned for future organic growth, once the adverse global business environment returns to normalcy.

Meanwhile, we stand ready to seize opportunities for prudent business development in accordance with the group's robust medium-term strategy. When developing international capital market products, we will be, in due course, concentrating upon Sukuks which, because of the real economy and tangible asset focus of Sharia-compliant capital markets activity, will not be susceptible to the same risks which have bedevilled the conventional financial sector during the recent financial crisis. And, for the time being, our capital markets development will be mostly dependent upon co-operation with our affiliate in the Kingdom of Saudi Arabia, Ithraa Capital, in which Ithmaar Bank and Kuwait Investment Company each have 23 percent stakes. Ithraa Capital in 2008 was licensed to conduct the full range of investment banking services in the Kingdom of Saudi Arabia, which has the region's largest economy, population and stock market.

Looking forward, in 2009 we will, in terms of our activities, be both cautious and selective - and we are confident that we will produce strong results for our shareholders, whose interests we, and the Ithmaar banking group's talented professional staff, will continue to protect to the best of our abilities.

Michael P. Lee
CEO & MEMBER OF THE BOARD

Mohamed Hussain
Co-CEO & MEMBER OF THE BOARD

Financial Review

This review incorporates the consolidated operating results and consolidated balance sheet of Ithmaar Bank and its principal subsidiaries and associates.

Operating Results

The Group has reported a net profit of $85.2 million for the year end 31 December 2008, which is 54.8 percent lower as compared to $188.3 million for the previous year. The net profit attributable to equity holders of the Bank is $22.2 million as compared to $102.8 million for the previous year. The Group has adopted a prudent approach in the current global financial turmoil and stringently reviewed the carrying value of its assets and recognised an unrealised impairment provision of $52.9 million on investments and loans for the year ended 31 December 2008 as compared to $7.6 million for the previous year.

Operating income

Operating income for the year ended 31 December 2008 is $279.9 million, which is 19.3 percent lower as compared to the previous year. The growth from retail and commercial banking and treasury has continued, though certain investment banking activities have been adversely impacted by the current global financial turmoil.

The consistent growth on the retail and commercial banking and treasury is evident from the increase in income from short-term deposits by $12.3 million to $55.7 million and income from investments in financings being marginally higher at $191.5 million. Whereas on the investment banking activities, the fees and commission income is lower by $6.3 million at $46.2 million and gains from investment securities is lower by $40.6 million at $4.1 million due to lower exits and absence of new investment placement opportunities. Also, the 2007 results included $15 million gain on sale of investment in Meezan Bank (erstwhile associate), there were no such repeat gains in 2008.

Distribution to investment account holders and borrowing costs increased by $40.4 million to $185.9 million, mainly due to profit payments on new term financings and increased retail and commercial business.

Expenses

The Group has initiated several cost control measures. Overall staff costs and general and administrative costs, at $115.1 million, are lower by $7.5 million as compared to the previous year.

Depreciation and amortization expenses, at $29.1 million, are higher by $8.5 million as compared to the previous year, mainly due to full year impact of intangibles amortization in 2008 of certain acquisitions during 2007 and amortization impact of intangibles on new acquisitions in 2008.

Provision for impairment of $52.9 million mainly comprises unrealised impairment loss on available-for-sale investment securities of $21.1 million and loans and advances of $24.4 million. The provision for impairment is mainly attributable to significant declines in value of certain listed investments in the GCC and Asian stock market; these investments are held as part of available-for-sale investments securities. In addition, loans portfolio in Asian operations has also been impacted due to increased delinquencies coupled with fall in value of collaterals, resulting in an impairment provision.

Share of profit from associated companies.

The 2008 share of profits from associates, at $6.3 million, is lower by $2 million as compared to previous year. The global financial turmoil has adversely impacted the results of the associates as they have prudently recognised provision for impairment on their investments and loans and hence reported lower results as compared to 2007.

Taxation

The taxation charge for 2008, $9.3 million, is lower by $10.7 million mainly due to lower taxable profits in certain subsidiaries.

Financial Position

Overall balance sheet has further strengthened. Total assets increased by 31.9 percent to $5.4 billion and Funds under management also increased by 15.5 percent to $2 billion. The Group's balance sheet remains strong with liquid assets at $1.3 billion representing 23 percent of the total assets.

Financial Review

Assets

Assets have significantly increased by $1.3 billion to $5.4 billion, mainly due to increased inter bank treasury activity of $666 million and investment in associates of $418 million. Investment in financings has also registered a marginal growth of $176 million at $2.1 billion.

Liabilities

Liabilities have significantly increased by $1.4 billion to $4.2 billion, mainly due to increased deposits from banks (inter bank treasury activity) by $1.2 billion and other borrowings by $286.8 million. During the year, the Bank successfully raised $338 million through bilateral and multilateral financing arrangements.

Equity

The equity attributable to the Bank's shareholders, at $924 million, has decreased by $164 million as compared to $1.1 billion for 2007. The major reasons for the decrease are payment of 2007 dividend in 2008 of $52.4 million and decline in fair value of available-for-sale investments by $69.6 million.

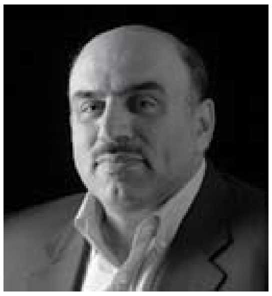
Minority interests have increased by $28.9 million to $225.4 million mainly due to increased profits in the underlying subsidiaries.

Board of Directors

The Board presently has ten directors, including five independent directors.

The number of directors on the Board is established by the Bank’s Memorandum and Articles of Association.

The Board of Directors is headed by a Chairman, who is considered to be an independent director in accordance with the Central Bank of Bahrain’s guidelines and international best practice.



Khalid Abdulla-Janahi

CHAIRMAN

Mr. Janahi is Group Chief Executive of Dar Al-Maal Al-Islami Trust (DMI Trust Switzerland), Chairman of Faisal Private Bank (Switzerland), DMI Administrative Services and Islamic Investment Company of the Gulf (Bahamas) Ltd., and Chairman of Solidarity Group. He is a member of the Board of Directors and Chairman of the Executive Committee of BBK (formerly known as Bank of Bahrain and Kuwait) and a member of the Board of Faisal Islamic Bank of Egypt. He is a Member of the Board of the Centre for International Business and Management (CIBAM) at the University of Cambridge, UK. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr. Janahi holds a BSc. in Computer Science and Accountancy from the University of Manchester, UK.

Tunku Dato’ Ya’acob Bin Tunku Abdullah

Prince Ya'acob is Chairman of MAA Holdings Berhad (Malaysia), which he joined in 1999. Prior to his current position, Prince Ya'acob worked for 19 years for Malaysian Assurance Alliance Berhad, where his last position was as Chairman. He also worked at Price Waterhouse London (UK) and Malaysia, where he held the position of Assistant Manager in their offices in Kuala Lumpur. Prince Ya'acob holds a Bachelor of Science degree with Honours from the City University in London and is a Fellow of the Institute of Chartered Accountants of England and Wales.

Abdulhameed M. Aboumoussa

Mr. Aboumoussa is Governor of Faisal Islamic Bank of Egypt, which he joined in 1977. Prior to his current position, Mr. Aboumoussa worked in the Central Bank of Egypt for 16 years. He holds a Bachelor of Science in Accounting and a Diploma in Finance from Cairo University in Egypt, and a Diploma in Banking Economics from Lwegi Boconi University in Milano, Italy. He is a Member of the coordinating council that determines the monetary and fiscal policy objectives of the Egyptian economy.

Board of Directors

Sheikh Mohammed Youseef El Khereiji

Sheikh Mohammed comes from one of the leading merchant families in the Kingdom of Saudi Arabia. He studied in Switzerland and the United Kingdom and graduated with an MBA in Marketing and Finance. He started his career as a consultant and financial adviser for, inter alia, Prudential Bache and BNP Paribas in Geneva. He is currently Chairman of Global Investment and Marketing SA-Geneva – Global Hotels and Resorts BV – Marriott European Holding – and Creative Investment and Marketing SA. He is Chief Financial Officer of El Khereiji Group – Chairman of Sage Capital Management Group in Bahrain. Sheikh Mohammed is also Honorary Chairman of the Swiss Red Cross as well as its international Ambassador, and is an active contributor to many charitable entities. He holds many other prominent executive Board positions in Europe and the Middle East.

Shaikha Hissah bint Saad Al-Sabah

Shaikha Hissah is President of the Council of Arab Businesswomen. She has had a long history in the Kuwait Government and private voluntary service, including: Department of Medical Services, Research and Development, Military Hospital, Ministry of Defence, State of Kuwait; Adviser, Defence Minister's Office, State of Kuwait; Chairperson of the Narcotics Control Committee; Kuwait Volunteers Women Society; Kuwait Businesswomen Committee; Arab African Women's Council; Honorary Chairperson, Arab Federation of Non-Government Societies for Addiction Prevention; Deputy Chairperson, Kuwait Narcotics Control Committee; and Member, National Committee for Narcotics Control and International Council of Alcohol and Addiction. Shaikha Hissah studied Public Administration and Political Science at the American University of Beirut, Lebanon and has a Doctorate in Humane Letters.

Khalil Nooruddin

Mr. Nooruddin is the founder and the Managing Partner of Capital Knowledge, a financial consultancy and training company based in Bahrain. Mr. Nooruddin is also a board member of Gulf International Bank and Vice Chairman of Alpine Wealth Management. Before establishing Capital Knowledge, he served as the Director of the Bahrain Institute of Banking and Finance until he resigned in 2007. Prior to assuming that assignment in 2004, Mr. Nooruddin worked for 20 years as a corporate and investment banker. His last assignment in this field was with Investcorp Bank, where he served as a Member of the firm's Management Committee for 10 years. Before Investcorp, he served as a corporate banker with Chase Manhattan Bank in Bahrain and as an investment banking professional with Chase Investors Management Corporation and UBS Asset Management in London and Zurich. Before his banking career, he worked as an operations research analyst with Bahrain Petroleum Company (Bapco) in Bahrain and Caltex Petroleum Corporation in New York. Mr. Nooruddin is a Chartered Financial Analyst and holds a Master of Science in Quantitative Analysis from Stern Business School, New York University and a Bachelor of Science in Systems Engineering from the University of Petroleum and Minerals, Kingdom of Saudi Arabia. He is an active member of several civil and professional societies in the Kingdom of Bahrain.

Ziad Hasan Rawashdeh

Mr. Rawashdeh is the Group Chief Operating Officer of DMI, Vice Chairman of Faisal Private Bank (Switzerland) SA and Vice Chairman of Islamic Investment Company of the Gulf (Bahamas). He is a Board Member of BBK, Shamil Bank, Solidarity and Faisal Islamic Bank of Egypt. He is also Chairman or a Board Member of several other DMI Group subsidiaries. Previous positions include Chief Executive Officer of Faisal Private Bank (Switzerland) SA and Managing Director of Islamic Investment Company of the Gulf (Bahamas) as well as several key positions within the DMI Group and at other financial institutions. A Fellow of the Arab Institute for Banking and Financial Studies, Mr. Rawashdeh holds a BSc in Economics.

Kenneth C. Borda

Mr. Borda was formerly the Chief Executive Officer of Deutsche Bank AG, Middle East and North Africa. He retired in April of 2007. He had also acted as Chairman of Deutsche Bank Asia Pacific (excluding Japan). During an 18 year career with Deutsche Bank, he held several key management posts, including Regional CEO Asia Pacific, based in Hong Kong, and CEO Australia and New Zealand, based in Sydney. Mr. Borda was a Board Member of SFE Corporation (the listed national futures exchange in Australia) for more than five years until its acquisition by Australian Stock Exchange Limited in July 2006. In February 2007, he joined the Board of Ithmaar, as well as the boards of both Fullerton Funds Management, the asset management arm of Temasek, in Singapore, and the Australian oil and gas exploration and production company, Santos Limited. In July 2007, Mr. Borda joined the Board of Directors of Leighton Contractors Ltd in Sydney, and, in August 2008, he also joined the Talent 2 Ltd Board of Directors.

Board of Directors

Michael P. Lee

CEO & MEMBER OF THE BOARD

Mr. Lee has more than thirty five years of experience as an international investment banker serving multilateral, governmental, corporate, financial institutional and high net worth clients. In his earlier career, with assignments based in London, Hong Kong and New York, he served investment banking clients in West and Eastern Europe, Africa, Asia Pacific and North and South America. Immediately prior to joining Ithmaar, he was Deputy Chairman and Managing Director of Emerging Markets Partnership (Bahrain) BSC(c), the general partner and manager of the pioneering, $730.5 million Islamic Development Bank (IDB) Infrastructure Fund. This successful regional private equity fund, headquartered in Bahrain and investing in private sector infrastructure in the Muslim world, was co-founded by IDB, DMI and EMP. After graduate training at Chase Manhattan Bank, Mr. Lee started his investment banking career at Merrill Lynch in 1973, spending more than 10 years in London, Hong Kong and New York in commercial and investment banking, and general management. From 1979-81, he was Director of Corporate Development, Merrill Lynch International & Co., New York and, over the period 1981-84, he headed Merrill Lynch's international investment banking group responsible for financial institutions and private placements, becoming a Managing Director of Merrill Lynch-White Weld Capital Markets Group. over the period 1984-92, Mr. Lee was the Chief Executive Officer of Dean Witter Capital Markets International Ltd., London, covering capital markets and investment banking, and was also a Managing Director-Corporate Finance of Dean Witter Reynolds Inc., New York. In 1992, Mr. Lee became a senior adviser at Bahrain's Ministry of Finance & National Economy, providing inter alia strategic advice on the development and regulation of the Bahrain International Financial Centre and on investments. He has now lived in Bahrain for 17 years. Mr. Lee holds an MA (Honours) degree in Philosophy, Politics and Economics from the University of Oxford.

Mohamed Hussain

CO-CEO & MEMBER OF THE BOARD

Mr. Hussain has been Co-CEO since April 2008, and a Member of The Board of Directors since June 2008. He is also a member of the Bank's Executive Committee. Mr. Hussain is responsible for overseeing the Bank's holdings in subsidiaries, associates and strategic investments, as well as the Group's Treasury, Private Banking and Risk Management. Prior to his current appointment, Mr. Hussain was Chief Executive and Member of The Board of Shamil Bank (Bahrain), which is wholly-owned by Ithmaar Bank. A seasoned banker who joined Shamil Bank in 1998, Mr. Hussain previously held other senior positions at the Bank, including Deputy Chief Executive. He was also General Manager of Islamic Investment Company of the Gulf (E.C.) in Bahrain prior to its merger with Faysal Islamic Bank of Bahrain (E.C.) in 2000. His previous positions included Senior Vice President, Smith Barney Inc. Bahrain; Director, Marketing and Corporate Finance, Bahrain International Bank; and Assistant Vice President, Gulf International Bank. He currently serves on the boards of BBK (formerly known as Bank of Bahrain and Kuwait), Faisal Private Bank (Switzerland), Faysal Bank Limited (Pakistan), First Leasing Bank, Solidarity, Ithraa Capital (Kingdom of Saudi Arabia), Emerging Markets Partnership (Bahrain) BSC (c) and CITIC International Assets Management Limited (Hong Kong). Mr. Hussain, a Bahraini National, holds a Bachelor of Arts degree in Economics and Finance.

Farook Bengali (From 1 January 2008 to 9 April 2008)

Mr. Bengali is a member of the Board and Chairman of Risk Management Committee of Shamil Bank. He is also the Advisor of DMI Trust. He was the President and CEO of Faysal Bank Limited from 1999 to 2007 and CEO Al Faysal Investment Bank from 1996. Prior to this, Mr. Bengali worked for almost 30 years for Standard Chartered Bank, Pakistan, where his last position was Chief Executive, with overall responsibility for the operations of the Bank and its branches throughout the country. Mr. Bengali is a fellow of the Chartered Institute of Bankers, UK and of the Institute of Bankers in Pakistan, and holds Masters degrees in both Economics and Law.

Graham Roderick Walker (From 1 January 2008 to 9 April 2008)

Mr. Walker is the Group Head of Finance and Risk Management of DMI. Prior to joining DMI in 2000, Mr. Walker held various senior management positions with several major international financial institutions, including HSBC, Standard Chartered Bank and Foreign & Colonial Management Limited. He has wide ranging experience in banking and financial services. He is a Member of the Institute of Chartered Accountants of Scotland.

Mohamed Bin Saif Al Mezrouei (From 1 January 2008 to 6 May 2008)

Mr. Al Mezrouei is the Chief Executive Officer of the UAE Offsets Group. He joined the group in 1994 as a project manager and was appointed Deputy Chairman in 1996 and Member of the Board in early 2000. Prior to joining the group he was the Human Resources Manager of Abu Dhabi National Oil Company (ADNOC) for eight years. Mr. Al Mezrouei is also a Member of the Board of Mubadala Development Company and Chairman of the National Central Cooling Company (Tabreed). He also serves on the Board of Directors of other prominent entities such as Dolphin Energy Limited, Abu Dhabi Tourism Authority, Abu Dhabi Water & Electricity Authority, Al Ain Zoo, the Emirates Media Incorporation and Tourism & Development Investment Company. Mr. Al Mezrouei has a degree in Business Administration from the Laverne University in the US.

Meetings

In accordance with its Articles of Association, the Board of directors meets at least four times a year and the Board expects each director to attend at least 50 percent of all Board meetings and meetings of committees on which they serve.

Executive Management

Sitting (left to right)
Abdul Hakim Khalil Al-Mutawa, Ahmed Abdul Rahim, Mohamed Hussain and Tawfiq Al Bastaki

Standing (left to right)
Maysan Al-Maskati, Carolyn Prowse, Scott A. Creswell, Shaikh Salman bin Ahmed Al Khalifa, Ravindra Khot, Michael P. Lee, Andrew Pocock, Nayla Asgharali, Mohammad Ali and Jassim A. K. Salman

Executive Management

Michael P. Lee
CEO AND MEMBER OF THE BOARD

Please refer to Mr. Lee's biographical details in the Board of Directors section.

Mohamed Hussain
CO-CEO AND MEMBER OF THE BOARD

Please refer to Mr. Hussain's biographical details in the Board of Directors section.

Ahmed Abdul Rahim
CHIEF OPERATING OFFICER

A veteran of Bahrain's banking industry, Mr. Abdul Rahim, joined Ithmaar in March 2007 following a successful stint at its subsidiary, Shamil Bank, where he was General Manager, Support Group since June 2006. Coming under his direct supervision at Ithmaar are Financial Control, IT and Operations, as well as Human Resources and Public Relations and Corporate Communications. Mr. Abdul Rahim, who is currently also the Shamil Bank Deputy Chief Executive, had previously worked for 28 years with National Bank of Bahrain at various executive levels, including as Manager FX and Funding, Chief Internal Auditor and, finally, Assistant General Manager, Corporate Services. He holds an MBA from the University of Glamorgan, Wales (UK), and is an Associate in Financial Accounting from the Institute of Financial Accountants, London (UK). He also holds an Executive Management Diploma from the University of Bahrain and Advance Banking Diploma from the Bahrain Institute of Banking and Finance. Mr. Abdul Rahim is a member of the Executive Committee of Shamil Bank and a member of the Board of Directors of Meezan Bank, Pakistan, First Leasing Bank, Bahrain and Ithmaar Development Company. He is also a member of the InJaz Bahrain Board of Directors.

Shaikh Salman bin Ahmed Al Khalifa
MANAGING DIRECTOR, GROUP BUSINESS DEVELOPMENT

Prior to joining Ithmaar, Shaikh Salman held a range of positions within the private and public sectors, both regionally and internationally. He previously served as Director of Banking Services at the Central Bank of Bahrain (formerly the Bahrain Monetary Agency) and has held the position of Vice Chairman of the International Islamic Financial Market, one of the core infrastructure institutions of the Islamic Banking and Finance Industry. During his tenures at Barclays Capital and Bear Stearns in London, Shaikh Salman managed a range of investment banking relationships and marketed various securities and structured products to Middle East markets. Shaikh Salman has a Bachelor of Science in Finance from the American University, Washington DC.

Abdul Hakim Khalil Al-Mutawa
MANAGING DIRECTOR, PRIVATE BANKING GROUP

Mr. Al-Mutawa was appointed Managing Director, Private Banking Group in August 2008. Prior to his Ithmaar appointment, Mr. Al-Mutawa led investment placement and private banking activities at Shamil Bank where his earlier roles included senior positions in investment and corporate banking. Mr. Al Mutawa is also the Chairman of the Board of Sakana Holistic Housing Solutions, a mortgage finance joint venture between Shamil Bank and BBK. Before joining the banking industry, Mr. Al-Mutawa spent more than 12 years in a commercial capacity in the airline and aviation industry. Among his achievements is the Shaikh Isa Bin Salman Al Khalifa Medal (4th Degree) for government service award, which he received in 2000. Mr. Al-Mutawa holds an MBA from the University of Bahrain and a Bachelor in Engineering from the University of Texas at Austin.

Andrew Pocock
MANAGING DIRECTOR, PRIVATE EQUITY

Mr. Pocock joined Ithmaar in January 2008, bringing extensive experience in private equity, and in international investment and commercial banking acquired from varied assignments in Europe, the Americas, the Far East and the Middle East. During his career, Mr. Pocock has been an Executive Director of a leading international merchant bank, Samuel Montagu and Co. in London (now part of HSBC Group); undertook advisory assignments for the World Bank in China and India; and headed from London the European business of Gulf International Bank (GIB), from 1994 until 2000, when he was appointed GIB's Head of Banking in Bahrain. Subsequently, as a senior investment Director with Emerging Markets

Partnership (Bahrain), the General Partner and Manager of the $730.5 million Islamic Development Bank Infrastructure Fund, Mr. Pocock was responsible for some of the large, successful investments undertaken by that fund. Mr. Pocock began his career with Bank of London and South America, serving in Peru and Uruguay, followed by several years with J Henry Schroder Wagg & Co, London-based merchant bankers, and with Scandinavian Bank - in London, Hong Kong, Singapore, and in Bahrain where, from 1978 to 1980, he was Regional CEO and Head of the OBU Branch.

Carolyn Prowse

MANAGING DIRECTOR, MERGERS AND ACQUISITIONS

An Oxford University graduate, Ms. Prowse spent ten years at British Airways Plc, most recently as Senior Manager, Investments and Joint Ventures, and was based in London. Her responsibilities included reviewing, structuring and negotiating all types of corporate transactions, including acquisitions, disposals, mergers, joint ventures and alliances. A British national, Ms. Prowse also played a key role in restructuring parts of the BA Group. Prior to her BA appointment, Ms. Prowse worked for LEK LLP, a consulting firm specialising in corporate strategy, mergers and acquisitions and privatisations, where her work included the privatisation of the UK railways. At Ithmaar, in addition to Mergers and Acquisitions, she also has investment banking responsibility for the transportation sector.

Maysan Al-Maskati

EXECUTIVE DIRECTOR, PRIVATE EQUITY

Mr. Al-Maskati began his investment banking career in 1998 and worked for leading international private equity specialist Emerging Markets Partnership (EMP), whose Bahrain subsidiary is the General Partner and Manager of the $730.5 million Islamic Development Bank (IDB) Infrastructure Fund. This pioneering regional private equity fund, headquartered in the Kingdom of Bahrain and investing in private sector infrastructure, was co-founded by IDB, Dar Al-Maal Al-Islami (DMI) Trust and EMP. During his tenure with EMP, Mr. Al-Maskati was actively involved, alongside senior management, in both closing the fund and in making large investments in the power and petrochemical sectors, and also contributed to effecting investments in other sectors. Prior to joining Ithmaar, Mr. Al-Maskati worked at Gulf One Investment Bank as Vice President, Infrastructure, and Masar Advisory as Private Equity Director. Mr. Al Maskati holds a Bachelor of Science in Industrial and Manufacturing Systems Engineering from Kansas State University, US.

Ravindra Khot

MANAGING DIRECTOR - CHIEF FINANCIAL OFFICER

Mr. Khot is in charge of consolidated financial, regulatory and management reporting. He is also responsible for provision of proactive and key support in the development of Ithmaar's strategy, business plan and budget, management decision-making, liquidity planning and oversight of the Bank's performance management. Mr. Khot has 22 years of experience in investment banking and the financial services industry. Prior to joining Ithmaar, he held the position of Vice President, Financial Administration at TAIB Bank. His other key positions include Senior Manager, Financial Services at PricewaterhouseCoopers and Principal Consultant, Consulting at i-flex Solutions. He started his professional career in 1986 with Price Waterhouse. During his career, he has been responsible for overseas assignments in the US, Latin America, the Middle East and India. He is a Fellow Member of the Institute of Chartered Accountants of India.

Tawfiq Mohammed Al-Bastaki

MANAGING DIRECTOR - CHIEF RISK OFFICER

A seasoned risk specialist, Mr. Al-Bastaki was formally appointed Chief Risk Officer at Ithmaar towards the end of 2008 after working closely with the senior Ithmaar management team in his capacity as Assistant General Manager, Risk Management and Compliance, at Shamil Bank, a wholly-owned subsidiary of Ithmaar Bank. Mr. Al- Bastaki, who has more than 29 years of conventional and Islamic banking experience, is responsible for ensuring the Bank maintains adequate risk management systems, developing and implementing the Bank's Risk Management strategy, and advising the Management on risk and compliance related issues. Mr. Al-Bastaki's financial experience covers a broad range of banking areas including risk management policies and procedures, and compliance management as well as credit and investment banking. Mr. Al-Bastaki serves on a number of committees including the Investment and

Executive Management

Credit Committee, the Assets and Liabilities Committee and the Management Committee, at Shamil Bank. He is also a member of the Sakana Holistic Housing Solutions Board of Directors as well as the Risk Management Committee of Shamil Bank. Mr. Al- Bastaki holds a Bachelor of Science in Islamic Banking, an Advanced Banking Diploma and a post graduate Executive Management Diploma.

Scott A. Creswell

GENERAL COUNSEL AND COMPANY SECRETARY

Mr. Creswell joined DMI Switzerland in 1986, and for ten years he was senior legal counsel in the legal department. Since 1997 he has been based in Bahrain and is currently the head of the legal department at Ithmaar. Prior to joining DMI, Mr. Creswell practiced law in Chicago, Illinois and is currently admitted to practice before a number of courts, including the Illinois Supreme Court and the United States Supreme Court.

Mohammad Ali

GROUP CHIEF INTERNAL AUDITOR

Mr. Ali joined Ithmaar Bank as Group Chief Internal Auditor in August 2007. Prior to that, he worked for DMI Administrative Services in Geneva, Switzerland for ten years as Director, Internal Audit, responsible for overseeing the auditing activities of the group companies in Switzerland, Saudi Arabia, Bahrain and Pakistan. Mr. Ali has international audit experience having worked as an Audit Manager for Bank of Credit and Commerce International in the US and a Contract Specialist for the multinational construction company Bechtel in Saudi Arabia. He was a Senior Manager for Audit at the Hub Power Company (HUBCO) in Pakistan before joining Al-Faysal Investment Bank in Pakistan as Executive Vice-President, Audit. He holds an MBA from Western Illinois University and is a Member of the American Institute of Certified Public Accountants (AICPA).

Jassim Abdul Karim Salman

EXECUTIVE DIRECTOR IT AND OPERATIONS

Mr. Salman has experience in both business and technical disciplines. Before joining Ithmaar, he was a Senior Advisor on IT and Operations to the Director General of the Dubai Financial Markets (DFM). He also contributed to the Bahrain Capital Market industry, with extensive responsibilities for the planning and operations of the Bahrain Central Securities Depository, the management of Advanced Trading, Clearing and Settlement systems, as well as the practical management of IT functions at the Bahrain Stock Exchange. Other areas of experience include 15 years in banking, electrical and electronic engineering and telecommunications. Mr. Salman holds a Higher National Diploma in Electrical and Electronic Engineering from Derby Lonsdale University in Derby, UK.

Nayla A. Asgharali

DIRECTOR, COMPLIANCE

Ms. Asgharali joined Ithmaar in February 2007. Prior to joining the Bank, Ms. Asgharali was the Head of Compliance and Head of Operational Risk at Bank Muscat International and Head of Internal Audit at Futurebank. She had also worked for the Bahrain Saudi Bank, as a senior officer in the Internal Audit department. Before joining the Central Bank of Bahrain in 2004 as a Bank Analyst in the Banking Supervision Directorate, she worked at Ernst & Young as an internal auditor for three years. Ms. Asgharali is a Certified Financial Services Auditor (CFSA) and a Certified Internal Auditor (CIA), with experience in carrying out risk-based audits, control evaluation and setting-up and managing internal audit functions. Ms. Asgharali has a Bachelor of Science from the University of Bahrain and is a Certified Anti-Money Laundering Specialist (CAMS).

Management Review of Operations

This review covers Ithmaar Bank's operational progress during 2008. The Bank's core business activities are underwriting (equity and other financings), private equity (structuring, participation and portfolio management), advisory services (capital markets, mergers and acquisitions), project financing, investments and asset management.

Despite particularly challenging global conditions, Ithmaar Bank, which heads one of the most diversified banking and financial services groups in the Middle East, continued to reinforce its position on the global map.

Throughout the year, Ithmaar has continued to invest time, effort and money towards consolidating the group and, following key appointments early in the year, further bolstered both its senior management team as well as its business and support divisions. This has included organisational restructuring that has left Ithmaar in a better-than-ever position to capitalise on opportunities that lie ahead.

In 2008, Ithmaar announced two major strategic alliances – Naseej and Vision3 - while pushing ahead with a third it had launched in 2007. Together, these alliances promise to further reinforce the group's solid collective standing among financial institutions, and further expand its already widely diversified interests. Closer to home, in the same year, Ithmaar further increased its stake in a leading commercial bank. Meanwhile, Ithmaar's global subsidiaries and associates concluded the year with relative success – a testimony to the success of the group's long-standing diversification policies.

International Recognition

Ithmaar's 2008 performance has helped in further reinforcing the group's global pre-eminence.

In 2008, for example, Ithmaar Bank, together with its subsidiaries and associates, accounted for one of every five banks named in the authoritative Euromoney Top 50 Islamic Banks List.

The prestigious, internationally recognised list ranks Ithmaar Bank number 10 worldwide. Euromoney also ranked Egypt-based Faisal Islamic Bank, an Ithmaar Bank affiliate, number 11 worldwide, Shamil Bank of Bahrain, an Islamic commercial and investment bank and a wholly-owned subsidiary of Ithmaar Bank, number 21 worldwide and number three in Bahrain, Swiss-based Dar Al Maal Al Islami Trust, Ithmaar Bank's largest shareholder, number 32 worldwide and Swiss-based Faisal Private Bank, a wholly-owned subsidiary of Ithmaar Bank, number 50 worldwide.

In 2008, the UK Financial Times premier business magazine, The Banker, ranked Ithmaar Bank, second among the top 25 Islamic investment banks in the world.

Following the group's continued success, Ithmaar Bank Chairman Khalid Abdulla-Janahi was named 'Islamic Banker of the Year 2008' at the International Industry Awards Ceremony which took place on the sidelines of the 15th annual World Islamic Banking Conference (WIBC) that was held in Bahrain.

Group Consolidation

KEY APPOINTMENTS

In January 2008, Ithmaar appointed Andrew Pocock Managing Director, Private Equity, responsible for structuring and monitoring. Pocock is an expert in private equity investments, particularly those related to infrastructure. He has been involved in private equity in both Europe and the Middle East, including in two significant Bahrain-based infrastructure funds in his previous positions at Gulf One Investment Bank and Emerging Markets Partnership (Bahrain). Pocock reports directly to the Ithmaar CEO and Member of the Board.

In April 2008, Ithmaar appointed Mohamed Hussain Co-CEO responsible for overseeing the Bank's holdings in subsidiaries and associates as well as for looking after Financial Institutions (liability) and Risk Management. In June, Hussain was also appointed to the Ithmaar Board of Directors. Hussain, the former CEO and Member of the Board of Shamil Bank which he led through three successful years, is a seasoned banker who joined Shamil Bank at its inception.

Following his appointment, Hussain now serves on the boards of Swiss-based Faisal Private Bank, Pakistan-based commercial and investment bank Faysal Bank Limited and

Management Review of Operations

Bahrain-based Solidarity (a global takaful company) as well as First Leasing Bank (the first bank specialising in equipment leasing in the GCC). He is also a Member of the Board of Bahrain-based commercial bank BBK (formerly known as Bank of Bahrain and Kuwait), Emerging Markets Partnership (Bahrain) and Human Resources Development Fund as well as Hong Kong-based Citic International Assets Management Ltd. (CIAM), and Ithraa Capital, a new investment bank that was established in the Kingdom of Saudi Arabia. Ithmaar Bank has a 23 percent stake in Ithraa Capital, which is headquartered in Riyadh and gives Ithmaar a foothold in the Saudi Arabian market.

In September 2008, Ithmaar promoted Ahmed Abdul Rahim to Chief Operating Officer. Abdul Rahim, who has been serving in a dual capacity as Deputy Chief Executive at Shamil Bank, as well as Managing Director, Group Support at Ithmaar Bank, is a recognised veteran of Bahrain's banking industry.

Following the promotion, Abdul Rahim retains his Shamil Bank post and reports directly to the Ithmaar Bank CEO and Member of the Board as well as to the Ithmaar Bank Co-CEO and Member of the Board.

In August 2008, Ithmaar appointed Abdul Hakim Khalil Al-Mutawa Managing Director, Private Banking Group. Al Mutawa, who had led Shamil Bank's investment placement and private banking activities, now reports to the Ithmaar CEO and Member of the Board and to the Co-CEO and Member of the Board. He is responsible for managing the Ithmaar Private Equity Placement unit which was merged into the Ithmaar Private Banking Group.

The new, merged Group pools combined know-how, creates extended reach and improves administrative efficiencies. The Group will also handle fund placement and individual private equity transaction presentations to large institutional investors.

Strategic Alliances

ITHRAA CAPITAL

Ithmaar has invested $6.1 million in Ithraa Capital, an investment company under Capital Market Authority with joint venture partners from the Kingdom of Saudi Arabia and Kuwait.

Ithraa Capital offers a full range of investment banking activities within the Kingdom of Saudi Arabia and eventually elsewhere in the GCC. These include corporate finance, brokerage, portfolio management, private placement, advisory, custody and related services.

Ithmaar Bank has a 23 percent stake in the entity, with Saudi-based Atheeb Trading and Kuwait Investment Company (KIC) as other major stakeholders. Ithmaar Bank has received approval from its regulator, the Central Bank of Bahrain (CBB), for this investment.

Ithraa Capital began to build its management team and, after extensive global head hunting efforts, finalised the appointment of a Chief Executive as well as a Chief Financial Officer and a Head of Risk Management.

NASEEJ

In June 2008, Ithmaar announced it had successfully arranged a consortium of regional institutional investors to launch Naseej (Under Formation), the region's first fully integrated infrastructure and real estate development company.

The authorised capital of Naseej is BHD1.8 billion ($4.77 billion), issued capital of BHD180 million ($477.5 million) and paid-up capital of BHD108 million ($286.5 million). The founding shareholders are to contribute 60 percent of Naseej's issued capital, and the remaining 40 percent is to be offered to the public through an Initial Public Offering (IPO) in 2010. Naseej Promoter Shareholders signed a formal agreement to start operations in the first quarter of 2009.

Naseej will manage the entire spectrum of the construction and real estate business, from the initial planning stages to the manufacture of building materials, financing, and marketing advisory services for developments. In doing so, it will create unprecedented synergies that will help create affordable housing solutions for the general public.

VISION3

In August 2008, Ithmaar forged a strategic alliance with Gulf Finance House and Abu Dhabi Investment House - two major financial institutions - to announce Vision3, which plans to create three visionary new initiatives worth $10 billion.

The Vision3 initiatives, which focus on driving market-specific innovation across the Middle East, North Africa, South Asia (MENASA) region and beyond, consist of InfraCapital, the GCC's first investment bank specialising in the provision of tailored infrastructure development and finance; AgriCap, a new investment vehicle focused entirely on serving agricultural ventures and communities, and the Hospitality Development Fund (HDF) which will be established to nurture and support opportunities across the global hospitality and tourism sector. This trio of Sharia-compliant initiatives represent a turning point in the systematic approach to specialist investments.

The three initiatives are considered a response to a need in the region to address its different sectors. All initiatives follow intensive due-diligence and individual feasibility studies that confirmed high levels of demand across the infrastructure, agriculture and hospitality marketplaces.

With an authorised capital of $6 billion and a target paid-up capital of $1.5 billion, InfraCapital will focus on the provision of specialist services and tailored financial architecture for a wide variety of sub-sector infrastructure initiatives.

AgriCap, with an authorised capital of $3 billion, will focus on food production and farming, agriculture technologies and providing financial solutions to the agricultural sector. With a target size of $1 billion, the Hospitality Development Fund will seek opportunities to develop tourism, hospitality and entertainment.

In October, Vision3 signed a Memorandum of Understanding with the Government of The Republic of Turkey that will see the Investment Development Authority of Turkey work alongside AgriCap in the identification of innovative agricultural investment opportunities across the country.

Acquisitions

BBK

In February 2008, Ithmaar purchased around 19.1 percent of the issued and outstanding share capital of BBK.

BBK is the second largest commercial bank in Bahrain's domestic market, with one of the largest networks in the Kingdom, including 18 branches. It also has branches in Kuwait and India, and a representative office in Dubai. During the second and third quarter of 2008, Ithmaar increased its stake in BBK to 25.4 percent.

Financial arrangements

BILATERAL AND MULTILATERAL ARRANGEMENTS

During the year, Ithmaar initiated the process of leveraging and has raised $440 million through bilateral and multilateral arrangements. Most of the financing is raised for the period of 18 to 36 months.

Private Equity Group

Ithmaar's private equity activities during 2008 encompassed direct investments, the development and launching of funds, and an active role in the placing of proprietary and third party investments.

ALDAR PRIVATE EQUITY FUND (ALDAR)

Aldar, a closed-ended investment fund managed by Ithmaar Bank, was launched late in 2006 to make investments with strong growth prospects globally in a range of private equity investments such as private sector infrastructure projects, real estate, and, possibly, Sharia-compliant hedge funds, with special emphasis on the high growth countries of the MENASA region. Aldar had its final closing in April 2008, at $200 million. All commitments to the Fund were fully drawn by mid-2008; in the fourth quarter, following the successful sale of a major underlying investment, approximately 11 percent of investors' committed capital was returned.

CITIC INTERNATIONAL ASSETS MANAGEMENT LTD (CIAM)

CIAM is part of the CITIC Group, a major diversified financial and investment conglomerate wholly-owned by the State Council of the People's Republic of China.

CIAM's principal activity is to invest in companies and projects in China and internationally, both for its own account and on behalf of clients. Established in 2002 to specialise in distressed asset management, the current portfolio of CIAM includes direct investments in real estate, high technology, health, retail and industrial projects.

Ithmaar has a 20 percent interest in the voting and equity capital of the company.

Management Review of Operations

INFRASTRUCTURE and GROWTH CAPITAL FUND L.P. (IGCF)

Ithmaar, a co-sponsor of IGCF alongside Abraaj Capital and Deutsche Bank, holds a 24.5 percent interest in the IGCF General Partner, and is represented on the ICGF investment committee. Funds managed by Ithmaar held an initial investment interest of $200 million in IGCF, which is managed by Abraaj Capital, and closed at its target of $2 billion of investor commitments in December 2007, thereby becoming the then largest private equity fund focused on the MENASA region.

IGCF's predominant focus is the acquisition of strategically significant stakes in infrastructure projects and growth capital investment opportunities, and the participation in large scale privatisations and buyouts. Sector focus includes utilities, petrochemicals, oil and gas, industrials, transportation, ports, and social infrastructure, such as education and healthcare. IGCF made several significant investments during 2007, including the acquisition of Egyptian Fertilisers Company – the largest private equity-led leveraged buyout in the history of the Middle East and North Africa (MENA) region: in February, 2008, IGCF sold this investment for a substantial profit, with the consideration being in the form of listed shares of the acquirer. As a consequence, later in 2008, 15 percent of IGCF's investors' committed (and fully drawn) capital was returned to its investors.

ITHMAAR-KAZYNA CIS REGIONAL ENERGY FUND L.P. (IKCREF)

Much of 2008 was dedicated to developing the relationship forged following initial high level visits by Ithmaar Bank's Chairman and CEO to Kazakhstan during 2007.

In March 2008, Ithmaar executed a preliminary agreement to develop a major regional private equity fund, the Ithmaar-Kazyna CIS Regional Energy Fund, in partnership with Kazyna Capital Management JSC, the fund-of-funds arm of Samruk-Kazyna, the Sovereign Wealth Fund of the Republic of Kazakhstan. The Fund, which is targeted to raise $1 billion (with a first closing of $500 million) will have a term of ten years and will target investment opportunities in the energy sector of the Commonwealth of Independent States (CIS), with particular emphasis on the power and power-related sectors in Kazakhstan.

The Ithmaar Kazyna CIS Regional Energy Fund is expected to offer international and regional investors the opportunity to participate in the continuing growth opportunities of the CIS energy sector.

PRIVATE BANKING GROUP

As part of concerted efforts to further bolster Group synergies, in August 2008, Shamil Bank's investment placement and private banking activities were merged with the Ithmaar Private Equity Placement Unit to create the Ithmaar Private Banking Group.

The Private Banking Group promotes Sharia–compliant global private banking products and provides client-focused quality services to High Net Worth Individuals (HNWIs) and institutions. The product range includes real estate investments, mutual funds, structured products and private equity investments.

The Ithmaar Private Banking Group also serves as Group investment placement agents, and provides group-wide client service support. This support, which is based on individual client servicing agreements, includes responding to investment-related queries, liaising with subsidiaries and associates and producing detailed reports for existing investors.

The Group's new structure is modeled on the geographical nature of the markets in which it operates and puts particular emphasis on generating new business both among HNWIs and institutional investors.

Following the reorganisation, the Private Banking Group focused much of its efforts on refining both its strategic and tactical objectives as well as its operating strategy, and on further developing its internal systems, policies and procedures. In 2008, for example, the Private Banking Group conducted extensive workshops and exercises on sophisticated client profiling systems, developed a new, more structured database and defined a pool of potential clients. The Group also worked on developing new products for 2009 and on further enhancing their understanding of the markets they serve.

Consequently, in 2008, the Private Banking Group was able to broaden its target investor footprint by 20 percent and establish working relationships in new countries including Yemen, Jordan and Lebanon.

In 2008, the Private Banking Group launched Jawaher II and, despite challenging market conditions, closed the Fund after successfully achieving the target. The Private Banking Group also placed a number of private transactions, including the private placement of Naseej.

GROUP BUSINESS DEVELOPMENT

In a bid to further strengthen Ithmaar 's regional and global client reach, the Group Business Development unit was established in late 2007 to work in close association with the Chairman, CEO, Co-CEO and members of the board of directors in developing and maintaining group-level senior relationships with governments, Sovereign Wealth Funds (SWFs), financial institutions, corporate and High Net Worth Individuals. Group Business development works closely with business units in sourcing, executing and monitoring deals.

Ithmaar will continue to strengthen its business, especially in the MENASA region, with sectoral focus on energy, natural resources and related industries, real estate, leisure, healthcare, financial institutions, transportation, telecommunications and information technology.

INVESTMENT BANKING GROUP (IBG)

The Investment Banking Group, which includes Marketing, Islamic Finance (Asset Structuring and Syndication) and Mergers and Acquisitions and Transportation Divisions, aims to generate various types of fee-earning investment banking advisory and execution mandates. These include equity placements (and underwriting); project and corporate finance advisory mandates; mergers and acquisitions/joint venture advisory and execution mandates; structuring and syndication of Sharia-compliant financing for the Bank and for other clients, including mezzanine financing and bridge financing; the lead and co-managements of Sukuks, and of aircraft and ship Sharia-compliant lease financings; and advisory and execution mandates on IPOs.

Ithmaar's target clusters of sectors for investment banking business are all of particular relevance for investment banking opportunities in the relatively well-positioned MENASA and Asia Pacific regions, which, together with the Central and Eastern European region, will represent the near-term geographical focus of the Bank's investment banking activities.

Human Resources and Information Technology

TRAINING

Ithmaar recognises the critical, strategic role that training plays in developing the Bank's key asset, its human resources, and in helping to strengthen Bahrain's financial sector.

In 2008, for example, 11 employees from Ithmaar and Shamil Bank, have successfully completed the Investment Representative Program, Series 7 certifications, through a four-week in-house training programme. This programme provided participants with an overview of a wide range of products, including equity securities, debt securities, options and mutual funds. In the same year, another in-house programme titled "Credit Analyst" was designed and conducted for 15 Ithmaar and Shamil Bank employees.

In compliance with CBB regulations, Ithmaar also conducts an Anti Money Laundering awareness course for its new and current employees on an annual basis. During 2008, two courses were conducted for all the Bank's employees.

The Human Resources Department is committed to accelerating employee development by providing them with learning opportunities to continuously enhance their skills. In 2008, six Ithmaar employees were sponsored to undertake the Chartered Financial Analyst (CFA) course, a widely recognised, three-year, self-study, graduate-level programme.

RECRUITMENT

In 2008, Ithmaar continued to selectively recruit some of the world's finest professionals for both its business and support units. In addition to the key appointments mentioned earlier, Ithmaar recruited a total of 33 experienced, and particularly well qualified, new employees in 2008.

In 2008, Ithmaar paid particular attention to its long-standing commitment to creating an equal opportunity work environment–and, over the year, the percentage of female employees increased from 30 to 40 percent.

IT DEVELOPMENTS

The Bank recognises the crucial role that Information Technology (IT) plays in supporting its current business activities and expansion plans. Accordingly, Ithmaar began the implementation of an advanced IT infrastructure in 2007 and, in 2008, the IT infrastructure was further strengthened with the introduction of real-time replication for all the Bank's systems, a centralised system for monitoring and an alert system. The Bank also established a dual system to store back-ups of all critical data at a remote location in real time.

In 2008, the Ithmaar IT department also maximised the use of Voice over IP (VoIP) technology. A high-speed wireless link between Ithmaar and Shamil Bank was, for example, established to enable the telephony systems of both banks to be integrated. This significant 2008 IT achievement paves the way for further integration within the group, and lends better resilience to both banks.

Other Developments

LISTING ON KUWAIT STOCK EXCHANGE

On March 31 2008, Ithmaar was listed on the Kuwait Stock Exchange. The Bank continues to maintain its listing on the Bahrain Stock Exchange (BSE). This second listing in Kuwait made Ithmaar shares even more accessible to investors in the region.

Subsidiaries & Associates Overview

Shamil Bank

Shamil Bank is a leading Islamic commercial and investment bank based in Bahrain. The Bank provides a diverse range of Sharia-compliant products and services that cater to the financing and investment needs of individuals and institutions. Shamil Bank is a wholly-owned subsidiary of Ithmaar Bank.

Shamil Bank's network comprises of nine branches and 18 ATMs across the Kingdom of Bahrain. In addition, new retail and commercial banking products launched during the year include the Home Finance and Jawaher Savings schemes. Jawaher Savings is a Sharia-compliant Wakala investment to be offered to individuals and corporate entities interested in an attractive, yet secure investment with higher annual distribution of profits. Financing for small-to-medium enterprises (SMEs) continued through the Nibrass Financing Scheme, a groundbreaking joint initiative with Tamkeen (formerly known as the Labour Fund).

Shamil Bank successfully closed the $90 million Shamil Bosphorus Modaraba in March 2008. The three-year US$90 million Shamil Bosphorus Modaraba is investing in residential and commercial real estate developments in Turkey.

During 2008, Shamil Bank successfully closed the acquisition of four real estate assets in the city of Wroclaw, Poland. The assets are based in prime locations and are earmarked to be developed into high class residential, commercial and office spaces.

Shamil Bank also started the exit of investors from the Shamil China Realty Modaraba during 2008. The Modaraba, which was launched in December 2005, successfully returned 21 percent of the Modaraba capital during 2008 and is on target for a 100 percent exit by March 2010.

Additionally, the Bank successfully launched its new upgraded Call Centre service, with enhanced communication technology, which is operated by qualified customer service personnel throughout the week. Investment in information technology (IT) has resulted in improved business processes, reduced costs and greater responsiveness to customers.

www.shamilbank.net

Subsidiaries & Associates Overview

Solidarity Group

Solidarity is one of the largest takaful (Islamic insurance) companies in the world. The Company provides General and Family takaful products and services which comply with the principles of the Islamic Sharia, around the globe.

In 2008, Solidarity moved, aggressively, both to fortify its existing operations and to establish firm footholds in the particularly promising, and largely untapped, markets of Egypt and Saudi Arabia.

Solidarity completed a full-fledged corporate restructuring campaign to ensure it would remain firmly focused on efficiently achieving its long-term objectives. After securing the necessary operating license for two new subsidiaries, Solidarity General Takaful and Solidarity Family commenced operations on 1 July 2008 and, by the end of the year, both had achieved their business targets.

In 2008, Solidarity Family Takaful Egypt (SFTE) was established as a wholly-owned subsidiary. All formalities for commencement of business activity have since been completed, and an operating license was issued by the Egyptian Insurance Supervisory Authority on 29th December 2008. In the same year, Solidarity also reinforced its position in the Jordanian market by increasing its stake in the First Insurance Company from 16.2 percent to just over 20 percent.

Solidarity also continued to work towards establishing its presence in Saudi Arabia and, in 2008, a memorandum of association was signed and approved by the Saudi Ministry of Commerce and Industry (MCI). Once final approvals are in place, Solidarity will be on schedule to begin operations towards the end of 2009.

Ithmaar banking group owns 33.8 percent of Solidarity.

www.solidarity.cc

First Leasing Bank (FLB)

First Leasing Bank is the first bank in the GCC dedicated to the introduction and expansion of high quality, middle market equipment leasing in the region. The Bank offers finance and operating leasing solutions for the industrial, manufacturing, medical, printing and publishing, telecommunications, IT, transportation and marine industries, among others.

The achievements of First Leasing Bank in 2008 validate the management strategy and demand for FLB leasing products within the GCC. In spite of First Leasing Bank's growth and success, surprisingly, the Banks' capacity to grow its lease originations was severely restricted due to capital constraints caused by the financial crisis. In light of First Leasing Bank's record growth in 2008, its lease portfolio, profits and ROE have yet to reach acceptable, steady-state levels.

First Leasing Bank is a recognised leader in the Sharia-compliant equipment leasing market. Islamic Financing News has recognised First Leasing Bank as the "Best Islamic Leasing Company" in 2008 in its annual reader poll. This is First Leasing Bank's second consecutive award, having won the reader poll in 2007 as well.

First Leasing Bank achieved notable milestones in 2008: First operating leases closed, first Qatar leases closed, first vendor program leases closed and first joint venture development agreements signed to initiate new company development with onshore capability in other GCC countries. First Leasing Bank looks forward to 2009 and more milestone achievements.

The Bank's current main markets are Bahrain, Kuwait, Qatar and UAE. Joint ventures are progressing to penetrate both Oman (2009) and Saudi Arabia (2009-10).

Ithmaar banking group owns 21.3 percent of First Leasing Bank.

www.1stleasingbank.com

Subsidiaries & Associates Overview

Ithmaar Development Company (IDC)

Ithmaar Development Company is the developer and manager of Ithmaar Bank's infrastructure development projects and other high quality real estate and tourism related ventures. Ithmaar Development Company's initial portfolio of projects consists of the Health Island project, Aljazayer Beach Resort, and a hotel/office tower project. The total value of these prestigious developments is estimated at around $3.3 billion. Ithmaar Development Company has significant interests in the entire realty segment from land holdings, development, construction and facility management, amongst others. The Company is also in active negotiations to acquire large tracts of land in the MENA region as well as in the Far East and develop them as mixed-use properties. IDC is a wholly-owned subsidiary of Ithmaar banking group.

Dilmunia

This innovative $1.6 billion project will provide international standard health and wellness facilities, set in a resort-style environment on a 125 hectare man-made island on the north-east coast of Bahrain. Dilmunia will include specialist centres for diagnostics, nutrition, diabetes, aesthetic surgery, women and children, sports medicine and alternative medicine. This 'health island' will feature deluxe spas, boutique hotels, residential clusters, commercial facilities and recreational amenities.

In 2008, progress on Dilmunia proceeded at a swift pace. Reclamation works started in May 2008, with 50 percent of fill quantity already placed on site by the end of the year. Meanwhile, design works, amongst others, is progressing and a new version of the Master Plan was issued in the 3rd quarter of 2008 after enhancements and fine-tuning phases were completed. The revised Master Plan, which has several enhancements, followed a detailed review of various aspects of the Island's architecture.

In pursuance of its role and as warranted by needs, Ithmaar Development Company, as the developer, has submitted various reports required by relevant regulatory authorities in order for the development to progress and take shape. These reports include those relating to Traffic Impact Assessment and Hydrodynamic, Water Modeling and Environmental aspects, enabling works to progress.

Current estimates are that the entire island will be fully occupied and functional by 2014, although significant parts of the island are expected to be operational before that.

Hotel and Office Tower Project

The Hotel and Office Tower Project, comprises a hotel tower, serviced apartments and an office tower. The 150-room hotel, with 50 serviced apartments, will be a luxurious family-oriented facility, which is intended to be the first of a chain of such hotels to be developed in the region. The design of the project is substantially complete and the first tender package (piling works) was issued and tenders received.

Aljazayer Beach Resort

The $1.5 billion Aljazayer Beach Resort project involves the creation of a world class leisure and family tourism and entertainment facility on the southwestern coast of Bahrain.

The facilities will include public beaches, several hotels, marinas, a theme park, a water park, a cultural centre, an entertainment district, a commercial district, residential units and chalets. It is envisaged that Aljazayer will be developed in partnership with the Government of Bahrain on a long-term lease basis.

Light of Bahrain and Reflections of Bahrain

In October 2008, Ithmaar Development Company unveiled plans to develop two iconic projects off the Shaikh Hamad Causeway that links Muharraq and Manama. The "Light of Bahrain" is a multi-storey mixed use freehold and serviced apartment whereas the "Reflections of Bahrain" will comprise two towers with freehold, serviced apartments, restaurants and a retail arcade complementing the mixed-use development. While both projects are currently in the "concept stage" detailed architectural design works are to commence shortly.

Dilmunia at Morocco

The project concept and a masterplan have been submitted to the Moroccan Government by Ithmaar Development Company. Negotiations between Ithmaar Development Company and the Moroccan Government are ongoing to acquire a suitable coastal site and develop the project.

Subsidiaries & Associates Overview

Faysal Bank Limited (FBL)

Faysal Bank started operations in Pakistan in 1987, first as a branch set-up of Faysal Islamic Bank of Bahrain and then, in 1995, as a locally incorporated Pakistani bank under the present name of Faysal Bank Limited. On January 1, 2002, Al Faysal Investment Bank Limited, another group entity in Pakistan, merged into Faysal Bank Limited which resulted in a larger, stronger and much more versatile institution.

Faysal Bank Limited is a full-service banking institution offering consumer, corporate and investment banking facilities to its customers. The Bank's widespread and growing network of branches in the four provinces of the country and Azad Kashmir, together with its corporate offices in major cities, provides efficient services in an effective manner.

Ithmaar banking group owns 65.72 percent of FBL.

www.faysalbank.com

Faisal Private Bank (FPB)

Faisal Private Bank, is a wholly-owned subsidiary of the Group.

During the past year, Faisal Private Bank continued its active management of the Bank's international Private Equity portfolio. The strategic make-up of many of the assets allowed the Geneva-based institution to moderate the effects of the strong downward pressures brought-on by the global economic recession. A particular focus was directed at the relatively new asset class of healthcare real-estate (Germany), a market segment well-equipped for relative immunity to slowdowns.

Faisal Private Bank has followed through on its plans with the opening, on September 1, of a representative office in Kuala Lumpur, Malaysia, from which it is reaching out to an active Islamic Finance market segment.

Faisal Private Bank is in the final phases of building a comprehensive portfolio of new products in order to provide its clients having a varying appetite for risk, the flexibility and variety of asset allocation applied to Islamic banking solutions.

www.faisalfinance.com

BBK

BBK was established on 16th March 1971 in accordance with the Amiri decree and started operations a year later.

In 1972, the Bank began operations with a capital of BHD 1 million ($2.5 million). Today, it has grown to become one of the largest commercial banks in Bahrain, with a capital base of BHD 102 million ($270 million).

The bank has a strong regional presence. In addition to the 18 domestic branches that it has in Bahrain, it also has a branch in Kuwait, as well as two branches in India and a representative office in Dubai, United Arab Emirates.

In the last few years, the Bank has established a number of subsidiaries in the areas of brokerage, financial services and credit cards.

BBK takes pride in being able to provide a full range of lending, deposit, treasury and investment services to various sectors of the domestic and regional markets, using state-of-the-art technology. The Bank plays a major role in financing infrastructural and industrial projects in Bahrain and the GCC, creating products and services that cater to the needs of individual borrowers, depositors and investors.

BBK provides its services to Bahrain's Government, medium and small business sectors, as well as individuals.

Ithmaar banking group owns 25.4 percent of BBK.

www.bbkonline.com

Corporate Governance

The Bank is committed to upholding the highest standards of corporate governance, which it regards as a key factor in ensuring fairness for all stakeholders and achieving organisational efficiency.

The Board's adherence to best corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness and social responsibility. Moreover, the Bank's Corporate Governance Policies are designed to lay a solid foundation for management and oversight, promote ethical and responsible decision making, safeguard integrity in financial reporting, make timely and balanced disclosures, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly, and recognise the legitimate interest of stakeholders.

Shareholders' Rights

Recognising the importance of shareholders, it is Ithmaar's policy to treat its shareholders equally and fairly in line with the laws of regulatory agencies. Basic legitimate rights of the shareholders include the right to participate in shareholders meetings, the right to appoint other persons as a proxy for participating in and voting at meetings, and the right to participate in the election or disqualification of a Director, individually. Their rights also include voting on the annual audit fees and appointments of independent auditors, voting for other businesses of Ithmaar, such as increases in, or reduction of capital, right to receive dividend payments, as well as the right to give opinions and the right to inquire during shareholders meeting.

The Annual General Meeting of Shareholders shall be held within the first three months after the end of the Bank's accounting year. The Bank will send out a notice to all shareholders at least 14 days in advance before the scheduled meeting of shareholders. Attached to the notice will be sufficient information for voting on every agenda item, each of which shall be identified clearly as either for acknowledgement or consideration, as the case may be, together with comments by the Board on particular issues. In addition, the notice will clearly inform all shareholders of all required documents to maintain their legitimate rights for participating in the meeting and a Proxy form to appoint proxies to the meeting. At least one hour before the meeting begins, the Bank will provide an opportunity for its shareholders to register for the meeting.

At the meeting, the Bank will inform all shareholders of the voting and vote-counting procedures, and during the consideration of each agenda item, all shareholders will have equal rights for expressing opinion and asking questions at an appropriate time. The voting and vote-counting procedures will be conducted openly and efficiently, counting one share as one vote, and approval of a resolution will be based on the majority of votes. Each participant shall exercise his/her votes on ballots only for opposition, abstention or split votes and the ballots will be kept for later inspection. In preparing the Minutes of a Meeting, the Bank will show total votes in approval, opposition or abstention on each agenda item. These totals will be recorded in writing, together with questions raised on every agenda item, together with clarification and comments by the Bank.

The Bank also emphasises the disclosure of accurate, complete and transparent information to shareholders, and information updates will regularly be provided on the bank's website and through the media.

Bank Administration

The Bank is administered by the Board of Directors, committees of the Board, and the Executive Management.

Board's Responsibilities

The Board of Directors is accountable to the shareholders for setting the broad policy guidelines and strategic direction, and the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance and supporting the Executive Management. The Board's role includes the task of monitoring management in such a manner as to ensure that appropriate policies and processes are in place, that they are operating effectively, and that the Bank is meeting its plans and budget targets.

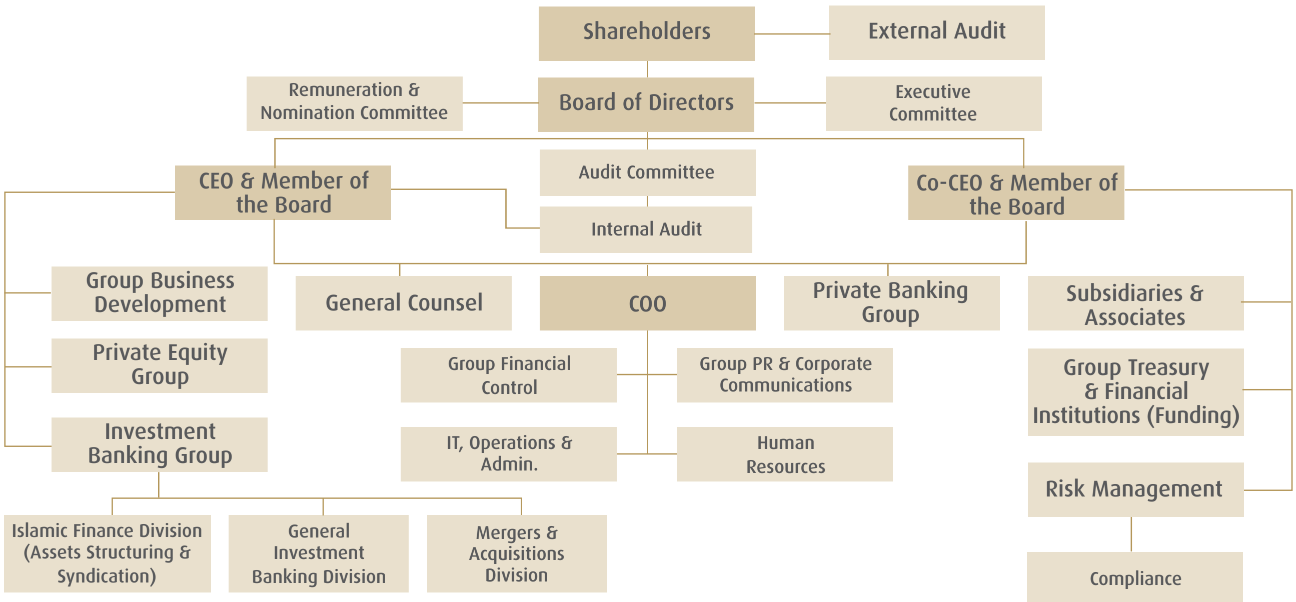
Term

Each director is elected for a three-year term, renewable at annual general meetings of the shareholders of the Bank.

Board Committees

The Board of Directors may, from time to time, establish committees as it considers necessary or appropriate to assist it in carrying out its responsibilities. The Board has established

Ithmaar's Overall Business Organisation Structure



the following committees and has adopted charters setting out the matters relevant to their composition, responsibilities and administration.

EXECUTIVE COMMITTEE

The main objective of this committee is to provide oversight of the company's strategic planning, approve transactions for which the Board has delegated authority to the committee within the parameters of the limits of authority, to make recommendations to the Board regarding transactions not falling within the limits of authority of the Executive Committee, and to evaluate the company's financial strategies and policies.

- **Khalid Abdulla-Janahi**
  CHAIRMAN
- **Michael P. Lee**
  MEMBER
- **Mohamed Hussain**
  MEMBER

AUDIT COMMITTEE

The Audit Committee comprises three members from the Board of Directors and operates under the terms of reference set forth in a formal charter. The Audit Committee assists the Board through review of the Bank's financial information, internal controls and internal audit functions. The Committee also oversees the internal audit function and evaluates the performance of the Bank's external auditors. In addition, the Committee is charged with ensuring the Bank's compliance with applicable laws and regulations

- **Ziad H. Rawashdeh**
  CHAIRMAN
- **Abdulhameed M. Aboumoussa**
  MEMBER
- **Khalil Nooruddin**
  MEMBER

REMUNERATION & NOMINATION COMMITTEE

The main objective of this committee is to assist the Board in the effective discharge of its responsibilities in relation to the remuneration of directors and performance of the Board, ensure the appropriate board composition, ensure appropriate nomination of directors to the Board, and provide a formal forum for communication between the Board and the company's management on Human Resource issues.

- **Tunku Dato' Ya'acob Bin Tunku Abdullah**
  CHAIRMAN
- **Shaikha Hissah Bint Saad Al-Sabah**
  MEMBER
- **Sheikh Mohammed Youseef El-Khereiji**
  MEMBER
- **Khalid Abdulla-Janahi**
  NON-VOTING MEMBER

INSIDER TRADING COMPLIANCE SUB-COMMITTEE (OF THE EXECUTIVE COMMITTEE)

This Committee is established by the Executive Committee and its main objective is to undertake the responsibility of ensuring that the company complies with the insider trading guidelines issued by the CBB and to review and investigate any matter within the scope of its charter, and to make recommendations to the Executive Committee in relation thereto.

- **Ahmed Abdul Rahim**
  CHAIRMAN
- **Jassim A. Karim Salman**
  MEMBER
- **Nayla Asgharali**
  INSIDER REPORTING OFFICER

EXECUTIVE MANAGEMENT

The Executive Management is responsible for operating the Bank in an effective, ethical and legal manner designed to produce value for the Bank's shareholders consistent with the Bank's policies and standards. The Chief Executive Officer and the Co-Chief Executive Officer are appointed by, and report to, the Board of Directors. Senior management is responsible for implementing the Board's strategic directions, and understanding the Bank's income-producing activities and material risks faced by the Bank.

INVESTMENT COMMITTEE (MANAGEMENT)

The main objective of this Committee is to review, approve and ratify all investments within its authority, review risk management reports, and resolve all credit-related issues.

- **Michael P. Lee**
  CHAIRMAN
- **Mohamed Hussain**
  MEMBER
- **Shaikh Salman bin Ahmed Al Khalifa**
  MEMBER

ASSET-LIABILITY COMMITTEE (ALCO)

The main functions of the ALCO are to develop and manage the Bank's assets and liabilities in accordance with the Strategic Plan and relevant banking regulations and laws, vis-à-vis acceptable liquidity risk, profit rate risk, foreign exchange exposure, portfolio concentrations, geographic concentrations, capital adequacy ratio and market conditions.

The Committee will meet at least four times a year, or more frequently if needed.

- **Mohamed Hussain**
  CHAIRMAN
- **Ahmed Abdul Rahim**
  VICE CHAIRMAN
- **Andrew Pocock**
  MEMBER
- **Carolyn Prowse**
  MEMBER
- **Abdul Hakim Khalil Al-Mutawa**
  MEMBER
- **Tawfiq Al-Bastaki**
  MEMBER
- **Ravindra Khot**
  MEMBER AND SECRETARY

MANAGEMENT COMMITTEE (MC)

MC's principal objectives are to improve communications and cooperation among the various divisions/departments of the Bank, and to optimise the Bank's operational efficiency.

- **Michael P. Lee**
  CHAIRMAN
- **Mohamed Hussain**
  CO-CHAIRMAN
- **Ahmed Abdul Rahim**
  MEMBER
- **Shaikh Salman bin Ahmed Al Khalifa**
  MEMBER
- **Carolyn Prowse**
  MEMBER
- **Andrew Pocock**
  MEMBER
- **Tawfiq Al-Bastaki**
  MEMBER
- **Ravindra Khot**
  MEMBER
- **Scott Creswell**
  MEMBER AND SECRETARY

Confidentiality of information

In order to facilitate open discussion, the Board believes that maintaining confidentiality of the Bank's information and Board and committee deliberations are critical.

Conflicts of interest

Directors avoid any action, position or interest that conflicts with an interest of the Bank, or gives the appearance of a conflict.

The Bank annually solicits information from directors in order to monitor potential conflicts of interest, and directors are expected to be mindful of their fiduciary obligations to the Bank. In the event of a situation involving a potential conflict of interest, directors are encouraged to seek advice from the Bank's Compliance Officer.

Code of Business Conduct and Ethics

The Bank's Code of Business Conduct and Ethics applies to members of the Board, as well as Executive Management, officers, employees, agents, consultants and others, when they are representing or acting for the Bank. The Board of Directors, as well as officers and employees, act ethically at all times and acknowledge their adherence to the Bank's policies. Any waiver of the Code of Business Conduct and Ethics for a director or executive officer may be granted only by the Board or the appropriate Board committee, and must be promptly disclosed to the stockholders.

Communication with stakeholders

The Bank conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communications channels include an annual report, quarterly publications of financial results, a corporate website and regular announcements in the appropriate local media.

Internal Audit

The Bank's internal audit function monitors compliance with the policies and procedures and effectiveness of internal controls. The work of internal audit is focused on the areas of risk assigned through a risk assessment approach.

Group's Chief Internal Auditor reports functionally to the Chairman of the Audit Committee and administratively to the Chief Executive Officer. The internal audit conducts its work independently of the Bank's senior management, in accordance with the internal audit plan approved by the Audit Committee.

Compliance

In accordance with the directives of the CBB, the Bank employs a Compliance Officer, who also acts as a Money Laundering Reporting Officer (MLRO). The Compliance Officer acts as central coordinator for the group in respect of all matters relating to the CBB's regulatory reporting and other requirements, the Bahrain Stock Exchange, the Kuwait Stock Exchange and the Ministry of Industry and Commerce.

The compliance function covers the broad areas of corporate governance, adherence to best practices, code of conduct, conflict of interest, compliance with Basel II and other issues. Each of Ithmaar's operating subsidiaries also employs local compliance officers to ensure adherence to local requirements and regulatory issues. It is the duty of the MLRO in each subsidiary to ensure that sufficient information is obtained in all cases to enable the identity of every client to be satisfactorily established, failing which monies cannot be transferred, and to report any suspicions concerning a customer or account to their relevant regulator and senior management.

The MLRO is also responsible for establishing and maintaining appropriate and effective systems, controls and records to ensure compliance with regulatory obligations in regard to money laundering.

This responsibility of the Compliance Officer also includes the issue and implementation of policy and procedural manuals to all subsidiaries throughout the group, arranging in-house and external Anti-Money Laundering training for relevant officers and submission of group reports to the Board and the CBB.

Directors' and Managements' remunerations

It is the Bank's objective to attract and retain high quality directors and executive officers. One aspect of achieving this is by remunerating directors and executive officers in a manner consistent with employment market conditions. Directors and Board Committee members are entitled to an annual fixed fee plus a setting fee paid per meetings attended. Non-resident members are entitled for full travel expenses. These fees are recommended by the Remuneration and Nomination Committee and approved by the Board and are disclosed to the shareholders in the annual reports of the Bank.

Dubai-based consultants, McLagan, conducted a salary and compensation survey for the Bank's executive level positions. Recommendations were submitted to the Remuneration and Nomination Committee, based on which the salary scale was revised. The Remuneration and Nomination Committee is also responsible for approving the promotion of senior management members.

Corporate Social Responsibility

As a concerned corporate citizen, Ithmaar has an enduring commitment to contribute to the social and economic betterment of society. To support this commitment, the Bank has developed a wide-embracing programme of corporate social responsibility activities.

These include considerable financial contributions to a range of charitable, educational, social, cultural and sporting organisations and events; as well as widespread sponsorship of conferences, seminars and initiatives that support the growth of the Islamic banking industry and further enhance the status of its home country, the Kingdom of Bahrain, as the leading financial centre in the Middle East.

Ithmaar Education and Training Fund

Ithmaar recognises education and training as key foundations to sustainable economic growth, especially for emerging and developing nations, and, in 2007, the Bank shareholders created a dedicated Fund as a special donation towards education and training initiatives.

Now in its second year, the $4.2 million Ithmaar Education and Training Fund comprises three distinct but interrelated elements.

First, in coordination with the Kingdom of Bahrain's Royal Charity Organisation (RCO), Ithmaar annually sponsors six under-privileged orphan students to attend private schools in Bahrain from KG 1 to Grade 12. The Bank is currently sponsoring 12 students at an accredited private school in Bahrain which is a member of the International Baccalaureate Organisation (IBO) and offers both the High School Diploma and the IB Diploma curriculums. The number of Ithmaar-sponsored students will increase every year until a total of 78 students are sponsored every year.

Also, in collaboration with Ahlia University, Ithmaar provides undergraduate degree courses for 10 additional orphan students every year in Bahrain. The total number of students, as of 2008, is 20. When the programme reaches its fourth year, it will have reached its target size and Ithmaar will be sponsoring 40 undergraduate students every year.

Thirdly, in an arrangement with the London School of Economics, Ithmaar funds post-graduate education for promising young needy students from across the Muslim world. The sponsorship package is granted to five additional students every year starting from 2007 for three years. The total number of students after the third year will be 15.

Exemplary Employer

Ithmaar is widely considered an employer of choice, both within the banking industry and across the GCC in general. This has given Ithmaar the competitive advantage of being able to attract and retain high quality staff for both senior and junior positions. The Bank has policies in place that reward strong performance with promotions, financial incentives and equal opportunities for all, regardless of background, sex or nationality.

In addition to the Ithmaar Education and Training Fund, the Bank also continues to support bright young talent through an annual internship programme, which it launched in 2007. It also lends the expertise of its staff to educational initiatives that aim to develop the talents of future generations through training programmes such as those offered by inJAz Bahrain to highschool students.

Role in the community

As part of its ongoing commitment to support the local community, Ithmaar hosted 85 children under the care of the RCO at the Bahrain Grand Prix 2008 in April.

In July, Ithmaar-sponsored Al Najma Club announced it had signed top Brazilian striker Jefferson Maia to their team. Ithmaar also sponsors Al Najma Club's various other sporting disciplines which include handball, basketball and volleyball.

Ithmaar encourages its young employees to participate in the inJAz programme by volunteering to deliver the "Banks in Action", "Work Ethics" and "Enterprises in Action" courses to school students. These courses, facilitated by InJAz Bahrain, are run by young professionals who are able to share their expertise and knowledge of the business world with students. The number of Ithmaar volunteers increased from two to five during 2008.

In 2008, Ithmaar also organised two seminars for more than 50 students participating in the inJAz Bahrain Programme, navigating them through the Bank's different functions and guiding them for their future career.

In January 2008, Ithmaar, along with Faisal Private Bank and Shamil Bank, signed on to become the main sponsor of GP2 Asia Series race driver Romain Grosjean, a member of Team ART Grand Prix. One of the most promising young talents in motorsport, Grosjean is reigning champion of the F3 Euroseries.

Ithmaar Group Yalla Bahrain!

Ithmaar was the title sponsor of the unique, six-week "Yalla Bahrain!" campaign, an annual event that aims to drum up support ahead of the Formula One Grand Prix. The 'Yalla Bahrain!' calender, which, in 2008, the Ithmaar banking group supported for the second year in a row, included artistic, sporting and family-oriented events which benefited the community and stimulated economic activity in the Kingdom.

Risk Management

Risk is an integral part of Ithmaar's businesses and is critical to the Bank's continuing success and profitability. The essence of effective risk management is to enhance shareholder value through business profits commensurate with the risk appetite of the Bank. Ithmaar has adopted an integrated risk management framework to proactively identify, assess, manage and monitor risks in its decisions and operations. Ithmaar's risk management framework is based on guidelines issued by the Central Bank of Bahrain (CBB), sound principles of risk management issued by the Bank for International Settlements and international best practices.

Risk Governance Structure

Ithmaar risk management charter, which details the roles and responsibilities of the Board and of the senior management, lays the foundations for a risk governance structure in the Bank.

The Board approves the Bank's business and risk strategy and ensures that business developments are consistent with its risk appetite and strategies. The Board also oversees the establishment and implementation of risk management systems and policies for balance sheet risks, off balance sheet and operational risks.

The Risk Management Committee (RMC) is a senior management committee that assists the Board of Directors and the senior management in performing their risk management oversight function. The Committee is responsible to ensure that the Bank adopts, maintains and applies appropriate risk management policies and procedures.

The process of risk management is carried out by an independent control function: Risk Management Department (RMD), headed by the Chief Risk Officer with a direct reporting line to the Co-CEO. The department is mandated with identifying, quantifying and assessing all risks and setting appropriate prudential limits within the parameters of overall risk strategy approved by the Board complying with the regulatory prescriptions.

Risk Management Strategy

A structured risk management framework has been established to ensure that Ithmaar's business strategy and operations are linked to its risk management objectives. The overall risk strategy is complemented by appropriate limit structure management, which is complemented by comprehensive risk policies and procedure for all the material risk the Bank is exposed to.

The risk management strategy in respect of each of these risks is set out below.

CREDIT RISK

Credit risk is the risk of potential of loss arising from failure of a counterparty to meet their contractual obligations. Ithmaar manages its credit risk arising from its investment activities, including risk arising from its private equity investments, by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks. A centralised credit risk management system is in place where all significant investments are independently reviewed by the risk management department before approval. Specialist personnel in the risk management department provide independent analysis of credit risk exposure.

The investment policies of the Bank set guidelines to limit concentration risk within the portfolio by country, industry, tenor and products. The investment policy also sets the criteria for risk rating and credit exposures. The policy also outlines the scoring techniques used in evaluating the investment proposals.

The Bank uses Board-approved prudent limits for the management of investment concentration risk that comprises:

- large and aggregate exposures limits consistent with regulatory parameters
- industry limits to monitor exposures by industry; and
- country limits to monitor exposures by geographic locations

Credit risk is monitored on a revolving basis. Strategic Investments are subject to at least an annual review. Investments held in the Available for Sale category are reviewed at shorter frequencies. Provisions for impairment of financial assets are raised where there is objective evidence of impairment and at an amount adequate to cover assessed credit related losses. The Bank monitors the credit ratings of its financial counterparties through ratings provided by Standard and Poor's, Moody's, Fitch or Capital Intelligence.

Investments of the Bank are monitored on a regular basis, using various MIS generated by the business and risk management divisions.

Private Equity Investment

At the pre-acquisition, the risk management team works alongside the business team to implement a risk model based on the target company's financial projections. This analysis helps in identification of the performance of the company under various scenarios, focusing, where applicable, on the specific characteristics of the proposal. Risk analysis is performed in addition to the extensive due diligence undertaken by the business divisions and enables the in-depth analysis of the target company's risk.

Further information on Credit risk management is included in Notes to the Financial Statements.

MARKET RISK

Market risk is the potential of loss arising from adverse changes in interest or profit rates, foreign exchange rates and equity prices. The Bank does not maintain an active trading book and all Ithmaar's market risk exposure primarily consist of interest or profit rate risk in investments, volatility in price of equities and foreign exchange rate risk. Market risk activities are governed by the market risk policy of the Bank. Implementation of the policy, procedures and regulatory and internal limits for the Bank is the responsibility of the relevant Business Units with oversight by the Asset and Liability Committee (ALCO).

The key market risk factors the Bank is exposed to are discussed below:

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. At Ithmaar, foreign exchange risk is the risk that the investments denominated in any foreign currency that may be adversely affected due to volatility in foreign exchange rates. Foreign exchange risk management at the Bank is ensured through regular measurement and monitoring of net open foreign exchange positions. Ithmaar systematically hedges significant asset liability exposures utilising appropriate products and mechanisms.

Equity Price Risk

Ithmaar retains non-traded equity price risk through strategic investments by investment banking and private equity groups and investments in equities held in the Available for Sale category. The responsibility for management of equity price risk rests with the business units under the supervision and guidance from the investment committee of the Bank. RMD independently monitors the equity price risk of the Bank. The Bank's equity investments are approved by the appropriate authorities and are subject to comprehensive due diligence. The equity investments are marked to market by an independent department in accordance with CBB rules and Basel II guidelines.

Interest or profit rate risk in the banking book

Interest or profit rate risk in the Bank's banking book is the risk of adverse changes in expected net interest earnings and economic value of the balance sheet in current and future years resulting from changes in interest rates on mismatched assets and liabilities in the banking book. The Bank measures and manages interest or profit rate risk in the banking book by setting internal limits for assets and liability mismatch gaps. The measurement systems for interest or profit rate sensitivity analysis are: traditional maturity gap analysis (to measure the interest or profit rate sensitivity of earnings) and duration (to measure interest or profit rate sensitivity of capital). Limits are independently monitored by the RMD.

Interest or profit rate risk also impacts the market value of fixed income securities. The value of the fixed income securities is regularly monitored to gauge the impact on its value as a result of changes in the interest or profit rates.

A mechanism to hedge the interest or profit rate risk in the banking book or the investments of the Bank with interest rate swaps is in place, and resorted to when a decision is taken to hedge any interest or profit rate risks in the books of the bank.

Interest or profit rate risk is regularly monitored by the Asset and Liability Committee (ALCO) and a comprehensive agenda addressing the interest rate is placed at its meetings.

Further information on interest or profit rate risk management is included in Notes to the Financial Statements.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows. Funding and liquidity management is performed centrally by Treasury, with oversight from the Asset and Liability Committee (ALCO).

Risk Management Department provides an independent monitoring of liquidity risk management, including liquidity mismatch limits, maintenance of regulatory and internal liquidity ratios and the required funding maturity profile.

Ithmaar Bank's liquidity policy aims to promote application of international best practices in the management of its Balance Sheet. Liquidity requirements are measured and tested under different stress scenarios, with the base case scenario defining the minimum amount of liquidity that must be held at all times. The liquidity policy of the Bank aims to promote application of international best practices in the management of Ithmaar Bank's balance sheet. The liquidity policy also sets out the minimum acceptable standards for the management of Ithmaar Bank's assets and liabilities, the process of setting such standards, the terms of reference of ALCO, the roles and responsibilities of the various functions involved and the Management Information Systems (MIS).

A liquidity contingency policy is in place which provides the mechanism for management of liquidity in adverse market conditions.

OPERATIONAL RISK

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can result in both the financial loss and/or reputation risk.

Ithmaar's approach to operational risk includes emphasis on:

- Establishing an effective governance structure with clear reporting lines and segregation of duties
- Maintenance of an effective internal control environment
- Escalation and resolution of risk and control incidents and issues.

All business units are primarily responsible for managing their business activities as per the approved policies and procedures. Business units are also responsible for the identification and assessment of operational risks and for maintaining appropriate internal controls.

The Bank is currently enhancing its operational risk framework to enable it to put in place a comprehensive risk and control self assessment process to identify the key risks in the business processes. This will also include a process of identifying and managing the key risk indicators, loss reporting set-up and implementing a robust business continuity plan.

REPUTATION RISK

Reputation risk is the risk that an event will adversely affect Ithmaar Bank's reputation in the market, which, in turn, may adversely impact its ability to effectively undertake its activities. Sound corporate governance is a cornerstone in managing reputation risk. The Bank has formalised a "corporate governance policy" and a "code of ethics and business conduct" for the members of the Board, Management and staff. This code helps to build an atmosphere of professionalism, integrity and ethical behaviour within the Bank. It will also help in preventing any reputation risks.

RISK MANAGEMENT REPORTING AND CONTROL

Effective measurement, reporting and control of risk is vital to ensure that Ithmaar's business activities are being managed in accordance with its overall strategies and risk management objectives. The risk management, reporting and control framework ensures quantifications of credit, market and liquidity risks and its aggregation. A comprehensive set of limits are in place to ensure exposures remain within prescribed limits.

RISK MANAGEMENT POLICIES AND PROCEDURES

Ithmaar has developed specific risk management policies, strategies and procedures in order to identify, measure, monitor, report the key risks the Bank is exposed to.

INTERNAL CONTROLS

Ithmaar's risk management framework is complemented by robust internal controls across all aspects of the business, as well as strong support functions covering the legal, regulatory, governance, reputation, information technology, process and human resource risks. Consequently, the effectiveness and efficiency of controls are evaluated in all new and updated products, processes and systems, or where external and internal factors impact the operating environment. The internal control framework forms a part of Ithmaar's corporate governance policy.

CAPITAL MANAGEMENT

Ithmaar's capital management policy is to ensure that it meets the capital requirements as mandated by the CBB and is able to estimate an appropriate capital level in order to support its business growth. Capital Management also ensures that shareholder value is enhanced. Ithmaar maintains capital at a consolidated level and all entities which are consolidated for accounting purposes are included within the Bank's capital adequacy calculations as per CBB Prudential Consolidation and Deduction rules.

Ithmaar's capital position is monitored on a regular basis and reported to the Asset and Liability Committee of the Bank.

Capital management is considered to be a coordinated effort by the business divisions, Risk Management and Financial Control and will be a part of broader Internal Capital Adequacy Assessment Process (ICAAP).

BASEL II IMPLEMENTATION

The Basel Committee on Banking Supervision introduced a new risk based capital framework (Basel II) in June 2004. The new framework, reflecting the advances in the management of risk, is also adopted by CBB, the same is to be implemented by all banks and financial institutions in the Kingdom.

Ithmaar has developed a detailed project plan to ensure that the guidelines of the CBB on Basel II accord are implemented.

* Pillar 1-The Pillar 1 deals with maintenance of regulatory capital calculated for three major components of risk that a bank faces: credit risk, operational risk and market risk. The Bank has adopted the following approach for capital adequacy measurement:

- Standardised approach for credit risk
- Basic indicator approach for operational risk
- Standardised approach for market risk

Ithmaar is compliant with all requirements of Pillar 1 and, since January 2008, started reporting the consolidated capital adequacy numbers as per the new accord.

* Pillar 2- In order to ensure compliance to the provisions of Pillar 2 provisions, Ithmaar has formalised all risk management policies including risk covered in Pillar 2 and is endeavouring towards laying the foundation for a sound Internal Capital Assessment Process (ICAAP). A comprehensive operational risk management framework is also being rolled over in line with international best practices.

* Pillar 3- The Bank is currently in compliance with the disclosure requirements mandated by the CBB, accounting standards, and other statutory bodies.

Report of the Directors

For the year ended 31 December 2008

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C (the "Bank") for the year ended 31 December 2008, together with the audited consolidated financial statements of the Bank and its subsidiaries ("the Group") for the year then ended.

Principal Activities

The principal activities of the Group are a wide range of financial services, including investment, commercial and private banking, private equity, public and private issue of securities, mergers and acquisitions advice, takaful, equipment leasing and real estate development.

Financial Position and Results

The financial position of the Group as at 31 December 2008, together with the consolidated statements of income, changes in equity and cash flows for the year then ended is set out in the accompanying consolidated financial statements.

The Group has reported a net profit of $85.2 million for 2008, as compared to a net profit of $188.3 million for 2007. Total assets amounted to $5,380 million (31 December 2007: $4,079 million). Funds under management amounted to $1,992 million (31 December 2007: $1,724 million)

Corporate Governance, Risk Management and Compliance

During 2008, the Bank has further strengthened its corporate governance, risk management and compliance frameworks.

The Bank has implemented Basel II effective from 1 January 2008.

Capital Adequacy Ratio

The Bank's consolidated Capital adequacy ratio under Basel II as at 31 December 2008 was 14.41 percent (2007: 18.63 percent) as compared to a minimum regulatory requirement of 12 percent. The Bank's risk weighted exposures and eligible capital are set out in note 37 to the accompanying consolidated financial statements.

Dividend

The Directors propose to recommend at the Annual General Meeting a bonus issue of one share for every ten shares held.

A dividend for 2007 amounting to $53.7 million (2.5 cents per share) was approved and $52.4 million (net of treasury shares) was paid in 2008.

Directors

The following are the Directors of the Bank as at 31 December 2008:

Mr. Khalid Abdulla-Janahi (Chairman)
Tunku Dato' Ya'acob Bin Tunku Abdullah
Mr. Abdulhameed M. Aboumoussa
Sheikh Mohammed Youseef El-Khereiji
Sheikha Hissah Bint Saad Al-Sabah
Mr. Khalil Nooruddin
Mr. Ziad Hasan Rawashdeh
Mr. Kenneth C. Borda
Mr. Michael P. Lee
Mr. Mohamed Hussain (with effect from 5 June 2008)
Mr. Mohamed Bin Saif Al Mezrouei (resigned with effect from 7 May 2008)
Mr. Farook Bengali (resigned with effect from 10 April 2008)
Mr. Graham Roderick Walker (resigned with effect from 10 April 2008)

Directors and the Executive Management held 25,646,113 shares in the Bank as at 31 December 2008 (2007: 23,711,357 shares).

Director's fees in respect of 2008 amounted to $967,500 (2007: $1,108,500).

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to be reappointed as auditors of the Bank for the year ending 31 December 2009.

By order of the Board of Directors

Khalid Abdulla-Janahi
CHAIRMAN

27 February 2009

Consolidated Financial Statements & Notes

Independent Auditor's Report

TO THE SHAREHOLDERS' OF ITHMAAR BANK B.S.C.

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Regulatory Requirements

Further, as required by the Bahrain Commercial Companies Law ("BCCL") and the Central Bank of Bahrain Law ("CBBL") , we report that we have obtained all the information that we considered necessary for the purpose of our audit; the Bank has maintained proper books of account and the consolidated financial statements and the financial information contained in the Directors' report are in agreement therewith; and nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the BCCL, the CBBL, the terms of its banking license or its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2008.

PricewaterhouseCoopers

Manama, Kingdom of Bahrain
5 March 2009

Consolidated Balance Sheet

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Notes	As at 31 December 2008	2007
ASSETS			
Cash and cash equivalents	6	1,241,421	575,304
Due from banks and financial institutions		15,711	16,172
Investments in financings	7, 8, 9	2,058,034	1,882,028
Investment securities	10	617,228	638,579
Investment properties	12	273,786	213,067
Accounts receivable	13	161,773	101,856
Investments in associates	14	612,602	194,549
Property, plant and equipment	15	124,119	130,930
Intangible assets	16	275,752	326,304
Total assets		**5,380,426**	**4,078,789**
LIABILITIES			
Customer current accounts	17	470,602	569,239
Customer investment accounts	18	1,468,514	1,368,904
Due to banks and financial institutions	19	1,595,068	394,025
Other borrowings	20, 21	410,074	123,239
Accounts payable	22	237,542	269,438
Current tax payable		7,137	9,175
Deferred tax liability	23	42,138	60,372
Total liabilities		**4,231,075**	**2,794,392**
EQUITY			
Capital and reserves attributable to the Bank's equity holders			
Share capital	33	527,956	537,474
Reserves	34	395,953	550,334
		923,909	**1,087,808**
Minority interests	32	**225,442**	**196,589**
Total equity		**1,149,351**	**1,284,397**
Total equity and liabilities		**5,380,426**	**4,078,789**
Funds under management	38	**1,991,673**	**1,723,814**

These consolidated financial statements were approved for issue by the Board of Directors on 27 February 2009 and signed on their behalf by:

Khalid Abdulla-Janahi
Chairman

Khalil Nooruddin
Director

Michael P. Lee
CEO and Director

The notes on pages 55 to 112 form an integral part of these consolidated financial statements.

Consolidated Statement of Income

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Notes	2008	2007
		Year ended 31 December	
INCOME			
Income from short term deposits		55,742	43,429
Income from investments in financings	24	191,521	188,853
Fee and commission income	25	46,166	52,481
Fund management and services	38	16,859	19,524
Gains from investment securities	10	4,093	44,737
Income from investment properties	26	114,268	92,731
Net trading income	27	4,061	7,517
Dividend income	28	27,962	27,242
Gain on sale of associated company	41	-	15,001
Other income		5,089	954
		465,761	**492,469**
Distribution to investment account holders and borrowing costs		(185,898)	(145,495)
Operating income		**279,863**	**346,974**
EXPENSES			
Staff costs	29	(62,687)	(74,312)
General and administrative expenses	30	(52,416)	(48,340)
Depreciation and amortisation	14,15,16	(29,061)	(20,542)
Provision for impairment	9,10,16	(52,875)	(7,599)
Exchange gain		5,291	3,782
Total expenses		**(191,748)**	**(147,011)**
Operating profit		**88,115**	**199,963**
Share of profit of associated companies	14	6,325	8,353
Profit before income taxes		**94,440**	**208,316**
Taxes	31	(9,278)	(20,006)
Profit after income taxes		**85,162**	**188,310**
Attributable to:			
Equity holders of the Bank		22,168	102,755
Minority interests	32	62,994	85,555
		85,162	**188,310**
Basic and diluted earnings per share	**36**	**US cts 1.04**	**US cts 5.79**

These consolidated financial statements were approved for issue by the Board of Directors on 27 February 2009 and signed on their behalf by:

Khalid Abdulla-Janahi
Chairman

Khalil Nooruddin
Director

Michael P. Lee
CEO and Director

The notes on pages 55 to 112 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

		Attributable to the Bank's equity holders									
	Notes	Share capital	Share premium	Statutory reserve	General reserve	Fair value reserve	Currency translation	Retained earnings	Total reserves	Minority interests	Total equity
At 1 January 2007		353,525	167,347	25,598	46,044	16,151	(4,144)	187,572	438,568	331,562	1,123,655
Issue of bonus shares	33	72,000	(72,000)						(72,000)		
Issue of new shares	41	111,625	312,550						312,550	(230,288)	193,887
Goodwill on acquisition of minority interest	41		(193,887)						(193,887)		(193,887)
Treasury shares purchased	33	(12,857)	(12,933)						(12,933)		(25,790)
Treasury shares sold	33	13,181	14,949						14,949		28,130
Net profit for the year								102,755	102,755	85,555	188,310
Dividend paid	35							(47,520)	(47,520)	(21,812)	(69,332)
Minority interests relating to new subsidiaries	32									13,954	13,954
Movement in fair value of available-for-sale investments	10					27,234			27,234	24,745	51,979
Movement in deferred tax relating to available-for-sale investments						(7,120)			(7,120)	(3,851)	(10,971)
Movements in fair value reserve of associated companies						(2,603)			(2,603)		(2,603)
Available-for-sale investments sold						(5,587)			(5,587)	(2,662)	(8,249)
Foreign currency translation adjustment						(905)	1,065	(27)	133	(614)	(481)
Transfer to general reserve					22,283			(22,283)			
Transfer to statutory reserve				10,275				(10,275)			
Appropriation to Ithmaar Education and Training Fund								(4,205)	(4,205)		(4,205)
At 31 December 2007		537,474	216,026	35,873	68,327	27,170	(3,079)	206,017	550,334	196,589	1,284,397

The notes on pages 55 to 112 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Attributable to the Bank's equity holders									
		Share capital	Share premium	Statutory reserve	General reserve	Fair value reserve	Currency translation	Retained earnings	Total reserves	Minority interests	Total equity
At 1 January 2008		537,474	216,026	35,873	68,327	27,170	(3,079)	206,017	550,334	196,589	1,284,397
Treasury shares purchased	33	(29,950)	(41,281)						(41,281)		(71,231)
Treasury shares sold	33	20,432	34,796						34,796		55,228
Net profit for the year								22,168	22,168	62,994	85,162
Dividend paid	35							(52,435)	(52,435)		(52,435)
Dividend paid by subsidiaries										(12,317)	(12,317)
Minority interests relating to new subsidiaries	32									32,687	32,687
Movement in fair value of available-for-sale investments	10					(54,717)			(54,717)	(28,103)	(82,820)
Movement in deferred tax relating to available-for-sale investments						6,298			6,298	3,285	9,583
Movements in fair value reserve of associated companies						166			166		166
Transfer to income statement due to disposal of available-for-sale investments						(8,140)			(8,140)	(27)	(8,167)
Foreign currency translation adjustment						(13,227)	(45,574)	134	(58,667)	(29,666)	(88,333)
Transfer to general reserve					39,352			(39,352)			
Transfer to statutory reserve				2,217				(2,217)			
Appropriation to Ithmaar Education and Training Fund								(2,569)	(2,569)		(2,569)
At 31 December 2008		**527,956**	**209,541**	**38,090**	**107,679**	**(42,450)**	**(48,653)**	**131,746**	**395,953**	**225,442**	**1,149,351**

The notes on pages 55 to 112 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended 31 December 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxes and minority interests		94,440	208,316
Adjustments for:			
(Reversal)/provision for share based payments	29	(5,321)	5,321
Depreciation and amortisation	14,15,16	29,061	20,542
Changes in fair value of investment properties	12	(111,772)	(36,033)
Share of profit of associated companies	14	(6,325)	(8,353)
Provision for impairment	9,10,16	52,875	7,599
Operating profit before changes in operating assets and liabilities		**52,958**	**197,392**
Decrease/(increase) in due from banks and financial institutions		461	(14,273)
Increase in investments in financings		(151,326)	(254,492)
Increase in investment securities		(210,466)	(183,300)
Increase in accounts receivable		(59,881)	(35,928)
(Decrease)/increase in accounts payable, excluding taxes		(36,509)	80,186
Increase in customer accounts		974	142
Increase in due to banks and financial institutions		1,201,043	362,217
Taxes paid		(5,782)	(6,549)
Net cash provided by operating activities		**791,472**	**145,395**
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends from associated companies	14	1,523	1,169
Investments in associated companies	14	(435,533)	(52,158)
Sale of associated companies	14	-	17,042
Purchase of investment properties	12	(52,256)	(236,722)
Sale of investment properties	12	98,178	130,329
Purchase of property, plant and equipment		(11,539)	(105,699)
Sale of property, plant and equipment		2,722	-
Net cash used in investing activities		**(396,905)**	**(246,039)**

The notes on pages 55 to 112 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended 31 December 2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES			
Other borrowings	21	286,835	123,239
Treasury shares purchased	33	(71,231)	(25,790)
Treasury shares sold	33	55,228	28,130
Dividends paid	35	(52,435)	(47,520)
Dividends paid to minority shareholders of subsidiaries		(12,317)	(21,812)
Net cash provided by financing activities		**206,080**	**56,247**
Foreign currency translation adjustments		65,470	(276)
Net increase/(decrease) in cash and cash equivalents		**666,117**	**(44,673)**
Cash and cash equivalents at beginning of year		575,304	619,977
Cash and cash equivalents at end of year	6	**1,241,421**	**575,304**

The notes on pages 55 to 112 form an integral part of these consolidated financial statements.

Notes
to the Consolidated Financial Statements
for the year ended 31 December 2008

1. FORMATION AND ACTIVITIES

Ithmaar Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain on 13 August 1984 and is an investment bank regulated by the Central Bank of Bahrain. The Bank has its registered office at Addax Tower, 10th floor, Building 1006, Road 2813, Al Seef District 428, Manama, Kingdom of Bahrain.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including investment, commercial and private banking, private equity, public and private issue of securities, mergers and acquisitions advice, takaful, equipment leasing and real estate development. The management of Islamic modarabas which are similar to investment funds are not consolidated in the accompanying consolidated financial statements because they represent funds invested by clients without recourse to the Group. Accordingly, they are included in off-balance sheet accounts as disclosed in note 38.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of the Group are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, financial assets, derivative instruments and investment property.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

New Accounting Pronouncements: International Financial Reporting Standards

Amendments and interpretations to published standards that are effective for the Group's accounting periods commencing 1 January 2008.

The following amendments to published standards are effective from 1 July 2008:

IAS 39, 'Financial Instruments: Recognition and Measurement' (amendment) and IFRS 7, 'Financial Instruments: Disclosures' (amendment) - Reclassification of financial assets. The amendment permits reclassification of non-derivative financial assets (other than those designated at FVTPL by the entity upon initial recognition) out of the FVTPL category in particular circumstances. The amendment also permits to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale) if there is an intention and ability to hold that financial asset for the foreseeable future. The Group has not applied the amendments to IAS 39 and IFRS 7.

The following interpretations to published standards are effective for the Group's accounting periods commencing 1 January 2008:

- IFRIC 11, 'IFRS 2 - Group and treasury share transactions'.
- IFRIC 12, 'Service concession arrangements'.
- IFRIC 14, 'IAS 19 - the limit on a defined benefit asset, minimum funding requirements and their interaction'.

Management has assessed the impact of the above interpretations to published standards and has concluded that they do not have material impact to the Group's consolidated financial statements.

Standard, amendments and interpretations to published standards that are not yet effective

The following standard, amendments and interpretations to existing standards that have been published, are mandatory for the Group's accounting periods commencing on or after 1 January 2009, and have not been early adopted by the Group.

- IFRS 8 - 'Operating segments' (effective for annual periods commencing 1 January 2009).
- IAS 23 (amendment), 'Borrowing costs' (effective for annual periods commencing 1 January 2009).
- IFRS 2 (amendment) 'Share-based payment' (effective for annual periods commencing 1 January 2009).
- IFRS 3 (amendment), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- IAS 1 (amendment), 'Presentation of financial statements' (effective for annual periods commencing 1 January 2009).
- IAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to IAS 1, 'Presentation of financial statements' (effective for annual periods commencing 1 January 2009).
- IAS 27 (Revised), 'Consolidated and separate financial statements', (effective for annual periods commencing 1 July 2009).
- IFRS 5 (amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective for annual periods commencing 1 July 2009).
- IAS 28 (amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures') (effective for annual periods commencing 1 January 2009).
- IAS 36 (amendment), 'Impairment of assets' (effective for annual periods commencing 1 January 2009).
- IAS 38 (amendment), 'Intangible assets' (effective for annual periods commencing 1 January 2009).
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement' (effective for annual periods commencing 1 January 2009).
- IFRIC 13, 'Customer loyalty programmes' (effective for annual periods commencing 1 July 2008).
- IAS 31 (amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective for annual periods commencing 1 January 2009).
- IAS 40 (amendment), 'Investment property' (and consequential amendments to IAS 16) (effective for annual periods commencing 1 January 2009).

Application of the above is not expected to have material impact on the consolidated financial statements as and when they become effective. However the application of IAS 1 (amendment) will result in amendments to the presentation of the consolidated financial statements.

Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

Intercompany transactions, balances, and unrealised/realised gains/losses on transactions between group companies are eliminated. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes intangibles and goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains/losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Accounts for associated companies have been restated to conform with Group accounting policies, if necessary, except as otherwise disclosed.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Acquisition of minority interest is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in equity.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in United States Dollars, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except where hedge accounting is applied.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of their fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
b. income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
c. and all resulting exchange differences are recognised as a separate component of equity (foreign currency translation adjustment).

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the consolidated statement of income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts, equity options and equity futures are initially recognised in the consolidated balance sheet at fair value and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, discounted cash flow models, and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives held for trading are included in net trading income.

On the date a derivative contract is entered into, the Group designates derivatives as either (a) a hedge of fair value of a recognised asset or liability (fair value hedge); or (b) a

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

hedge of highly probable future cash flows attributable to a recognised asset or liability, a forecast transaction or a firm commitment (cash flow hedge). At present the Group does not hedge future cash flows. Hedge accounting is used for derivatives provided certain criteria are met.

The Group's criteria for a derivative instrument to be accounted for as a hedge include:

(a) Formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied; (b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item through out the reporting period; and (c) the hedge is highly effective on an ongoing basis.

Changes in the fair value of the effective portions of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the consolidated statement of income, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the fair value hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged financial instrument is amortised in the consolidated statement of income over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in the consolidated statement of income.

Income from investments and investments in financings

Income from investments and investments in financings, which both contractually determined and quantifiable at the commencement of the transaction, are accrued on the effective return method basis over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, income is thereafter recognised using the rate of return used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income

Fees and commissions are generally recognised as income when earned. Origination fees on financings which are probable of being drawn down, are deferred and recognised over the term of the financing as an adjustment to the effective yield. Structuring fees, underwriting fees, commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party, are recognised on completion of the underlying transaction.

Asset management fees related to investment funds are recognised rateably over the period the service is provided and are recorded in fund management and services income when capable of being reliably measured.

Management advisory and technical service fees are recognised based on applicable service contracts usually on a time-apportionate basis and are recorded in other income.

Distribution to investment account holders and borrowing costs

Distribution to investment account holders and borrowing costs, which both contractually determined and quantifiable at the commencement of the transactions are accrued on the effective return method basis over the period of the transaction. Where costs are not contractually determined or quantifiable, it is recognised when reasonable certain of realisation or when realised.

The expense charged to the consolidated statement of income as a distribution to investment account holders represents the share of the Group's income from all sources which is due to customers of the Group under contractual arrangements in force and borrowing costs on bilateral and multilateral borrowing arrangements.

Sale and repurchase agreements

Securities sold subject to a linked repurchase agreement are recognised as trading or investment securities and the counterparty liability is included in customer investment accounts. The difference in the sale and repurchase value is accrued over the period of the contract and recorded as expense in the consolidated statement of income.

Securities purchased under agreements to resell are recorded as investments in financings. The difference between the contracted price and the resale price is amortised over the period of the contract and is recognised as income in the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Obligations for the return of securities or for forward sales, which are a part of the repurchase agreements, are recognised as commitments as disclosed in note 42.

Financial Assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. The classification of investments is determined at initial recognition. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss (refer to details below). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership.

(a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading, including trading securities, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless qualifying for hedge accounting.

Financial assets at fair value through profit and loss are initially recognised at fair value (which excludes transaction costs) and subsequently carried at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income in the period in which they arise. Dividends declared are included in dividend income.

All purchases and sales of financial assets at fair value through profit and loss that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset.

(b) Loans and receivables

Loans and receivables, which include or represent investments in financings, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than: (a) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. In general, they arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable and also includes purchased loans and receivables that are not quoted in an active market. Loans and receivables are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method. All loans are recognised when cash is advanced to the customer.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and there is the intent and the ability to hold them to maturity. If more than an insignificant amount of held-to-maturity assets is sold, the entire category will be considered tainted and reclassified as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

(d) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in exchange rates, equity prices or other market rates. All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the entity commits to purchase or sell the asset.

Available-for-sale investments are initially recognised at fair value (which includes transaction costs) and subsequently carried at fair value. The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active or the asset is an unlisted security, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the consolidated statement of income as gains or losses from investment securities. Dividends declared are included in dividend income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(a) Assets carried at amortised cost

A financial asset or a group of financial assets is impaired if and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the asset that can be reliably estimated. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective rate of return, including any amounts recoverable from guarantees and collateral, and recognised in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed through the consolidated statement of income.

In the case of Islamic financings to customers in countries where there is an increased risk of difficulties in servicing external debt, an assessment of the political and economic situation is made and additional country risk provisions may be established.

(b) Assets classified as available-for-sale

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below their cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised, is removed from equity and recognised in the consolidated statement of income. If in subsequent periods the fair value of equity instruments increases, impairment losses previously recognised in the consolidated statement of income are not reversed but are recognised in equity as adjustments to fair value.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Due from banks and financial institutions

Due from banks and financial institutions include short term deposits in the form of parallel purchase and sale of currencies and commodities (PPSC), which are spot purchases of internationally traded currencies and commodities and a corresponding forward sale of the same. For the purpose of accounting, these are treated as term deposits and the return is recorded as income from short term deposits in the consolidated statement of income.

Due from banks and financial institutions are initially recorded at fair value and subsequently carried at amortised cost using the effective interest method.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually or more often if indicators exist for impairment and carried at cost less accumulated impairment losses. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their useful lives.

(c) Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships has been determined by independent appraisers, based on the interest differential on the expected deposit duration method.

Investment properties

Investment property principally comprises office buildings and land which are held to earn rental income or for long-term capital appreciation or both. Investment property is carried at fair value, representing open market value determined annually by reference either to external valuers or to other independent valuation sources. Changes in fair values are recorded in the consolidated statement of income as part of income from investment properties. The Group does not classify operating leases as investment property.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment, except for land, which is shown at cost. Land is not depreciated. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years

The Group depreciates freighter aircraft as the difference between the cost and its residual value, over the estimated holding period of this category of assets.

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated statement of income during the financial period in which they are incurred.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amounts.

Leases

Total payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

termination takes place.

When a Group company is the lessee of property, plant and equipment and the Group has substantially all the risks and rewards of ownership, they are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in accounts payable. The profit element of the finance cost is charged to the consolidated statement of income over the lease period. The asset acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

When a Group company is the lessor and assets are held subject to a finance lease, the value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the actuarial method.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the date of the consolidated balance sheet.

Non-current assets held for sale

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups). Its sale must be planned and committed and an active programme initiated to locate a buyer and complete the plan within one year. The asset (or disposal group) must be actively marketed for a price that is reasonable in relation to its current fair value.

A non-current asset held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised through the consolidated statement of income for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognised to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale or while part of a disposal group held for sale.

The Group separately classifies the non-current assets held for sale (or disposal group) in the consolidated balance sheet. Furthermore, all major classes of assets and liabilities are disclosed. Any cumulative income or expense is disclosed as a separate item within equity. Prior period amounts are not re-presented to reflect the classification of the assets (or disposal group) in the current period.

Non-current assets, which are to be abandoned, are not classified as held for sale and are reclassified as discontinued operations, to the extent they meet the requirements of discontinued operations in the paragraph which follows.

If a non-current asset (or disposal group) ceases to be classified as held for sale or as discontinued operations, the results of operations are reclassified and included in the consolidated statement of income from continuing operations for all periods presented.

Due to banks and financial institutions

Due to banks and financial institutions are initially recorded at fair value and subsequently measured at amortised cost using effective return method.

Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective return method.

Current and deferred income tax

Taxes are provided and charged in the consolidated statement of income on the basis of the estimated tax expense payable currently and in future years, arising in respect of the results of current operations and generate taxable income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The current income tax charge is calculated on the basis of tax laws enacted or substantially enacted at the balance sheet date in the countries where the Bank's subsidiaries and associates operate.

Deferred income tax is recognised, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their respective carrying values for financial reporting purposes. The amount of deferred taxes on these differences is determined using the provisions of local tax laws, including rates, and is adjusted upon enactment of changes in these laws. Provision is made for potential taxes which could arise on the remittance of retained overseas earnings where there is a current intention to remit such earnings.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments which is charged or credited directly to the fair value reserve, is also credited or charged directly to the fair value reserve and is subsequently recognised in the consolidated statement of income together with the deferred gain or loss.

Deferred tax related to fair value re-measurement is charged or credited to the fair value reserves.

Retirement benefit plans

The Group operates a number of defined benefit and defined contribution pension plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking into account the recommendations of independent qualified actuaries.

For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated statement of income so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a valuation of the plans every year. The pension obligation is measured as the present value of the estimated future cash outflows using high standard corporate bond rates which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the employees' expected average remaining working lives.

The Group's contributions to defined contribution pension plans are charged in the consolidated statement of income in the year to which they relate.

Share capital

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on share capital are recognised as an appropriation in equity in the period in which they are declared. Dividends for the year which are declared after the balance sheet date are dealt with in note 35.

Share-based payments

The Bank has implemented an incentive scheme whereby certain employees will be entitled to a cash payment, calculated by reference to the difference between the book value per share as at the grant date and the higher of the book value per share or the last traded price recorded on the Bahrain Stock Exchange as at the end of the vesting period, subject in either case to a maximum amount per share. The estimated liability at the end of the vesting period under this incentive scheme is charged to staff costs over the vesting period.

Treasury shares

Where any Group company purchases the Bank's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Bank's equity holders until the shares are cancelled, reissued or disposed off. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs is included in equity attributable to the Bank's equity holders.

Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are therefore accounted for as off-balance sheet transactions

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

and are disclosed as part of contingent liabilities and commitments.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks and amounts due from other banks.

Fiduciary activities

The Group through its banking subsidiaries provides fund management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

Income arising from fund management and advisory services comprises the revenues earned from the management of the funds in the modarabas accrued on the basis of the terms and conditions of the related management agreements. Funds under management represent amounts invested by clients and placed with funds managed by the Group.

3. FINANCIAL RISK MANAGEMENT

a. Strategy in using financial instruments

By its nature, the Group's activities are principally related to the use of financial instruments. The Group accepts investments from customers at varying rates of return and for various periods and seeks to earn above average profits by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and investing for longer periods at higher return potential whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its profit margins by obtaining above average margins, net of provisions, through transactions with commercial and retail customers. Such exposures involve not just on-balance sheet Islamic financings but the Group also enters into Islamically acceptable guarantees and other commitments such as letters of credit and performance and other bonds.

The Group also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in the equity and bond markets and in currency and profit rates. The individual subsidiary's Boards place trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and profit rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The Group utilises the following derivative instruments for both hedging and non-hedging purposes:

(i) Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions; (ii) equity futures are contractual obligations to receive or sell shares on a future date at a specified price established in an organised financial market; and (iii) equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of shares at a predetermined price. In consideration for the assumption of the risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter).

b. Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

(i) To comply with the capital requirements set by the regulators of the banking jurisdictions where the Group operates;
(ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
(iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Bahrain for supervisory purposes. The required information is filed with the Central Bank of Bahrain on a quarterly basis.

The Central Bank of Bahrain requires each bank or banking group to: (a) hold the minimum level of the regulatory capital and (b) maintain a ratio of total regulatory capital to the consolidated risk-weighted exposures at the agreed

3. FINANCIAL RISK MANAGEMENT (continued)

minimum of 12%. In addition, those individual banking subsidiaries or similar financial institutions not incorporated in the Kingdom of Bahrain are directly regulated and supervised by their local banking supervisor, whose requirements may differ from country to country.

The Bank's regulatory capital is divided into two tiers:

a) Tier 1 capital: share capital (net of the book value of any treasury shares), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and

b) Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and qualifying asset revaluation reserves including unrealised gains arising on the fair valuation of equity instruments held as available for sale.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses. Operational risk exposure is measured by using basic indicator approach.

c. Risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by individual entities within the Group under policies approved by their respective Boards of Directors. The Boards provide written principles for overall management, as well as written policies covering specific areas, such as market rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk and market risk.

d. Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit exposures arise principally in lending activities that lead to loans and advances (including accounts receivables). There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control are carried out by credit risk management teams, which report to the Boards of Directors through risk management committees.

Credit risk measurement

Loans and advances

The Group has well defined credit structures under which credit committees, comprising senior officers with required credit background, critically scrutinise and sanction financing. The Group's exposure to credit is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. To reduce the potential of risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions. Besides financial, industry and transaction analysis, the credit evaluation also includes risk rating systems which gauge risk rating of all customers.

Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, and to industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by industry sector and by country are approved by the Boards of Directors of Group entities.

3. FINANCIAL RISK MANAGEMENT (continued)

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures in relation to daily delivery risk limits are monitored on a daily basis, whereas other limits are monitored on a quarterly, semi annual or annual basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet payment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The principal collateral types for loans and advances are:

a) Mortgages over residential and commercial properties;
b) Charges over business assets such as premises, inventory and accounts receivable;
c) Charges and pledges over financial instruments such as debt securities and equities.

In order to minimise the credit loss the Group will seek immediate recovery or additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument.

(b) Derivatives

The Group maintains control limits on net open derivative positions (i.e, the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and by other collaterals that are obtained in the normal course of business and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, where these are not unconditionally cancellable. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies

The internal rating systems referred to in "Credit Risk Measurement" focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management purposes.

The Group's internal rating tools and guidelines assist

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

management to determine whether objective evidence of impairment exists under IAS 39 based on the following criteria set out by the Group:

(i) Delinquency in contractual payments of principal or return;
(ii) Cash flow difficulties experienced by the borrower (e.g., equity ratio, net income percentage of sales);
(iii) Breach of loan covenants or conditions;
(iv) Initiation of bankruptcy proceedings;
(v) Deterioration of the borrower's competitive position; and
(vi) Deterioration in the value of collateral;

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogeneous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgement and statistical techniques.

	Maximum exposure	
	2008	2007
Credit risk exposure relating to on-balance sheet assets are as follows:		
Cash and cash equivalents	1,194,104	538,149
Due from banks and financial institutions	15,711	16,172
Investments in financings		
Corporate financing	923,974	1,112,567
Bank and other financial institutions	363,554	389,048
Agricultural financing	37,885	27,934
Consumer financing	453,385	255,704
Government/public financing	55,739	19,525
Other financing	223,497	77,250
Investment securities	617,228	638,579
Accounts receivable	161,773	101,856
Credit risk exposure relating to off-balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit	511,097	713,812
Financing commitments, undrawn facilities and other credit related liabilities	518,150	698,446
At 31 December	**5,076,097**	**4,589,042**

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

Renegotiated loans reported under corporate financing, that would otherwise be past due or impaired, amounted to $2.7 million at 31 December 2008 (2007: $0.7 million).

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

Concentration of assets and liabilities

Assets and liabilities of the Group are located in the following geographical regions and industry sectors:

Geographical regions

At 31 December 2008	Asia/ Pacific	Middle East	Europe	North America	Others	Total
Cash and cash equivalents	117,105	919,017	79,713	65,276	60,310	1,241,421
Due from banks and financial institutions		15,711				15,711
Investments in financings	1,265,520	499,551	84,087	15,798	193,078	2,058,034
Investment securities	406,718	162,917	27,990	19,603		617,228
Investment properties	12,837	215,133	45,816			273,786
Accounts receivable	16,765	95,687	45,112	4,209		161,773
Investments in associates	61,809	548,731	2,062			612,602
Property, plant and equipment	32,022	51,869	40,228			124,119
Intangible assets	98,727	176,055	970			275,752
Total assets	**2,011,503**	**2,684,671**	**325,978**	**104,886**	**253,388**	**5,380,426**
Customer current accounts	260,145	166,261	39,902	204	4,090	470,602
Customer investment accounts	1,054,893	410,238	2,379	959	45	1,468,514
Due to banks and financial institutions	166,997	1,338,251	89,820			1,595,068
Other borrowings	13,078	368,218	28,778			410,074
Accounts payable	78,692	141,289	15,241	2,320		237,542
Current tax payable	6,896		235	6		7,137
Deferred tax liability	37,991		4,147			42,138
Total liabilities	**1,618,692**	**2,424,257**	**180,502**	**3,489**	**4,135**	**4,231,075**
Net on-balance sheet position	**392,811**	**260,414**	**145,476**	**101,397**	**249,253**	**1,149,351**
Contingent liabilities and commitments	**768,719**	**226,035**	**22,243**	**1,250**	**11,000**	**1,029,247**
At 31 December 2007						
Total assets	**2,406,061**	**994,498**	**540,763**	**137,467**		**4,078,789**
Total liabilities	**2,030,790**	**622,867**	**132,292**	**7,661**	**782**	**2,794,392**
Net on-balance sheet position	**375,271**	**371,631**	**408,471**	**129,806**	**(782)**	**1,284,397**
Contingent liabilities and commitments	**1,253,375**	**131,933**	**11,557**	**15,378**	**15**	**1,412,258**

Notes
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for the year ended 31 December 2008

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

Concentration of assets and liabilities (continued)

Industry sectors

	Banks and financial institutions	Trading and manu-facturing	Property and construction	Services	Private individuals	Textile	Other	Total
At 31 December 2008								
Cash and cash equivalents	1,101,660	32,988		51,912			54,861	1,241,421
Due from banks and financial institutions	15,711							15,711
Investments in financings	352,156	414,521	238,572	325,044	316,025	228,804	182,912	2,058,034
Investment securities	222,123	30,170	60,230	280,636		303	23,766	617,228
Investment properties			273,786					273,786
Accounts receivable	55,932	818	74,169	7,575	2,496		20,783	161,773
Investments in associates	523,763	1,281	27,222	58,287			2,049	612,602
Property, plant and equipment	1,967		82,780	39,368			4	124,119
Intangible assets	275,752							275,752
Total assets	**2,549,064**	**479,778**	**756,759**	**762,822**	**318,521**	**229,107**	**284,375**	**5,380,426**
Customer current accounts	3,455	136,595	26,368	98,960	141,507	6,223	57,494	470,602
Customer investment accounts	412,663	107,138	79,120	173,308	209,345	10,336	476,604	1,468,514
Due to banks and financial institutions	1,595,068							1,595,068
Other borrowings	381,296			28,778				410,074
Accounts payable	62,519	10,995	69,700	21,893	19,051	2,634	50,750	237,542
Current tax payable				7,137				7,137
Deferred tax liability			4,147	37,991				42,138
Total liabilities	**2,455,001**	**254,728**	**179,335**	**368,067**	**369,903**	**19,193**	**584,848**	**4,231,075**
Net on-balance sheet position	**94,063**	**225,050**	**577,424**	**394,755**	**(51,382)**	**209,914**	**(300,473)**	**1,149,351**
Contingent liabilities and commitments	**128,041**	**180,458**	**190,082**	**98,718**	**16,886**	**89,002**	**326,060**	**1,029,247**
At 31 December 2007								
Total assets	**1,776,472**	**284,007**	**776,545**	**544,977**	**123,985**	**301,249**	**271,554**	**4,078,789**
Total liabilities	**503,045**	**208,909**	**229,943**	**463,825**	**581,916**	**24,607**	**782,147**	**2,794,392**
Net on-balance sheet position	**1,273,427**	**75,098**	**546,602**	**81,152**	**(457,931)**	**276,642**	**(510,593)**	**1,284,397**
Contingent liabilities and commitments	**371,667**	**199,420**	**103,259**	**192,955**	**16,729**	**221,439**	**306,789**	**1,412,258**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

Investments in financings and receivables past due but not impaired

Investments in financings and receivables less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amount of investments in financings by class and receivables that were past due but not impaired were as follows:

	Investments in financings							
2008	Corporate financing	Banks and other financial institutions	Agricultural financing	Consumer financing	Government/ Public financing	Other financing	Accounts receivable	Total
Past due up to 30 days	102,268	6,396	5,938	1,908	9,140	22,546	70	148,266
Past due 30 – 60 days	129,656	993	2,576	34,174		16,924	197	184,520
Past due 60 – 90 days	34,188	8	1,597	24,722		20,082	32,143	112,740
Past due greater than 90 days	6,975					29,695	31,727	68,397
Total	**273,087**	**7,397**	**10,111**	**60,804**	**9,140**	**89,247**	**64,137**	**513,923**
Fair value of collateral	252,153	6,556	9,535	58,454	9,140	43,990		379,828

The collateral comprises $377.1 million relating to financings of an equivalent amount where the coverage of client exposure is 100% or greater; and $2.7 million relating to financings of $30.4 million where the coverage is less than 100%.

	Investments in financings							
2007	Corporate financing	Banks and other financial institutions	Agricultural financing	Consumer financing	Government/ Public financing	Other financing	Accounts receivable	Total
Past due up to 30 days	88,315	1,053	1,193	2,057		53,880	2,368	148,866
Past due 30 – 60 days	86,276	206	265	43,228	50			130,025
Past due 60 – 90 days	90,484	100	411	34,223				125,218
Past due greater than 90 days	568	125	1,683	4,941		133	4,943	12,393
Total	**265,643**	**1,484**	**3,552**	**84,449**	**50**	**54,013**	**7,311**	**416,502**
Fair value of collateral	192,556	2,149	1,491	5,445				201,641

The collateral comprises $200.9 million relating to financings of an equivalent amount where the coverage of client exposure is 100% or greater; and $0.7 million relating to financings of $1.5 million, where the coverage is less than 100%.

3. FINANCIAL RISK MANAGEMENT (continued)

e. Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in currency, equity, profit rate and other products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are monitored by individual entities within the Group. Regular reports are submitted to management.

Trading portfolios include those positions arising from market-making transactions where the Group acts as principal with clients or with the market. Non-trading portfolios primarily arise from the management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Group's available-for-sale investments and held to maturity investments..

(a) Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Boards of Directors of individual entities within the Group set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

(b) Profit rate risk

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates. Movement in the market profit rates may affect the earnings of the Group.

The profit rate exposure taken by the Group arises from investing in corporate, small medium enterprises, consumer financing, investment banking and interbank activities where variation in market profit rates may affect the profitability of the Group. The risk is managed by the management of individual entities. The profit rate dynamics are reviewed at regular intervals and repricing of assets and liabilities are adjusted to ensure that the spread of the subsidiary remains at an acceptable level.

The financings and deposits of the Group are broadly linked to the market variable rates and thus get automatically repriced on a periodic basis based on profit rate scenarios.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

Price risk

Price risk is the risk that the fair values of the equities or the managed funds increase or decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks.

The table below summarises the impact of increase/decrease of equity indices on the Group's post tax profit for the year and on other components of equity. The analysis is based on the assumptions that equity indices increased/decreased by 10% (2007: 10%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the indices.

	Impact on post-tax profits		Impact on other components of equity	
Index	2008	2007	2008	2007
Pakistan stock exchange (+/-10%)	-	-	6,975	15,009

Currency risk

Assuming that all other variables held constant, the impact of currency risk on the consolidated statement of income/equity based on reasonable shift is summarized below:

	USD/PKR	USD/EUR	USD/BHD	PKR/GBP
As at 31 December 2008				
Total currency exposure	134,237	59,249	72,784	31,196
Reasonable shift	0.2%	0.8%	-	1.0%
Total effect on income/equity	**201**	**474**	**-**	**321**

	USD/PKR	USD/EUR	USD/BHD	PKR/GBP
As at 31 December 2007				
Total currency exposure	379,341	34,923	75,011	213
Reasonable shift	2.26%	0.32%	0.35%	0.53%
Total effect on income/equity	**8,573**	**112**	**263**	**1**

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate at 31 December as compared to the one year forward rate for the same period.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

Currency exposure

At 31 December 2008	United States Dollar	Pakistan Rupee	Swiss Franc	Bahrain Dinar	Euro	Other	Total
Cash and cash equivalents	407,553	89,533	11,240	107,841	609,195	16,059	1,241,421
Due from banks and financial institutions	9,758			5,953			15,711
Investments in financings	549,284	1,152,489	468	256,478	95,205	4,110	2,058,034
Investment securities	188,786	373,233	498	4,741	19,661	30,309	617,228
Investment properties	1,748	12,837	43,510	206,637		9,054	273,786
Accounts receivable	84,189	15,924	2,523	36,120	20,858	2,159	161,773
Investments in associates	130,890	929		405,109		75,674	612,602
Property, plant and equipment	43,870	32,022	852	47,366	9		124,119
Intangible assets	173,550	100,965	971	266			275,752
Total assets	**1,589,628**	**1,777,932**	**60,062**	**1,070,511**	**744,928**	**137,365**	**5,380,426**
Customer current accounts	101,991	248,258	342	94,275	22,485	3,251	470,602
Customer investment accounts	373,634	971,043		80,008	33,515	10,314	1,468,514
Due to banks and financial institutions	597,835	164,878	180	74,616	732,260	25,299	1,595,068
Other borrowings	159,137	13,078		237,859			410,074
Accounts payable	66,170	77,676	7,626	85,515	65	490	237,542
Current tax payable	6	6,896	82		153		7,137
Deferred tax liability		37,991	4,147				42,138
Total liabilities	**1,298,773**	**1,519,820**	**12,377**	**572,273**	**788,478**	**39,354**	**4,231,075**
Net on-balance sheet position	**290,855**	**258,112**	**47,685**	**498,238**	**(43,550)**	**98,011**	**1,149,351**
Contingent liabilities and commitments	**317,176**	**511,236**	**3,240**	**178,844**	**7,266**	**11,485**	**1,029,247**
At 31 December 2007							
Total assets	**1,408,513**	**2,142,411**	**59,408**	**219,044**	**111,147**	**138,266**	**4,078,789**
Total liabilities	**611,154**	**1,879,699**	**9,732**	**255,162**	**18,011**	**20,634**	**2,794,392**
Net on-balance sheet position	**797,359**	**262,712**	**49,676**	**(36,118)**	**93,136**	**117,632**	**1,284,397**
Contingent liabilities and commitments	**452,782**	**800,170**	**5,022**	**30,965**	**88,479**	**34,840**	**1,412,258**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2008	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Assets							
Cash and cash equivalents	452,954	356,590	223,090			208,787	1,241,421
Due from banks and financial institutions	5,952	9,759					15,711
Investments in financings	778,428	416,914	378,923	333,758	133,692	16,319	2,058,034
Investment securities available for sale	21,335	237,799	30,938	44,868		282,288	617,228
Accounts receivable	1,450	197	4,190	23,190		132,746	161,773
Total financial assets	**1,260,119**	**1,021,259**	**637,141**	**401,816**	**133,692**	**640,140**	**4,094,167**
Liabilities							
Customer current accounts						470,602	470,602
Customer investment accounts	641,140	458,499	333,375	34,960		540	1,468,514
Due to banks and financial institutions	538,850	977,356	59,166	14,671	2,035	2,990	1,595,068
Other borrowings	59,662	85,218	252,507	6,350	6,337		410,074
Accounts payable		10,209	602			226,731	237,542
Total financial liabilities	**1,239,652**	**1,531,282**	**645,650**	**55,981**	**8,372**	**700,863**	**4,181,800**
Total repricing gap	20,467	(510,023)	(8,509)	345,835	125,320	(60,723)	(87,633)

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2007	Up to One month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Assets							
Cash and cash equivalents	296,230	29,151				249,923	575,304
Due from banks and financial institutions	6,707	9,465					16,172
Investment in financings	422,044	489,227	518,567	341,916	92,473	17,801	1,882,028
Investment securities available for sale	16,127	61,539	207,996	25,295	21,946	305,676	638,579
Accounts receivable	129		8,614	27,792		65,321	101,856
Total financial assets	**741,237**	**589,382**	**735,177**	**395,003**	**114,419**	**638,721**	**3,213,939**
Liabilities							
Customer current accounts						569,239	569,239
Customer investment accounts	568,191	309,151	423,334	68,200	28		1,368,904
Due to banks and financial institutions	58,642	184,679	123,101	19,981	3,394	4,228	394,025
Other borrowings	27,000		42,934			53,305	123,239
Accounts payable		5,087				264,351	269,438
Total financial liabilities	**653,833**	**498,917**	**589,369**	**88,181**	**3,422**	**891,123**	**2,724,845**
Total repricing gap	**87,404**	**90,465**	**145,808**	**306,822**	**110,997**	**(252,402)**	**489,094**

As at 31 December 2008	USD	PKR	GBP	BHD
Total profit rate exposure	525,228	231,491	12,424	13,533
Reasonable shift	2.12%	6.40%	3.25%	2.38%
Total effect on income	**11,135**	**14,815**	**404**	**322**

As at 31 December 2007	USD	PKR	GBP	BHD
Total profit rate exposure	130,137	244,471	12,466	64,992
Reasonable shift	1.14%	1.35%	0.30%	0.58%
Total effect on income	**1,484**	**3,300**	**37**	**377**

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the year.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

f. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay investors and counter parties and fulfil commitments to lend.

Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by management in individual entities within the Group, includes:

a) Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in money markets to enable this to happen;

b) Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

c) Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and

d) Managing the concentration and profile of debt maturities.

Monitoring and reporting of treasury and capital market maturities is done through monitoring of daily maturities. Similarly the overall liquidity maintenance is done through monthly maturity gap analysis at balance sheet level. Hence, monitoring and reporting takes the form of regular and periodic cash flow measurement and projections. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Group also monitors unmatched medium-term assets.

The table below presents the cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected cash inflows.

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Total
As at 31 December 2008						
Liabilities						
Customer current accounts	470,602					470,602
Customer investment accounts	649,172	479,664	332,373	35,954	6,041	1,503,204
Due to banks and financial institutions	541,224	984,264	68,461	14,671	2,035	1,610,655
Other borrowings	1,880	88,977	328,018	32,595	6,722	458,192
Accounts payable	107,167	27,717	69,618	36,056	4,158	244,716
Current tax payable			88	153	6,896	7,137
Deferred tax liability					42,138	42,138
Total liabilities liquidity risk	**1,770,045**	**1,580,622**	**798,558**	**119,429**	**67,990**	**4,336,644**
Total assets liquidity risk	**1,401,684**	**1,070,981**	**905,860**	**813,759**	**1,188,142**	**5,380,526**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Total
As at 31 December 2007						
Liabilities						
Customer current accounts	569,239					569,239
Customer investment accounts	568,695	319,180	442,264	79,771	2,337	1,412,247
Due to banks and financial institutions	63,373	186,781	128,078	19,981	3,394	401,607
Other borrowings	261	524	32,494	88,377	26,271	147,927
Accounts payable	129,792	21,734	23,316	94,678		269,520
Current tax payable	25	266	55		8,829	9,175
Deferred tax liability				1,172	59,200	60,372
Total liabilities liquidity risk	**1,331,385**	**528,485**	**626,207**	**283,979**	**100,031**	**2,870,087**
Total assets liquidity risk	**887,890**	**778,201**	**896,971**	**835,196**	**680,531**	**4,078,789**

The table below presents the cash flows payable by the Group in respect of its commitments.

	No later than one year	One-five years	Over five years	Total
As at 31 December 2008				
Acceptances and Endorsements	30,119			30,119
Guarantees and irrevocable letters of credit	264,999	152,460		417,459
Performance bid bonds	13,574	5,930	3	19,507
Other contingent			44,012	44,012
Undrawn facilities and other commitments to finance	381,164	55,902		437,066
Operating lease commitments		163	448	611
Open foreign currency positions	6,740		15,000	21,740
Repurchased and resale transactions	58,733			58,733
Total off-balance sheet liabilities	**755,329**	**214,455**	**59,463**	**1,029,247**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

	No later than one year	One-five years	Over five years	Total
As at 31 December 2007				
Acceptances and endorsements	38,922	1,193		40,115
Guarantees and irrevocable letters of credit	370,869	197,079	26,751	594,699
Performance bid bonds	13,321	8,034	1,801	23,156
Other contingent	428		55,414	55,842
Undrawn facilities and other commitments to finance	448,591			448,591
Operating lease commitments	28	132	516	676
Open foreign currency positions	101,653			101,653
Repurchase and resale transactions	147,526			147,526
Total off-balance sheet liabilities	**1,121,338**	**206,438**	**84,482**	**1,412,258**

Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

Assets available to meet liabilities and to cover outstanding loan commitments include cash and bank balances; loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition certain assets have been pledged to secure liabilities. The Group would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as undrawn facilities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of investments in financings

The Group reviews its investments in financings to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, judgements are made as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of a borrower, or national or local economic conditions that correlate with defaults on assets. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value and impairment of available-for-sale equity investments

The Group may from time to time hold investments in financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by Group management.

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This

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

determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

On occasion the Group may hold investments whose fair value cannot be reliably measured. In those instances, full disclosure with a description of the investment, the carrying value and an explanation of why fair value cannot be measured reliably are included in the notes to the financial statements.

Income taxes

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units are determined based on estimated future cash flows and comparisons with market multiples. These calculations require the use of estimates, which are subject to judgement. Changes in the underlying assumptions may impact the reported numbers.

Pension obligations

The most significant assumptions the Group has to make in connection with the actuarial calculation of pension obligations and pension expenses affect the discount rate, the expected annual rate of compensation increase, the expected employee turnover rate, the expected average remaining working life, the expected annual adjustments to pensions and the expected annual return on plan assets. These assumptions are subject to review by the Group. A change in any of these key assumptions may have a significant impact on the projected benefit obligations, funding requirements and periodic pension cost.

5. SEGMENTS

a) Business segments

The Group and its associates are organised on a worldwide basis into the following business segments:

- retail banking incorporates private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
- Investment banking includes activities such as investments, mergers and acquisitions, underwriting, treasury, money market and capital market activities;
- insurance includes life assurance, general insurance and reinsurance activities;
- asset management encompasses managing clients' assets on either a fiduciary or trustee basis, carrying out securities trading operations, distributing mutual funds, granting documentary credit and other financings and holding deposits on behalf of clients; and
- corporate management comprises those activities of a supporting nature to the Group such as legal, financial control, audit and risk management.

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for the year ended 31 December 2008

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5. SEGMENTS (continued)

Transactions between the business segments are on normal commercial terms and conditions.

For the year ended 31 December 2008

	Retail Banking	Investment Banking	Insurance	Asset Mgmt	Corporate Mgmt	Group
Total income	237,368	186,251		34,748	7,394	465,761
Distribution to investment account holders and borrowing costs	(99,504)	(54,162)		(25,800)	(6,432)	(185,898)
Operating income	**137,864**	**132,089**		**8,948**	**962**	**279,863**
Expenses	(79,283)	(68,096)		(14,539)	(29,830)	(191,748)
Operating profit/(loss)	**58,581**	**63,993**		**(5,591)**	**(28,868)**	**88,115**
Share of profit/(loss) of associated companies	6,281	5,440	(6,454)	1,058		6,325
Profit/(loss) before income taxes	**64,862**	**69,433**	**(6,454)**	**(4,533)**	**(28,868)**	**94,440**
Taxes	(6,259)	(3,092)		842	(769)	(9,278)
Profit/(loss) after income taxes	**58,603**	**66,341**	**(6,454)**	**(3,691)**	**(29,637)**	**85,162**
Relating to minority interests	(67)	(56,643)		(6,284)		(62,994)
Relating to equity holders of the Bank	**58,536**	**9,698**	**(6,454)**	**(9,975)**	**(29,637)**	**22,168**
At 31 December 2008						
Segment assets	1,681,280	1,615,079		985,959	485,506	4,767,824
Investments in associated companies	434,488	92,876	82,644	2,594		612,602
Segment liabilities	1,353,395	1,215,438		1,586,246	75,996	4,231,075
Other segments						
Depreciation	7,248			111	2,215	9,574
Amortisation of intangibles	1,206	47		188	18,046	19,487

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

5. SEGMENTS (continued)

For the year ended 31 December 2007

	Retail Banking	Investment Banking	Insurance	Asset Mgmt	Corporate Mgmt	Group
Total income	279,676	183,571		19,203	10,019	492,469
Distribution to investment account holders and borrowing costs	(104,957)	(37,411)		(2,391)	(736)	(145,495)
Operating income	**174,719**	**146,160**		**16,812**	**9,283**	**346,974**
Expenses	(63,562)	(52,029)		(11,235)	(20,185)	(147,011)
Operating profit/(loss)	**111,157**	**94,131**		**5,577**	**(10,902)**	**199,963**
Share of profit/(loss) of associated companies	(2,920)	8,455	2,621	197		8,353
Profit/(loss) before income taxes	**108,237**	**102,586**	**2,621**	**5,774**	**(10,902)**	**208,316**
Taxes	(12,014)	(6,728)		(555)	(709)	(20,006)
Profit/(loss) after income taxes	**96,223**	**95,858**	**2,621**	**5,219**	**(11,611)**	**188,310**
Relating to minority interests	(12,698)	(72,447)		(67)	(343)	(85,555)
Relating to equity holders of the Bank	**83,525**	**23,411**	**2,621**	**5,152**	**(11,954)**	**102,755**
At 31 December 2007						
Segment assets	2,018,899	1,211,223		382,843	271,275	3,884,240
Investments in associated companies	25,053	84,685	83,154	1,657		194,549
Segment liabilities	1,539,393	659,511		560,365	35,123	2,794,392
Other segments						
Depreciation	5,920	693		121	48	6,782
Amortisation of intangibles	527	21		86	13,126	13,760

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for the year ended 31 December 2008

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

5. SEGMENTS (continued)

The Group is organised in seven geographical segments which are Bahrain, Other Middle East, Pakistan, Other Asia, Europe, USA and Others.

For the year ended 31 December 2008

	Bahrain	Other Middle East	Pakistan	Other Asia	Europe	USA	Others	Group
Total income	180,323	6,536	258,936	7,055	10,863	2,048		465,761
Distribution to investment account holders and borrowing costs	(16,860)	(30,253)	(120,101)	(13,576)	(5,108)			(185,898)
Operating income/(loss)	**163,463**	**(23,717)**	**138,835**	**(6,521)**	**5,755**	**2,048**		**279,863**
Expenses	(67,803)	(15,137)	(69,163)		(35,731)	(3,914)		(191,748)
Operating profit/(loss)	**95,660**	**(38,854)**	**69,672**	**(6,521)**	**(29,976)**	**(1,866)**		**88,115**
Share of profit/(loss) of associated companies	1,260		5,444	(1,429)	1,050			6,325
Profit/(loss) before income taxes	**96,920**	**(38,854)**	**75,116**	**(7,950)**	**(28,926)**	**(1,866)**		**94,440**
Taxes	(81)		(9,342)		145			(9,278)
Profit/(loss) after income taxes	**96,839**	**(38,854)**	**65,774**	**(7,950)**	**(28,781)**	**(1,866)**		**85,162**
Relating to minority interests	(56,577)		(6,260)		(157)			(62,994)
Relating to equity holders of the Bank	**40,262**	**(38,854)**	**59,514**	**(7,950)**	**(28,938)**	**(1,866)**		**22,168**

At 31 December 2008

	Bahrain	Other Middle East	Pakistan	Other Asia	Europe	USA	Others	Group
Segment assets	1,958,710	346,657	1,778,934	79,145	487,556	102,740	14,082	4,767,824
Investments in associated companies	542,598	6,146	2,209	59,600	2,049			612,602
Segment liabilities	946,226	850,445	1,623,430	716,579	94,361	34		4,231,075
Other segments								
Depreciation	1,809		5,380		2,385			9,574
Amortisation of intangibles	18,480		771		236			19,487

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

5. SEGMENTS (continued)

For the year ended 31 December 2007

	Bahrain	Other Middle East	Pakistan	Other Asia	Europe	USA	Others	Group
Total income	127,789	18,021	311,997	211	19,547	14,904		492,469
Distribution to investment account holders and borrowing costs	(17,945)	(1,551)	(122,577)	(1,082)	(2,236)	(104)		(145,495)
Operating income/(loss)	**109,844**	**16,470**	**189,420**	**(871)**	**17,311**	**14,800**		**346,974**
Expenses	(68,818)		(52,387)		(25,806)			(147,011)
Operating profit/(loss)	**41,026**	**16,470**	**137,033**	**(871)**	**(8,495)**	**14,800**		**199,963**
Share of profit of associated companies	1,305		5,094	1,954				8,353
Profit/(loss) before income taxes	**42,331**	**16,470**	**142,127**	**1,083**	**(8,495)**	**14,800**		**208,316**
Taxes	(586)		(17,987)		(1,433)			(20,006)
Profit/(loss) after income taxes	**41,745**	**16,470**	**124,140**	**1,083**	**(9,928)**	**14,800**		**188,310**
Relating to minority interests	(58,276)	(983)	(26,229)		(67)			(85,555)
Relating to equity holders of the Bank	**(16,531)**	**15,487**	**97,911**	**1,083**	**(9,995)**	**14,800**		**102,755**
At 31 December 2007								
Segment assets	792,107	84,476	2,332,256	10,148	533,728	117,445	14,080	3,884,240
Investments in associated companies	24,709	12	108,499	61,324	5			194,549
Segment liabilities	582,418	87,371	2,028,620	10,045	66,625		19,313	2,794,392
Other segments								
Depreciation	1,467		5,087		228			6,782
Amortisation of intangibles	12,814		837		109			13,760

6. CASH AND CASH EQUIVALENTS

	2008	2007
Cash on hand	47,317	37,155
Cash at central banks – statutory reserve	67,098	83,899
Cash at central banks – current account	56,938	76,835
Cash at other banks	1,070,068	377,415
	1,241,421	**575,304**

The cash at Central Bank represents statutory reserve, which is not available for use.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

7. INVESTMENTS IN FINANCINGS

Investments in financings are included in the IAS 39 category of "Loans and Receivables".

	2008	2007
Investments in financings	1,960,827	1,688,868
Financings subject to finance leases	173,000	260,257
Provision for impairment	(75,793)	(67,097)
	2,058,034	**1,882,028**

Financings subject to finance leases

	2008		
	Gross investment in finance leases receivable	Unearned future finance income on finance leases	Net investment in finance leases
Not later than one year	85,376	(14,966)	70,410
Later than one year and not later than five years	116,803	(16,162)	100,641
Later than five years	2,584	(635)	1,949
	204,763	**(31,763)**	**173,000**

The allowance for uncollectible finance lease receivables included in the provision for impairment amounted to $15.5 million at 31 December 2008.

Financings subject to finance leases

	2007		
	Gross investment in finance leases receivable	Unearned future finance income on finance leases	Net investment in finance leases
Not later than one year	111,538	(24,419)	87,119
Later than one year and not later than five years	205,178	(32,542)	172,636
Later than five years	551	(49)	502
	317,267	**(57,010)**	**260,257**

The allowance for uncollectible finance lease receivables included in the provision for impairment amounted to $7.6 million at 31 December 2007.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

8. COLLATERAL RECEIVED AND RE-PLEDGED

Assets held as collateral against advances to financial institutions

	Fair value amount	
	2008	2007
Assets available to be re-pledged with obligation to return	43,787	98,116
	43,787	**98,116**

At 31 December 2008 total collateral sold without obligation to return amounted to $Nil (2007: $1.9 million).

At 31 December 2008, assets available to be repledged with obligation to return include the following:

	2008	2007
Market treasury bills	36,331	41,246
Pakistan investment bonds	-	35,468
Shares	7,456	21,402
	43,787	**98,116**

Repossessed collateral

The Group obtained assets by taking possession of collateral held as follows:

Nature of assets	Carrying amount	Balance sheet classification
2008		
Motor Vehicle	350	Investment in financing
	350	
2007		
Motor vehicle	700	Investments in financings
Land	4,905	Property, plant and equipment
	5,605	

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

9. ALLOWANCE ACCOUNT FROM CREDIT LOSSES

Allowance for impairment

Reconciliation of allowance account for losses on investments in financings by class of receivables is as follows:

	Investments in financings							
2008	Corporate financing	Banks and other financial institutions	Agricultural financing	Consumer financing	Government/ Public financing	Other financing	Accounts receivable	Total
Balance at 1 January	50,756		1,661	14,466		214	180	67,277
Provision for impairment	27,684		245	1,695			4,114	33,738
Amounts recovered	(727)							(727)
Reversal of impairment provision	(324)			(4,926)				(5,250)
Foreign exchange	(12,304)		(397)	(2,220)		(30)	(60)	(15,011)
Balance at 31 December	**65,085**		**1,509**	**9,015**		**184**	**4,234**	**80,027**

Included in the above table are individual loan impairments and respective collateral, as follows:

	Investments in financings							
2008	Corporate financing	Banks and other financial institutions	Agricultural financing	Consumer financing	Government/ Public financing	Other financing	Accounts receivable	Total
Individually impaired loans	64,031	1,250	1,585	6,586		436	320	74,208
Fair value of collateral	69,471		5,506	17,742				92,719

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

9. ALLOWANCE ACCOUNT FROM CREDIT LOSSES (continued)

2007	Investments in financings: Corporate financing	Banks and other financial institutions	Agricultural financing	Consumer financing	Government/ Public financing	Other financing	Accounts receivable	Total
Balance at 1 January	57,595		30	3,373		214	84	61,296
Provision for impairment	2,319		1,676	12,496			99	16,590
Amounts recovered	(282)							(282)
Reversal of impairment provision	(7,837)		(13)	(1,141)				(8,991)
Foreign exchange	(1,039)		(32)	(262)			(3)	**(1,336)**
Balance at 31 December	**50,756**		**1,661**	**14,466**		**214**	**180**	**67,277**

Included in the above table are individual loan impairments and respective collateral, as follows:

2007	Investments in financings: Corporate financing	Banks and other financial institutions	Agricultural financing	Consumer financing	Government/ Public financing	Other financing	Accounts receivable	Total
Individually impaired loans	49,834		1,661	13,662			214	65,371
Fair value of collateral	476,340	1,070	4,140	155,536	1,211			638,297

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

10. INVESTMENT SECURITIES

	2008	2007
Investment securities available-for-sale	505,430	638,579
Investment securities held to maturity	111,798	-
	617,228	**638,579**

	2008	2007
Investment securities available-for-sale		
– Listed	123,740	208,614
– Unlisted	381,690	429,965
	505,430	**638,579**

Gains from investment securities	2008	2007
Derecognition of available-for-sale assets	4,093	44,737
	4,093	**44,737**

The movement in investment securities available-for-sale is summarised as follows:

	2008	2007
At 1 January	638,579	403,090
Additions	394,165	467,595
Disposals	(317,980)	(278,048)
Net (losses)/gains from changes in fair value	(82,820)	51,979
Exchange differences	(105,379)	(6,035)
Provision for impairment	(21,135)	(2)
At 31 December	**505,430**	**638,579**

The movement in investment securities held to maturity is summarised as follows:

	2008	2007
At 1 January	-	-
Additions	111,798	-
At 31 December	**111,798**	**-**

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. No amount was recognised in the consolidated statement of income during 2008 for the change in fair value estimated using a valuation technique (2007: $Nil).

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

11. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

	Carrying amount		Fair value	
	2008	2007	2008	2007
Financial assets				
Investments in financings				
Corporate financing	894,676	1,076,378	827,531	1,007,202
Banks and other financial institutions	41,187	156,864	39,490	154,645
Agricultural financing	33,526	28,011	39,442	29,768
Consumer financing	240,516	249,442	305,299	319,528
Government / Public financing	-	19,525	-	19,361
Other financing	4,294	5,650	3,405	5,776
Investments securities	373,033	496,553	373,033	496,553
Financial liabilities				
Customer investment accounts				
Private individuals	256,646	326,286	253,657	324,454
Financial institutions	49,706	63,194	48,916	62,839
Corporate institutions	752,077	974,357	747,038	968,885
Due to banks and financial institutions	166,997	162,157	162,822	162,079
Other borrowings	13,078	16,397	13,044	16,362

Due from banks and financial institutions

Due from banks includes inter-bank placements and items in the course of collection.

Investments in financings

Investments in financings are stated net of provisions for impairment. The estimated fair value of investments in financings represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Due to banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

Other borrowings

Other borrowings include unsecured term finance certificate and short to medium term borrowings.

Fair value

In the opinion of Group management, the fair value of those financial instruments which are measured at amortised cost in the consolidated balance sheet and not listed above are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer financing and deposits, are linked to market variable rates and hence are being regularly repriced.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

12. INVESTMENT PROPERTIES

	2008	2007
At 1 January	213,067	67,766
Additions	52,256	236,722
Disposals	(98,178)	(130,329)
Transfer to property, plant and equipment (note 15)	(1,215)	-
Fair value gains during the year (note 26)	111,772	36,033
Net exchange differences	(3,916)	2,875
At 31 December	**273,786**	**213,067**

Rental income from investment property amounting to $2.3 million (2007: $1.9 million) has been included in the consolidated statement of income under income from investment property. Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income amounted to $1 million (2007: $0.75 million). Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income amounted to $Nil (2007: $0.1 million). Such expenses have been included in the consolidated statement of income under general and administrative expenses.

Investment property under operating leases

The Group leases out part of its investment property under operating leases. The leases are for terms of one to five years. There were no contingent rents in 2008 (2007: $Nil).

The future aggregate minimum rentals receivable under non cancellable operating leases are as follows:

	2008	2007
Not later than one year	1,328	940
Later than one year and not later than five years	2,542	1,694
	3,870	**2,634**

13. ACCOUNTS RECEIVABLE

	2008	2007
Accounts receivable	147,063	67,926
Provision for impairment	(4,234)	(180)
Funds under management	8,506	24,528
Receivables from affiliated companies (note 40)	5,047	4,400
Receivables from associated companies (note 40)	4,432	4,666
Derivative financial instruments	959	516
	161,773	**101,856**

Included in accounts receivable are prepayments in the amount of $11.5 million (2007: $10.5 million) and loans to employees and directors of $9 million (2007: $7.8 million). The remaining balance relates primarily to fees, deposits and other receivables.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

13. ACCOUNTS RECEIVABLE (continued)

Included in the receivable from funds under management at 31 December 2008 is $18.1 million (2007: $16.8million) in bridge financings made to real estate development funds which are sponsored by a subsidiary of the Group. Bridge financings are generally short-term in nature. The balance represents profit sharing, management fees and other fees and expenses due from clients.

Derivative financial instruments

	2008	
	Commitment amount	Fair value
Foreign exchange derivatives held for trading:		
Currency forwards	69,814	959

	2007	
	Commitment amount	Fair value
Foreign exchange derivatives held for trading:		
Currency forwards	29,235	516

14. INVESTMENTS IN ASSOCIATES

	2008	2007
At 1 January	194,549	152,520
Share of results before tax	7,285	8,558
Share of tax	(960)	(205)
Dividends paid	(1,523)	(1,169)
Share of fair value reserve	(5)	(103)
Additions (note 41)	435,533	52,158
Disposals and reclassifications (note 41)	(16,367)	(17,042)
Amortisation of intangibles	(5,500)	-
Exchange differences	(410)	(168)
At 31 December	**612,602**	**194,549**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

14. INVESTMENTS IN ASSOCIATES (continued)

The summarised financial information of the Group's principal associates is as follows:

Name and Country of incorporation	Assets	Liabilities	Revenue	Profit/ (loss)	Published price quotation	% owned Voting	% owned Economic
2008							
Unlisted:							
Solidarity Group Holding B.S.C. (c) (Bahrain)	335,621	92,573	10,327	(19,226)	-	34	34
First Leasing Bank B.S.C. (c) (Bahrain)	179,654	76,290	8,364	2,575	-	21	21
Citic International Assets Management Limited (Hong Kong)	372,994	60,956	6,414	(11,848)	-	20	20
Sanpak Engineering (Pakistan)	7,477	3,354	422	(52)	-	31	31
*Islamic Company for Production, Printing and Packing Materials "Icopack" (Egypt)	27,739	16,935	17,926	1,732	-	23	23
*Misr Company for Packing Materials "Egywrap" (Egypt)	39,297	20,683	24,085	3,008	-	23	23
Faysal Asset Management Limited (Pakistan)	3,555	404	1,932	439	-	30	30
*Ithraa Capital (Saudi Arabia)	30,665	150	-	-	-	23	23
Listed:							
BBK B.S.C. (Bahrain)	5,744,788	5,189,692	304,180	71,645	BD 0.501	25	25

* For some of the associates, published information is not available for 31 December 2008 and therefore the income and profit and loss have been arrived at by using the last audited financial statements and projecting for 2008. For presentation purposes, the assets and liabilities for these associates, however, represent the amounts as per the last audited financial statements.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

14. INVESTMENTS IN ASSOCIATES (continued)

Name and Country of incorporation	Assets	Liabilities	Revenue	Profit/ (loss)	Published price quotation	% owned Voting	% owned Economic
2007							
Unlisted:							
Solidarity Group Holding B.S.C. (c) (Bahrain)	341,285	82,808	20,448	7,010	-	34	34
First Leasing Bank B.S.C. (c) (Bahrain)	102,341	1,558	7,801	4,499	-	21	21
Citic International Assets Management Limited (Hong Kong)	312,298	10,768	20,781	13,634	-	20	20
Sanpak Engineering (Pakistan)	11,171	5,960	1,727	637	-	31	31
*Islamic Company for Production, Printing and Packing Materials "Icopack" (Egypt)	18,885	11,787	14,102	809	-	23	23
*Misr Company for Packing Materials "Egywrap" (Egypt)	20,303	17,536	27,982	1,274	-	23	23
Sakana Holistic Housing Solutions B.S.C. (c) (Bahrain)	43,170	11,223	1,000	(788)	-	50	50
Faysal Asset Management Limited (Pakistan)	1,924	72	1,451	528	-	30	30

* For some of the associates, published information is not available for 31 December 2007 and therefore the income and profit and loss have been arrived at by using the last audited financial statements and projecting for 2007. For presentation purposes, the assets and liabilities for these associates, however, represent the amounts as per the last audited financial statements.

Included in investment in associates at 31 December 2008 is $150.3 million (2007: $3.7 million) of goodwill. The movement is as follows:

	2008	2007
At 1 January	3,665	3,665
Additions (note 41)	146,609	-
At 31 December	**150,274**	**3,665**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold property, furniture, equipment, aircrafts and motor vehicles	Total
Cost			
At 1 January 2008	60,751	95,081	155,832
Additions	1,904	9,635	11,539
Transfer from investment properties (note 12)	1,215	-	1,215
Disposals	(1,420)	(1,641)	(3,061)
Currency effect	(3,125)	(7,777)	(10,902)
At 31 December 2008	**59,325**	**95,298**	**154,623**
Depreciation			
At 1 January 2008	1,232	23,670	24,902
Charge for the year	125	9,449	9,574
Disposals	(62)	(277)	(339)
Currency effect	(240)	(3,393)	(3,633)
At 31 December 2008	**1,055**	**29,449**	**30,504**
Net book value			
At 31 December 2008	**58,270**	**65,849**	**124,119**
Cost			
At 1 January 2007	7,152	42,811	49,963
Additions	52,009	53,904	105,913
Transfer from non-current assets held for sale	2,194	35	2,229
Disposals	(297)	(1,333)	(1,630)
Currency effect	(307)	(336)	(643)
At 31 December 2007	**60,751**	**95,081**	**155,832**
Depreciation			
At 1 January 2007	992	18,270	19,262
Charge for the year	202	6,580	6,782
Transfer from non-current assets held for sale	109	2	111
Disposals	(3)	(1,102)	(1,105)
Currency effect	(68)	(80)	(148)
At 31 December 2007	**1,232**	**23,670**	**24,902**
Net book value			
At 31 December 2007	**59,519**	**71,411**	**130,930**

Land and buildings at 31 December 2008 include cost of land aggregating to $54.9 million (2007: $56.8 million). Leasehold property at 31 December 2008 aggregated $17.4 million (2007: $18.9 million), less accumulated depreciation of $6.2 million (2007: $4.9 million).

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

16. INTANGIBLE ASSETS

	Goodwill	Customer relations	Core deposits	Other*	Total
Year ended 31 December 2008					
Opening net book amount	92,545	77,954	144,854	10,951	326,304
Additions				1,394	1,394
Disposals	(1,463)			(3,438)	(4,901)
Impairment	(3,252)				(3,252)
Foreign exchange	(5,073)	(5,729)	(18,528)	(476)	(29,806)
Amortisation charge		(4,185)	(7,777)	(2,025)	(13,987)
Closing net book amount	**82,757**	**68,040**	**118,549**	**6,406**	**275,752**
At 31 December 2008					
Cost	82,757	77,980	137,019	10,917	308,673
Accumulated amortisation		(9,940)	(18,470)	(4,511)	(32,921)
Net book amount	**82,757**	**68,040**	**118,549**	**6,406**	**275,752**
Year ended 31 December 2007					
Opening net book amount	97,836	82,139	152,631	6,708	339,314
Additions	1,463			6,080	7,543
Disposals	(6,754)				(6,754)
Foreign exchange				(39)	(39)
Amortisation charge		(4,185)	(7,777)	(1,798)	(13,760)
Closing net book amount	**92,545**	**77,954**	**144,854**	**10,951**	**326,304**
At 31 December 2007					
Cost	92,545	83,709	155,547	14,220	346,021
Accumulated amortisation		(5,755)	(10,693)	(3,269)	(19,717)
Net book amount	**92,545**	**77,954**	**144,854**	**10,951**	**326,304**

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	2008	2007
Shamil Bank of Bahrain B.S.C. (c)	66,070	66,070
Faysal Bank Limited	16,687	21,760
Faisal Private Bank (Switzerland) S.A.	-	3,252
Enqii Holdings Plc	-	1,463
	82,757	**92,545**

* Other intangible assets included $4.9 million at 31 December 2008 (2007: $5.4 million) of computer software related to core banking systems, which is being amortised over five years.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

17. CUSTOMER CURRENT ACCOUNTS

	2008	2007
Individuals	130,809	168,032
Financial institutions	41,969	78,407
Corporate institutions	297,824	322,800
	470,602	**569,239**

18. CUSTOMER INVESTMENT ACCOUNTS

	2008	2007
Individuals	263,379	326,286
Financial institutions	57,820	68,261
Corporate institutions	1,147,315	974,357
	1,468,514	**1,368,904**

19. DUE TO BANKS AND FINANCIAL INSTITUTIONS

Due to banks and financial institutions mainly represents money market deposits having maturities of less than one year.

20. COLLATERALISED BORROWINGS

Financial assets pledged to secure liabilities:

At 31 December 2008, there were collateralized borrowings in aggregate $281.2 million (2007: $28.5 million).

Assets which are pledged as collateral are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

21. OTHER BORROWINGS

	2008	2007
Term finance	13,078	16,397
Other debts	396,996	106,842
	410,074	**123,239**

Term finance represents seven-year floating rate unsecured term finance certificates issued by a subsidiary.

Other debts include short and medium term borrowings by the Group under bilateral and multilateral arrangements with maturities ranging from one year to three years

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

22. ACCOUNTS PAYABLE

	2008	2007
Accounts payable and other provisions	77,899	38,667
Advance received from customers	37,888	68,965
Demand drafts	19,509	38,859
Accruals	36,949	45,402
Security deposits on consumer leases	45,406	59,236
Funds under management	12,905	8,479
Payables to affiliated companies (note 40)	4,387	4,496
Payables to associated companies	-	1,930
Derivative financial instruments	908	343
Payables to directors	16	15
Deferred income	1,623	2,920
Finance lease liabilities	52	126
	237,542	**269,438**

Liabilities against assets subject to finance leases comprise:

	2008		
	Minimum lease payments	Financial charges for future periods	Principal outstanding
Not later than one year	53	(1)	52
Later than one year and not later than five years	-	-	-
	53	**(1)**	**52**

Liabilities against assets subject to finance leases comprise:

	2007		
	Minimum lease payments	Financial charges for future periods	Principal outstanding
Not later than one year	63	(4)	59
Later than one year and not later than five years	67	-	67
	130	(4)	126

Derivative Financial Instruments

	2008	
	Commitment amount	Fair value
Foreign exchange derivatives held for trading:		
Currency forwards	47,425	908

	2007	
	Commitment amount	Fair value
Foreign exchange derivatives held for trading:		
Currency forwards	51,021	343

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

23. DEFERRED TAX LIABILITY

	2008	2007
At 1 January	60,372	36,070
Income statement charges (note 31)	3,246	13,718
Fair value measurement of available for sale securities	(9,583)	10,971
Exchange differences	(11,897)	(387)
At 31 December	**42,138**	**60,372**
Deferred tax liabilities on provisions and tax losses carried forward	(4,021)	(7,063)
Deferred tax asset/(liability) on available-for-sale investments	2,001	(9,639)
Deferred tax liability on leasing transactions	(35,970)	(38,387)
	(37,990)	**(55,089)**

The Group had deferred tax assets of $2 million (2007: Nil) and a deferred tax liability of $39.9 million (2007: $55.1 million). For balance sheet presentation purposes, the deferred tax assets and the deferred tax liability have been offset, since both arose in the same tax jurisdiction.

	2008	2007
Deferred tax liability on the revaluation of investment property at fair value	(4,148)	(4,111)
Deferred tax liability on provisions	-	(1,172)
	(4,148)	**(5,283)**

24. INCOME FROM INVESTMENTS IN FINANCINGS

	2008	2007
Income from investments in financings	191,521	188,853

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

25. FEE AND COMMISSION INCOME

	2008	2007
Arrangement fees	8,472	20,710
Financing fees	8,639	6,849
Structuring fees and commissions	7,999	2,533
Documentary credit fees	3,192	2,634
Other fees	16,765	15,405
Selling commission	1,099	-
Fees from associated companies	-	4,350
	46,166	**52,481**

26. INCOME FROM INVESTMENT PROPERTIES

	2008	2007
Gain on revaluation of investment properties	111,772	36,033
Rental income from investment properties	2,321	1,805
Realised gain on sale of investment properties	175	54,893
	114,268	92,731

27. NET TRADING INCOME

	2008	2007
Income from foreign exchange trading	5,065	6,950
(Losses)/gains on trading securities	(1,004)	567
	4,061	**7,517**

Foreign exchange trading includes gains and losses from spot and forward contracts translated from foreign currency assets and liabilities.

28. DIVIDEND INCOME

	2008	2007
Investment securities available-for-sale	27,962	27,242

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

29. STAFF COSTS

	2008	2007
Salaries and other benefits	63,624	65,585
Share based payments	(5,321)	5,321
Social security and other statutory costs	3,393	2,500
Post retirement benefits	991	906
	62,687	**74,312**

Other benefits include housing allowance, relocation expense, medical and health expense, training, end of service benefit costs, and other costs.

30. GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
Office expenses	25,534	20,539
Professional fees	12,647	15,997
Others	14,235	11,804
	52,416	**48,340**

31. TAXES

	2008	2007
Current taxes	6,032	6,288
Deferred taxes	3,246	13,718
	9,278	**20,006**

The expected income tax expense for the Group is an aggregate of individual amounts representing the mix of profits and losses and the applicable tax rates in each jurisdiction. Consequently, the effective tax rate on consolidated income may vary from year to year, according to the source of earnings. Most of the Group companies operate in tax free jurisdictions.

Reconciliation between the reported income tax and the amount computed, using the weighted average of applicable domestic corporate tax rates, is as follows:

	2008	2007
Net accounting profit	108,166	220,919
Weighted average applicable domestic corporate tax rate	9%	13%
Weighted average applicable domestic corporate tax	10,057	28,737
Effect of revenue taxed at a different rate than domestic corporate tax rate	(779)	(8,731)
Effective tax	**9,278**	**20,006**

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32. MINORITY INTERESTS

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries.

	2008		2007	
	Minority %		Minority %	
Faysal Bank Limited	34.28	80,190	34.28	136,885
Health Island B.S.C (C)	50.00	110,736	50.00	58,322
Enqii Holdings Plc	-	-	7.75	742
Ithmaar Aviation Lease One (Dublin) Ltd.	5.00	773	5.00	640
Cityview Real Estate Development B.S.C (C)	49.00	1,559	-	-
Marina Reef Real Estate Development B.S.C (C)	49.00	4,679	-	-
Sakana Holistic Housing Solutions B.S.C (C)	50.00	27,461	-	-
Others	-	44	-	-
	-	**225,442**	-	**196,589**

Minority interests in the consolidated statement of income of $62.9 million (2007: $85.5 million) represent the minority shareholders' share of the earnings of these subsidiaries for the respective years.

In March 2008, the Group's increase in the interest in Sakana Holistic Housing Solutions B.S.C. (C) has resulted in it being classified as a subsidiary.

33. SHARE CAPITAL

	Number of shares (thousands)	Share capital
Issued		
At 1 January 2007	353,525	353,525
Four for one share split	1,414,100	353,525
Treasury shares purchased	(51,428)	(12,857)
Treasury shares sold	52,724	13,181
Bonus issue	288,000	72,000
New shares issued	446,500	111,625
At 31 December 2007	**2,149,896**	**537,474**
Treasury shares purchased	(126,535)	(29,950)
Treasury shares sold	81,730	20,432
At 31 December 2008	**2,105,091**	**527,956**

33. SHARE CAPITAL (continued)

The Bank owned 69,408,790 of its own shares at 31 December 2008 (2007: 24,603,264). The shares were acquired through various purchases and sales during the year on the Stock Exchange for a net consideration of $16 million (2007: $2.3 million). The nominal value of the net shares acquired amounting to $9.5 million (2007: $0.3 million net sale) has been included in share capital and the balance of the consideration has been included in the share premium. The shares are held as Treasury shares and the Bank has the right to reissue these shares at a later date.

In November 2007, the Bank acquired the remaining 40 per cent share holding in Shamil Bank of Bahrain B.S.C. (C) ("Shamil Bank") through a share exchange by issuing 446,499,970 new shares in the Bank to the minority shareholders of Shamil Bank. Twelve ordinary shares of the Bank were exchanged for every ten ordinary shares in Shamil Bank. The Bank also issued 288,000,000 bonus shares to the existing shareholders before the share exchange.

On 19 March 2007, a four for one share split increased the authorised share capital from 500 million shares at a nominal value of $1.00 per share to 2,000 million at a nominal value of $0.25 per share. As a result, the total number of issued shares increased from 360 million shares to 1,440 million shares. During the EGM held on 29 November 2007, the authorised share capital was increased to 4,000,000,000 shares with a nominal value of $0.25 per share, totalling $1,000 million. All issued shares are fully paid.

34. RESERVES

Statutory reserves

In accordance with the requirements of the Bahrain Commercial Companies Law, an amount of at least 10% of the Bank's net income for the year is transferred to a statutory reserve until such time as that reserve represents 50% of the paid up share capital of the Bank. The reserve can be utilised for payment of dividends up to 5% of the issued and fully paid up share capital.

Retained earnings

Consolidated retained earnings include the following reserves of the subsidiaries – statutory reserve amounting $17.3 million (2007: $12.1 million) and fiduciary reserve amounting $11.6 million (2007: $8.1 million). Consolidated retained earnings also include subsidiary profits amounting to $Nil (2007: $20.4 million) which is not available for distribution due to applicable local regulations.

35. PROPOSED DIVIDEND

The Directors propose to recommend at the Annual General Meeting a bonus issue of one share for every ten shares held.

A dividend for 2007 amounting to $53.7 million (2.5 cents per share) was approved and $52.4 million (net treasury shares) was paid in 2008. A dividend for 2006 amounting to $47.5 million (13.5 cents per share) was approved and paid in 2007.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

36. BASIC AND DILUTED EARNINGS PER SHARE

Basic/diluted earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	2008	2007
Net income attributable to shareholders	22,168	102,755
Weighted average number of issued and fully paid up ordinary shares ('000)	2,126,689	1,773,972
Basic/diluted earnings per share	**US cts 1.04**	**US cts 5.79**

37. CAPITAL MANAGEMENT

The table below summarises the composition of regulatory capital and the consolidated ratios of the Bank for the years ended 31 December 2008 and 2007. Effective from 1 January 2008, the Bank has successfully implemented Basel II regulations issued by Central Bank of Bahrain.

	2008	2007
Tier 1 capital	800,131	586,889
Tier 2 capital	120,236	201,076
Total eligible capital	**920,367**	**787,965**
Risk-weighted assets:		
Credit risk weighted exposures	5,547,783	3,207,630
Market risk weighted exposures	277,775	380,320
Operational risk weighted exposures	562,068	640,738
Total risk-weighted exposures	**6,387,626**	**4,228,688**
Capital adequacy ratio	**14.41%**	**18.63%**

38. FUNDS UNDER MANAGEMENT

Funds under management aggregated to $2 billion (2007: $1.7 billion) at 31 December 2008 and represented amounts invested by clients and placed with funds managed by the Group. These funds are invested without recourse to the Group. The Group earned fees of approximately $16.9 million associated with such funds in 2008 (2007: $19.5 million).

At 31 December 2008, the Group had amounts due to funds under management of $12.2 million (2007: $6.7 million) and due from funds under management of $405 million (2007: $110.6 million).

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39. RETIREMENT BENEFIT PLANS

Substantially all employees of the Group's European incorporated subsidiaries are covered either by insured or state pension plans. In accordance with local practice, no pension plans exist in certain countries in which the Group operates.

The Group's principal retirement benefit plans are in Switzerland and are defined benefit plans. The assets of the funded plans are held in separate trustee administered funds. These plans are valued by independent actuaries every year using the projected unit credit method.

The assumptions used in the actuarial valuations for 2008 and 2007 are the best estimates of the main parameters influencing the pension liability and are detailed as follows:

	2008	2007
	%	%
Standard financial cost rate	3.20	2.85
Expected long-term rates of return on plan assets	3.80	3.80
Rate of increase in compensation	2.00	2.00
The funded status of the Group's pension plans is as follows:		
Projected benefits obligations	57,065	48,901
Plan assets at fair values	(56,263)	(48,397)
Funded status	802	504
Unrecognised actuarial (gain)/loss	(98)	629
Liability in the balance sheet	704	1,133
Net periodic pension cost consists of the following:		
Service costs	2,020	1,706
Financial costs	1,518	1,285
Expected return on assets	(1,963)	(1,607)
Total cost	1,575	1,384
Employee contributions	(584)	(478)
Net periodic pension cost	991	906
Movement in the liability recognised in the balance sheet:		
At 1 January	1,133	1,538
Exchange differences	651	575
Net periodic pension cost	991	906
Employer contributions	(2,071)	(1,886)
At 31 December	**704**	**1,133**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

39. RETIREMENT BENEFIT PLANS (continued)

The movement in the defined benefit obligation over the year is as follows:

	2008	2007
Beginning of the year	48,901	42,911
Service costs	2,020	1,706
Financial costs	1,518	1,285
Employee contributions	584	478
Actuarial gain	(444)	(557)
Benefits paid	1,508	(219)
Premiums paid	(457)	(483)
Exchange differences	3,435	3,780
End of year	**57,065**	**48,901**

The movement in the fair value of plan assets of the year is as follows:

	2008	2007
Beginning of the year	48,397	41,375
Expected return on plan assets	1,963	1,607
Actuarial (gain)/loss	(1,213)	70
Employer contributions	2,071	1,886
Employee contributions	584	478
Benefits paid	1,508	(219)
Premiums paid	(457)	(483)
Exchange differences	3,410	3,683
End of year	**56,263**	**48,397**
Actual return on plan assets	775	1,673

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected returns on fixed rate investments are based upon gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets. The expected return for each asset class was weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Expected contributions to post employment benefit plans for the year ending 31 December 2009 is $2.2 million (2008: $1.8 million).

As at 31 December	2008	2007	2006	2005	2004
Present value of defined benefit obligation	(57,065)	(48,901)	(42,911)	(32,676)	(31,627)
Fair value of plan assets	56,263	48,397	41,375	29,006	29,165
Deficit	(802)	(504)	(1,536)	(3,670)	(2,462)
Experience adjustments on plan assets	(1,213)	70	(1,736)	(1,682)	788
Experience adjustments on plan liabilities	(444)	(557)	(2,168)	3,280	(615)

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

40. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include shareholders, directors, associated companies, affiliated companies and other companies, whose ownership and management is common with the Bank or its subsidiaries and associates. A number of transactions are entered into with related parties in the normal course of business. These include loans, current and investment accounts. Transactions and balances disclosed with associated companies are those with companies in which the Bank owns 20% to 50% of the voting rights and over which it exerts significant influence, but does not have control. Transactions with other related parties, which consist of Dar Al-Maal Al-Islami Trust and its subsidiaries are disclosed as affiliated companies. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows:

a) Loans to key management personnel

	2008	2007
Loans		
Loans outstanding at 1 January	732	967
Loans advanced during the year	579	-
Loan repayments during the year	(258)	(268)
Foreign exchange	16	34
Loans outstanding at 31 December	**1,069**	**733**

The loans advanced to key management personnel bear no return, are unsecured and are repayable over varying periods up to 2011.

b) Loans to employees

All employees of the Group are entitled to receive employee loans on favourable terms not equivalent to those of transactions made on an arm's length basis. Included in accounts receivable are amounts due from employees at 31 December 2008 of $9 million (2007: $7.8 million).

c) Current and investments accounts

	Associated companies		Affiliated companies	
For the year ended	2008	2007	2008	2007
Amounts payable to:				
DMI Services N.V.			4,550	4,920
Islamic Investment Company of the Gulf (Bahamas) Limited			11,743	1,975
Gulf Company for Financial Investments			2,558	2,509

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

40. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	Associated companies		Affiliated companies	
For the year ended	**2008**	**2007**	**2008**	**2007**
Amounts receivable from:				
Solidarity Group Holding BSC (C) (Bahrain)	4,433	4,600		
DMI Services N.V.			13,954	14,067
Dar Al-Maal Al-Islami Trust			196,077	196,768
Islamic Investment Company of the Gulf (Bahamas) Limited			11,325	10,268
Egyptian Company for Business and Trade			829	829
Faysal Asset Management Limited (Pakistan)	571			
Expense on current and investment accounts				
Gulf Company for Financial Investments			50	63
Solidarity Group Holding B.S.C. (C) (Bahrain)		112		
First Leasing Bank B.S.C.(C)		887		
Islamic Investment Company of the Gulf (Bahamas) Limited			57	209
d) Other revenue				
Dar Al-Maal Al-Islami Trust			8,516	12,539
DMI Services N.V.			9,416	5,648
Islamic Investment Company of the Gulf (Bahamas) Limited			6,962	463
Sakana Holistic Housing Solutions B.S.C. (C)		69		
Faysal Asset Management Limited (Pakistan)	55	59		
Solidarity Group Holding B.S.C. (C) (Bahrain)		4,350		
Funds under management - Shamil Bank of Bahrain			8,100	

The fees paid by DMI Services N.V. represented the recovery of certain costs incurred on its behalf by a subsidiary company which were included as a reduction of staff costs and administrative expenses.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

40. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

e) Key management compensation

	2008	2007
Salaries and other benefits	15,499	16,431
Share based payments	-	4,257
Post-employment benefits	639	1,477
Other long term benefits	937	-
	17,075	**22,165**

f) Directors' remuneration

The total remuneration of the Board of Directors in 2008 amounted to $1 million (2007: $1.1 million).

g) Indemnity

Dar Al-Maal Al-Islami Trust has provided indemnities up to $3.5 million (2007: $3.5 million) in respect of any shortfall in the carrying values which may be realised on certain investments held by subsidiaries.

41. ACQUISITIONS AND DISPOSALS

Acquisition of associates

On 18 February 2008 the Group acquired 147,637,621 shares in BBK B.S.C. ("BBK") for a total consideration of Bahraini Dinars 123.6 million ($329.6 million), representing a 19.1% equity interest. From that date till 31 December 2008, the Group acquired a further 58,125,415 shares (including 7,438,892 bonus shares) for a total consideration of Bahraini Dinars 35.8 million ($97.9 million), being equity interest of 6.28%. At 31 December 2008 the Group was entitled to a voting and equity interest of 25.38%.

The Group has performed preliminary assessment of the fair values of the BBK's tangible and intangible assets, liabilities and contingent liabilities as at 31 December 2008. The excess of consideration over the fair value of the net assets acquired amounting to $146.6 million has been included as goodwill under investments in associates.

Purchase consideration	427,466
Fair value of net assets acquired	(280,857)
Goodwill	146,609

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

41. ACQUISITIONS AND DISPOSALS (continued)

The following table provides fair value of net assets of BBK as on the date of acquisition.

	2008 Fair value
Assets	
Cash and balances with central bank	728,926
Treasury bills	141,369
Investment securities	1,254,732
Deposits and due from banks and other financial institutions	957,851
Loans and advances to customers	3,174,122
Investment in associated company and joint venture	34,859
Interest receivable and other assets	52,809
Premises and equipment	51,865
Intangible assets	533,877
Total assets acquired	6,930,410
Liabilities	
Deposits and due to banks and other financial institutions	1,734,141
Borrowings under repurchase agreements	70,759
Term borrowings	900,000
Customers' current, savings and other deposits	3,010,225
Interest payable and other liabilities	108,679
Total liabilities assumed	5,823,804
Net assets	1,106,606
Net assets acquired (25.38%)	280,857
Purchase consideration settled in cash	427,466

The fair values of net assets acquired are not materially different from the carrying value in the books of BBK as on the date of acquisition.

On 30 November 2007, the Group subscribed further $17.99 million for an additional 14,394,677 shares in the capital of Solidarity Company BSC (C) at a premium of $0.25 per share.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

41. ACQUISITIONS AND DISPOSALS (continued)

Disposal of associates

In June 2007, the Group disposed of 19% of its investment in Meezan Bank Limited for a total consideration of $37.8 million. The gain on disposal recognised in the consolidated statement of income amounted to $15.0 million, representing the difference between the consideration and the carrying value, including unrealised fair value and foreign exchange reserves, net of the proportional goodwill recorded upon the acquisition of Shamil Bank of Bahrain. Following this transaction, the Group's interest was reduced to 7% and the remaining investment is recorded as an investment security available-for-sale.

In April 2007, one of the Group's subsidiaries reclassified a $4.9 million investment in Faysal Income and Growth Fund (Pakistan) from an associated company to investment securities available-for-sale.

In March 2008, the Group's increase in the interest in Sakana Holistic Housing Solutions B.S.C. (C) has resulted in it being classified as a subsidiary.

Additional investment in subsidiaries

During 2007, the Extraordinary General Meeting of the Bank held on 29 November 2007 approved the acquisition of the remaining 40% shareholding in Shamil Bank through a share exchange by issuing 446,499,970 shares of the Bank to the minority shareholders of Shamil Bank. Twelve ordinary shares of the Bank were exchanged for every ten ordinary shares in Shamil Bank. The purchase consideration for the acquisition of the minority interest amounted to $424.2 million. The resultant Goodwill of $193.9 million was accounted under the Economic Entity method in equity against the Share Premium arising from this acquisition amounting to $312.6 million.

42. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	2008	2007
Acceptances and endorsements	30,119	40,115
Guarantees and irrevocable letters of credit	436,965	617,855
Customer claims	44,013	55,842
	511,097	**713,812**

As at 31 December 2008 DMI Administrative Services SA had a potential contingent liability not exceeding $1.1 million (2007: $1.1 million) in respect of its retirement benefit plan in the event that the plan assets attributable to individual members ultimately fall below their contractual entitlements.

Commitments

	2008	2007
Undrawn facilities, financing lines and other commitments to finance	518,150	698,446

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

42. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Operating lease commitments

Commitments for operating leases include IT hardware, cars and office equipment. The future minimum lease payments under non cancellable operating leases are as follows:

	2008	2007
Not later than one year	231	193
Later than one year and not later than five years	380	484
	611	**677**

Significant net open foreign currency position

Trading	21,740	101,653

43. CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

At 31 December 2008	Current	Non-current	Total
Cash and cash equivalents	1,241,408	13	1,241,421
Due from banks and financial institutions	15,711	-	15,711
Investments in financings	1,585,909	472,125	2,058,034
Investment securities	352,445	264,783	617,228
Investment properties	11,641	262,145	273,786
Accounts receivable	144,523	17,250	161,773
Investments in associates	24,838	587,764	612,602
Property, plant and equipment	2,050	122,069	124,119
Intangible assets	-	275,752	275,752
Total assets	**3,378,525**	**2,001,901**	**5,380,426**
Customer current accounts	470,602	-	470,602
Customer investment accounts	1,433,554	34,960	1,468,514
Due to banks and financial institutions	1,578,362	16,706	1,595,068
Other borrowings	397,001	13,073	410,074
Accounts payable	204,378	33,164	237,542
Current tax payable	88	7,049	7,137
Deferred tax liability	-	42,138	42,138
Total liabilities	**4,083,985**	**147,090**	**4,231,075**
Net assets	**(705,460)**	**1,854,811**	**1,149,351**
At 31 December 2007			
Total assets	**2,563,063**	**1,515,726**	**4,078,789**
Total liabilities	**2,442,934**	**351,458**	**2,794,392**
Net assets	**120,129**	**1,164,268**	**1,284,397**

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

44. SUBSIDIARIES

A listing of the Group's principal subsidiaries as at 31 December 2008 is as follows:

	% owned		Country of
	Voting	Economic	Incorporation
Shamil Bank of Bahrain B.S.C. (C)	100	100	Kingdom of Bahrain
Faysal Bank Limited	65.72	65.72	Pakistan
Faisal Private Bank (Switzerland) S.A.	100	100	Switzerland
Faisal Finance (Jersey) Limited	100	100	Jersey
Cantara (Switzerland) S.A.	100	100	Switzerland
DMI Administrative Services S.A.	100	100	Switzerland
DMI (Jersey) Limited	100	100	Jersey
MFAI (Jersey) Limited	100	100	Jersey
Faisal Finance (Luxembourg) S.A.	100	100	Luxembourg
Faisal Finance (Netherlands Antilles) NV	100	100	Netherlands Antilles
Rayten Holdings Limited	100	100	Jersey
Ithmaar Development Company Limited	100	100	Cayman Islands
Health Island B.S.C. (C)	50	50	Kingdom of Bahrain
Sakana Holistic Housing Solutions B.S.C. (C)	62	50	Kingdom of Bahrain

A listing of the Group's principal subsidiaries as at 31 December 2007 is as follows:

	% owned		Country of
	Voting	Economic	Incorporation
Shamil Bank of Bahrain B.S.C. (C)	100	100	Kingdom of Bahrain
Faysal Bank Limited	65.72	65.72	Pakistan
Faisal Private Bank (Switzerland) S.A.	100	100	Switzerland
Faisal Finance (Jersey) Limited	100	100	Jersey
Cantara (Switzerland) S.A.	100	100	Switzerland
DMI Administrative Services S.A.	100	100	Switzerland
DMI (Jersey) Limited	100	100	Jersey
MFAI (Jersey) Limited	100	100	Jersey
Faisal Finance (Luxembourg) S.A.	100	100	Luxembourg
Faisal Finance (Netherlands Antilles) NV	100	100	Netherlands Antilles
Rayten Holdings Limited	100	100	Jersey
Ithmaar Development Company Limited	100	100	Cayman Islands
Health Island B.S.C. (C)	50	50	Kingdom of Bahrain

45. COMPARATIVE FIGURES

Provision for impairment which was netted off against income is now shown separately to conform with the current year presentation.

Certain comparatives for segmental information have been reclassified to conform with the current year presentation.

Basel II Pillar III Disclosures

Basel II Pillar III Disclosures

for the year ended 31 December 2008

1. Background

The new Public Disclosure (PD) module of the Central Bank of Bahrain (CBB) rulebook was introduced with effect from January 2008. The disclosures in this report are in addition to the disclosures set out in the Group's consolidated financial statements for the year ended 31 December 2008, presented in accordance with International Financial Reporting Standards (IFRS). These disclosures are mainly related to compliance with the Basel II Pillar III disclosure requirements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2008.

2. Basel II Framework

CBB has issued Basel II guidelines which are effective from January 2008. These guidelines have been issued for the implementation of Basel II capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel II framework provides a more risk based approach to the assessment of risk and the calculation of regulatory capital as compared to the erstwhile Basel I framework.

The Basel II framework is based on three pillars as follows:-

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information.

3. Methodology

As per the requirements of CBB's Basel II capital adequacy framework, the method for calculating the consolidated capital adequacy ratio for the Group is summarized as follows:

- Line by line consolidation is performed for the risk exposures and eligible capital of all the subsidiaries within the Group except for the following:
    - With respect to Ithmaar's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel II compliant jurisdictions, full aggregation is performed of the risk weighted exposures and eligible capital as required under Prudential Consolidation and Deduction module (PCD).
    - With respect to Ithmaar's Islamic banking subsidiaries incorporated in the Kingdom of Bahrain, full aggregation is performed of the risk weighted exposures and eligible capital as required under PCD module.
- Pro-rata aggregation of risk weighted exposures and eligible capital of Ithmaar's significant investments (20% – 50%) in banking and other financial entities as required under PCD module.

4. Approaches adopted for determining regulatory capital requirements

The approach adopted for determining regulatory capital requirements under CBB's Basel II guidelines is summarised as follows:

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. Group Structure

The Group's consolidated financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. However, the CBB's consolidated capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

The principal subsidiaries and associates with their basis of consolidation for capital adequacy purposes are as follows:

	Country of Incorporation	Ownership	Consolidation basis
Subsidiaries			
Faysal Bank Limited	Pakistan	65.72 per cent	Full Aggregation
Shamil Bank of Bahrain B.S.C. (C)	Kingdom of Bahrain	100 per cent	Full Aggregation
Associates			
BBK B.S.C	Kingdom of Bahrain	25.38 per cent	Pro rata Aggregation
First Leasing Bank B.S.C. (C)	Kingdom of Bahrain	21.30 per cent	Pro rata Aggregation
Solidarity Group Holding B.S.C. (C)	Kingdom of Bahrain	33.84 per cent	Full Deduction

6. Consolidated Capital Structure for capital adequacy purpose:

A. Tier 1 Capital

Issued and fully paid-up ordinary capital	527,956	
Reserves		
General reserve	109,861	
Retained profit brought forward	76,000	
Statutory reserve	38,090	
Share premium	209,541	
Others	(19,528)	
Minority interest in the equity of subsidiaries	161,182	
Aggregation/Pro-rata aggregation of investments in banking and other financial entities	610,248	
Sub-Total	**1,713,350**	
Regulatory deductions:		
Goodwill	(240,318)	
Total Tier 1 capital before PCD deductions		**1,473,032**

B. Tier 2 Capital

Current profit	18,095	
Unrealised gains arising from fair valuations (45%)	5,833	
Aggregation/Pro-rata aggregation of investments in banking and other financial entities	96,308	
Total Tier 2 capital before PCD deductions		**120,236**
C. Total Available Capital (A+B)		**1,593,268**

Basel II Pillar III Disclosures

for the year ended 31 December 2008

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

D. General deductions from Tier 1 under PCD Module

Significant minority investments in banking, securities and other financial entities which are pro-rata aggregated	(185,768)	
Deduction of unconsolidated financial subsidiaries where ownership is >50% and which are aggregated	(487,133)	
Total Deductible Items		**(672,901)**
E. Total Eligible Capital (C-D)		**920,367**

7. Disclosure of the regulatory capital requirements for credit risk under standardized approach:

	Risk weighted assets	Capital requirement
Banks	30,268	3,632
Corporate Portfolio	71,246	8,550
Equity portfolio	679,477	81,537
Holding of Real estate	577,834	69,340
Other assets	518,825	62,259
Aggregation/Pro-rata aggregation of investments in banking and other financial entities	3,670,133	440,416
Total	**5,547,783**	**665,734**

8. Gross credit exposures:

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and cash equivalents	1,241,421	908,363
Due from banks and financial institutions	15,711	15,942
Investments in financings	2,058,034	1,970,031
Investment securities	617,228	627,904
Accounts receivable	161,773	131,815
Other assets	673,657	671,979
Total on balance sheet credit exposure	**4,767,824**	**4,326,034**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit	511,097	612,455
Financing commitments, Undrawn facilities and other credit related liabilities	518,150	608,298
Total off balance sheet credit exposure	**1,029,247**	**1,220,753**
Total credit exposure	**5,797,071**	**5,546,787**

Average gross credit exposures have been calculated based on the average of balances outstanding during the year ended 31 December 2008.

Basel II Pillar III Disclosures

for the year ended 31 December 2008

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

9. Geographical distribution of credit exposures:

	Asia/ Pacific	Middle East	Europe	North America	Others	Total
On-balance sheet items						
Cash and cash equivalents	117,105	919,017	79,713	65,276	60,310	1,241,421
Due from banks and financial institutions	-	15,711	-	-	-	15,711
Investments in financings	1,265,520	499,551	84,087	15,798	193,078	2,058,034
Investment securities	406,718	162,917	27,990	19,603	-	617,228
Accounts receivable	16,765	95,687	45,112	4,209	-	161,773
Other assets	143,586	443,057	87,014	-	-	673,657
Total on balance sheet items	**1,949,694**	**2,135,940**	**323,916**	**104,886**	**253,388**	**4,767,824**
Off balance sheet items	**768,719**	**226,035**	**22,243**	**1,250**	**11,000**	**1,029,247**
Total credit exposure	**2,718,413**	**2,361,975**	**346,159**	**106,136**	**264,388**	**5,797,071**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

10. Industry distribution of credit exposures:

	Banks and financial institutions	Trading and manufacturing	Property and construction	Services	Private individuals	Textile	Others	Total
On-balance sheet items								
Cash and cash equivalents	1,101,660	32,988	-	51,912	-	-	54,861	1,241,421
Due from banks and financial institutions	15,711	-	-	-	-	-	-	15,711
Investments in financings	352,156	414,521	238,572	325,044	316,025	228,804	182,912	2,058,034
Investment securities	222,123	30,170	60,230	280,636	-	303	23,766	617,228
Accounts receivable	55,932	818	74,169	7,575	2,496	-	20,783	161,773
Other assets	277,719	-	356,566	39,368	-	-	4	673,657
Total on balance sheet items	**2,025,301**	**478,497**	**729,537**	**704,535**	**318,521**	**229,107**	**282,326**	**4,767,824**
Off balance sheet items	**128,041**	**180,458**	**190,082**	**98,718**	**16,886**	**89,002**	**326,060**	**1,029,247**
Total credit exposure	**2,153,342**	**658,955**	**919,619**	**803,253**	**335,407**	**318,109**	**608,386**	**5,797,071**

Basel II Pillar III Disclosures

for the year ended 31 December 2008

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

11. Maturity breakdown of credit exposures:

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total Years
On-balance sheet items								
Cash and cash equivalents	659,351	347,255	234,802	-	13	-	-	1,241,421
Due from banks and financial institutions	5,953	9,758	-	-	-	-	-	15,711
Investments in financings	654,909	416,914	514,086	338,433	68,742	64,950	-	2,058,034
Investment securities	16,891	239,894	95,661	264,782	-	-	-	617,228
Accounts receivable	40,670	43,469	60,384	14,477	1,532	1,241	-	161,773
Other assets	23,910	13,691	927	196,067	252,475	186,587	-	673,657
Total on balance sheet items	**1,401,684**	**1,070,981**	**905,860**	**813,759**	**322,762**	**252,778**	**-**	**4,767,824**
Off-balance sheet items	**537,442**	**123,054**	**94,834**	**214,454**	**59,463**	**-**	**-**	**1,029,247**
Total credit exposure	**1,939,126**	**1,194,035**	**1,000,694**	**1,028,213**	**382,225**	**252,778**	**-**	**5,797,071**

12. Related-party balances under credit exposure:

Banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2008 were as follows:

Associated companies	5,004
Affiliated companies	222,185
Directors and key management	1,069
Total	**228,258**

Concentration of risk to individual counterparties where the credit exposure is in excess of the 15% individual obligor limit:

Non-banks	196,077
Total	**196,077**

Basel II Pillar III Disclosures

for the year ended 31 December 2008

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

13. Past due and impaired investments in financings and related provisions for impairment:

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	163,835	43,372	120,463
Mining	-	-	-
Agriculture	11,597	1,509	10,088
Construction	6,994	2,709	4,285
Financial	-	-	-
Trade	55,265	3,855	51,410
Personal/Consumer finance	140,183	9,015	131,168
Commercial real estate financing	26,862	3,126	23,736
Technology, media and telecommunications	3,293	916	2,377
Transport	14,235	369	13,866
Other sectors	88,758	10,922	77,836
Total	**511,022**	**75,793**	**435,229**
Ageing analysis			
Over 3 months up to 1 year	353,873	21,372	332,501
Over 1 year up to 3 years	69,046	17,159	51,887
Over 3 years	88,103	37,262	50,841
Total	**511,022**	**75,793**	**435,229**

Movement in impairment provisions	Specific provisions
At 1 January 2008	67,097
Net charge during the period	24,374
Exchange and other movements	(15,678)
At 31 December 2008	**75,793**

Basel II Pillar III Disclosures

for the year ended 31 December 2008

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

14. Past due and impaired investments in financings by geographical areas:

Analysis by Geography	Gross exposure	Impairment provisions	Net exposure
Asia/Pacific	418,903	67,144	351,759
Middle East	90,279	6,960	83,319
Europe	1,840	1,689	151
Total	**511,022**	**75,793**	**435,229**

15. Details of credit facilities outstanding at 31 December 2007 that have been restructured during the year 2008:

Restructured financings at 31 December 2008 aggregated to $6.1 million. This restructuring resulted in a positive impact aggregating to $1.1 million which included $0.5 million on provisions and $0.6 million on present earnings during the year ended 31 December 2008. Further, this restructuring is expected to have positive impact of $2.2 million on the Group's future earnings. Extension of maturity dates was the basic nature of concessions given to majority of the restructured facilities.

16. Credit exposures which are covered by eligible financial collateral:

	Gross exposure	Eligible financial collateral
Banks	25,704	24,064
Corporate	725,659	9,605
Retail portfolio	276,090	41,878

17. Disclosures related to counterparty credit risk:

For regulatory capital adequacy purposes, the Group uses the current exposure method to calculate the exposure for counterparty credit risk for derivative and foreign exchange instruments in accordance with the credit risk framework in the CBB's Basel II capital adequacy framework.

The calculation of exposure at default, risk weighted assets and capital requirements for the counterparty credit risk of derivative and foreign exchange instruments analyzed by standard portfolio, is presented in the table below:

	Exposure at Default				
	Current exposure	Future exposure	Total exposure	Risk weighted assets	Capital equirement
Banks	380	751	1,131	267	32
Corporate	417	140	557	557	67
Total	**797**	**891**	**1,688**	**824**	**99**

18. Legal contingencies:

At 31 December 2008, the Group had contingent liabilities towards customer claims aggregating to $44 million. The management is of the view that these claims are not likely to result into potential liabilities.

19. Equity position in Banking book:

At 31 December 2008, the Group's investment securities aggregated to $617.2 million. Out of the total investment securities, $123.7 million were listed investment securities and the remaining $493.5 million represented unlisted investment securities.

At 31 December 2008, capital requirements using standardized approach aggregated to $2.1 million for listed investment securities and $79.4 million for unlisted investment securities before aggregation/pro-rata aggregation of investments in banking and other financial entities.

Basel II Pillar III Disclosures

for the year ended 31 December 2008

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

20. Disclosure of regulatory capital requirements for market risk under the standardized approach:

	Risk weighted asset	Capital Charge	Maximum	Minimum
Foreign exchange risk	84,225	10,107	12,813	9,324
Aggregation/Pro-rata aggregation of market risks from investments in banking and other financial entities	193,550	23,226	71,191	23,226
Total	**277,775**	**33,333**	**84,004**	**32,550**

21. Disclosure of regulatory capital requirements for operational risk under the basic indicator approach:

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Group's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15% under CBB Basel II guidelines. The capital requirement for operational risk at 31 December 2008 aggregated to $67.4 million.

22. Tier 1 capital ratios and Total capital ratios:

	Tier 1 Capital Ratio	Total Capital Ratio
Ithmaar Consolidated	12.53%	14.41%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of Group's consolidated regulatory capital whether on a stand-alone or sub-consolidated basis are as follows:		
Shamil Bank of Bahrain B.S.C. (c)	19.20%	19.20%
Faysal Bank Limited	8.26%	9.50%

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