

build
generate
explore
grow

Annual Report 2008







**H.H. Shaikh Khalifa Bin
Salman Al Khalifa**
The Prime Minister



**H.M. King Hamad
Bin Isa Al Khalifa**
The King of Bahrain



**H.H. Shaikh Salman
Bin Hamad Al Khalifa**
The Crown Prince
and Deputy Supreme
Commander of Bahrain
Defence Force

Capital Management House B.S.C. (c) is a closed joint stock Islamic investment company licensed and regulated by the Central Bank of Bahrain. Our professional team of specialists provide clients with financial and investment solutions and advice on a range of transactions and services. Clients include financial institutions, corporates and high net-worth individuals across the Gulf Cooperation Council and the wider Middle East and North Africa.

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Responsibility

We operate according to Sharia'ah principles. We consider wealth as Wadye'h and a means to support good causes, not as an end in itself. While we strive to achieve returns above expectations for our shareholders and clients, we undertake to achieve the highest possible benefit for the society we work in.

People

We place great value in our clients, shareholders and employees, considering them our most important assets.

Collaboration

We partner with our clients to create valuable long-term relationships, based on a mutual alignment of interests, to offer the most suitable products and services.

Excellence

We achieve excellence through our commitment to the highest standards of transparency and integrity in all our activities.

Trust

We consider trust, measured through our transparency and diligence, to be our most essential value.

Transparency

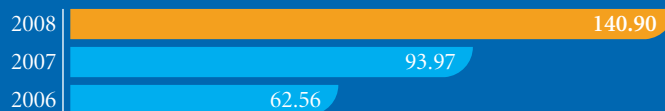
We are committed to total transparency and high standards of governance in all our dealings with our clients' and each other, setting this as a cornerstone to our approach.

FINANCIAL HIGHLIGHTS

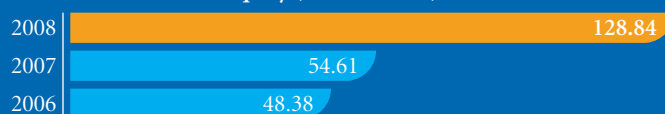
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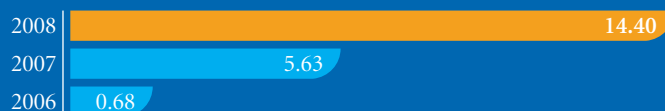
Total Assets (US\$ millions)



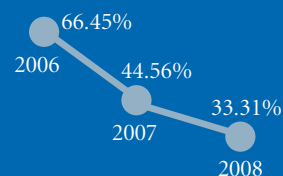
Shareholders' Equity (US\$ millions)



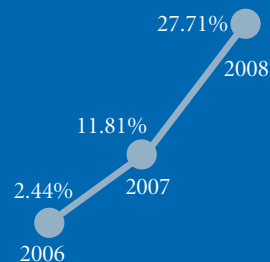
Net Income (US\$ millions)



Cost : Income Ratio



Return on Average Share Capital (Paid up capital)



FINANCIAL HIGHLIGHTS

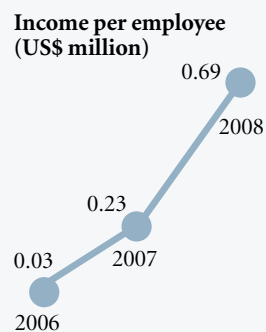
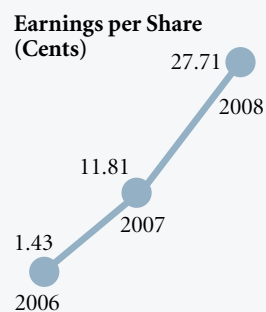
	2006 *	2007	2008
Earnings			
Net income (US\$ million)	0.68	5.63	14.40
Earnings per share (cents)	1.43	11.81	27.71
Return on average share capital (Paid up capital) (%)	2.44%	11.81%	27.71%
Return on average shareholder equity (%)	2.43%	11.44%	20.42%
Dividends per share (cents)	-	5.00	16.58
Cost / income %	66.45%	44.56%	33.31%
Income per employee (\$ million)	0.03	0.23	0.69
Financial position			
Total assets (\$ million)	62.56	93.97	140.90
Total Shareholders' equity (\$ million)	48.38	54.61	128.84
Net book value per share (\$)	1.01	1.14	1.41

* 2006 operating period is from 15 May 2006 to 31 December 2006.

During a difficult year for financial institutions everywhere, we cemented our position as a pro-active investor in the GCC and the wider Mena region. We also developed our business across the range of activities, participating as adviser, arranger and underwriter in a number of transactions during 2008.

Our portfolio of investments continued to show progress despite the difficult market and the constraints on liquidity in the region and elsewhere.

We are now in a position to upgrade our license to that of a wholesale bank, a step which has been approved in principle by the Central Bank of Bahrain.



During the period under review, the Company achieved the following:

February 2008

- Won drilling contract (through the Libya Fund) with Shell. This followed a previous drilling contract won with Woodside in August 2007.
- Appointed Mr. Mohamed A. Aljasim as Chief Investment Officer, previously Head of Investment Banking at Gulf Finance House.

March 2008

- Woodside renews drilling services contact with the Libya Fund.
- Became a strategic partner in a project to build a light industrial development at Muharraq near Bahrain’s international airport.
- Became a founding shareholder, along with other prominent financial institutions, corporates and government entities from the GCC and the Mena region, in First Energy Bank, an investment bank in Bahrain specializing in the energy sector.

May 2008

- Played a lead role as co-promoter and strategic partner in launching Dannat Resort Development Company, a US\$195 million resort to be built at “Half Moon Bay” on the eastern coast of Saudi Arabia.
- Was underwriter of a private placement to raise US\$395 million for Mumbai IT & Telecom Technology Investment Company; the deal was the first step in a project worth a total of US\$882 million to build a services center in Navi Mumbai (India).

July 2008

- Appointed Mr. Chris Wharton-Hood as Chief Operating Officer, previously Chris was Chief Operating Officer at Al Rajhi Bank – Corporate Banking Division, Saudi Arabia.

November 2008

- Completed successfully an exercise to build on our already strong financial position by raising further capital, increasing the paid up capital to US\$100 million. Thus strengthening our shareholder base.

December 2008

- Reported net income of US\$14.4 million, an increase of 256% over the previous year; this represents a return on average capital of 27.7%; the Board of Directors subsequently proposed a stock dividend of 16.6%, compared to a cash distribution of 5% in 2007.
- Strengthened the board with the appointment of Mr. Abdulhakeem Yaqoob Alkhayyat and Mr. Fahad Abdullah Al Rajhi.
- CMH moved to a new headquarters in the west wing of the Kingdom’s World Trade Center, as befits an active member of Bahrain’s financial community.

6 In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Muhammad.

On behalf of the Board of Directors, it gives me pleasure to present CMH's annual report and financial statement for the year ended 31 December 2008.

This was a pivotal year in CMH's development, one in which, despite difficult circumstances, it reported a net profit of US\$14.4 million, an increase of 256% over the previous year. As a result, at its annual meeting in February the Company approved the distribution of dividend shares to existing shareholders, increasing the total capital to US\$100 million.

The unprecedented collapse in the international financial system during the second half of 2008 had an adverse effect not just on the world economy but on our business. Placement activity was down significantly, with the result that

our momentum going into 2009 was markedly slower. I believe nevertheless that the downturn in the market is a natural phenomenon. In time, investors will regain their confidence, so providing fresh opportunities. Partly because of the difficulties faced by the financial community in 2008, we placed particular emphasis during the year on building a business that is sound and well managed, and one that is in a strong position to generate value for its shareholders.

The appointment of a Chief Investment Officer and a Chief Operating Officer has brought added expertise to our investments and operational activities.

Between October and November 2008, we successfully raised additional capital, in part to satisfy the regulatory authorities so that we could upgrade our operating license to that of a wholesale Islamic bank, a step that has been approved in principle by the Central Bank of Bahrain. An upgrade will enable us to compete more effectively in both the local and regional markets. Our issue of new rights shares was oversubscribed by some 65% and is further evidence of our shareholders' confidence in our strategy and management team.

During the period under review we also took the opportunity to strengthen our Board of Directors. We are pleased to welcome Mr. Abdulhakeem Yaqoob AlKhayyat and Mr. Fahad Abdullah Al Rajhi.

Outlook

Thanks to the leadership of Mr. Khalid Mohamed Najibi, the Vice Chairman and Managing Director and his team, we are well placed to compete during 2009: we are not only well-capitalized but remain unleveraged and have strong levels of liquidity.

The nature of the markets in which we operate and the fact that we have taken steps to diversify the range of services offered to our clients should continue to provide opportunities as we weather the effects of the international financial crisis.

On behalf of the Board of Directors, I would like to express my gratitude to His Majesty the King, His Highness the Prime Minister and His Highness the Crown Prince and Deputy Supreme Commander of the Bahrain Defence Force for their leadership, visionary reforms and the promotion of the private sector. Special thanks are also due to the Central Bank of Bahrain and the Ministry of Industry and Commerce for their guidance and support.

I would also like to extend my appreciation to our shareholders for their continued confidence and loyalty as well as to our clients and business partners for their support during 2008. Finally, my sincere appreciation goes to our management and staff for their hard work and dedication which proved critical in delivering excellent results in 2008.

Khalid Abdulla Al Bassam
Chairman





“ We are well-placed to compete during 2009. We are not only well-capitalized but remain unleveraged and have strong levels of liquidity. ”



CMH Board of Directors: Front Row (from left to right) Abdulhakeem Yaqoob Alkhayat, Khalid Abdulla Al Bassam, Khalid Mohamed Najibi. Back Row (from left to right) Sh. Khalid Bin Mohammed Al Khalifa, Hisham Saleh Al Saie, Saleh Hassan Al Afaleq, Jamal Saeed Al Ojaili, Fahad Abdullah Al Rajhi

The Board is responsible for leading our business on behalf of all shareholders. It aims to enhance long term value for its shareholders while taking into account the interests of other stakeholders and maintaining high standards of transparency and accountability.

**Mr. Khalid Abdulla Al Bassam
Chairman**

Khalid is also Chairman of Al Bassam Investment Company WLL and Bahrain Islamic Bank BSC. Previously, Khalid was Deputy Governor of the Central Bank of Bahrain. He also served as Vice Chairman of the Bahrain Stock Exchange and a Board Member of the General Organization for Social Insurance (GOSI) Bahrain and is currently a Board Member of Gulf Investment Corporation (Kuwait) and The Islamic Bank of Asia (Singapore). Khalid received the Islamic Banker of the Year award in 2002 presented during the World Islamic Banking Conference. Khalid holds a BA in Business Administration from Eastern New Mexico University, USA (1988).

**Mr. Khalid Mohamed Najibi
Vice Chairman and Managing Director**

Khalid is also the Founding Member and Executive Director of Bahrain-based Najibi Investment Company. Khalid is a Board Member and Chairman of the Executive Committee of Bahrain Islamic Bank, Board Member of First Energy Bank, Board Member of Arbah Capital (Saudi Arabia), QInvest LLC (an investment bank based in Qatar) and Chairman of The Libya Fund. He is a Board Member and Chairman of the Executive Committee of Abaad Real Estate Company BSC and also Founding Member of Young Arab Leaders (YAL) Bahrain Chapter. Khalid has over 18 years experience in the fields of finance and investment. He holds a BA in Business Administration with a major in Finance from Schiller International, UK, which he gained in 1990 and CPA from the State of California, USA (1993).

**Mr. Abdulhakeem Yaqoob Alkhayyat
Member**

Abdulhakeem is also the Managing Director and Chief Executive Officer of Kuwait Finance House - Bahrain, Chairman of Durrat Khaleej Al Bahrain, Diyyar Al Muharraaq, Mena Telecom, Baitak Industrial and Member of the Board of

several other companies and institutions, including Bahrain Polytechnic and Sunni Waqf. Previously, Abdulhakeem worked at Ernst and Young (1992 to 1998) and First Islamic Investment Bank (now Arcapita) from 1998 to 2003. Abdulhakeem holds a Bachelor of Business Administration from the University of Texas, a BA in Middle Eastern Studies and passed his US Certified Public Accountant's exams in 1997.

**Mr. Saleh Hassan Al Afaleq
Member**

Saleh is also the Director of Finance of Al-Kifah Holding Company and its subsidiaries, Chairman and founding member of Al-Ahsa Amusement and Tourism Company and Vice Chairman of Arbah Capital (KSA). Saleh is a Member of the Al Ahsa Municipality Cabinet and The Vice Chairman of the Al-Hasa Community Service Institute. Saleh holds a BS (MIS) from King Faisal University, Saudi Arabia, which he gained in 1988 as well as an MA in Human Resource Development from Seattle University (USA) in 1990.

**Sh. Khalid Bin Mohammed Al Khalifa
Member**

Sh. Khalid has also been the Chief Executive Officer of Palm Capital SPC since November 2005. Previously, he was at the Bahrain Monetary Agency (now Central Bank of Bahrain) for five years in various positions including Head of the Strategic Planning Unit. During his time at the Agency he was responsible for managing key projects across several asset classes such as the Islamic Financial Education Training and Research Center and the Bahrain International Insurance Center. He was also a member of several key committees dealing with, among other issues, the development of Debt and Equity Capital Markets in the Kingdom of Bahrain as well as promoting the Kingdom as the region's hub for business process outsourcing and as a regional disaster recovery center. Sh. Khalid holds a Bachelors degree from Boston University (Cum Laude) and a Masters degree in Economics from Tufts University and has completed his Executive MBA from the University of Virginia, Darden School of Business through the Bahrain Institute for Banking and Finance. He is also a board member of First Leasing Bank and several real estate development companies within the Kingdom of Bahrain.

**Mr. Jamal Saeed Al Ojaili
Member**

Jamal is also Director & CEO of Global Financial Investments Holding SAOG, (Oman), Chairman and Credit Committee President of United Finance Company SAOG, Chairman and President of the Executive Committee of Muscat Gases SAOG and CEO of Ithraa Capital (UAE). Jamal is also on the Board of several financial institutions based in the GCC. In addition, he is also the Vice Chairman of Oman Education and Training Investment Company and Chairman of the Board of Governors of Sohar University (Oman). Jamal holds a BA in Business Administration from Ohio Dominican College, Ohio (USA) which he gained in 1986 and an MBA from Lincolnshire & Humber University (UK) in 1998.

**Mr. Fahad Abdullah Al Rajhi
Member**

Fahad is also the Chairman of Fortune Capital, Bahrain and F.A.R Venture (KSA). Fahad is also currently a member of the board of Islamic Bank (Bangladesh); Resot Cement Company (Oman); Najran Cement Company (KSA) and also a former board member of Saudi Public Transport Company. Previously, Fahad served as General Manager, Al Rajihi Investment Company, Treasury and Finance Group (KSA). Fahad holds a Bachelors degree in Industrial Management from King Fahad University for Petroleum & Minerals (KSA).

**Mr. Hisham Saleh Al Saie
Member**

Hisham is also a representative of Overseas Investments SPC. Prior to this, Hisham was Head of Corporate Finance at SICO Investment Bank, where he was responsible for structuring key local and regional equity and debt capital market transactions. Prior to SICO, Hisham worked with BDO Jawad Habib and Arthur Andersen. Hisham is a Board Member and a Member of the Audit & Remuneration Committees of Nass Corporation BSC, Bahrain's first family business to go public. He is also a Board Member of Health Island BSC, Northstar Holding BSC and Bank Muscat International BSC. Hisham holds a BA in Accounting from the University of Texas at Arlington and has also attended a number of executive education courses at INSEAD and other similarly reputable institutions.

10 The Sharia'ah Supervisory Board is responsible for directing, reviewing and supervising our activities to ensure that they comply with the rules and principles of Sharia'ah. The Board's responsibilities cover all aspects of our businesses and activities.

Members

- Sh. Nizam Mohammed Saleh Yaquby, Bahrain – Chairman
- Dr. Mohammed Ali Elgari, Saudi Arabia
- Dr. Mohd Daud Bakar, Malaysia

**Sheikh Nizam Mohammed Saleh Yaquby
Sharia'ah Board Executive and Chairman**

Sheikh Nizam Mohammed Yaquby is a prominent Islamic scholar, who obtained his education in Classical Sharia'ah in Bahrain and Makkah under the guidance of eminent Islamic scholars. He has a BA in Economics and Comparative Religion and MSc. in Finance from McGill University, Montreal, Canada. Currently, he is a PhD candidate at the University of Wales in Islamic Law.

Sheikh Nizam is a member of a number of Sharia'ah Supervisory Boards, including the Central Bank of Bahrain, Dow Jones Islamic Index, Sharia'ah Board of Accounting, Auditing Organization for Islamic Financial Institutions (AAOIFI) and has been a visiting lecturer at Harvard University.

Dr. Mohammed Ali Elgari

Sharia'ah Board Member

Dr. Elgari received his PhD in economics from University of California (USA), and is currently serving as a Professor of Islamic economics at King Abdulaziz University (Jeddah), Saudi Arabia. He is a Sharia'ah advisor to many Islamic financial institutions including HSBC Amanah, Noor Islamic Bank, Dow Jones Islamic Index, National Commercial Bank, SAMBA Financial Group, Saudi Arabian British Bank, Islamic Bank of Asia Ltd, Banque Saudi Fransi and Citi Islamic Investment Bank.

He is an expert at the Islamic Jurisprudence Academy (OIC) in Jeddah, as well as a member of the International Islamic Fiqh Academy and the Islamic Accounting & Auditing Standards Board (AAOIFI). As a prolific writer, his work has been published in a number of scholarly journals and he has authored several books.

Dr. Mohd Daud Bakar

Sharia'ah Board Member

Dr. Mohd Daud is currently the Managing Director of Amanie Islamic Finance Consultancy and Education in DIFC, Dubai and Amanie Business Solutions in Kuala Lumpur. He was the Deputy Vice Chancellor of International Islamic University Malaysia. He obtained degrees in Sharia'ah from the University of Kuwait and Jurisprudence from the Law Faculty, University of Malaya. He received his PhD degree in Islamic Law from the University of St. Andrews, United Kingdom.

He is now the Chairman of the Sharia'ah Advisory Council (SAC) at the Central Bank of Malaysia. He serves as a member of The Sharia'ah Board of Securities Commission of Malaysia, and in several Islamic financial institutions both local and international, such as the Accounting, Auditing Organization for Islamic Financial Institutions (AAOIFI) Bahrain, International Islamic Rating Agency, Bahrain and Dow Jones Islamic Market Indexes (DJIM), New York, Bank of London and Middle East, London and Noor Islamic Bank, Dubai. Dr. Mohd Daud has published more than 30 articles in academic journals and presented more than 120 papers in various conferences.



CMH Executive Management Committee: Bakkar Al Sakin, Ramanathan Rajendran, Mohamed A. Aljasim, Khalid Mohamed Najibi, Mohammed Al Salman and Chris Wharton-Hood

Mr. Khalid Mohamed Najibi

Vice Chairman & Managing Director

Khalid is the Founding Member and Executive Director of Bahrain-based Najibi Investment Company. Khalid is also a Board Member and Chairman of the Executive Committee of Bahrain Islamic Bank, Board Member of First Energy Bank, Board Member of Arbah Capital (Saudi Arabia), QInvest LLC (an investment bank based in Qatar) and Chairman of The Libya Fund. He is a Board Member and Chairman of the Executive Committee of Abaad Real Estate Company BSC and also Founding Member of Young Arab Leaders (YAL) Bahrain Chapter.

Khalid has over 18 years experience in the fields of finance and investment. He holds a BA in Business Administration with a major in Finance from Schiller International, UK, which he gained in 1990 and CPA from the State of California, USA (1993).

Mr. Mohamed A. Aljasim

Chief Investment Officer

Mohamed held the post of Senior Executive Director, Head of Investment Banking at Gulf Finance House BSC (GFH) prior to his appointment at CMH. Mohamed participated in high profile projects and investment activities at GFH, these included due diligence and financial valuations; company valuations; product development and structuring of project deals and investment platforms; development of business plans and financial engineering; preparation of market/feasibility studies as well as placement and offering memoranda.

Mohamed was involved in multi-million US Dollar deals in such diverse sectors as real estate, manufacturing, banking, insurance and technology and in locations across the GCC and wider Middle East and North Africa region, the United Kingdom and continental Europe.

In addition to his previous post at GFH, Mohamed held directorships in several companies in the GCC and the Cayman Islands.

Mohamed holds a BA (Honors) Accounting degree from the University of Portsmouth, UK.

Mr. Chris Wharton-Hood

Chief Operating Officer

Chris has over 17 years experience in the financial services industry and has worked in Asia, Europe, Africa and the Middle East. He has extensive experience in both corporate and investment banking and is a specialist in operations, IT and Corporate Governance. Prior to joining CMH he was the Chief Operating Officer at a leading Saudi Arabian institution. Before moving to the Middle East, Chris was a senior member of a leading UK financial institution. Prior to his relocation to Europe, Chris was Head of Operations and IT in Africa, where he played an integral role in the acquisition of ABSA Bank in South Africa in 2005. Chris has a Phd in Corporate Governance and an MBA from Newport University. He is also a graduate of the IOD/GIMT Non Executive Director program. Chris is a member of the Institute of Directors in the United Kingdom.

Board Committees

Nomination and Remuneration Committee

The Nomination and Remuneration Committee oversees matters related to the nomination of new directors, the assessment of the Board and its committees and directors, and the remuneration of directors and other members of senior management. In addition, it oversees our compliance with laws and regulations.

Members

- Mr. Khalid Abdulla Al Bassam – Chairman
- Mr. Khalid Mohamed Najibi
- Sh. Khalid Bin Mohammed Al Khalifa
- Mr. Hisham Saleh Al Saie

Investment Committee

The Investment Committee oversees our financial and investment affairs, including the management of the Company's assets and liabilities. It co-operates closely with the Executive Management Committee.

Members

- Mr. Khalid Abdulla Al Bassam – Chairman
- Mr. Khalid Mohamed Najibi
- Mr. Saleh Hassan Al Afaleq
- Mr. Fahad Abdullah Al Rajhi

Audit Committee

The Audit Committee oversees all financial reporting, internal control and risk management, internal and external audit and ensures that we adhere to Sharia'ah rules and principles. The committee also oversees our risk management and controls, including our obligations under the Basel II framework.

Members

- Mr. Hisham Saleh Al Saie – Chairman
- Sh. Khalid Bin Mohammed Al Khalifa
- Mr. Jamal Saeed Al Ojaili

Management Committees

Executive Management Committee

The Executive Management Committee is responsible for overseeing the day-to-day operations of CMH. It monitors the performance of all business lines and departments in relation to our strategy, policies, targets and limits, as well as having overall responsibility for managing assets and liabilities.

Members

- Mr. Khalid Mohamed Najibi – Chairman
Managing Director
- Mr. Chris Wharton-Hood
Chief Operating Officer
- Mr. Mohamed A. Aljasim
Chief Investment Officer
- Mr. Mohammed Al Salman
Head of Placement
- Mr. Ramanathan Rajendran
Head of Financial Control
- Mr. Bakkar Al Sakin
Head of Legal and Compliance

Assets & Liabilities Committee

The Assets and Liabilities Committee is responsible for monitoring our balance sheet and capital adequacy. The committee works with others to develop our policy on diversification and to ensure that we manage our liquidity effectively.

Members

- Mr. Mohamed A. Aljasim – Chairman
Chief Investment Officer
- Mr. Chris Wharton-Hood
Chief Operating Officer
- Mr. Ahmed A. Abdulrahim
Head of Operations
- Mr. Ramanathan Rajendran
Head of Financial Control
- Mr. Mohammed Al Salman
Head of Placement

Risk Management & Compliance Committee

The Risk Management and Compliance Committee oversees our policy on control and compliance. It ensures that a framework to manage risk effectively is in place.

Members

- Mr. Chris Wharton-Hood – Chairman
Chief Operating Officer
- Mr. Ramanathan Rajendran
Head of Financial Control
- Mr. Bakkar Al Sakin
Head of Legal and Compliance

Human Resources Committee

The Human Resources Committee is responsible for overseeing our policy on staffing, compensation and benefits.

Members

- Mr. Chris Wharton-Hood – Chairman
Chief Operating Officer
- Mr. Mohammed Al Salman
Head of Placement
- Mr. Mohamed A. Aljasim
Chief Investment Officer
- Mr. Khalil Kooheji
Head of Human Resources and Administration

14 **In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Muhammad.**

During 2008 we achieved record profits and increased our capital to levels where we can now proceed to be licensed as a wholesale Islamic bank. We also made progress during the period in strengthening our human resources as we take our place as a premier institution in Islamic finance.

By following a careful strategy of financial prudence and operational management over the year, we were able to keep our expenses down and realise a 30% higher income than expected.

Despite the difficult investment climate, particularly at the end of 2008, we were able to report solid results. We acted as

underwriter in a significant deal to develop a services center in Mumbai; we became a strategic partner in plans to create a zone for light industry in Bahrain as well as a luxury scheme for housing to be developed in "Half Moon Bay" on Saudi Arabia's eastern coast. We became a founding shareholder, along with other prominent institutional investors in the GCC and MENA region in First Energy Bank. We also acquired two brand new rigs through a company established by The Libya Fund which secured important contracts with international oil companies to drill for oil and gas in Libya.

We remain well placed to take advantage of opportunities as they present themselves. In view of the rapid growth of the business, it became critical to have the appropriate skills and experience in place. To this end we appointed Chris Wharton-Hood as Chief Operating Officer and Mohamed A. Aljasim as Chief Investment Officer. Both will bring considerable expertise and strengthen the performance of CMH as we grow. We also took steps during the period to enhance our internal controls and risk management in order to protect our shareholders' interests.

During 2009 we expect to strengthen our capabilities in both product development and placement. We believe that experienced professionals are the cornerstone of success and we will continue to build on our capabilities in a controlled and disciplined way.

During 2008, we also strengthened our operations and support division. The division now comprises six specialist departments: treasury; financial control; operations; human resources & administration; information technology; and corporate communications.

Treasury

Given the difficulties presented by the international financial upheaval, the pro-active management of our liquidity was a priority during the year. Our strong financial position enabled the treasury team to develop lines of credit with a number of leading Islamic institutions, both locally and internationally. Apart from our proprietary investment activities, we place our excess liquidity with reputable



“ We remain confident of our prospects and in our ability to continue to generate healthy returns for our shareholders. ”

financial institutions. This conservative approach - supported by our diversified investment strategy, strong liquidity, and minimal leverage - means that we are in a healthy position. It was strengthened even more during the year by our successful decision to raise fresh capital.

Human Resources & Administration

During the year the department successfully managed our move to new headquarters in the Bahrain World Trade Center. The department also recruited key personnel as part of efforts to broaden the range of skills available to all parts of our business.

Information Technology

During 2008, our IT team delivered uninterrupted services to the business. The team also enhanced our Data Center and put in place an online Disaster Recovery Site to ensure that the business can operate without interruption. In addition, a GAP Analysis was carried out in conjunction with the business and support functions to identify what may be needed in future, particularly within IT.

Looking ahead

We expect the market to continue to provide opportunities despite the difficulties produced by the international credit crisis and the economic slowdown that has followed it. We approach the market in an opportunistic mood, particularly since we are in a strong position and well positioned to benefit from future growth. Our guiding principles remain unchanged: to build the business in a controlled manner without taking excessive risk.

We remain confident of our prospects and in our ability to continue to generate healthy returns for our shareholders. Having already established a strong reputation in energy, financial services, real estate and in the capital markets generally, we intend to broaden our scope during the coming months to include other sectors that are important to the development of the economies of the GCC and the wider MENA region. Our focus is on building a strong institution with a healthy income stream that will support our future growth.



Khalid Mohamed Najibi
Vice Chairman & Managing Director





The quest for crucial energy resources requires constant exploration, pushing deeper into uncharted seismic depths and requiring ever more technologically advanced equipment and resources. CMH invests in new opportunities in the oil and gas sector such as recently discovered new fields in Libya.

explore

The business of energy includes power generation and distribution – vital components of modern society. CMH looks for investment opportunity in infrastructure sectors such as Viridian, the largest generator and supplier of power in Northern Ireland. By doing so CMH helps to drive and support the development of global and regional economies.

generate









Growth in the region places demand on land resources for new buildings and structures that will house increased commercial activity and economic growth. CMH looks to responsible real estate investment, investing in light industrial land and community building retail developments such as Reef Mall.

build

Despite uncertain horizons, the possibility to grow solid returns remains wide open. Significant opportunity in new sectors and new markets can be found with strong management teams and technical partners. CMH specializes in originating such deals to ensure the growth of each investment.

grow







CMH Investment Placement Team

CMH Investment Placement:

Mohammed Al Salman, Head of Investment Placement

Nabeel Ahmed Mustafa, Principal

Fawaz Abdulrahim Naqi, Principal

Mohammed Ahmed Al Dhubaib, Associate

Marwa Khalil, Administrator

Amira Ali Juma, Administrator

BUSINESS LINES

Annual Report 2008

We focus on a range of opportunities which, if leveraged effectively, can provide alternative opportunities for us and our clients.

Our team first identifies promising sectors with market potential. We then put in place structures by which we can reduce the risks associated with such investments, while delivering superior returns to us and our clients.

CMH's Investment Strategy

Our team of specialists aims to provide our clients – financial institutions, corporates and high-net worth individuals – with products, investment solutions and a range of advice on transactions. We co-invest with our clients, which gives them the comfort of knowing that our horizons match theirs and that the risks implicit in any investment are weighed up at the outset and managed for the length of the transaction.

We also believe it is important to seek out strong and credible local partners in markets where we do not have a presence. Across the region and internationally, we work with partners based in, or with knowledge of, the markets in which we invest. The result is better risk management and a better service for our clients.



Private Equity

We specialize in under-valued or under-funded companies as well as those seeking technical or operational support in our target markets. Our strategy involves taking an active role in the management of the target company, ensuring growth and the success of each investment by co-operating at every level.

The Libya Fund – Libya: Launched in 2007, the Libya Fund is a private equity fund established to invest in the energy, healthcare and other such sectors in Libya. We are the main sponsor and the investment adviser. The fund seeks to build a diversified portfolio of investments by balancing its exposure to sectors, industries and types of investments. It aims to achieve growth by investing in early-stage businesses, start-ups, and businesses with a potential to grow. Libya offers immense investment opportunities thanks to its strong GDP growth, economic liberalization, serious efforts to restructure, encouraging political development and the attention given by the authorities to developing a comprehensive private sector. Current Investors in the fund include well known, Islamic financial institutions, corporations and high-net worth individuals from the GCC.

The fund established TAB Energy Limited to engage in providing services to Libya's oil and gas sector. TAB Energy subsequently acquired a majority stake in Etelaf Oil Services, a firm which primarily provides drilling services for multinational oil companies operating in Libya. Two other subsidiaries were established by TAB Energy to own and lease drilling rigs.

Etelaf Oil Services won two significant drilling contracts in 2008: the first with Woodside Energy, a leading oil company in Australia; and the second with Shell Libya. Both contracts offer strong opportunities to generate revenue.

Woodside discovered oil in December 2008, the full extent of which has yet to be determined. Etelaf Oil Services has also provided drilling services to Chevron and Inpex. These contracts enable the TAB group to secure and procure contracts with international oil companies. Outside the energy sector, the fund is looking at opportunities to invest in the healthcare sector in Libya.

First Energy Bank – Bahrain: We are a founding shareholder of the First Energy Bank, a wholesale Islamic bank. The bank was established to capitalize on the opportunities for private equity investment that exist globally. The bank will focus mainly on the energy sector and advise on, arrange and/or execute equity investments.

The bank was incorporated as a closed Bahrain joint stock company with a paid-up capital of US\$1 billion and obtained its wholesale banking license from the Central Bank of Bahrain in June 2008.

Arbah Capital – KSA: We are a founding shareholder of Arbah Capital, a Saudi closed joint stock company registered in the Kingdom of Saudi Arabia in March 2008 with a share capital of SR220 million.

26 Arbah Capital's principal activities include trading as principal and agent, underwriting, establishing and managing mutual funds as well as portfolio management. It also provides advisory and custody services for administrative arrangements and procedures relating to investment funds, portfolio management and trading through a license with the Capital Market Authority. The investment will enable us to participate in opportunities offered by the Saudi Arabian market.

Viridian – UK: Founded in 1998, Viridian is the largest generator and supplier of power in Northern Ireland. A private placement for GBP249.5 million was launched in 2007, offering investors the opportunity to invest in Viridian. We are a strategic investor in the company.

Viridian is engaged in the full range of energy businesses, from electric power generation to transmission and distribution as well as high voltage electrical contracting and services. The group has a turnover of circa GBP1 billion and employs around 1,500 staff. The activities of Viridian are conducted through four main units:

1. Northern Ireland Electricity which transmits and distributes electricity in Northern Ireland;
2. NIE Energy which procures power through the Power Procurement Business and supplies electricity through NIE Energy Supply;
3. Powerteam which provides high voltage electrical contracting and other infrastructure services, principally to Northern Ireland Electricity, but also to a range of third-party utility and industrial customers;
4. Viridian Power & Energy which generates power in the Republic of Ireland and supplies it to the competitive electricity and gas markets in both Northern Ireland the Republic of Ireland.

Real Estate

Real estate has become a core investment for investors in the region. We recognize the role real estate plays in the various economies and focus on niche markets with strong fundamentals. We manage the risks associated with such investments by applying minimal amounts of leverage and high levels of liquidity. Through our value-based approach to investment, we plan to capitalize on opportunities within the current market while maintaining a balanced and diversified strategy by offering superior returns.

Reef Mall – Bahrain: Reef Mall is a sub-development within Reef Island, a major and prestigious development in the Kingdom of Bahrain. Reef Island is located on the northern shore of Manama, the Kingdom's capital, just minutes away from other prominent landmarks such as the new Bahrain Financial Harbour, the Seef District and Bahrain Bay. Reef Island will be made up of a luxury hotel, residential buildings, apartments, chalets and villas, all overlooking private lagoons.



Reef Mall will be built on a 5.3 hectare property within Reef Island. The project will consist of a shopping mall, two reef office towers, a healthcare center and a recreation area. The Mall is envisioned to become a unique destination not only for tourists visiting Bahrain, but also for Bahraini locals and residents of the Reef Island project. The property is situated in the heart of Reef Island.

The Reef Mall property was acquired by a company that we established along with several financial institutions and reputable high net worth individuals. An international firm of architects has been appointed to design a master plan. Once the plan is completed and approved, a branding exercise will be undertaken to create market awareness and to enhance the project's marketability.

Raffles City – Bahrain: a project of CapitaLand of Singapore, Raffles City Bahrain is an integrated residential, serviced residential and retail development with a total land area of 43,883 square meters and a gross development area of 287,697 square meters. The project is being developed on reclaimed land and forms part of the Bahrain Bay master plan, a prestigious development off the north eastern coast of Manama, in the Kingdom of Bahrain. Project cost was estimated at US\$810 million. Of this, US\$630 million was placed in the market. The placement, for which we acted as co-underwriter, was closed in April 2007.

Piling works commenced in December 2008. To date, 65% of the excavation works and 35% of the overall sub-structural works have been completed. It is anticipated that work on the sub-structure will be complete during the final three months of 2009.



Khalil M. Kooheji, Chris Wharton-Hood and Ahmed A. Abdulrahim



CMH Investment Team

CMH Investment Team:

Mohamed A. Aljasim, Chief Investment Officer

Mohammed Kettani, Director – Investments

Antonio E. Logarta, Head of Real Estate

Hassan Al Mahroos, Senior Investment Analyst

Yousef M. AlKhan, Investment Analyst

Fatima Khalifa Hassan, Administration

Dannat Resort – KSA: Dannat Resort, in which we are co-promoter and strategic partner, is a waterfront residential development consisting of villas, townhouses, apartments, a hotel and ancillary recreational facilities. The development has an estimated project cost of SAR2,570 million, of which SAR733 million was sourced via private placement. Covering a total area of 1,000,000 square meters, the project is located in one of the main tourist destinations in the Eastern Province of Saudi Arabia, known as “Half Moon Bay”. The site is approximately 40 kilometers (a 45 minute drive) from central Al Khobar and 1 hour from Bahrain. The site is a prime beach-front property that is close to two large amusement parks, private palaces, and the upcoming Prince Mohammed bin Fahad University. Half Moon Bay and the project are accessible from the main highway in Al Khobar, the “King Fahad bin Abdul Aziz Highway”. The highway has four lanes as well as infrastructure and petrol stations. Nearby developments include a Holiday Inn, Al Nakheel Resort, Sunset Beach, Al Khaleej Makarem Village and Royal Amwaj Resort.

Industrial Land Muharraq – Bahrain: Industrial Land Muharraq is a sea-bed plot with an area of 4,477,572 square meters adjacent to the Bahrain International Airport. The project involves reclamation and subsequent development of the property into a medium density, mixed use and light industrial zone. As such, the property has been earmarked for use mainly as a light industrial site focusing on food manufacturing, warehousing, logistics, and technology industries. The development will also accommodate low rise housing and commercial structures. We underwrote a portion of the transaction which was subscribed by our clients.

The master plan for the project was completed in April 2009. It was designed by OBM International Ltd, an international firm of architects.

North Star – Bahrain: Safana Investment Company owns a sea-bed property of approximately 868,010 square meters in the Seef District of Bahrain. The deal is worth approximately BHD 70.0 million, a portion of which we underwrote and was subscribed by our clients.

Asset Management

As part of our commitment to clients to offer a range of investment products and services, we intend during 2009 to offer both equity and fixed income funds. The funds will build on the insight and expertise that we have developed from having traded successfully in both equities and sukuk on a proprietary basis since we were founded.

Capital Markets

We have participated in some of the region’s most significant offerings of sukuk. In doing so, we have enabled clients to access the income provided by these instruments.

Lagoon City – Kuwait: Lagoon City is a real estate project being undertaken by Al-Ahlia Investment Company, one of the oldest investment companies in Kuwait. A US\$200 million issue of sukuk was launched to finance the project. It consists of 401 sea-front and 155 back-bay plots that are part of a larger development, Kheiran Pearl City, in Kuwait. We acted as a lead manager in the issuance.

A’ayan – Kuwait: A’ayan is a US\$100 million issue of musharaka sukuk on behalf of of A’ayan Leasing & Investment Company, a Kuwait closed shareholding company regulated by the Central Bank of Kuwait. It is listed on the Kuwait Stock Exchange. We were an arranger in this offering.

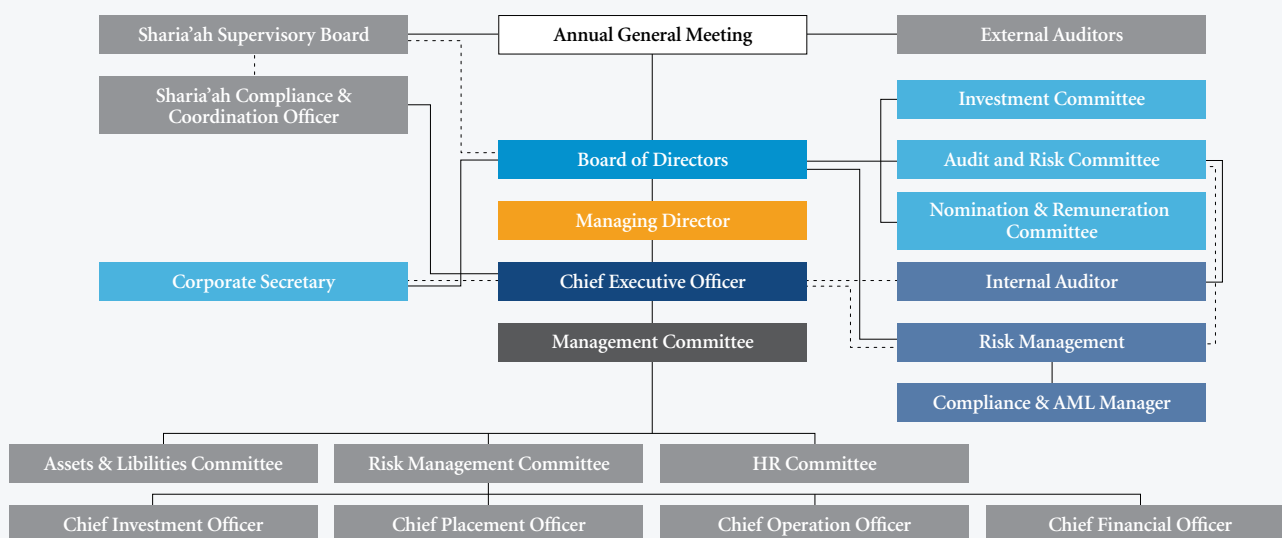
Diyaar – Bahrain: A US\$200 million issue of sukuk, Diyaar Sukuk was launched in 2007 to part finance Diyaar Al Muharraq, a real estate development on land reclaimed in the northeast of Bahrain. Covering a total area of 12.2 square kilometers, the project comprises a mixed community of residential, commercial and retail components and is considered to be one of the largest developments in the Kingdom. We acted as an underwriter in this offering.



30 **Organizational Structure**

As an active investor in the economies of the GCC and the wider MENA region, we pride ourselves on our ability to assess opportunities and to act decisively when they arise.

To this end we have developed a structure which supports our management team and enables it to make confident and informed decisions in the interests of all stakeholders.



Compliance

Compliance at CMH starts with the Board of Directors. The Board enforces standards of transparency and integrity when conducting business across the whole organization. The Board is committed to establishing a strong and independent compliance department to assist the management in managing the compliance risks that we face.

The compliance function ensures that our operations and activities are in compliance with the rules and regulations of the Central Bank of Bahrain, the Ministry of Industry and Commerce and any other applicable laws or regulations. It also monitors behavior within the organization and ensures that it meets our ethical standards. The compliance function also assists senior management in educating staff and in increasing awareness of compliance issues across the whole organization. The function is supported by policies and procedures put in place to ensure that we comply in full with our legal and regulatory obligations, including those designed to prevent money laundering.

Risk Management

The risk management function reports directly to the Audit and Risk Committee of the Board and the Vice Chairman and Managing Director. The key objectives of the risk management department are to develop an integrated framework, to establish minimum standards of risk management for the entire organization, and to instill a culture which involves all members of staff. Key developments during the year included reviewing and assessing our policy on risk management, its processes and procedures, and providing advice to strengthen our internal controls. The process also involved formally identifying the key risks to which we are exposed and developing initiatives to manage, monitor and minimize them.

Internal Audit

The internal audit has been outsourced, starting from 2009, due to our current size and rapid development. The Board decided that exposing the company to best practice in this way would benefit it as it grows. Initiatives during the year included a review of existing internal processes and procedures, the adoption of a risk-based approach to audit, as well as advice on how to improve our framework of internal controls. The internal audit team works closely with compliance and risk management. It will place increased emphasis on providing executive management with preventative advice and guidance.

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Report No. 3, January 31, 2009

Sharia'ah Supervisory Board Report

On the activities of Capital Management House (CMH)

For the financial year from 1st January 2008 to 31st December 2008

To Shareholders of Capital Management House:

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh.

In compliance with the letter of appointment and the Company's Articles of Association, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Company during the period commencing 1st January 2008 to 31st December 2008. We have conducted our review to form an opinion as to whether the Company has complied with Sharia'ah Rules and Principles and with the specific fatwa, ruling and guidelines issued by us.

The Company's management is responsible for ensuring that the financial institution conducts its business in accordance with Islamic Sharia'ah Rules and Principles. It is our responsibility to form an independent opinion, based on our review of the operations of the company, and to report to you.

We conducted our review which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the company.

We planned and performed our review to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable

assurance that the Company has not violated Islamic Sharia'ah Rules and Principles.

In our opinion:

- (a) The contracts, transactions and dealings, entered into by the Company during the period commencing 1st January 2008 and ending on 31st December 2008 that we have reviewed are in compliance with the Islamic Sharia'ah Rules and Principles;
- (b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that has been approved by us in accordance with Islamic Sharia'ah Rules and Principles;
- (c) The calculation of Zakat complies with Islamic Sharia'ah Rules and Principles.

We beg Allah the Almighty to grant us success and lead us on the right path.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.



Sh. Nizam Mohammed Saleh Yaqouby
Chairman and Executive Member
of Sharia'ah Board



Dr. Mohammed Elgari
Sharia'ah Board Member



Dr. Mohammed Daud Baker
Sharia'ah Board Member

32 **Auditors' Report to the Shareholders of
Capital Management House B.S.C. (c)**

We have audited the accompanying balance sheet of Capital Management House B.S.C. (c) ("the Company") as of 31 December 2008, and the related statements of income, cash flows statement and statement of changes in equity for the year then ended.

These financial statements and the Company's undertaking to operate in accordance with Islamic Sharia'ah rules and principles are the responsibility of the Company's board of directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2008, the results of its

operations and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Sharia'ah Rules and Principles as determined by the Sharia'ah Supervisory Board of the Company.

We confirm that, in our opinion, proper accounting records have been kept by the Company and the financial statements, and the contents of the Report of the Board of Directors relating to these financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Company, have occurred during the year ended 31 December 2008 that might have had a material adverse effect on the business of the Company or on its financial position and that the Company has complied with the terms of its banking licence. We obtained all the information and explanations which we required for the purpose of our audit.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

29 January 2009
Manama, Kingdom of Bahrain

Capital Management House B.S.C. (c)

FINANCIAL STATEMENTS

Annual Report 2008

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build
generate
explore
grow



BALANCE SHEET

At 31 December 2008

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	<i>Notes</i>	<i>2008 USD'000</i>	<i>2007 USD'000</i>
ASSETS			
Cash and bank balances	4	482	286
Due from financial institutions	5	50,754	28,976
Investments	6	81,524	59,259
Fixed assets	7	1,859	1,002
Other assets	8	6,280	4,451
TOTAL ASSETS		140,899	93,974
EQUITY AND LIABILITIES			
Liabilities			
Due to financial institutions	9	9,697	12,859
Accounts payable	10	40	25,900
Other liabilities	11	2,321	606
Total liabilities		12,058	39,365
Equity			
Share capital	12	91,381	47,700
Share premium		17,579	-
Reserves		19,881	6,909
Total equity		128,841	54,609
TOTAL LIABILITIES AND EQUITY		140,899	93,974
COMMITMENTS AND CONTINGENT LIABILITIES	16	34,730	44,785



Khalid Abdulla Al Bassam
Chairman



Khalid Mohamed Najibi
Vice Chairman & Managing Director

STATEMENT OF INCOME

For the year ended 31 December 2008

	<i>Notes</i>	<i>2008 USD'000</i>	<i>2007 USD'000</i>
INCOME			
Income from Islamic finances	13	559	375
Income from investments	14	3,748	4,023
Placement, arranging and underwriting fees		14,347	3,109
Fair value gain on investments designated at fair value through statement of income		4,536	2,408
Impairment (losses) write back on available-for-sale investments		(1,597)	248
Total income		21,593	10,163
EXPENSES			
Profit on Islamic payables		970	473
Staff costs		4,167	2,321
General and administrative costs	15	2,055	1,735
Total expenses		7,192	4,529
INCOME FOR THE YEAR		14,401	5,634

CASH FLOW STATEMENT

For the year ended 31 December 2008

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	2008 USD'000	2007 USD'000
OPERATING ACTIVITIES		
Income for the year	14,401	5,634
Adjustments for:		
Depreciation	287	241
Fair value gain on investments carried at fair value through statement of income	(4,536)	(2,408)
Impairment losses on available-for-sale investments	1,597	(248)
Gain on sale of investments	(1,442)	(509)
Operating profit before changes in operating assets and liabilities	10,307	2,710
Working capital adjustments:		
Due from financial institutions with original maturities of more than 90 days	5,606	(5,606)
Other assets	(1,829)	(3,793)
Due to financial institutions	(3,162)	(1,159)
Accounts payable	(25,860)	25,900
Other liabilities	1,715	445
Net cash (used in) from operating activities	(13,223)	18,497
INVESTING ACTIVITIES		
Purchase of investments	(37,790)	(36,385)
Proceeds from sale of investments	20,862	41,681
Purchase of fixed assets	(1,144)	(712)
Net cash (used in) from investing activities	(18,072)	4,584
FINANCING ACTIVITIES		
Dividend paid	(2,385)	-
Purchase of Treasury shares	(3,750)	-
Proceeds from sale of Treasury shares	4,336	-
Net proceeds from shares issued during the year	60,674	-
Net cash from financing activities	58,875	-
INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of the year	23,656	575
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
	51,236	23,656
Cash and cash equivalents comprise of:		
Cash and bank balances	482	286
Due from financial institutions with original maturities of less than 90 days	50,754	23,370
	51,236	23,656

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2008

38 1 INCORPORATION AND ACTIVITIES

Capital Management House B.S.C. (“the Company”) was incorporated in the Kingdom of Bahrain in accordance with and subject to the provisions of the Bahrain Commercial Companies Law, Decree no (21) of 2001 and its Implementation Regulations issued as per Ministerial Order No (6) of 2002 and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) number 61045 on 15 May 2006. The Company operates under an Investment Firm (Category I) License issued by the Central Bank of Bahrain (CBB). The Company’s registered office is at Office 132, Building 283, Road 1704, Block 317, Al Rossais Tower, Diplomatic Area, Manama, Kingdom of Bahrain.

The Company aims to provide a full range of Shari’ah compliant investment banking products and services as principal/agent. The principle activities of the Company includes:

- Short term investments;
- Capital market: Sukuk securities, equity linked offering, initial public offering and rights issues;
- Advisory services: Mergers and acquisitions, private placement, divestitures and real estate developments; and
- Asset management.

The financial statements for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Board of Directors on 29 January 2009.

2 SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of Preparation

The financial statements have been prepared on a historical cost basis, except for available-for-sale investments and investments carried at fair value through statement of income that have been measured at fair value. The financial statements have been presented in US Dollars, being the principal currency of the Company’s operations.

b. Statement of Compliance

The financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Shari’ah Rules and Principles as determined by the Shari’ah Supervisory Board of the Company, the Bahrain Commercial Companies Law, CBB and Financial Institutions Law. For matters which are not covered by AAOIFI standards, the Company uses the relevant International Financial Reporting Standards (the “IFRS”).

c. Cash and cash equivalents

Cash and cash equivalents as referred to in statement of cash flows comprise cash on hand, balances with banks and amount due from financial institutions with original maturities of ninety days or less.

d. Due from financial institutions

Murabaha receivables

Murabaha receivables consist mainly of sales transaction agreements and are stated net of deferred profits and provision for impairment.

Mudaraba receivables

Mudaraba financing are stated at the fair value of consideration given less impairment.

Wakala

Balances related to wakala are stated net of impairment.

e. Investments

The investments are classified either as available-for-sale, investments carried at fair value through statement of income or investment properties.

All investments are initially recognized at cost, being the fair value of the consideration given including acquisition charges.

Available-for-sale

Subsequent to initial recognition available for sale investments are re-measured at fair value with unrealized gains or loss recognized in equity, until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded is recognized in the statement of income.

Investments carried at fair value through statement of income

Subsequent to initial recognition these investments are re-measured at fair value and the resultant gains or losses are included in the statement of income as "Fair value gain or loss on investments designated at fair value through statement of income". Unrealized gains or losses are appropriated to "Cumulative changes in fair value reserve" in statement of changes in equity in accordance with AAOIFI. Upon realization of these gains and losses, these are transferred to retained earnings.

Investment properties

Properties held for rental or for capital appreciation purpose, or both, are classified as investment properties. These are initially recognized at cost including transaction cost and subsequent to initial recognition, all investment properties are re-measured at fair value and changes in fair value are recognized in the statement of changes in equity under "Cumulative changes in fair value reserve" until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in statement of income.

f. Fixed assets

Fixed assets are initially recorded at cost. Fixed assets comprise of equipment, vehicles and others. Depreciation is provided on a straight-line basis on all fixed assets over its expected useful life. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Equipment and vehicles	4 - 5 years
Others	3 - 5 years

g. Fair value of financial instruments

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

- (i) For investments that are traded in organized financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the balance sheet date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Company using current profit rates for investments with similar terms and risk characteristics.

Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost or at a previously revalued amount, less provision for any impairment.

40 **2 SIGNIFICANT ACCOUNTING POLICIES** (continued)

h. Provisions

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

i. Murabaha payables

All Murabaha payables are carried at cost plus accrued profit less amounts repaid.

j. Dividends

Dividends to shareholders are recognized as liabilities in the year in which they are declared.

k. Revenue recognition

Murabaha receivables

Profit from Murabaha receivables is recognized when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognized on time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognized when the realization is reasonably certain or when actually realized. Income related to accounts that are 90 days overdue is excluded from the statement of income.

Mudaraba receivables

Income on Mudaraba receivables is recognized when the right to receive payment is established or on distribution by the Mudarib. Income related to accounts that are 90 days overdue is excluded from the statement of income.

Dividends

Dividends revenue is recognized when the right to receive the payment is established.

Placement, arranging and underwriting fees

These comprise fee for structuring, arranging and underwriting deals. Structuring and arranging fee income is recognized by reference to percentage of completion method, measured by reference to the percentage of cost incurred to date to estimated total cost. Placement and underwriting fees are recognized when earned.

l. Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

m. Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into US Dollars at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment on securities available-for-sale.

n. Hedge Accounting

The Company makes use of derivative instruments to manage exposures to foreign currencies. In order to manage this risk, the company applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Company formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and that method will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Company assesses whether the transaction is highly probable and presents an exposure to variation in cash flows that could ultimately effect the income statement.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the income statement in 'Income from investments'.

o. Judgments and estimates

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognized in the financial statements:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as available-for-sale or investment carried at fair value through statement of income.

Impairment of available for sale investments

The Company treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' greater than six months. In addition, the Group evaluates other factors, such as the share price volatility.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the income statement. Impairment is determined as follows:

- (i) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the income statement.
- (ii) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

42 **2 SIGNIFICANT ACCOUNTING POLICIES** (continued)

o. Judgments and estimates (continued)

- (iii) For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Collective impairment provisions

In addition to a specific provision against individual significant assets, the Company also considers need for a collective impairment provisions “ for a portfolio of assets” which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. The amount of provision is adjusted to reflect the current economic changes.

Employees end of service benefits

The Company provides end of service benefits to its expatriate employees. Entitlement to these benefits is based upon the employees final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

For national employees, the Company contributions to General Organization for Social Insurance calculated as percentage of the employee’s salaries. The Company’s obligations are limited to these contributions, which are expensed when due.

Share based payment transactions

Eligible employees are granted shares under the Management Incentive Program (MIP) of the Company which are classified as equity-settled share-based payment transactions under IFRS-2.

The expense of the equity-settled share-based payment transactions is recognized in the statement of income over the vesting period with a corresponding increase in equity, based on the best estimate of the number of equity instruments expected to vest. The income statement charges or credit for a period is recorded in “Staff costs” and represents the movement in cumulative expenses recognized as at the beginning and end of the period.

The unallocated portion of shares to eligible employees will be held by Tamkeen B.S.C (c) the wholly owned subsidiary of the company and deducted as treasury shares from equity.

The expense of the cash appreciation units is recognized in the statement of income over the vesting period and the charge or credit for the period is recorded in “Staff costs”.

p Zakah

The responsibility of payment of zakah is on individual shareholders of the Company.

q Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Company. Assets held in a fiduciary capacity are not treated as assets of the Company

r Treasury shares

Treasury shares are stated at cost with any gains and losses on sale recognized in equity.

s Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

3 INVESTMENTS IN SUBSIDIARIES

As at 31 December 2008 the company had the following subsidiaries:

<i>Subsidiary</i>	<i>Activities/Status</i>	<i>Year of incorporation</i>	<i>Country of incorporation</i>	<i>Ownership %</i>
(A) CMH Fund Corporation	Incorporated for CMH Enterprise Fund which is yet to be launched	2007	Cayman Island	100
(B) CMH (Nobelis Capital) limited	SPV for investments not operative	2007	Cayman Island	100
(C) Tamkeen B.S.C. (c)	SPV to administer MIP	2008	Kingdom of Bahrain	100

As at 31 December 2008 the above subsidiaries are not operational and have not been considered for consolidation.

4 CASH AND BANK BALANCES

	<i>2008 USD'000</i>	<i>2007 USD'000</i>
Cash on hand	1	1
Bank balances-Nostros	481	285
	482	286

The Company is not required to maintain any mandatory reserve with CBB.

5 DUE FROM FINANCIAL INSTITUTIONS

	<i>2008 USD'000</i>	<i>2007 USD'000</i>
Murabaha receivables	33,254	21,698
Mudaraba receivables	17,500	-
Wakala	-	3,300
Escrow account *	-	3,978
	50,754	28,976

* As at 31 December 2007 the Company committed to participate USD 19,894 thousand in a real estate project in Bahrain which is arranged by Al Salam Bank and has paid USD 3,978 thousand into an escrow account with Al Salam Bank. The investment transaction was completed during 2008 and are included under investments.

NOTES TO THE FINANCIAL STATEMENTS continued

As at 31 December 2008

44 6 INVESTMENTS

	2008			2007		
	Cost USD'000	Cumulative fair value adjustment USD'000	Total Carrying value USD'000	Cost USD'000	Cumulative fair value adjustment USD'000	Total Carrying value USD'000
Available-for- sale investments:						
Quoted investments						
Investment securities	2,191	419	2,610	1,004	(443)	561
	2,191	419	2,610	1,004	(443)	561
Unquoted investments						
Investment securities	47,003	2,436	49,439	30,769	1,038	31,807
Sukuk	12,883	(1,303)	11,580	14,852	-	14,852
	59,886	1,133	61,019	45,621	1,038	46,659
Total available-for- sale investments	62,077	1,552	63,629	46,625	595	47,220
Investments carried at fair value through statement of income	5,546	6,943	12,489	4,225	2,408	6,633
Investment property*	5,406	-	5,406	5,406	-	5,406
Total investments	73,029	8,495	81,524	56,256	3,003	59,259

* Investment property amounting USD 5,406 thousand were pledged against revolving murabaha payable of USD 2,759 thousand.

7 FIXED ASSETS

	Equipment and vehicles USD'000	Others USD'000	Work-in Progress USD'000	2008 Total USD'000	2007 Total USD'000
Cost:					
At 1 January	415	842	21	1,278	567
Additions	35	-	1,109	1,144	712
Disposals	-	-	-	-	(1)
At 31 December	450	842	1,130	2,422	1,278
Depreciation:					
At 1 January	146	130	-	276	36
Charge for the year/period	118	169	-	287	241
Disposals	-	-	-	-	(1)
At 31 December	264	299	-	563	276
Net book value:					
As at 31 December	186	543	1,130	1,859	1,002

8 OTHER ASSETS

	<i>2008</i> <i>USD'000</i>	<i>2007</i> <i>USD'000</i>
Fees receivable	5,235	2,577
Accrued income	504	773
Project expenses receivable	375	191
Others	166	910
	6,280	4,451

9 DUE TO FINANCIAL INSTITUTIONS

	<i>2008</i> <i>USD'000</i>	<i>2007</i> <i>USD'000</i>
Murabaha payables	6,938	10,100
Revolving murabaha payable *	2,759	2,759
	9,697	12,859

* Revolving murabaha payable is secured against investment property amounting USD 5,406 thousand.

10 ACCOUNTS PAYABLE

Accounts payable represents funds deposited by the Company's clients for participation in deals arranged by the Company.

As at 31 December 2007 an amount of USD 25 million is related to deposits for participation in a real estate deal under arrangement by the Company which was concluded during 2008 and allocated to client portfolio accounts.

11 OTHER LIABILITIES

	<i>2008</i> <i>USD'000</i>	<i>2007</i> <i>USD'000</i>
Staff related accruals	1,999	375
Accrued expenses	82	81
Others	240	150
	2,321	606

12 EQUITY

	<i>2008</i> <i>USD'000</i>	<i>2007</i> <i>USD'000</i>
(i) <i>Share capital</i>		
Authorised 200,000,000 Ordinary shares of USD 1 each	200,000	200,000
<i>Issued and fully paid up</i>		
At beginning of Year (47,700,000 Ordinary shares of USD 1 each)	47,700	47,700
<i>Issued during year:</i>		
22,752,900 Ordinary shares of USD 1 each issued as Rights issue	22,753	-
20,927,517 Ordinary shares of USD 1 each issued as New issue	20,928	-
At end of Year (91,380,417 Ordinary shares of USD 1 each)	91,381	47,700

46 12 EQUITY (continued)

(ii) Proposed dividend

A stock dividend of 16.58 % (31 December 2007: 5%) of the paid up capital of the Company or USD 8.6 million (31 December 2007 : USD 2.38 million) has been proposed by the Board of Directors for the year end and will be submitted for formal approval at the Annual General Meeting.

(iii) Share premium/ Equity transaction cost

Amounts collected in excess of the par value of the issued share capital during any issue of shares, net of issue costs are treated as share premium. The amount is not available for distribution, but can be utilized as stipulated in the Bahrain Commercial Companies Law. Share premium from the issue of shares during the year amounted to USD 17,198 thousands (31 December 2007: nil).

Equity transaction cost, represent costs incurred by the Company that are directly related to raising capital and have been incurred in cash.

(iv) Statutory reserve

In accordance with Bahrain Commercial Companies Law and the Company's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Company's paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB.

(v) Cumulative changes in fair value reserve

The investment fair value reserve represents net unrealized revaluation gains on investments "available for sale" and "investments carried at fair value through statement of income.

(vi) General reserve

The transfers are made based on the recommendation of the Board of Directors and approval at the Annual General Meeting.

13 INCOME FROM ISLAMIC FINANCES

	2008 USD'000	2007 USD'000
Income from Murabaha receivables	358	229
Income from Mudaraba investments	161	1
Income from Wakala	40	145
	559	375

14 INCOME FROM INVESTMENTS

	2008 USD'000	2007 USD'000
Gain on sale of investments	1,442	509
Income from investments in securities	1,411	2,337
Income from Sukuks	895	1,177
	3,748	4,023

15 GENERAL & ADMINISTRATIVE EXPENSES

	2008 USD'000	2007 USD'000
Project expenses written off	423	-
Professional and legal fees	316	304
Depreciation	287	241
Business development expenses	257	298
Travel expenses	96	236
Office rent and utilities	87	90
Directors' remuneration	200	110
Other expenses	389	456
	2,055	1,735

16 COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

These include commitments to enter into financing contracts which are designed to meet the requirements of the Company's customers.

Commitments represent contractual commitments under Murabaha receivables. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash flow requirements.

The Company has the following credit related commitments.

	2008 USD'000	2007 USD'000
Underwriting commitment	15,000	15,000
Forward foreign exchange commitment	10,294	20,272
Uncalled capital commitment	7,436	6,977
	32,730	42,249

The Company has commitments relating to the leasehold improvements and rentals and are as follows:

	2008 USD'000	2007 USD'000
Rentals	1,620	1,659
Commitment related to leasehold improvements	159	741
Commitment related to project developments	133	-
	1,912	2,400

NOTES TO THE FINANCIAL STATEMENTS continued

As at 31 December 2008

16 COMMITMENTS AND CONTINGENT LIABILITIES (continued)***Ijarah Muntahia Biltamleek commitments***

The Company has entered into Ijarah Muntahia Biltamleek for vehicles. These leases have an expected useful life of 4 years. Future minimum rentals payable under these leases as at 31 December are as follows:

	<i>2008</i> <i>USD'000</i>	<i>2007</i> <i>USD'000</i>
Within one year	48	48
After one year but not more than five years	40	88
	88	136
Total commitments and contingent liabilities	34,730	44,785

17 RELATED PARTY TRANSACTIONS

The Company enters into transactions with major shareholders, directors, management and companies of which they are principal owners in the ordinary course of business at commercial rates. All the financing contracts with related parties are performing and are free of any provision for possible impairment.

Balances with related parties included in the balance sheet are as follows:

	<i>2008</i> <i>USD'000</i>	<i>2007</i> <i>USD'000</i>
Cash and bank balances	109	140
Due from financial institutions	13,000	6,992
Investments	23,470	7,293
Accounts payable	-	4,244
Due to financial institutions	4,674	7,759
Commitments and contingent liabilities	25,294	20,272

The transactions with related parties included in the statement of income are as follows:

	<i>31 December</i> <i>2008</i> <i>USD'000</i>	<i>31 December</i> <i>2007</i> <i>USD'000</i>
Income from Islamic finances	160	211
Placement, arranging and underwriting fees	1,500	375
Income from investment	283	202
Profit payable on Islamic finances	(448)	(188)
General and administrative costs	(58)	(221)
Gain on sale of treasury shares	157	-

Compensation of the Directors and key management personnel are as follows:

	<i>31 December</i> <i>2008</i> <i>USD'000</i>	<i>31 December</i> <i>2007</i> <i>USD'000</i>
Long term employee benefits	1,966	-
Short term employee benefits	941	408

Type of credit risk

Various contracts entered into by the Company comprise Murabaha receivables, Mudaraba investments and Wakala.

Murabaha receivables

These are basically sales on deferred terms.

The Company arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then sells this commodity to the Murabeh (beneficiary) after adding a margin of profit over the cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

Mudaraba investments

Mudaraba investments is a partnership where the Company (“rabbalmal”) gives money to another (“Mudarib”) for investing in a commercial enterprise for a definite period of time.

Risk management

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Company controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company’s performance to developments affecting a particular industry or geographic location. The Company seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Company to make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Company to similar risks to financing contracts and these are mitigated by the same control processes and policies.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

	<i>Gross maximum exposure 2008 USD’000</i>	<i>Gross maximum exposure 2007 USD’000</i>
Cash and bank balances	482	286
Due from financial institutions	50,754	28,976
Investments	81,524	56,256
Other assets	6,280	4,451
Total	139,040	89,969
Credit commitments and contingent liabilities	34,730	44,785
Total credit risk exposure	173,770	134,754

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

NOTES TO THE FINANCIAL STATEMENTS continued

As at 31 December 2008

18 CREDIT RISK (continued)**CONCENTRATIONS OF ASSETS, LIABILITIES, AND COMMITMENTS AND CONTINGENT LIABILITIES**

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2008 was USD 17,500 thousands (2007: USD 18,718 thousands) before taking account of collateral.

The distribution by geographic region and industry sector as of 31 December was as follows:

	<i>Assets</i> USD '000		<i>Liabilities</i> USD '000		<i>Commitments and contingent liabilities</i> USD '000	
	2008	2007	2008	2007	2008	2007
Geographical region						
North America	2,798	4,994	-	-	-	-
Europe	13,876	19,106	-	-	10,294	20,272
Middle East	120,046	65,948	12,058	39,365	7,999	9,513
Africa	4,178	3,926	-	-	16,437	-
Asia	1	-	-	-	-	15,000
	140,899	93,974	12,058	39,365	34,730	44,785
Industry sector						
Trading and manufacturing	13,029	23,528	-	-	-	-
Banks and financial institutions	78,361	35,674	9,697	12,858	10,294	20,272
Others	49,509	34,772	2,361	26,507	24,436	24,513
	140,899	93,974	12,058	39,365	34,730	44,785

Exposures to banks and non banks which exceeds 25% of the Company's capital and reserves amount to US\$ nil (31 December 2007 US\$ 33,044 thousand).

The credit quality of financial assets is managed by the Company assigning rating as Good, Watch, Sub Standard and Doubtful and Past due or individually impaired.

Good

Credit exposures in this category are normal credit risks which show no sign of actual or potential default and it is unlikely that the Bank will sustain a loss.

Watch

Credit exposures in this category show no sign of actual or potential default. However certain minor unsatisfactory aspects to the exposure justify more than normal attention.

Sub-standard

In this category normal repayment is in jeopardy and there exists well defined weaknesses in support of the same. The asset is inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral.

Doubtful

Full repayment is questionable in this grade. Serious problems exist to the point where a partial loss of principal is likely. Weaknesses are so pronounced that on the basis of current information, conditions and values, collection in full is highly improbable.

18 CREDIT RISK (continued)

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Credit quality per class of financial assets (continued)

Loss - Individually impaired

Total loss is expected, however in management's opinion recovery is a possibility, and hence write off should be deferred.

Credit quality per class of assets as at 31 December 2008

	<i>Good 2008 USD 000</i>	<i>Watch 2008 USD 000</i>	<i>Past due or individually impaired 2008 USD 000</i>	<i>Total 2008 USD 000</i>
Investments	78,940	2,308	276	81,524
Due from financial institutions	50,754	-	-	50,754
Cash and bank balances	482	-	-	482
Total	130,176	2,308	276	132,760

Individually impaired assets

Quoted Equity Investment aggregating to USD 1,004 thousands has been considered impaired on the basis of available market values of USD 276 thousands as the decrease in fair value is in excess of 20%. The impairment provision of USD 728 thousand has provided in the statement of income.

Credit quality per class of assets as at 31 December 2007

	<i>Good 2007 USD 000</i>	<i>Watch 2007 USD 000</i>	<i>Past due or individually impaired 2007 USD 000</i>	<i>Total 2007 USD 000</i>
Investments	58,698	561	-	59,259
Due from financial institutions	28,976	-	-	28,976
Cash and bank balances	286	-	-	286
Total	87,960	561	-	88,521

19 LIQUIDITY RISK

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Company is targeting to build a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and commodity Murabahas.

Liquid assets consist of cash and bank balances and due from financial institutions. The ratios during the year were as follows:

	<i>2008 %</i>	<i>2007 %</i>
31 December 2008	36.9	31.1
During the year		
Average	22.5	26.5
Highest	36.9	39.6
Lowest	2.3	4.43

NOTES TO THE FINANCIAL STATEMENTS continued

As at 31 December 2008

19 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Company's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and the availability of liquid funds. Liquidity is also established by easy marketability of investments.

The maturity profile of assets, liabilities and equity at 31 December 2008 was as follows:

	<i>Up to 1 month USD'000</i>	<i>1 to 3 months USD'000</i>	<i>3 to 6 months USD'000</i>	<i>6 months to 1 year USD'000</i>	<i>1 to 3 years USD'000</i>	<i>Over 3 years USD'000</i>	<i>Total USD'000</i>
ASSETS							
Cash and bank balances	482	-	-	-	-	-	482
Due from financial institutions	49,254	1,500	-	-	-	-	50,754
Investments	-	2,610	7,958	2,799	33,351	34,806	81,524
Fixed assets	-	-	-	-	-	1,859	1,859
Other assets	4,028	1,776	438	38	-	-	6,280
Total assets	53,764	5,886	8,396	2,837	33,351	36,665	140,899
LIABILITIES AND EQUITY							
Due to financial institutions	5,438	1,500	-	2,759	-	-	9,697
Accounts payable	-	40	-	-	-	-	40
Other liabilities	2,321	-	-	-	-	-	2,321
Equity	-	-	-	-	-	128,841	128,841
Total liabilities and equity	7,759	1,540	-	2,759	-	128,841	140,899
Liquidity gap	46,005	4,346	8,396	78	33,351	(92,176)	-
Cumulative liquidity gap	46,005	50,351	58,747	58,825	92,176	-	-

19 LIQUIDITY RISK (continued)

The maturity profile of assets, liabilities and equity at 31 December 2007 was as follows:

	<i>Up to 1 month USD'000</i>	<i>1 to 3 months USD'000</i>	<i>3 to 6 months USD'000</i>	<i>6 months to 1 year USD'000</i>	<i>1 to 3 years USD'000</i>	<i>Over 3 years USD'000</i>	<i>Total USD'000</i>
ASSETS							
Cash and bank balances	286	-	-	-	-	-	286
Due from financial institutions	27,373	1,603	-	-	-	-	28,976
Investments	-	-	5,000	561	5,032	48,666	59,259
Fixed assets	-	-	-	-	-	1,002	1,002
Other assets	1,906	2,545	-	-	-	-	4,451
Total assets	29,565	4,148	5,000	561	5,032	49,668	93,974
LIABILITIES AND EQUITY							
Due to financial institutions	-	5,036	5,038	2,785	-	-	12,859
Accounts payable	-	25,900	-	-	-	-	25,900
Other liabilities	606	-	-	-	-	-	606
Equity	-	-	-	-	-	54,609	54,609
Total liabilities and equity	606	30,936	5,038	2,785	-	54,609	93,974
Liquidity gap	28,959	(26,788)	(38)	(2,224)	5,032	(4,941)	-
Cumulative liquidity gap	28,959	2,171	2,133	(91)	4,941	-	-

The maturity profile of credit commitment and contingent liabilities at 31 December 2008 was as follows:

	<i>Up to 1 month USD'000</i>	<i>1 to 3 months USD'000</i>	<i>3 to 6 months USD'000</i>	<i>6 months to 1 year USD'000</i>	<i>1 to 3 years USD'000</i>	<i>Over 3 years USD'000</i>	<i>Total USD'000</i>
Credit Commitments	-	22,437	-	-	-	-	22,437
Foreign Exchange commitment	10,294	-	-	-	-	-	10,294
Other commitments	190	93	225	186	1,008	297	1,999
Total assets	10,484	22,530	225	186	1,008	297	34,730

The maturity profile of credit commitment and contingent liabilities at 31 December 2007 was as follows:

	<i>Up to 1 month USD'000</i>	<i>1 to 3 months USD'000</i>	<i>3 to 6 months USD'000</i>	<i>6 months to 1 year USD'000</i>	<i>1 to 3 years USD'000</i>	<i>Over 3 years USD'000</i>	<i>Total USD'000</i>
Credit Commitments	-	21,976	-	-	-	-	21,976
Foreign Exchange commitment	20,272	-	-	-	-	-	20,272
Other commitments	-	81	741	81	1,553	81	2,537
Total assets	20,272	22,057	741	81	1,553	81	44,785

NOTES TO THE FINANCIAL STATEMENTS continued

As at 31 December 2008

54 20 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchange rates and equity prices. The Company managed and monitored the positions using sensitivity analysis.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The following table demonstrates the sensitivity to reasonably possible change in profit rates, with all other variables held constant.

The effect of decreases in basis points is expected to be equal and opposite to the effect of the increases shown.

	2008 USD'000	Change in basis points points	Effect on net income for the year USD'000
ASSETS			
Due from financial institutions - Murabaha, Mudaraba & Wakala	50,754	20	102
Investments - sukuks	11,580	20	23
Liabilities			
Due to financial institutions - Murabaha	9,697	20	(19)
Total			106
	2007 USD'000	Change in basis points points	Effect on net income for the year USD'000
ASSETS			
Due from financial institutions - Murabaha, Mudaraba & Wakala	28,976	20	58
Investments - sukuks	14,852	20	30
Liabilities			
Due to financial institutions - Murabaha	12,759	20	(26)
Total			62

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The currency positions are monitored on daily basis to ensure positions are maintained within established limits.

Non - Monetary assets

	2008 USD'000	2007 USD'000
Investments in GBP (Non-monetary) which are covered by Foreign currency "promise to purchase currency contracts"	10,294	20,272

These forward purchase commitments are included under commitments and contingent liabilities (Note no 16).

The effect on income (as a result of a change in the fair value of equity instruments at 31 December 2008 due to a reasonably possible change (i.e. 5%) in the value of individual investments, with all other variables held constant is USD 2,602 thousands.

Monetary assets

The table below indicate the currencies to which the Company had significant exposure at 31 December 2008 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US Dollar.

The effect of decreases in currency rate is expected to be equal and opposite to the effect of the increases shown below:

	<i>Change in currency rate %</i>	<i>Effect on profit 2008 USD'000</i>	<i>Effect on equity 2008 USD'000</i>	<i>Effect on profit 2007 USD'000</i>	<i>Effect on equity 2007 USD'000</i>
GBP	+ 5%	13	505	105	914
SAR	+ 5%	-	450	-	134
Total		13	955	105	1,048

Prepayment risk

Prepayment risk is the risk that the Company will incur a financial loss because its counterparties repay or request repayment earlier or later than expected. The Company is not exposed to any significant prepayment risk.

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company can not expect to eliminate all operational risks, but through a control frame work and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures.

21 CAPITAL MANAGEMENT

The Company maintains an actively managed capital base to cover risks inherent in business. The adequacy of the Company' capital is monitored using, among other measures, the rules and ratios adopted by Central Bank of Bahrain in supervising the Company.

The primary objective of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements, and maintain healthy capital ratios in order to support its business and maximise shareholders' value.

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

	<i>2008 USD'000</i>	<i>2007 USD'000</i>
Regulatory Capital		
Tier 1 Capital	120,346	51,607
Tier 2 Capital	3,823	1,351
	124,169	52,958
Risk based capital requirement	72,460	46,849
% of capital cover	171%	113%
Minimum requirement	110%	110%

The above is calculated as per rules prescribed by CBB applicable for Investment Firm (Category 1) license.

56 **22 SEGMENTAL INFORMATION**

The activities of the Company is performed on an integrated basis. Therefore, any segmentation of operating income, expenses, assets and liabilities is not relevant. As such, operating income, expenses, assets and liabilities are not segmented.

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

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Company's financial instruments are not significantly different from their book values as at the balance sheet other than unquoted equity shares as reported in note 6.

24 EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

The Company did not receive income or incur any expense prohibited by the Shari'ah.

25 SHARI'AH SUPERVISORY BOARD

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

26 COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect the previously reported net income, total assets, total liabilities and equity of the Company previously reported.