

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>
<b>ASSETS</b>			
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
<b>TOTAL ASSETS</b>		<b>140,899</b>	<b>93,974</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Liabilities</b>			
Due to financial institutions	9	9,697	12,859
Accounts payable	10	40	25,900
Other liabilities	11	2,321	606
<b>Total liabilities</b>		<b>12,058</b>	<b>39,365</b>
<b>Equity</b>			
Share capital	12	91,381	47,700
Share premium		17,579	-
Reserves		19,881	6,909
<b>Total equity</b>		<b>128,841</b>	<b>54,609</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>140,899</b>	<b>93,974</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>	16	<b>34,730</b>	<b>44,785</b>



**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>
<b>INCOME</b>			
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
<b>Total income</b>		<b>21,593</b>	<b>10,163</b>
<b>EXPENSES</b>			
Profit on Islamic payables		970	473
Staff costs		4,167	2,321
General and administrative costs	15	2,055	1,735
<b>Total expenses</b>		<b>7,192</b>	<b>4,529</b>
<b>INCOME FOR THE YEAR</b>		<b>14,401</b>	<b>5,634</b>

**CASH FLOW STATEMENT**

For the year ended 31 December 2008

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	2008 USD'000	2007 USD'000
<b>OPERATING ACTIVITIES</b>		
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
<b>INVESTING ACTIVITIES</b>		
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
<b>FINANCING ACTIVITIES</b>		
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	-
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of the year	23,656	575
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		
	51,236	23,656
<b>Cash and cash equivalents comprise of:</b>		
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	<b>1</b>	1
Bank balances-Nostros	<b>481</b>	285
	<b>482</b>	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	<b>33,254</b>	21,698
Mudaraba receivables	<b>17,500</b>	-
Wakala	-	3,300
Escrow account *	-	3,978
	<b>50,754</b>	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

**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
<b>Available-for- sale investments:</b>						
<b>Quoted investments</b>						
Investment securities	2,191	419	2,610	1,004	(443)	561
	2,191	419	2,610	1,004	(443)	561
<b>Unquoted investments</b>						
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
<b>Total available-for- sale investments</b>	<b>62,077</b>	<b>1,552</b>	<b>63,629</b>	<b>46,625</b>	<b>595</b>	<b>47,220</b>
<b>Investments carried at fair value through statement of income</b>	<b>5,546</b>	<b>6,943</b>	<b>12,489</b>	<b>4,225</b>	<b>2,408</b>	<b>6,633</b>
<b>Investment property*</b>	<b>5,406</b>	<b>-</b>	<b>5,406</b>	<b>5,406</b>	<b>-</b>	<b>5,406</b>
<b>Total investments</b>	<b>73,029</b>	<b>8,495</b>	<b>81,524</b>	<b>56,256</b>	<b>3,003</b>	<b>59,259</b>

\* 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:					
<b>As at 31 December</b>	<b>186</b>	<b>543</b>	<b>1,130</b>	<b>1,859</b>	<b>1,002</b>

**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
	<b>6,280</b>	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
	<b>9,697</b>	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
	<b>2,321</b>	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)	<b>91,381</b>	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
	<b>559</b>	<b>375</b>

## 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
	<b>3,748</b>	<b>4,023</b>

## 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
	<b>2,055</b>	<b>1,735</b>

## 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
	<b>32,730</b>	<b>42,249</b>

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	-
	<b>1,912</b>	<b>2,400</b>

**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
<b>Total commitments and contingent liabilities</b>	<b>34,730</b>	<b>44,785</b>

**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
<b>Total</b>	<b>139,040</b>	<b>89,969</b>
Credit commitments and contingent liabilities	34,730	44,785
<b>Total credit risk exposure</b>	<b>173,770</b>	<b>134,754</b>

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
<b>Geographical region</b>						
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
	<b>140,899</b>	<b>93,974</b>	<b>12,058</b>	<b>39,365</b>	<b>34,730</b>	<b>44,785</b>
<b>Industry sector</b>						
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
	<b>140,899</b>	<b>93,974</b>	<b>12,058</b>	<b>39,365</b>	<b>34,730</b>	<b>44,785</b>

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
<b>Total</b>	<b>130,176</b>	<b>2,308</b>	<b>276</b>	<b>132,760</b>

#### **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
<b>Total</b>	<b>87,960</b>	<b>561</b>	<b>-</b>	<b>88,521</b>

## 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	<b>36.9</b>	31.1
During the year		
Average	<b>22.5</b>	26.5
Highest	<b>36.9</b>	39.6
Lowest	<b>2.3</b>	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>
<b>ASSETS</b>							
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
<b>LIABILITIES AND EQUITY</b>							
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>
<b>ASSETS</b>							
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
<b>Total assets</b>	<b>29,565</b>	<b>4,148</b>	<b>5,000</b>	<b>561</b>	<b>5,032</b>	<b>49,668</b>	<b>93,974</b>
<b>LIABILITIES AND EQUITY</b>							
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
<b>Total liabilities and equity</b>	<b>606</b>	<b>30,936</b>	<b>5,038</b>	<b>2,785</b>	<b>-</b>	<b>54,609</b>	<b>93,974</b>
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
<b>Total assets</b>	<b>10,484</b>	<b>22,530</b>	<b>225</b>	<b>186</b>	<b>1,008</b>	<b>297</b>	<b>34,730</b>

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
<b>Total assets</b>	<b>20,272</b>	<b>22,057</b>	<b>741</b>	<b>81</b>	<b>1,553</b>	<b>81</b>	<b>44,785</b>

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

**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
<b>Total</b>		<b>13</b>	<b>955</b>	<b>105</b>	<b>1,048</b>

**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.