

FIRST LEASING BANK BSC (c)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

FIRST LEASING BANK BSC (c)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

Contents	Pages
Directors' report	1-2
Independent auditors' report	3-4
Balance sheet	5
Income statement	6
Statement of changes in equity	7
Cash flow statement	8
Notes to the financial statements	9-21

First Leasing Bank BSC (c)
Directors' report for the year ended 31 December 2006

The Directors are pleased to submit their report together with the audited financial statements of First Leasing Bank B.S.C.(c) for the year ended 31 December 2006.

Principal Activity

First Leasing Bank is committed to its mission to be the premier financial services company in the GCC specialising in equipment leasing and boutique real estate investments. During 2006, the Bank continued to develop the equipment leasing market in the GCC, through the provision of primary products of its Sharia compliant finance leases (ijara wa iqtina) and operating leases (ijara). In 2007 and 2008, the investment in equipment leasing will be predominantly through finance leases. However, the Bank intends to continue developing the operating lease market and expects to execute some operating lease transactions in the year 2007.

Review of Business

In 2006 the Bank built on the solid foundations that were laid down in the previous year in terms of its client base, lease transactions, deals flow and profitability. Contributions from our **Principal Investing** activities (income from financing activities), increased more than three-folds, from US\$ 0.26 million at end of the previous year to US\$ 0.91 million as at the end of 2006. Total operating income rose strongly during the year from US\$ 0.73 million to US\$ 1.44 million. The Bank has developed a geographically diversified market with the UAE, Kuwait and Bahrain representing 40%, 30% and 30% (respectively) of the total lease originations.

By the end of 2006, First Leasing Bank's finance lease receivables amounted to US\$ 20.79 million compared to US\$ 6.81 million at end of 2005 representing originated leases. The Bank continued to develop a diversified portfolio, which included assets such as printing equipment, industrial processing equipment, construction equipment, manufacturing equipment, telecommunications gear, amusement park rides, power generators, and fleet vehicles. In addition, the Bank had funds under management at end of 2006 amounting to US\$ 5.78 million.

A significant achievement during the year was the successful increase in the Bank's capital through a private placement issue which was fully subscribed. The issue raised a total amount of US\$ 93.45 million of which US\$ 4.45 million was share premium. The Bank is strongly capitalized with shareholders' equity reaching US\$ 96.29 million (net of start-up expenses, operating expenses and share premium). We view this strong capital base as a key competitive advantage and platform for future growth.

In conclusion, we would like to express our sincere appreciation for the continued support of the Bank's shareholders, for the dedication of the management and staff and for the constructive cooperation which the bank enjoys with the regulatory authorities that supervise and facilitate its activities.

Directors

The following Directors representing the five shareholders of First Leasing Bank served during the year ended 31 December 2006:

Khalid Abdulla Janahi	Ithmaar Bank B.S.C., Chairman of the Board of Directors
Ziad Hassan Rawashdeh	Ithmaar Bank B.S.C., Member of the Board of Directors
James M. Godec	Overland Capital Group Inc., Chairman & CEO
H. Russell Wilks	Overland Capital Group Inc., President
Peter Panayiotou	Gulf Finance House B.S.C., Deputy CEO
Rashad Yusuf Janahi	Abu Dhabi Investment House P.J.S.C., CEO

First Leasing Bank BSC (c)
Directors' report for the period ended 31 December 2006 (continued)

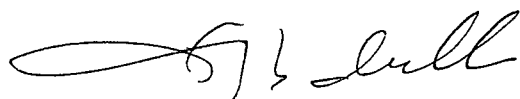
Sharia Advisor

Dr. Fareed Mohammed Hadi, a prominent Bahrain Islamic scholar, Chairman - Arabic and Islamic Studies, University of Bahrain, is First Leasing Bank's Sharia advisor.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and a resolution proposing their reappointment will be placed before the Annual General Meeting.

By order of the Board of Directors



Khalid Abdulla-Janahi
Chairman

25 February 2007

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
First Leasing Bank BSC (c)**

Report on the financial statements

We have audited the accompanying financial statements of First Leasing Bank BSC (c) (the "Bank") which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

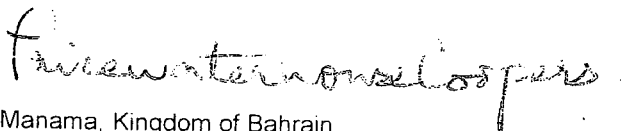
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
First Leasing Bank BSC (c) (continued)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on regulatory requirements

Further, in accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain Law, we report that we have obtained all the information that we considered necessary for the purpose of our audit; the Bank has maintained proper books of accounts and the financial statements and the financial information contained in the Directors' report, are in agreement therewith; and, nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the Bahrain Commercial Companies Law, the Central Bank of Bahrain Law, the terms of its banking license or its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2006.



Manama, Kingdom of Bahrain
25 February 2007

First Leasing Bank BSC (c)
Balance sheet at 31 December 2006

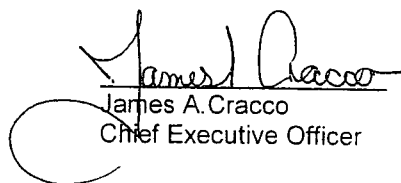
(All amounts expressed in United States Dollars unless otherwise stated)

	Note	As at 31 December	
		2006	2005
ASSETS			
Cash and balances with bank	9	260,905	335,622
Placements with banks	9	76,597,871	156,821
Finance lease receivables	4	20,789,474	6,806,046
Construction finance	3,9	-	1,266,136
Fixed assets	6	97,685	132,929
Other assets	7	680,416	114,082
Total assets		98,426,351	8,811,636
LIABILITIES			
Accounts payable and other liabilities	8	811,210	229,524
Due to related parties	9	1,325,918	321,737
Total liabilities		2,137,128	551,261
EQUITY			
Share capital	10	100,000,000	11,000,000
Accumulated losses		(3,710,777)	(2,739,625)
Total equity		96,289,223	8,260,375
Total liabilities and equity		98,426,351	8,811,636
Off balance sheet items	20	5,779,090	5,080,814

These financial statements were approved for issue by the Board of Directors on 25th February 2007 and signed on its behalf by:



Khalid Abdulla-Janahi
Chairman



James A. Cracco
Chief Executive Officer

The notes on pages 9 to 21 are an integral part of these financial statements.

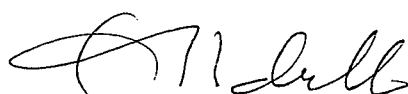
First Leasing Bank BSC (c)

Income statement

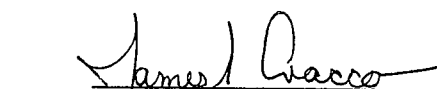
(All amounts expressed in United States Dollars unless otherwise stated)

	Note	Year ended 31 December 2006	From August 2004 to 31 December 2005
Income from financing activities		906,932	259,262
Interest income from placements with banks	9	148,513	304,593
Fee and commission income	11	371,946	130,939
Other income		8,861	37,027
Total operating income		<u>1,436,252</u>	<u>731,821</u>
Staff costs		(961,973)	(1,282,849)
Other operating expenses	12	(638,976)	(1,160,802)
Provision for impairment	4	(700,000)	-
Finance cost		(106,455)	-
Start-up expenses	9,13	-	(1,027,795)
Total operating expenses		<u>(2,407,404)</u>	<u>(3,471,446)</u>
Net loss for the year/period		<u>(971,152)</u>	<u>(2,739,625)</u>

These financial statements were approved for issue by the Board of Directors on 25th February 2007 and signed on its behalf by:



Khalid Abdulla-Janahi
Chairman



James A. Cracco
Chief Executive Officer

The notes on pages 9 to 21 are an integral part of these financial statements.

First Leasing Bank BSC (c)
Statement of changes in equity for the year ended 31 December 2006
 (All amounts expressed in United States Dollars unless otherwise stated)

	Note	Share capital	Share premium	Accumulated losses	Total
Issue of share capital at 4 August 2004	10	11,000,000	-	-	11,000,000
Net loss for the period		-	-	(2,739,625)	(2,739,625)
At 31 December 2005		11,000,000	-	(2,739,625)	8,260,375
At 1 January 2006		11,000,000	-	(2,739,625)	8,260,375
Issue of share capital		89,000,000	-	-	89,000,000
Shares premium	10	-	4,450,000	-	4,450,000
Shares issue cost	10	-	(4,450,000)	-	(4,450,000)
Net loss for the year		-	-	(971,152)	(971,152)
At 31 December 2006		100,000,000	-	(3,710,777)	96,289,223

The notes on pages 9 to 21 are an integral part of these financial statements.

First Leasing Bank BSC (c)

Statement of cash flows

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

	Note	Year ended 31 December 2006	From August 2004 to 31 December 2005
Operating activities			
Net loss for the year/ period		(971,152)	(2,739,625)
<u>Adjustments for :</u>			
Depreciation	6	35,244	67,537
Provision for impairment	4	700,000	-
<u>Changes in operating assets and liabilities:</u>			
- Increase in finance lease receivables		(14,683,428)	(6,806,046)
- Decrease/(increase) in advances on leases		1,266,136	(1,266,136)
- Increase in other assets		(566,334)	(111,422)
- Increase in accounts payable and other liabilities		581,686	229,524
- Increase in due to related parties		1,004,181	321,737
Net cash used in operations		<u>(12,633,667)</u>	<u>(10,304,431)</u>
Investing activities			
Investment in subsidiary	7	-	(2,660)
Purchase of fixed assets	6	-	(200,466)
Net cash used in investing activities		<u>-</u>	<u>(203,126)</u>
Financing activities			
Net proceed from issued shares		<u>89,000,000</u>	<u>11,000,000</u>
Net cash provided by financing activities		<u>89,000,000</u>	<u>11,000,000</u>
Net increase in cash and cash equivalents		76,366,333	492,443
Cash and cash equivalents at the beginning of the year/period		492,443	-
Cash and cash equivalents at the end of the year/period		<u>76,858,776</u>	<u>492,443</u>
Cash and cash equivalents comprise:			
Cash and balances with bank		260,905	335,622
Placements with banks		<u>76,597,871</u>	<u>156,821</u>
		<u>76,858,776</u>	<u>492,443</u>

The notes on pages 9 to 21 are an integral part of these financial statements.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2006

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

1. Incorporation and principal activity

First Leasing Bank B.S.C.(c) ("the Bank") was incorporated in the Kingdom of Bahrain as a closed Bahraini shareholding company registered with Ministry of Industry and Commerce in the Kingdom of Bahrain under Commercial Registration number 54236 on 2 August 2004 and operates under an Investment Banking License issued by Central Bank of Bahrain. The registered office of the Bank is located at Al-Moayyed Tower, at Al Seef District, Kingdom of Bahrain.

The Bank is principally engaged in the provision of finance and operating equipment leases (Ijara) throughout the Gulf Co-operation Council countries in conformity with Sharia.

2. Significant accounting policies

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

a) Basis of preparation

The Bank financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

During the year, there have been amendments to published standards and interpretations effective from 1 January 2006. The application of the amendments and interpretations listed below did not result in substantial changes to the Bank's accounting policies:

- International Accounting Standards (IAS) 19 Amendment – Actuarial Gains and Losses, Bank Plan disclosures: This amendment is not relevant for the Bank;
- IAS 21 Amendment – Net Investment in Foreign Operation: This amendment is not relevant for the Bank;
- IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions: This amendment is not relevant for the Bank;
- IAS 39 Amendment – The Fair Value Option: This amendment is not relevant for the Bank;
- IAS 39 and IFRS 4 Amendment – Financial Guarantee Contract: This amendment is not relevant for the Bank;
- IFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards: This amendment is not relevant for the Bank;
- IFRS 6 Amendment - Exploration for and Evaluation of Mineral Resources: This amendment is not relevant for the Bank;
- IFRIC 4 – Determining whether an Agreement contains a Lease: This interpretation is not relevant for the Bank; and
- IFRIC 5 – Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds: This interpretation is not relevant for the Bank.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2006 (continued)

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

a) Basis of preparation (continued)

The following new standards, amendments to standards and interpretations have been issued but are not effective for the Bank's 2006 financial year and have not been early adopted:

- IFRS 7 – Financial Instruments: Disclosures – effective for annual periods beginning on or after 1 January 2007. IAS 1 – Amendments to capital disclosures – effective for annual periods beginning on or after 1 January 2007. The Bank will assess the implication of IFRS7 and amendments to IAS 1 in the Bank's financial records.
- IFRIC 7 – Applying the Restatement Approach under IAS 29 - effective for annual periods beginning on or after 1 March 2006;
- IFRIC 8 – Scope of IFRS 2 - effective for annual periods beginning on or after 1 May 2006;
- IFRIC 9 – Reassessment of embedded derivatives - effective for annual periods beginning on or after 1 June 2006;
- IFRIC 10 – Interim Financial Reporting and Impairment – effective for annual periods beginning on or after 1 November 2006; and
- IFRIC 12 – Service Concession Arrangements – effective for annual periods beginning on or after 1 January 2009.

The application of the above new interpretations will not have a material impact on the Bank's financial statements in the period of initial recognition.

b) Revenue recognition

Finance lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return on the investment amount outstanding on the finance lease.

Interest income from placements with banks is recognised on an accrual basis.

Fee income and other income are recognised on an accrual basis when the service has been provided.

c) Interest expenses

Interest expense on the banks borrowings is recognised on an accrual basis in the income statement as financing costs.

d) Leases

When assets are held subject to a finance lease, the present value of lease payments (excluding those related to participations of third parties) is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2006 (continued)

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

e) Fixed Assets

Fixed assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated on the straight-line method to write off the cost of these assets over their estimated useful lives of one to five years.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate. Only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. The asset's residual value and useful lives are reviewed, and adjusted if appropriate, at balance sheets date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These included in other income in the income statement.

All repairs and maintenance expenses are charged to other operating expenses during the financial period in which they are incurred.

f) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

g) Employee benefits

Employee benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognized as they accrue to the employees. The Bank contributes to the pension scheme for Bahraini nationals administered by the General Organization for Social Insurance in the Kingdom of Bahrain. This is a defined contribution pension plan and the Bank's contributions are charged to the statement of income in the year to which they relate. In respect of this plan the Bank has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

The expatriate employees of the Bank are paid leaving indemnity in accordance with the provisions of the Bahrain Labour Law. The Bank accrues its liability in this respect on an annual basis.

h) Impairment of lease receivables

An allowance for impairment is established if there is objective evidence that the Bank will not be able to collect the amount due according to the original contractual terms of the lease. The amount of the provision is the difference between the carrying amount at the time the lease is considered doubtful and the recoverable amount, being the present value of expected proceeds arising from sale of the leased assets discounted at the original effective interest rate of the lease plus any amount recoverable through litigation or direct negotiation with lessee.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2006 (continued)

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

i) Share capital

a. Share issue cost

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

b. Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent event note.

j) Fiduciary activities

The Bank commonly acts in other fiduciary capacity that results in holding assets on behalf of the counterparty. These assets and income thereon are excluded from these financial statements, as they are not the assets of the Bank.

k) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and balances with bank and placements with banks having a maturity of three months or less.

First Leasing Bank BSC (c)
Notes to the financial statements for the year ended 31 December 2006 (continued)
 (All amounts expressed in United States Dollars unless otherwise stated)

3. Construction finance

Construction finance represents amounts paid for construction of an asset to be used for a finance lease (Note 9).

4. Finance lease receivables

	2006	2005
<u>Gross investment in finance leases, receivable:</u>		
Not later than 1 year	9,133,359	2,406,994
Later than 1 year and not later than 5 years	17,169,906	5,914,160
	26,303,265	8,321,154
Unearned future finance income on finance leases	(4,813,791)	(1,515,108)
Provision for impairment	(700,000)	-
Net investment in finance leases	20,789,474	6,806,046
The net investment in finance leases is analysed as follows:		
Not later than 1 year	7,014,375	1,900,646
Later than 1 year and not later than 5 years	13,775,099	4,905,400
	20,789,474	6,806,046

Reconciliation of finance lease receivable

	2006	2005
At 1 January	6,806,046	-
Finance lease made	2,600,953	7,286,075
Purchase of finance lease receivable	12,892,020	-
Transferred from construction finance (note 9)	1,266,136	-
Principal repayment received	(2,075,681)	(480,029)
Provision for impairment made	(700,000)	-
	20,789,474	6,806,046

Significant leasing arrangements

The rentals are determined based on prevailing London Inter-bank Offer Rate ("LIBOR") at the inception of each transaction, either on fixed or floating rate basis.

Finance lease receivables include an amount of US\$ 777,750, which represents the outstanding balance of the amount utilised from Shamil Bank of Bahrain ("Shamil Bank") facility obtained to finance the lease transactions (Note 9).

On 27 December 2006, Ithmaar Bank exercised the option to transfer the outstanding balances of lease receivables that were recognised by Ithmaar Bank to First Leasing Bank in accordance with the Special Purpose Mudaraba Agreement signed on 12 November 2006. The outstanding lease receivables were transferred at an agreed price of US\$12.9 million which equals the book value of the lease receivables in Ithmaar books at the date of transfer (Note 9).

First Leasing Bank BSC (c)**Notes to the financial statements for the year ended 31 December 2006 (continued)**

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

5. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within next financial year. Estimates and judgements are continuously evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of finance lease receivable

The Bank reviews its portfolio of finance lease receivable in a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrower. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

6. Fixed Assets

	Fixtures and fittings	Office equipment	Total
2006			
<u>Cost</u>			
At 1 January 2006	123,528	76,938	200,466
<u>Accumulated Depreciation</u>			
At 1 January 2006	21,385	46,152	67,537
Charge for the year	24,706	10,538	35,244
	<u>46,091</u>	<u>56,690</u>	<u>102,781</u>
Net book value as of 31 December 2006	<u>77,437</u>	<u>20,248</u>	<u>97,685</u>
2005			
<u>Cost</u>			
Additions during the period	123,528	76,938	200,466
<u>Accumulated Depreciation</u>			
Charge for the period	21,385	46,152	67,537
	<u>102,143</u>	<u>30,786</u>	<u>132,929</u>
Net book value as of 31 December 2005	<u>102,143</u>	<u>30,786</u>	<u>132,929</u>

First Leasing Bank BSC (c)
Notes to the financial statements for the year ended 31 December 2006 (continued)
 (All amounts expressed in United States Dollars unless otherwise stated)

7. Other assets

Other assets include the following balances:

	2006	2005
Accrued income receivable	446,028	89,272
Prepaid expenses and other receivables	231,728	22,150
Investment in subsidiary – Gulf Medical Equipment Fund Company ("GMEFC")	2,660	2,660
	<u>680,416</u>	<u>114,082</u>

Prepaid expenses include an amount of US\$ 207,000 related to advance rent paid for the new premises.

The Bank has a fully owned subsidiary GMEFC, which was established mainly for management of Gulf Medical Equipment Fund ("GMEF") and is registered in the Kingdom of Bahrain. Investment in GMEFC has been carried at cost. Considering the subsidiary is dormant and the investment is not material, consolidation has not been carried out.

8. Account payable and other liabilities

	2006	2005
Creditors	66,728	149,413
Advance from customer	550,000	-
Indemnity	78,337	48,364
Accrued other payable	116,145	31,747
	<u>811,210</u>	<u>229,524</u>

9. Transactions with related parties

The bank carries out transactions in the normal course of business with related parties, defined as shareholders of the Bank, businesses in which shareholders, individually or combined, have control or significant influence and companies affiliated to the Bank.

Balance Sheet

At 31 December 2006 the Bank had the following balances with related parties. The effective interest earned on placements with banks is approximately 5%.

	2006	2005
Current accounts with Shamil Bank	259,543	335,622
<i>Placements with:</i>		
- Shamil Bank	26,597,871	156,821
- Ithmaar Bank	50,000,000	-
Purchase of finance lease receivables	12,892,020	-
Finance lease receivable	1,500,000	-
Construction finance	-	1,266,136
<i>Due to:</i>		
- Overland Capital Group	16,528	310,367
- Shamil Bank	793,735	-
- Khaleeji Commercial Bank	515,655	-
- Others	-	11,370

First Leasing Bank BSC (c)**Notes to the financial statements for the year ended 31 December 2006 (continued)**

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

9. Transactions with related parties (continue)

During 2006 the Bank extended the period of one facility to 30 May 2007, which originally was due on 30 November 2006. The construction of the asset was completed in March 2006 and subsequent to that date the advance amount and additional financing made during the year were transferred to finance lease receivable. The bank received in full the accrued profit amounting to US\$ 112,290.

On 16 February 2006, the Bank obtained a Mudaraba facility from Shamil Bank to finance lease transactions. Under the terms of the facility the Bank can draw down up to a maximum limit of US\$5 million for each new deal with profit margin of 7.5% per annum, payable on a semi-annual basis.

Income statement

The Bank enters into transactions with related parties in the normal course of business. The following transactions were carried out with related parties during the year/period.

	2006	2005
<u>Income</u>		
Income from financing activities	161,634	132,010
Interest income from placements with bank	148,513	304,593
Commission from funds under management	155,298	44,453
<u>Expenses</u>		
Management fee	250,000	354,167
Other operating expenses	111,175	188,719
Start-up expenses – setup and management fee	-	694,444
Gulf Medical Equipment Fund expenses	-	10,080

10. Share capital

	2006	2005
<u>Authorised</u>		
300 million (2005: 50 million) ordinary shares of US\$ 1 each	300,000,000	50,000,000
<u>Issued and fully paid</u>		
100 million (2005: 11 million) ordinary shares of US\$ 1 each	100,000,000	11,000,000

On 21 November 2006 the Bank raised the paid up capital to US\$ 100 million through a private placement of 89 million ordinary shares at US\$ 1.05 each, which included a share premium of US\$ 0.05 per share, was paid to Ithmaar Bank for acting as the placement manager, financial advisor and lead underwriter.

Share issue costs amounting US\$ 4.45 million, were deducted from share premium in the statement of changes in equity.

First Leasing Bank BSC (c)**Notes to the financial statements for the year ended 31 December 2006** (continued)

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

11. Fee and commission income

	2006	2005
Management fee	216,648	121,474
Commission from funds under management	155,298	9,465
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	371,946	130,939
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Commission from funds under management represents mudaraba fee earned from managing the funds contributed by related parties (Note 9) in finance lease transactions in accordance with the Special Purpose Mudaraba Agreement.

12. Other operating expenses

Other operating expenses include the following:

	2006	2005
Management fee	250,000	354,167
Professional and regulatory expenses	101,133	161,789
Marketing and promotions	31,168	172,360
Board of Directors and Annual General Meeting expenses	26,079	105,700
Other expenses	230,596	356,706
Gulf Medical Equipment Fund expenses	-	10,080
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	638,976	1,160,802
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The management fee arises from a contract with Overland Capital Group (Note 9). The contract period is one year and is automatically renewed on December 31 of each year unless 90 days notice is given. The contract requires the Bank to pay an annual management fee of US\$ 250,000.

In the event the return on average fiscal year shareholder's equity for any fiscal year, before calculating the additional asset management fee, shall exceed 10%, the Bank shall pay the Manager an Additional Asset Management Fee in an amount equal to 15% of such excess.

13. Start-up expenses

Start-up expenses include the following:

	2006	2005
One-off set up fee	-	500,000
Management contract fee	-	194,444
Pre-operating administrative expenses	-	101,142
Pre-operating staff costs	-	97,877
Other expenses	-	134,332
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	-	1,027,795
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The total amount includes US\$ 694,444 paid to a related party (Note 9).

First Leasing Bank BSC (c)**Notes to the financial statements for the year ended 31 December 2006** (continued)

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

14. Maturity profile

The maturity profile of assets and liabilities of the Bank is as follows:

	2006			2005		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Up to 1 month	26,966,096	299,894	26,666,202	575,590	60,367	515,223
From 1 to 3 months	52,133,328	449,038	51,684,290	544,324	490,894	53,430
From 3 months to 1 year	5,446,185	1,128,946	4,317,239	2,607,631		2,607,631
From 1 year to 5 years	13,872,784	259,250	13,613,534	5,076,133		5,076,133
From 5 years and over	7,958		7,958	7,958		7,958
Equity			96,289,223			8,260,375

First Leasing Bank BSC (c)
Notes to the financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in United States Dollars unless otherwise stated)

15. Interest rate risk management

The Bank's interest rate sensitivity position based on the contractual repricing or maturity dates, whichever date is earlier, is as follows:

	31 December 2006					Total
	Interest rate sensitive				Non-interest rate sensitive	
	Up to 1 month	1-3 Months	3-12 Months	1-5 years		
Cash and balances with banks	-	-	-	-	260,905	260,905
Placements with banks	26,044,243	50,553,628	-	-	-	76,597,871
Finance lease receivable	657,838	1,132,460	5,224,077	13,775,099	-	20,789,474
Fixed assets	-	-	-	-	97,685	97,685
Other assets	-	-	-	-	680,416	680,416
Total assets	26,702,081	51,686,088	5,224,077	13,775,099	1,039,006	98,426,351
Account payable and other liabilities	-	-	15,985	-	795,225	811,210
Due to related parties	-	171,750	346,750	259,250	548,168	1,325,918
Total liabilities	-	171,750	362,735	259,250	1,343,393	2,137,128
Equity	-	-	-	-	96,289,223	96,289,223
Total liabilities and equity	-	171,750	362,735	259,250	97,632,616	98,426,351
On-balance sheet interest rate sensitivity gap	26,702,081	51,514,338	4,861,342	13,515,849		
On-balance sheet cumulative interest rate sensitivity gap	26,702,081	78,216,419	83,077,761	96,593,610		

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2006 (continued)

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

15. Interest rate risk management (continued)

	31 December 2005					Total
	Interest rate sensitive				Non-interest	
	Up to 1 month	1-3 Months	3-12 Months	1-5 years	rate sensitive	
Cash and balances with banks	-	-	-	-	335,622	335,622
Placements with banks	-	156,821	-	-	-	156,821
Finance lease receivable	202,863	382,758	1,315,025	4,905,400	-	6,806,046
Advance for leases	-	-	1,266,136	-	-	1,266,136
Fixed assets	-	-	-	-	132,929	132,929
Other assets	-	-	-	-	114,082	114,082
Total assets	202,863	539,579	2,581,161	4,905,400	582,633	8,811,636
Accounts payable and other liabilities	-	-	-	-	229,524	229,524
Due to related parties	-	-	-	-	321,737	321,737
Total liabilities	-	-	-	-	551,261	551,261
Equity					8,260,375	8,260,375
Total liabilities and equity	-	-	-	-	8,811,636	8,811,636
On-balance sheet interest rate sensitivity gap	202,863	539,579	2,581,161	4,905,400		
On-balance sheet cumulative interest rate sensitivity gap	202,863	742,442	3,323,603	8,229,003		

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2006 (continued)

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

15. Interest rate risk management (continued)

The table below summarises the average effective interest rates by major currencies for interest rate sensitive financial instruments:

	2006	2005
	%	%
<u>Assets</u>		
Cash and balances with banks	-	-
Placements with bank	5.3	2.1
Finance lease receivables	8 to 14	8 to 11
Advance for leases	-	11
Term loan	7.5	-

16. Currency risk

The Bank had no significant currency exposures as old transactions are in United States Dollars or Bahraini Dinars which is pegged to United States Dollars.

17. Fair value of financial assets and liabilities

The carrying amounts of finance lease receivables are subject to normal terms and conditions and as a result the fair value is not materially different to the carrying amount.

18. Credit risk and concentrations of credit risk

Concentration of credit risk arises 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 obligation to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to both positive and negative developments affecting a particular industry or geographical location.

The bank had no significant concentrations of credit risk as at 31 December 2006 or at 31 December 2005.

19. Commitments

The Bank had commitments in respect of finance lease contracts which had been signed at 31 December 2006 of US\$ 7,992,000 (2005: US\$ 1,691,902)

20. Off balance sheet items

For the purposes of financing lease transactions, the Bank has obtained contributions for participation in the syndicated financing from participants amounting to US\$ 5,779,090 at 31 December 2006 (2005: US\$ 5,080,814). The Bank's obligation is limited to make payment to the participant and is conditional upon it receiving the corresponding payments from the lessee and the participant shall have no recourse to the Bank in the event of any failure by the lessee to make any such payment.

21. Comparative

Where necessary, comparative figures have been adjusted to conform with the changes in presentation in current year. Commission from funds under management amounted to US\$ 155,298 (2005: US\$ 9,465) has been reclassified from other income.