

FIRST LEASING BANK BSC (c)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

FIRST LEASING BANK BSC (c)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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First Leasing Bank BSC (c)
Directors' Report for the year ended 31 December 2008

On behalf of the Board of Directors, it is my privilege to present the Board of Directors' report together with the audited financial statements of First Leasing Bank B.S.C. (c) (FLB) for the year ended 31 December 2008. I am very pleased to report that the Bank's core activities generated yet another strong performance in 2008, significantly surpassing our previous year results, most notably the growth in our leasing portfolio and leasing revenues. We have enjoyed another successful year toward market development and expansion, lease origination performance, raising capital under tough market conditions and continued operational improvements. First Leasing Bank maintained its commitment to be the leading financial services company in the GCC specialising in Sharia'a compliant equipment finance leasing (Ijara wa Iqtina) as well as operating leasing (Ijara).

Financial Performance

Continuing with its strategy of GCC regional growth, FLB has recorded a sound financial and corporate performance during 2008, maintaining a sustainable growth since inception in 2004, recording a substantial increase in income from core activities over the previous year.

The Total Operating Income for the year grew to USD 9.53 million from USD 7.10 million in the previous year. Income from financing activities grew more significantly, reaching USD 7.91 million from USD 3.22 million in 2007. Net profit for the year amounted to USD 3.02 million, compared to USD 4.50 million in 2007. The decrease in Net Profit was a result of the Bank's investment in infrastructure and staff (for further expansion of the business) combined with capital constraints, which restrict the Bank from growing its revenue to levels commensurate with absorbing its incremental cost. The adverse impact of the global credit crisis during the year, along with regional lending limitations, has constrained the Bank's ability to raise debt to fund its planned portfolio growth and attain planned leverage ratios, projected revenue and profitability levels.

Despite being confronted with tight credit markets in 2008, the Bank did manage to grow significantly. By year end total assets grew to USD 179.37 million from USD 102.35 million at the end of 2007, and Shareholders' Equity increased to USD 103.81 million from USD 100.78 million in 2007.

Significant portfolio and revenue growth in 2008 confirms there is high market demand for the Bank's leasing products in the GCC region. Lease margins over Bank cost of funds continue well above business plan levels, and the Bank's overall return on equity will reach planned levels once a debt / equity leverage ratio of 3:1, is achieved. Sourcing capital, and debt capital in particular, remains to be the Bank's only major obstacle in reaching sustainable portfolio and return on equity levels.

FLB continued to expand its activities on a geographically diversified basis, with the UAE, Kuwait, Bahrain and Qatar representing 90% of the leasing portfolio. The Bank plans on originating leases in Oman in 2009 and the Kingdom of Saudi Arabia in 2009-2010 timeframe. FLB also continued to develop a diversified portfolio by equipment type, including information technology equipment, printing press equipment, industrial processing equipment, construction equipment, manufacturing equipment, amusement park machinery and rides, and shipping vessels and aircraft.

Corporate Performance

During 2008, the Board and management took ongoing action to review and improve the Bank's corporate infrastructure, business practices and business development activities to ensure future Bank viability and success.

This year, the Bank and a prominent Omani investment partner have completed a joint venture development agreement, related feasibility study, and submitted an application for financial services license with the Central Bank of Oman (CBO). CBO review is pending in 2009. The Bank also identified strategic partners and viable licensing structures in the UAE to initiate a joint venture and onshore origination capability. In Saudi Arabia, the Bank has identified potential partners and licensing options. Local, onshore company formation allows the Bank to perfect its business interests and reduce sales cost in countries like the UAE, Kuwait and Qatar, where the Bank is already originating leases from Bahrain. Local company formation also represents the means to penetrating other markets, such as Oman and Saudi Arabia. The Central Bank of Bahrain has played an important advisory and guidance role in support of Bank's development initiatives.

The Bank has further strengthened its corporate governance, risk management framework and financial reporting to ensure compliance with Basel II requirements. Various measures have been taken to streamline and strengthen processes and procedures as well as enhancing human capital and technical resources of the Bank.

The Bank successfully implemented industry-standard financial application and lease management software systems in 2008. The Bank also initiated plans to add a global-best-practice risk analysis system in 2009 in order to further enhance ongoing Basel II compliance and decision-making standards. The Bank has improved its collection practices to ensure highest probabilities of ongoing portfolio performance and cash flow.

The *Islamic Finance News* again recognized the Bank as *the Best Islamic Leasing Provider 2008*, as part of its annual reader's award poll. This the second consecutive year the Bank has received this award, having been recognized as *the Best Islamic Leasing Provider 2007* as well.

I would like to close by once again thanking, on behalf of the Board, our shareholders for their ongoing support, our clients and business partners for their ongoing confidence and loyalty as well all Bank's management and staff for their hard work and dedication. We would also, to express our thanks to the Central Bank of Bahrain and all regulatory authorities for their cooperation and assistance extended to FLB.

Board of Directors

The following eight directors including the Chairman, who together bring a wide range of skills and experience to the Board:

Mr. Khalid Mohammed Kanoo	Chairman of the Board of Directors
Mr. Mohammed Abdulrahman Hussain	Ithmaar Bank B.S.C., CEO
	Al Dar Global Private Equity Fund
Mr. Ahmed Abdulrahim	Ithmaar Bank B.S.C., COO
Mr. Sh. Khalid Mohammed Al-Khalifa	Palm Capital S.P.C., CEO
Mr. H. Russell Wilks	Overland Capital Group Inc., President
Mr. Raafat Mokbal Abdelwahab	Faisal Islamic Bank of Egypt, Deputy CEO
Mr. Faruq Abu Shamat	Sage Capital Mgmt Group, V.P. and
(resigned from Board in October 2008)	Head of Financial Services
Dr. Mahmoud El. Borai	Pumping Engineering Ltd, Chairman

First Leasing Bank BSC (c)
Directors' report for the period ended 31 December 2008 (continued)

I would like to take this opportunity to extend our gratitude to the outgoing Director who served the Board during the previous year.

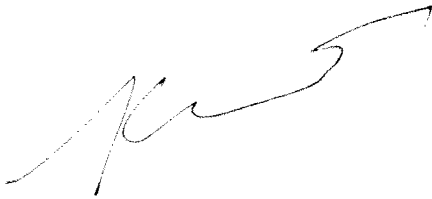
The number of shares held by the Directors and their related parties as at 31 December 2008 were 2,100,000 shares representing 2.1% of the total number of shares.

Sharia'a Advisor

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



Khalid Mohammed Kanoo
Chairman

25 February 2009

Independent auditor's report to the shareholders of
First Leasing Bank B.S.C. (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 2008 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 auditor's report to the shareholders of
First Leasing Bank B.S.C. (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 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on regulatory requirements

Further, 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 2008.

PricewaterhouseCoopers

Manama, Kingdom of Bahrain
26 February 2009

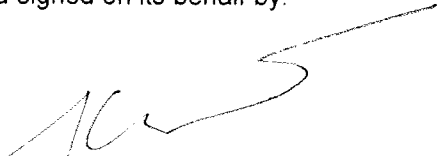
First Leasing Bank BSC (c)

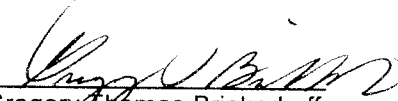
Balance sheet

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

		As at 31 December	
	Note	2008	2007
ASSETS			
Cash and balances with banks	11	1,613,619	435,690
Placements with banks	11	33,353,493	46,540,726
Finance lease receivables	5	121,966,313	44,388,081
Investment securities available-for-sale	6	20,525,513	10,118,843
Property, plant and equipment	7	1,100,765	450,284
Other assets	8	814,735	412,863
Total assets		179,374,438	102,346,487
LIABILITIES			
Accounts payable and other liabilities	9	1,310,390	1,294,520
Due to banks	10	28,094,558	-
Due to related parties	11	46,162,441	263,410
Total liabilities		75,567,389	1,557,930
EQUITY			
Share capital	12	100,000,000	100,000,000
Statutory reserve	13	751,782	449,933
Accumulated gains		3,055,267	338,624
Total equity		103,807,049	100,788,557
Total liabilities and equity		179,374,438	102,346,487

These financial statements were approved for issue by the Board of Directors on 25th February 2009 and signed on its behalf by:


Khalid Mohamed Kanoo
Chairman


Gregory Thomas Brinkerhoff
Chief Executive Officer


The notes on pages 10 to 29 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 2008	Year ended 31 December 2007
Income from financing activities		7,911,849	3,217,825
Profit on placements with banks		884,166	3,269,550
Fee and commission income	14	444,863	429,997
Income from investment activities		103,614	-
Other income		186,856	184,054
Total operating income		<u>9,531,348</u>	<u>7,101,426</u>
Staff costs		(3,350,086)	(1,840,747)
Other operating expenses	15	(1,762,835)	(1,448,454)
(Provision)/release for impairment		(124,000)	700,000
Finance cost		(1,275,935)	(12,891)
Total operating expenses		<u>(6,512,856)</u>	<u>(2,602,092)</u>
Profit for the year		<u>3,018,492</u>	<u>4,499,334</u>

These financial statements were approved for issue by the Board of Directors on 25th February 2009 and signed on its behalf by:


 Khalid Mohamed Kanoo
 Chairman


 Gregory Thomas Brinkerhoff
 Chief Executive Officer

The notes on pages 10 to 29 are an integral part of these financial statements.

First Leasing Bank BSC (c)
Statement of changes in equity

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

	Share capital	Statutory reserve	Accumulated (loss) / retained earnings	Translation reserve	Total
At 1 January 2007	100,000,000	-	(3,710,777)	-	96,289,223
Exchange difference on available-for-sale investment – as previously reported	-	-	-	(5,875)	(5,875)
Effect of adjustment of error (Note 18)	-	-	-	5,875	5,875
Profit for the year being total recognised income for the year ended 31 December 2007	-	-	4,499,334	-	4,499,334
Amount transferred to statutory reserve	-	449,933	(449,933)	-	-
At 31 December 2007 – as restated	100,000,000	449,933	338,624	-	100,788,557
At 1 January 2008	100,000,000	449,933	338,624	-	100,788,557
Profit for the year being total recognised income for the year ended 31 December 2008	-	-	3,018,492	-	3,018,492
Amount transferred to statutory reserve	-	301,849	(301,849)	-	-
At 31 December 2008	100,000,000	751,782	3,055,267	-	103,807,049

The notes on pages 10 to 29 are an integral part of these financial statements

First Leasing Bank BSC (c)**Cash flow statement**

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

	Note	Year ended 31 December 2008	Year ended 31 December 2007
Operating activities			
Profit for the year		3,018,492	4,499,334
<u>Adjustments for :</u>			
Depreciation		135,428	93,400
Loss on disposal of property, plant and equipment		1,498	33,315
Provision made/(released) for impairment		124,000	(700,000)
		<u>3,279,418</u>	<u>3,926,049</u>
<u>Changes in operating assets and liabilities:</u>			
Increase in finance lease receivables		(77,702,232)	(22,898,607)
(Increase)/decrease in other assets		(401,872)	267,553
Increase in accounts payable and other liabilities		15,870	483,310
Increase in amounts due to banks		28,094,558	-
Increase/(decrease) in other amounts due to related parties		45,899,031	(1,062,508)
Net cash used in operations		<u>(815,227)</u>	<u>(19,284,203)</u>
Investing activities			
Purchase of property, plant and equipment	7	(788,150)	(512,589)
Proceeds from sale of property, plant and equipment		743	33,275
Purchase of investment securities available for sale	6	(11,000,000)	(10,118,843)
Proceeds from investment securities available for sale		593,330	-
Net cash used in investing activities		<u>(11,194,077)</u>	<u>(10,598,157)</u>
Net decrease in cash and cash equivalents		<u>(12,009,304)</u>	<u>(29,882,360)</u>
Cash and cash equivalents at the beginning of the year		<u>46,976,416</u>	<u>76,858,776</u>
Cash and cash equivalents at the end of the year		<u>34,967,112</u>	<u>46,976,416</u>
Cash and cash equivalents comprise:			
Cash and balances with bank		1,613,619	435,690
Placements with banks		<u>33,353,493</u>	<u>46,540,726</u>
		<u>34,967,112</u>	<u>46,976,416</u>

The notes on pages 10 to 29 are an integral part of these financial statements

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008

(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. The Bank operates under a Wholesale Banking License issued by the Central Bank of Bahrain. The registered office of the Bank and its principal place of business is located at Addax 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'a.

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:

2.1 Basis of preparation

The Bank's 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 as modified by the revaluation of certain investment securities available for sale.

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 4.

(a) Amendments and interpretations effective in 2008

- IAS 39, 'Financial instruments: Recognition and Measurement' (amendment) and IFRS 7, 'Financial Instruments: Disclosures' (amendment) - Reclassification of financial assets.
- IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'
- IFRIC 11, 'IFRS 2 - Group and treasury share transactions'

Management has assessed the impact of the above amendment and interpretations to the published standards and concluded that they are not relevant to the Bank's financial statements.

(b) Interpretations effective in 2008 but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Bank's operations:

- IFRIC 12, 'Service concession arrangements'; and
- IFRIC 13, 'Customer loyalty programmes';

Management has assessed the impact of the above interpretations to the published standards and concluded that they are not relevant to the Bank's financial statements.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) *Standards, amendments and interpretations to existing standards that are not yet effective*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting period beginning on or after 1 January 2009 or later periods, but the Bank has not early adopted them:

- IAS 23 (amendment), 'Borrowing costs' (effective for annual periods commencing from 1 January 2009)
- IFRS 8, 'Operating segments' (effective for annual periods commencing 1 January 2009)
- IAS 1 (revised), 'Presentation of financial statements' (effective for annual periods commencing 1 January 2009)
- IAS 27 (revised), 'Consolidated and separate financial statements', (effective for annual periods commencing 1 July 2009)
- IFRS 3 (amendment), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements'; IAS 28, 'Investments in associates'; and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First time adoption') (effective for annual periods commencing 1 January 2009)
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial instruments: presentation', and IFRS 7, 'Financial instruments: disclosures') (effective for annual periods commencing 1 January 2009)
- IAS 36 (Amendment), 'Impairment of assets' (effective for annual periods commencing 1 January 2009)
- IAS 38 (Amendment), 'Intangible assets' (effective for annual period commencing 1 January 2009)
- IAS 39 (Amendment), 'Financial instruments: recognition and measurement' (effective for annual period commencing 1 January 2009)
- IFRS 2 (Amendment), 'Share-based payment' (effective for annual period commencing 1 January 2009)
- IAS 32 (Amendment), 'Financial instruments: Presentation', and consequential amendment to IAS 1 (Amendment), 'Presentation of financial statements'- 'Puttable financial instruments and obligations arising on liquidation' (effective for annual period commencing 1 January 2009)

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) *Standards, amendment and interpretations to existing standards that are not yet effective*

- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective for periods commencing 1 January 2009)
- IAS 31 (Amendment), 'Interest in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective for periods commencing from 1 January 2009)
- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective for periods commencing from 1 January 2009)
- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective for periods commencing 1 January 2009)
- IAS 41 (Amendment), 'Agriculture' (effective for periods commencing 1 January 2009)
- IFRIC 15, 'Agreements for construction of real estate' (effective for period commencing 1 January 2009)

Management has assessed the impact of the above standards, amendments and interpretations to the published standards on the Bank's financial statements and have concluded that they are not relevant to the Bank's financial statements, except for the amendment to IAS 1, which will effect the presentation of the statement of changes in equity and of comprehensive income. This amendment does not impact the recognition, measurement or disclosure of specific transactions and other events required by other IFRS.

2.2 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.

Profit from placements with banks is recognised on an accrual basis using the effective interest rate method.

Fees and commission income earned from providing banking facilities and renewal of banking facilities are recognised on a straight-line basis over the period for which the banking facilities are issued. Other fees and commissions are recognised when the service has been provided.

2.3 Finance expenses

Finance expense on the bank borrowings is recognised on an accrual basis using the effective interest rate method in the income statement as financing costs.

The effective interest method is a method of calculating the amortised cost of a financial assets or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial assets or financial liability.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

2. Significant accounting policies (continued)

2.4 Dividend income

Dividends are recognised in the income statement when the Bank's right to receive payment is established.

2.5 Foreign currency transactions

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The financial statements are presented in United States Dollars, which represents the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency of the Bank using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.6 Financial assets

The Bank classifies its financial assets in the following categories: finance lease receivables and investment securities available for sale. Management determines the classification of its financial assets at initial recognition.

i) Finance lease receivable

Finance lease receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity upon initial recognition designates as available-for-sale; or (b) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

ii) Investment securities available for sale

Investment securities available-for-sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates; these are designated as such at inception.

Regular-way purchases and sales of available-for-sale are recognised on the trade date which is the date on which the Bank commits to purchase or sell the asset.

Investment securities available-for-sale are initially recognised at cost plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

2. Significant accounting policies (continued)

2.6 Financial assets (continued)

ii) Investment securities available-for-sale (continued)

Investment securities available-for-sale are subsequently carried at fair value unless fair value cannot be determined reliably by the bank whereby such investments are carried at cost. Finance lease receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of Investment securities available are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in income statement. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement.

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Bank establishes fair values using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques used by other participants. The Bank also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets.

2.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. 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 Property, plant and equipment 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.

Property, plant and equipment residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

2.8 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.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

2. Significant accounting policies (continued)

2.9 Employee benefits

Employee benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognised 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 income statement 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 using actuarial techniques.

2.10 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.

2.11 Share capital

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.

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.

2.12 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.

2.13 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 an original maturity of three months or less.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

3. Financial risk management

Financial risk factors

The Bank's activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is, therefore, to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

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

Risk management is carried out by the senior management under policies that are approved by the Board of Directors. The senior management is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, market risk and liquidity risk. Market risk includes currency risk, interest rate risk and price risk.

Risk controlling

The senior management are responsible for monitoring compliance with risk principles, policies and limits, within the Bank as well as for managing the Bank's assets and liabilities and overall financial structure. In addition to that, the senior management primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes in the Bank are audited annually by the internal audit department of a related party (Ithmaar Bank BSC) that examines both the adequacy of the procedures and the Bank's compliance with the procedures. The internal auditor discusses the results of all assessments with management, and reports its findings and recommendations to the Audit & Risk Committee of the Bank.

3.1 Credit risk and concentrations of risk

3.1.1 Credit risk measurement

The Bank is exposed to credit risk, which is the risk that the counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Financial assets which potentially subject the Bank to concentrations of credit risk consist principally of balances with bank, placement with banks and finance lease receivables.

3.1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of risk wherever they are identified. In the normal course of business, the Bank places significant deposits with high credit quality banks and financial institutions. The Bank structures the levels of credit risks it undertakes by placing limits on the amount of risk accepted in relation to one customer, or group of customers, and to geographical and industry segments. Such risks are monitored on revolving basis and are subject to an annual or more frequent review, when considered necessary. Exposure to credit risk is also managed through regular analysis of the ability of counterparties and potential counterparties to meet profit and capital repayment obligations and by changing these limits where appropriate. Further, the Bank holds title over all the leased assets and is legally authorised to take back the assets in case of customer defaults in paying the due installments.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

3. Financial risk management (continued)

3.1.3 Risk concentration of the maximum exposure to credit risk

Concentration of risk is managed by client /counterparty. The maximum credit exposure to any client or counterparty as of 31 December 2008 was USD 30 million (31 December 2007: USD 27 million). The Bank's significant financial assets are within the Middle East.

3.1.4 Maximum exposure to credit risk without taking account of any collateral

The table below shows the maximum exposure to credit risk by individual components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Gross Maximum Exposure 31 December 2008	Gross Maximum Exposure 31 December 2007
Cash and balances with bank		1,613,619	435,690
Placements with banks		33,353,493	46,540,726
Finance lease receivables	5	121,966,313	44,388,081
Total credit risk exposure – on balance sheet		156,933,425	91,364,497
Lease commitments – off balance sheet	16	4,803,000	10,869,000

3.1.5 Collateral

In respect of finance lease receivable, the assets are held in the name of the Bank and their fair values are estimated by management to exceed the carry amounts.

3.1.6 Credit quality per class of financial assets

The Bank had impaired financial assets at 31 December 2008 amounting to USD 2,882,332 (31 December 2007: Nil). The Bank has made provision of USD 124,000 (31 December 2007: Nil) against the impaired loans based on discounting the future cash flows. Finance lease receivables less than ninety days due are not considered impaired, unless other information is available to indicate the contrary. The past due but not impaired financial assets are summarised below:

	Up to 3 months	More than 3 but less than 6 months	31 December 2008 Total
Finance lease receivables	45,039,293	1,742,387	46,781,680
	Up to 3 months	More than 3 but less than 6 months	31 December 2007 Total
Finance lease receivables	21,079,406	3,603,595	24,683,001

First Leasing Bank BSC (c)**Notes to the financial statements for the year ended 31 December 2008** (continued)

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

3. Financial risk management (continued)

The table below presents an analysis of financial assets by external rating designation at 31 December 2008 and 2007:

	At 31 December 2008			
	Cash and balances with bank	Placements with banks	Finance lease receivables	Total
A	156,725	-	-	156,725
B+	1,456,894	33,353,493	-	34,810,387
Not rated	-	-	121,966,313	121,966,313
Total	1,613,619	33,353,493	121,966,313	156,933,425

	At 31 December 2007			
	Cash and balances with bank	Placements with banks	Finance lease receivables	Total
B+	435,690	36,540,726	-	36,976,416
Not rated	-	10,000,000	44,388,081	54,388,081
Total	435,690	46,540,726	44,388,081	91,364,497

3.2 Market risk

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

3.2.1 Price risk

The Bank is not significantly exposed to price risk at 31 December 2008 and 31 December 2007.

3.2.2 Currency risk

The Bank is only exposed to the currency risk with respect to its investment in Pinnacle Holding Limited amounting to USD 5,118,843 which is equivalent to GBP 2,500,000. As of 31 December 2008 the investment is recorded as Investment securities available-for-sale at cost.

3.2.3 Interest rate risk management

The Bank is exposed to the effects of fluctuations in the prevailing levels of interest rates on cash flows. The Board of Directors sets limits and monitors the level of mismatch of interest rate re-pricing that may be undertaken by the Bank.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

3. Financial risk management (continued)

3.2 Market risk (continued)

3.2.3 Interest rate risk management (continued)

During the year ended 31 December 2008, had the interest rates on net interest bearing assets increased/decreased by 100 basis points, with all other variables remaining constant, the impact on the results and equity of Bank would have been as follows:

	Impact on the results and equity of the Bank	
	31 December 2008	31 December 2007
Changes of ± 100 basis points in interest rates:	±59,915	±50,800

The remaining assets and liabilities of the Bank carry fixed interest rates and hence are not subject to fluctuation in interest rates.

The table below summarises the Bank's exposure to interest rate risk. It includes the Bank's financial instruments categorised by earlier of contractual re-pricing or maturity dates:

2008

	Up to 1 month	Interest rate sensitive		1-5 years	Non- interest rate sensitive	Total
		1-3 months	3-12 months			
Cash and balances with banks	-	-	-	-	1,613,619	1,613,619
Placements with banks	5,000,000	20,737,280	7,616,213	-	-	33,353,493
Finance lease receivables	3,441,427	6,262,005	22,208,207	90,054,674	-	121,966,313
Investment securities available for sale	-	-	-	-	20,525,513	20,525,513
Property, plant & equipment	-	-	-	-	1,100,765	1,100,765
Other assets	-	-	-	-	814,735	814,735
Total assets	8,441,427	26,999,285	29,824,420	90,054,674	24,054,632	179,374,438
Account payables and other liabilities	-	-	-	-	1,310,390	1,310,390
Due to banks	-	1,823,422	13,543,863	12,727,273	-	28,094,558
Due to related parties	419,500	10,251,704	16,608,487	18,668,163	214,587	46,162,441
Total liabilities	419,500	12,075,126	30,152,350	31,395,436	1,524,977	75,567,389
Total interest repricing gap	8,021,927	14,924,159	(327,930)	58,659,238		

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

3. Financial risk management (continued)

3.2 Market risk (continued)

3.2.3 Interest rate risk management (continued)

2007

	Up to 1 month	Interest rate sensitive 1-3 months	3-12 months	1-5 years	Non- interest rate sensitive	Total
Cash and balances with banks	-	-	-	-	435,690	435,690
Placements with banks	15,000,000	6,332,406	25,208,320	-	-	46,540,726
Finance lease receivables	2,218,733	2,725,903	7,803,901	31,639,544	-	44,388,081
Investment securities available for sale	-	-	-	-	10,118,843	10,118,843
Property, plant & equipment	-	-	-	-	450,284	450,284
Other assets	335,845	-	-	-	77,018	412,863
Total assets	17,554,578	9,058,309	33,012,221	31,639,544	11,081,835	102,346,487
Account payables and other liabilities	-	897,608	-	-	396,912	1,294,520
Due to related parties	158,698	-	-	-	104,712	263,410
Total liabilities	158,698	897,608	-	-	501,624	1,557,930
Total interest repricing gap	17,395,880	8,160,701	33,012,221	31,639,544		

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due. The consequence may be the failure to meet obligations when they fall due. To limit this risk, management has arranged reasonably diversified funding sources. During the year the Bank has obtained borrowing facilities from several financial institutions mainly from the related parties. The Bank monitors future cash flows and liquidity on a regular basis.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

3.3.1 Non-derivative cash flows

The table below sets out the non-derivative cash flows payable by the Bank by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, where as the Bank manages the inherent liquidity risk based on expected undiscounted cash flows:

2008

	Up to 1 month	1 - 3 months	3 - 12 months	Over 1 year	Total
Liabilities					
Accounts payable and other liabilities	196,383	141,904	527,908	444,194	1,310,389
Due to banks	113,915	2,071,865	14,390,948	14,385,821	30,962,549
Due to related parties	686,637	11,176,559	18,103,202	20,689,370	50,655,768
Total	996,935	13,390,328	33,022,058	35,519,385	82,928,706

2007

	Up to 1 month	1 - 3 months	3 - 12 months	Over 1 Year	Total
Liabilities					
Accounts payable and other liabilities	83,282	166,979	829,038	215,222	1,294,521
Due to related parties	158,698	104,711	-	-	263,409
Total	241,980	271,690	829,038	215,222	1,557,930

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

3. Financial risk management (continued)

3.3.2 Liquidity risk management process

The liquidity risk management process, as carried out by the Bank and monitored by the senior management, includes:

- Day to day funding, managed by monitoring future cash flows to ensure that requirements can be met.
- Maintaining a portfolio of lease receivables that can be easily sold as protection against any unforeseen interruption to cash flow; and
- Managing the concentration and profile of debt maturities in the future.

3.3.3 Funding approach

Sources of liquidity are regularly reviewed by the senior management to maintain a diversification by geography, provider, product and term.

3.4 Fair value of financial assets and liabilities

The estimated fair value of the Bank's other assets and liabilities are not significantly different from their respective carrying values.

3.5 Capital management

The Bank's objective when managing its capital, which comprises shareholders' equity, is to maintain a strong capital base to support the development of its business and to comply with the capital adequacy requirements set by the Central Bank of Bahrain. In order to achieve this objective, the shareholders have injected additional capital as required to support the Bank's business and the Bank has not distributed any cash dividend since its inception.

4. 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.

a) Impairment of finance lease receivable

The Bank reviews its portfolio of finance lease receivables on 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.

b) Impairment of investment securities available-for-sale

The Bank determines that investment securities available-for-sale in the equity instruments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates amongst other factors, whether there is deterioration in the financial health of the investee, industry or sector performance, changes in technology, and operational and financing cash flows. For unquoted securities held at cost management primarily relies on information communicated by the investment manager or lead investor.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

5. Finance lease receivables

	<u>2008</u>	<u>2007</u>
<u>Gross investment in finance leases receivables:</u>		
Not later than 1 year	42,248,443	15,892,900
Later than 1 year and not later than 5 years	103,354,296	35,710,766
	<u>145,602,739</u>	<u>51,603,666</u>
Unearned future finance income on finance leases	(23,512,426)	(7,215,585)
Provision for impairment	(124,000)	-
	<u>121,966,313</u>	<u>44,388,081</u>
Net investment in finance leases		
	<u>121,966,313</u>	<u>44,388,081</u>
The net investment in finance leases is analysed as follows:		
Not later than 1 year	31,911,640	12,748,537
Later than 1 year and not later than 5 years	90,054,673	31,639,544
	<u>121,966,313</u>	<u>44,388,081</u>

Reconciliation of finance lease receivable

	<u>2008</u>	<u>2007</u>
At 1 January	44,388,081	20,789,474
Finance leases issued	96,903,693	32,534,890
Finance lease income receivable	581,722	465,329
Principal repayment received	(13,783,183)	(8,601,612)
Finance lease sold	(6,000,000)	(1,500,000)
Released/(provision) for impairment made	(124,000)	700,000
	<u>121,966,313</u>	<u>44,388,081</u>

On 18 May 2008, the Bank sold part of the Al Maidan Hospital Finance Lease receivables at their nominal book value to the Islamic Corporation for the Development of the Private Sector "ICD" for USD 6 million by entering into a Special Purpose Mudaraba Agreement. During the year ended 31 December 2007 the Bank sold the NOVA Industries Finance Lease receivables at their nominal book value to Solidarity Takafol SA for USD 1.5 million by entering into a Special Purpose Mudaraba Agreement. As a result of the above transactions, the Bank derecognised such financial assets due to substantial transfer of all related risk and rewards of ownership of such financial assets.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

6. Investment securities available for sale

During 2007, the Bank subscribed for 2,500 investment shares of GBP 1,000 each of Pinnacle Holdings Limited, a property company registered in Anguilla Island, West Indies whose activities are the construction of the Pinnacle Tower in London. The investment is stated at cost at 31 December 2008.

During 2008, the Bank has reclassified a placement with Seera Investment Bank (previously; United International Bank) as it has invested USD 5 million (500 shares of USD 10,000 each) into FALAK Aviation Investment Fund. The fund is managed by United International Bank BSC (c), Kingdom of Bahrain, as a pre-private placement investment. During the fourth quarter of 2008, the fund management sold two aircrafts, and distributed the proceeds to the shareholders amounting to USD 593,330 and accordingly reduced the value of each share from USD 10,000 to USD 8,811. Also the fund manager distributed USD 103,614 as a dividends (2007: Nil). The investment will be held over a period of over 4 years and investment is stated at cost at 31 December 2008.

During 2008 the Bank made the following investments:

- USD 5 million (5,000 shares at USD 1,000 par value per share) in a private placement by Venture Capital Bank, Kingdom of Bahrain to acquire 3.73% equity shares of Lemissoler Maritime Company W.L.L, Kingdom of Bahrain. The objective of the Company is to own and operate a fleet of specialised commercial ocean going vessels. The investment will be held over an anticipated holding period of 3 years and is stated at cost at 31 December 2008.
- USD 1 million (117,647 shares at USD 1 par value and USD 7.5 premium per share) in Omni Enterprise Holding Ltd, British Virgin Islands, to acquire 2.2% of its equity shares. The Company was established to provide oilfield industry with its future requirements in the Middle East through basic product development and advanced manufacturing of equipments and tools. The investment will be held over an anticipated holding period of 4 years and is stated at cost at 31 December 2008.
- USD 5 million (500,000 shares at USD 10 par value per share) in India Entertainment City, a project located in Mumbai, India and promoted by Abu Dhabi Investment House. The investment will be held over an anticipated holding period of 30 months and is stated at cost at 31 December 2008.

Management carried out a impairment test for its investment held at cost at 31 December 2008 and concluded that none of its investment was impaired at that date.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

7. Property, plant, and equipment

	Fixtures and fittings	Office equipment	Operating lease assets	Total
2008				
<u>Cost</u>				
At 1 January 2008	248,892	328,514	-	577,406
Additions during the year	51,057	301,280	435,813	788,150
Disposals during the year	-	(10,014)	-	(10,014)
31 December 2008	<u>299,949</u>	<u>619,780</u>	<u>435,813</u>	<u>1,355,542</u>
<u>Accumulated depreciation</u>				
At 1 January 2008	35,178	91,944	-	127,122
Charge for the year	57,519	68,830	9,079	135,428
Disposals during the year	-	(7,773)	-	(7,773)
31 December 2008	<u>92,697</u>	<u>153,001</u>	<u>9,079</u>	<u>254,777</u>
Net book value as of 31 December 2008	<u>207,252</u>	<u>466,779</u>	<u>426,734</u>	<u>1,100,765</u>
2007				
<u>Cost</u>				
At 1 January 2007	<u>248,892</u>	<u>328,514</u>	-	<u>577,406</u>
<u>Accumulated depreciation</u>				
At 1 January 2007	46,091	56,690	-	102,781
Charge for the year	39,925	53,475	-	93,400
Disposals during the year	(50,838)	(18,221)	-	(69,059)
31 December 2007	<u>35,178</u>	<u>91,944</u>	-	<u>127,122</u>
Net book value as of 31 December 2007	<u>213,714</u>	<u>236,570</u>	-	<u>450,284</u>

8. Other assets

	2008	2007
Accrued income receivable	210,937	255,447
Prepaid expenses and other receivables	603,798	157,416
	<u>814,735</u>	<u>412,863</u>

9. Accounts payable and other liabilities

	2008	2007
Creditors	103,077	127,184
Advance from customers	684,396	897,421
Leaving indemnity	74,138	98,644
Other payables	448,779	171,271
	<u>1,310,390</u>	<u>1,294,520</u>

First Leasing Bank BSC (c)**Notes to the financial statements for the year ended 31 December 2008** (continued)

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

10. Due to banks

	<u>2008</u>	<u>2007</u>
Current portion of amounts due to banks	15,367,285	-
Non-current portion of amounts due to banks	12,727,273	-
	<u>28,094,558</u>	<u>-</u>

11. Transactions with related parties

Related parties include the shareholders, businesses in which shareholders, individually or combined, have control or significant influence, directors, key management personnel and companies whose ownership and management are common with that of the Bank. The Bank carries out transactions in the normal course of business with related parties and there was no financial asset impaired with respect to related party exposure as of 31 December 2008 (2007 : Nil)

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.

	<u>2008</u>	<u>2007</u>
<u>Income</u>		
Income from financing activities	-	69,208
Profit from placements with bank	675,194	2,549,515
Commission from funds under management	9,686	29,794
Other fees	-	27,500
<u>Expenses</u>		
Management fee	325,000	325,000
Interest expenses	875,017	-
Other operating expenses	390,233	81,641
Key management compensation	1,732,803	1,089,292

Balance Sheet

At 31 December the Bank had the following balances with related parties. The effective interest earned on placements with banks is approximately 3.65% per annum.

	<u>2008</u>	<u>2007</u>
Current accounts with Shamil Bank Bahrain	1,452,970	435,049
Placements with:		
- Shamil Bank Bahrain	28,353,493	26,540,726
Due to:		
- Shamil Bank	35,778,762	51,458
- Faisal Islamic Bank of Egypt	10,169,722	
- Overland Capital Group	10,987	-
- Solidarity	48,792	115,539
- Ithmaar Bank	98,178	62,662
- Others	56,000	33,751
	<u>46,162,441</u>	<u>263,410</u>

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

12. Share capital

	<u>2008</u>	<u>2007</u>
<u>Authorised</u>		
300 million ordinary shares of USD 1 each	300,000,000	300,000,000
<u>Issued and fully paid</u>		
100 million ordinary shares of USD 1 each	100,000,000	100,000,000

13. Statutory reserve

As required by the Bahrain Commercial Companies Law 2001, 10% of the profits for the year are required to be transferred to the statutory reserve until such reserve equals to 50% of the issued share capital of the Bank. The reserve cannot be utilised for the purpose of distribution except in such circumstances as stipulated in the Bahrain Commercial Companies Law 2001. During the year, an amount of USD 301,849 (2007: USD 449,933) has been transferred to the statutory reserve.

14. Fee and commission income

	<u>2008</u>	<u>2007</u>
Management fee (Financing activities)	369,217	400,203
Commission from funds under management	75,646	29,794
	<u>444,863</u>	<u>429,997</u>

Commission from funds under management represents mudaraba fee earned from managing the funds contributed by related parties (Note 11) and non related parties in finance lease transactions in accordance with the Special Purpose Mudaraba Agreement.

15. Other operating expenses

Other operating expenses include the following:

	<u>2008</u>	<u>2007</u>
Management fee	325,000	325,000
Professional and regulatory expenses	299,426	231,088
Marketing and promotions	162,019	189,451
Board of Directors and Annual General Meeting expenses	159,791	109,305
Business travel	212,233	136,935
Occupancy Costs	255,676	215,077
Other expenses	348,690	241,598
	<u>1,762,835</u>	<u>1,448,454</u>

The management fee arises from a contract with Overland Capital Group (Note 11). The contract amount is USD 325,000 for year 2008 (2007: USD 325,000) and is automatically renewed on December 31 of each year unless 90 days notice is given.

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

16. Off balance sheet items

Commitments

The Bank had commitments in respect of finance lease contracts which had been signed at 31 December 2008 of USD 4,803,000 (2007: USD 10,869,000).

Participations

For the purposes of financing lease transactions, the Bank has obtained contributions for participation in the syndicated financing from participants amounting to USD 6,457,854 at 31 December 2008 (2007: USD 1,611,207). The Bank's obligation is limited to making 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.

17. Capital adequacy

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

The Central Bank of Bahrain requires each bank or banking Group to maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the minimum of 12%.

The Bank's Tier 1 regulatory capital comprises share capital, accumulated gains and disclosed reserves created by appropriations of retained earnings.

The Bank monitors the adequacy of its capital using ratios established by the Central Bank of Bahrain. These ratios measure "risk to assets" by comparing the Bank's net available capital with its balance sheet assets, commitments and contingencies at a weighted amount to reflect their relative risk. The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2008.

The net capital base of the Bank is as follows:

	<u>2008</u>	<u>2007</u>
Tier 1 core capital		
Share capital	100,000,000	100,000,000
Statutory reserve	751,782	449,933
Accumulated gains	3,055,267	338,624
	<u>103,357,116</u>	<u>100,788,557</u>

The Risk to Assets ratio of the Bank is as follows:

	<u>2008</u>		<u>2007</u>	
	Total	Risk weight	Total	Risk weight
On balance sheet assets	179,374,438		102,346,487	
Off balance sheet (Note 16)	4,803,000		10,869,000	
Total risk weight (A)		171,052		96,888
Total capital base (B)		<u>103,807</u>		<u>100,783</u>
Risk to Assets ratio (B / A)		<u>61%</u>		<u>104%</u>

First Leasing Bank BSC (c)

Notes to the financial statements for the year ended 31 December 2008 (continued)

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

18. Prior period error

During 2007 a foreign exchange movements has been recognized on an investment in unquoted securities classified as available-for-sale which is carried at cost. The foreign exchange movements were recognised in equity. This accounting treatment is not in line with International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" which requires non-monetary items carried at cost to be measured at the rates of exchange prevailing on the transaction date on initial recognition. This treatment has been adjusted retrospectively as required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". This adjustment resulted in Investment securities available-for-sale at 1 January 2008 to be increased by USD 5,875 with a corresponding adjustment to the Translation Reserve as at the respective dates.