

Table of CONTENTS

Mission & Vision	1
Financial Highlights	2
Chairman's Message	3
CEO's Statement	7
Board of Directors	10
Executive Management	13
Management Review of Operations	17
Corporate Governance	19
Directors Report	22
Financial Statements & Notes	24
Our People	48



Mission & Vision

Our Mission

The Bank's mission is to be the premier financial services company in the Gulf specialising in equipment leasing and boutique real estate investments. The Bank aims to command the highest respect and customer loyalty while giving the shareholders a fair and consistent return.

Our Vision

To create maximum shareholder value by combining two business models: the more lucrative, but sometimes volatile, real estate market with the stable equipment leasing market. To build shareholder value through portfolio growth and portfolio management.



Financial Highlights

31st December

EARNINGS (US\$ '000)	2007	2006	2005
Operating income	7,101	1,436	732
Expenses	2,602	2,407	3,472
Net income/(loss)	4,499	(971)	(2,740)

FINANCIAL POSITION (US\$ '000)

Cash and placements with banks	46,976	76,859	492
Finance lease receivables	44,388	20,789	6,806
*AFS Investments	10,113	-	-
Other assets	864	748	1,514
Total Assets	102,341	98,426	8,812

FINANCED BY (US\$ '000)

Owner's equity	100,783	96,289	8,260
Due to banks & other liabilities	1,558	2,137	552
*Volume (Originations) (US\$ '000)	43,814	15,177	15,800

PROFITABILITY

Return on average equity (%)	4.6	-1.9	-33.2
Return on average assets (%)	4.5	-1.8	-31.1

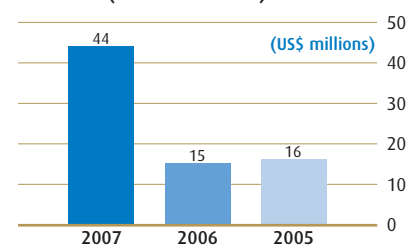
ASSET QUALITY

Finance leases as a % of total assets	43.4	21.1	77.2
*AFS Investments as a % of total assets	9.9	0.0	0.0

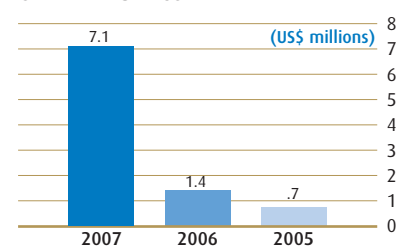
LIQUIDITY

Liquid assets ratio (%)	45.9	78.1	5.6
Number of Employees	19	8	8

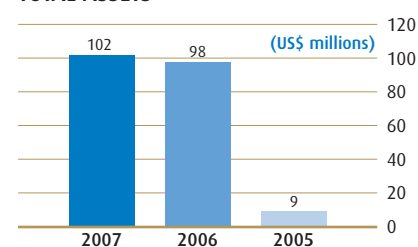
VOLUME (ORIGINATIONS)



OPERATING INCOME



TOTAL ASSETS



*Gross investments of business (leases and investments) concluded during the year and includes Balance Sheet and off Balance Sheet originations.

Available-for-sale



Chairman's Message

On behalf of the Board of Directors, it is my privilege to present the annual report of First Leasing Bank (FLB) for the period ended 31 December 2007. This proved to be a year of record achievements for the Bank, and clearly demonstrates that we have developed from our early seed years into a new phase of growth and profitability.

The successful increase in the Bank's capital in December 2006 – from US\$ 11 million to US\$ 100 million – has enabled us to build our portfolio and diversify our asset base, double our staff and strengthen our organisational infrastructure, and embark upon a strategy of regional geographic expansion.

As a result, FLB achieved its first year of profitability in 2007, with net profit of US\$ 4.5 million compared to a loss of US\$ 0.97 million in 2006. At the end of the year, the Bank's net portfolio amounted to US\$ 54.5 million, up from US\$ 20.8 million, as at the end of 2006, representing originated leases and investments. This is a significant achievement for a newly established bank operating in a nascent industry.

Despite the impact of the global US\$ 600 billion equipment leasing industry, which finances one-fifth of the world's annual capital asset investment, the markets in the GCC have remained relatively untapped. A key underlying reason for this is that the region has been remarkably liquid due to its oil-based economic focus. In addition, the private non-oil sector has been dominated by family-run businesses for whom financing was not a major issue in the past, while an 'own your own assets' mindset made leasing an unattractive option.

However, the expansion of family businesses into new enterprises, and the conversion of closely-held companies into stock companies, is changing the business model and the fundamentals of managing a company's capital and capital assets.

More ambitious expansion plans are encouraging companies to look at ways to use their resources as efficiently as possible. Just as equipment leasing has become an integral part of the economies of the world's most industrialised countries, the GCC is recognising that equipment leasing offers efficiencies that can contribute substantially to economic growth.

As the regional economies continue to diversify and evolve, the private sector is looking for more profitable ways to employ their capital. Companies are starting to realise that they do not necessarily have to own an asset in order to utilise the asset. As the first bank in the GCC dedicated exclusively to the introduction and expansion of equipment leasing in the region, First Leasing Bank is uniquely placed to tap the huge potential of a market that is conservatively estimated at US\$ 10 billion per year. As such, based on our achievements in just three full years of operations, and supported by our ambitious strategy for growth, the future outlook for FLB is extremely promising.

Indeed, this was endorsed towards the end of 2007 by the result of a poll of readers of Islamic Finance News, which named First Leasing Bank as the 'Best Islamic Leasing Provider in 2007'. This award reflects growing international recognition for the Bank's high level of customer satisfaction, as well as for the operational and technical skills of the FLB team.

As the new Chairman of First Leasing Bank, I am grateful for the confidence and trust that has been placed in me. I look forward to working together with my fellow directors and the executive management of the Bank in continuing to grow and shape the future of this institution and building enhanced value for our shareholders.



Khalid M. Kanoo
CHAIRMAN

البنوك الإسلامية
في العالم العربي
2014



FLB is uniquely placed to tap the huge potential of a market that is conservatively estimated at **\$10 billion** per year.



... CHAIRMAN'S MESSAGE CONTINUED

On behalf of the Board of Directors, I would like to pay tribute to the leadership of the 'New Bahrain' – to His Majesty King Hamad Bin Isa Al Khalifa for his enlightened vision and reforms; to His Highness Shaikh Khalifa Bin Salman Al Khalifa, the Prime Minister, for his internationally-acknowledged 'humanitarian leadership'; and to His Highness Shaikh Salman Bin Hamad Al Khalifa, the Crown Prince, for his economic initiatives and encouragement of the private sector.

I also take this opportunity to express my sincere thanks to the Bank's shareholders, clients, management and staff for their loyalty and commitment, and their invaluable contributions to making 2007 such a successful and pivotal year for First Leasing Bank.

Khalid M. Kanoo

CHAIRMAN



CEO'S Statement

I am delighted to present the First Leasing Bank's 2007 results, which proved to be an excellent year for the Bank, from a number of different angles – strategically, financially and operationally. I would like to briefly review some of the key achievements, and relate these to our plans for the future growth and expansion of the Bank.

The strong response to the private placement offering in 2006, which raised the paid-up capital of the Bank to US\$ 100 million, reflects the market's recognition that equipment leasing and FLB have a decisive role to play in the capital formation and economic diversification of the GCC.

The additional capital will accelerate the execution of FLB's business plan to build a diversified portfolio of equipment leasing throughout the region. To support our future plans for growth and expansion, we have a new group of shareholders led by Ithmaar Bank, and a new Board of Directors headed by a new Chairman, Khalid M. Kanoo.

During 2007, we continued to build a healthy portfolio and diversify the Bank's assets with the addition of several new assets categories. We continue to look at a variety of investments with which to balance our portfolio further. These include some specific, almost boutique-type, real estate investments and small projects, but more of a concept consistent with equipment leasing. An example would be not only leasing the equipment inside a warehouse but also financing the warehouse itself.

Our current main markets are Bahrain, Kuwait and UAE, but due to the injection of new capital, the Bank is planning to expand into Qatar and Oman, operating either singly or with a local partner, and also to open an office in the UAE. In addition, we have held discussions with a number of interested parties about a venture in Saudi Arabia. After we have consolidated our footprint in the GCC, we will then look towards the rest of Middle East and perhaps beyond.

Another important achievement during the year was broadening our client base, while at the same time, attracting more business from existing clients. FLB is a relationship partner that prides itself in participating in the long term business growth of its clients. We seek to finance 100 per cent of the asset value and enter into multiple transactions with the same client. Our high level of repeat business is unusual for such a new institution, but it is certainly a testimony to the Bank's staff, business philosophy and responsiveness. A close rapport with clients and the high quality of our services are key reasons that prompt a number of clients to come back for additional business. These clients have told us that they are comfortable with the way we do business, and impressed at the speed with which we do it.

While the market for leasing in the GCC is largely untapped, there is some finance lease competition from certain traditional banks, both conventional and Islamic. The difference, however, is that traditional banks tend to look at leasing as a purely financial transaction, while we look at it as an asset-based transaction. We are not just interested in the financial statements but also in the current and future value of the equipment. Hence, we offer operating leases in addition to finance leases. And, because we concentrate solely on leasing, we believe that our approach is different, better and faster.

This approach enables First Leasing Bank to lead the way in tapping the potential of equipment leasing in the region. We look at the environment for FLB from two perspectives. The first is the economic growth of the region and the growing trend towards industrial diversification. While everyone is aware of the construction and real estate sectors, an equally important facet of the GCC is the so called 'quiet economy' in which people are building new factories and new businesses.

James A. Cracco
CEO





Our remarkable performance in 2007 is a testimony to the hard work and commitment of our staff.

... CEO'S STATEMENT CONTINUED

The second key factor is the Gulf's increased liquidity and capital market multiplier effect. The capital markets are becoming more sophisticated and providing more alternatives. Equipment leasing is unique because it marries both sides of the economic equation industrial growth and more efficient capital markets.

Our remarkable performance in 2007 is a testimony to the hard work and commitment of our staff, and their closeness to our clients. It is encouraging to see such closeness, given that when we started operations and because equipment leasing was a "new industry", only two of us at FLB had any prior direct experience in equipment leasing. Fortunately, we have extremely bright people who have learned quickly and well. In a booming economy characterised by a robust job market, we have had a negligible employee turnover rate. That is a testimony to clients and employees alike, as well as to the attraction of our new enterprise.

Last but not least, First Leasing Bank enjoys a strong competitive advantage due to the unwavering support and guidance of Overland Capital Group – who has a management contract for the Bank; the Board of Directors; and our Chairman, Mr. Khalid M. Kanoo.

James A. Cracco

CHIEF EXECUTIVE OFFICER



Board of Directors

Khalid M. Kanoo

CHAIRMAN

Mr. Kanoo is a Partner and Group Managing Director of Yusuf Bin Ahmed Kanoo W.L.L. since 1969. He is currently the Chairman of Bahrain Family Business Association and a Board Member of the Bahrain Stock Exchange and the Bahrain Convention and Exhibition Authority. He is a former Chairman of Bahrain Chamber of Commerce and Industry (BCCI) and the Founding Chairman of Young Presidents Organisation – Saudi Chapter. Mr. Kanoo is the author of two books, The House of Kanoo – A Century of an Arabian Family Business and the History of the Bahrain Chamber of Commerce and Industry and the GCC Chambers of Commerce. He holds a B.Sc. in Commerce, USA; A.M.P., Harvard University, U.S.A.

Faruq Abu Shamat

Mr. Abu Shamat is the Chairman of the Audit & Risk Committee of the Bank. He is Vice President, Head of Financial Services of Sage Capital Management Group and also Board Member and Chairman of the Audit Committee of Instrata Capital B.S.C (Sage). Mr. Abu Shamat, previously worked as Vice President - Corporate and Project Finance Department at the Offshore Banking Unit of Arab Bank plc in Bahrain and a Senior Auditor for six years with Deloitte and Touche, Bahrain and two years with Deloitte and Touche LLP, New York, USA. Mr. Abu Shamat holds a Bachelor Degree in Commerce, from Osmania University, India and is qualified as CPA from USA.

H. Russell Wilks

Mr. Wilks is the Chairman of the Executive & Investment Committee of the Bank. He is the President of Overland Capital Group, Inc., a Senior Managing Director of Overland Leasing Group LLC and also a Member of the Board of Directors and the Executive and Investment Committees of Overland. Mr. Wilks was formerly a Senior Vice President of Key Equipment Finance holding several positions, including Senior Vice President of Portfolio Investments and Senior Vice President of Capital Markets and Economics. In his 25 years in the leasing industry, Mr. Wilks has gained broad experience in all aspects of equipment leasing. He holds a B.Sc. in Business Management/Marketing and MBA in Finance, Brigham Young University.

Shaikh Khalid Bin Mohammed Al-Khalifa

Shaikh Khalid is a Member of the Audit & Risk Committee of the Bank. He is the Chief Executive Officer of Palm Capital and a Member of the Board of Directors of Capital Management House, as well as several real estate development companies. He was a member of several key committees dealing with, among other issues, the development of the Debt and Equity Capital Markets in the Kingdom of Bahrain, as well as promoting the Kingdom as the region's hub for business. Shaikh Khalid holds a BA in Economics and International Relations from Boston University, a Master in Economics from Tufts University, and an Executive MBA from University of Virginia, Darden School of Business.



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... BOARD OF DIRECTORS CONTINUED

Raafat Mokbel Hussein

Mr. Mokbel is Assistant to the Chief Executive Officer of Faisal Islamic Bank of Egypt. Mr. Mokbel is also, a Member of the Resources & Application Committee as well as the Higher Management Committee. He serves as Secretary to the Board of Directors of Faisal Islamic Bank of Egypt. He holds a BA from Cairo University.

Mr. Michael P. Lee

Mr. Lee is a Member of Executive & Investment Committee of the Bank. He is Chief Executive Officer & Member of the Board of Directors of Ithmaar Bank. He has over 35 years of experience as an international investment banker serving multilateral, governmental, corporate, financial institutional and high net worth clients. In his earlier career, with assignments based in London, Hong Kong and New York, he served investment banking clients in West and Eastern Europe, Africa, Asia Pacific, North and South America. Immediately prior to joining Ithmaar, he was Deputy Chairman and Managing Director of Emerging Markets Partnership (Bahrain) B.S.C.(c), the general partner and manager of the \$730.5 million Islamic Development Bank (IDB) Infrastructure Fund. This pioneering and successful regional private equity fund, headquartered in Bahrain and investing in private sector infrastructure in the Muslim world, was co-founded by IDB, DMI and EMP. After graduate training at Chase Manhattan Bank, Mr. Lee started his investment banking career at Merrill Lynch in 1973, spending over 10 years in London, Hong Kong and New York in commercial and investment banking, and general management.

... **Mr. Michael P. Lee**

From 1979-81, he was Director of Corporate Development, Merrill Lynch International & Co., New York and, from 1981-84, he headed Merrill Lynch's international investment banking group responsible for financial institutions/private placements, becoming a Managing Director of Merrill Lynch-White Weld Capital Markets Group. From 1984-88, Mr. Lee was the Chief Executive Officer of Dean Witter Capital Markets International Ltd., London, covering capital markets and investment banking, and was also a Managing Director-Corporate Finance of Dean Witter Reynolds Inc., New York. In 1992, Mr. Lee became a senior adviser at Bahrain's Ministry of Finance & National Economy, providing inter alia strategic advice on the development and regulation of the Bahrain International Financial Centre and on investments. He has now lived in Bahrain for 16 years. Mr. Lee holds an MA (Honours) degree in Philosophy, Politics and Economics from the University of Oxford.

Mohamed Hussain

Mr. Hussain is a Member of Executive & Investment Committee of the Bank. He is Chief Executive & Member of the Board of Shamil Bank and also a Member of its Executive Committee. He is a seasoned banker, who joined Shamil Bank at its inception in the year 2000. Prior to assuming the post of Chief Executive, he served in other senior positions at the Bank, i.e. Deputy Chief Executive and Group Head, Corporate Banking. He was General Manager, Islamic Investment Company of the Gulf (Bahrain) E.C. prior to its merger with Faysal Islamic Bank of Bahrain E.C. in 2000. His previous positions include Senior Vice President, Smith Barney Inc. Bahrain; Director, Marketing & Corporate Finance, Bahrain International Bank; and Assistant Vice President, Gulf International Bank.



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1. Khalid M. Kanoo 2. Faruq Abu Shamat 3. H. Russell Wilks 4. Shaikh Khalid Bin Mohammed Al-Khalifa
5. Raafat Mokbel Hussein 6. Michael P. Lee 7. Mohamed Hussain 8. Dr. Mahmoud M. Elborai

... Mohamed Hussain

He currently serves on the Board of Directors of Meezan Bank (Pakistan), ESKAN Bank (Bahrain), Shamil Bank, EMP Bahrain and the Bahrain Institute of Banking and Finance. Mr. Hussain, a Bahraini national, holds a Bachelor of Arts degree in Economics and Finance from the University of Aleppo, Syria.

Dr. Mahmoud M. Elborai

Dr. Elborai is a Member of the Audit & Risk Committee of the Bank. He is a Founder and Chairman of Insiab Pumping Engineering in Libya since 2003. He is also, a Co-Founder and Vice Chairman of Injaz Marine Services Company, Libya. Dr. Elborai worked as a Chemical Engineering Professor at University of Tripoli in Libya and had worked for eight years as Senior Consultant to MAN Oil and Gas and 12 years as a Project Management Consultant to Thyssen Stahl Union, Germany. Dr. Elborai holds a PhD in Chemical Engineering, Karlsruhe Technical University, Germany.



Executive Management



STANDING: (left to right) Ali Al-Sharaf, Adel Janahi
SITTING: (left to right) Jassim Awadh, Agnel Pereira, James Cracco



... EXECUTIVE MANAGEMENT CONTINUED

James A. Cracco

CHIEF EXECUTIVE OFFICER

Mr. Cracco served in a variety of increasingly responsible positions in international operations and leasing for Chrysler Corporation, Unisys Corporation, Leasetec Corporation and KeyCorp. He has had extended foreign assignments in Japan, Peru, and Mexico, where he served as Finance Director for Unisys de Mexico, SA de CV. Mr. Cracco was later President of Unisys Finance Corporation and then Unisys Leasing Corporation. Most recently, He was Executive Vice President of Key Equipment Finance in the US, where he was responsible for vendor programme management and sales in 26 countries. Mr. Cracco has a B.A. in History & Political Science from Northern State University, an M.A. in History from the University of South Dakota, an MBA in International Management from Thunderbird Graduate School of International Management, and did post graduate work at the University of Connecticut.

Ali Al-Sharaf

FINANCE DIRECTOR

Prior to joining First Leasing Bank, Mr. Al-Sharaf worked for private and governmental organisations. He worked for Islamic Development Bank (IDB) in Jeddah and the Arab Insurance Group (ARIG), PricewaterhouseCoopers and the Ministry of Electricity and Water in Bahrain. At ARIG he worked as an Audit Senior and then moved to Insurance Investments, where he assisted the management in coordinating, monitoring and controlling the Group's subsidiaries. Mr. Al-Sharaf also worked as Deputy Finance and Administration Manager for MENAS (a provider of navigation services for vessels entering Gulf waters). He began his career with Ministry of Electricity and Water where he qualified as a professional accountant. Mr. Al-Sharaf is a fellow member of the Association of Chartered Certified Accountants (ACCA), UK.

Jassim Awadh

BUSINESS DEVELOPMENT DIRECTOR

A veteran of the Bahrain banking industry, Mr. Awadh began his career at Citibank in cash management. He then moved to Investment Banking with Banque Indosuez (currently Calyon), where he provided investment advisory and portfolio management to financial institutions and high net worth individuals throughout the GCC. He subsequently joined the correspondent and corporate banking activities with Bank of Bahrain and Kuwait. Immediately prior to joining First Leasing Bank, he was Vice President, Gulf International Bank, where he was responsible for the merchant and investment banking in Bahrain, Kuwait and Saudi Arabia. Mr. Awadh holds a BSc with honors in Electrical and Electronics Engineering from Newcastle upon Tyne, as well as an MBA and MSC in Electronics Engineering, both from the University of Wales in Cardiff. He also is an associate member of Institute of Electrical Engineers (IEE), UK.

Agnel B Pereira

OPERATIONS DIRECTOR

Mr. Pereira has a diverse background in Management Consulting, Merchant Banking, Audit and Risk Advisory Services, and Training. He spent 7 years with KPMG Bahrain, and has worked with a broad cross section of clients including commercial, offshore, Islamic and investment banks, as well as other financial institutions in Bahrain and Qatar. Mr. Pereira brings an extensive knowledge of leasing from his tenure at Indbank, a merchant banking subsidiary of a leading bank in India. He also served as a Management Consultant with A F Ferguson & Co. Mr. Pereira is a Commerce graduate from Mangalore University, India and is qualified as a Chartered Accountant and a Corporate Secretary. He is an associate member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India.

Adel Mohamad Janahi

HR AND ADMINISTRATION SENIOR MANAGER

Mr. Janahi comes to the Bank after more than 20 years at Bahrain Commercial Facilities Company, most of which he spent serving as Human Resources and Administration Manager. In that role, he was given broad responsibilities, ranging from developing HR policies and recruitment to administering records and office management. Mr. Janahi holds a B.Sc. in Banking and Finance from the University of Bahrain. He holds several other qualifications and certificates related to his chosen field, including a Strategic HR Management qualification from University of California and a certificate on Managing Personnel and Employee Relations from Cranfield University, UK. He is also a member of the Association of Human Resources Management.



Management Review of Operations

Business Development

The increased capital base provided a significant boost to the business activities of First Leasing Bank during 2007. Key developments included arranging higher ticket transactions for larger corporate clients, expanding the asset base, relocating to a new headquarters, doubling the staff and finalising plans to establish a presence in new regional markets.

With the ability to take on higher exposures, the average transaction size rose almost five-fold during the year, with many larger deals now ranging between US\$5 and 15 million. These larger transactions were sometimes arranged by inviting other financial institutions to participate in the deal on a club basis, or by FLB underwriting the deal and then selling down to other institutions.

With a move into new sectors, the Bank successfully expanded its portfolio with more specialised or sophisticated assets, including printing and industrial process equipment. At the same time, FLB progressed plans to set up operations in UAE, Qatar and Oman, either on its own or with local partners.

Sectors where the Bank has made an impressive early impact include manufacturing, construction, printing, entertainment, media, power generation, telecommunications and marine services.

FLB's diversified asset base includes carton manufacturing machinery, plastic film manufacturing equipment, construction and heavy earthmoving equipment, concrete mixers, pumps and batching plants, micro tunnelling equipment, digital printing machines, outdoor LED displays, amusement park rides, power generators,

advanced telephony systems, stevedoring cranes, drilling rigs, and environmentally-friendly oil tanker cleaning equipment and waste treatment plants.

In order to improve awareness of the benefits of leasing throughout the region, the Bank's management delivered speeches at conferences and seminars, provided articles and interviews for the media, and participated in industry exhibitions.

Operations

The support activities of the Operations division are integrated with all aspects of the business. These cover front office (business development) – assets valuation; deal structuring; middle office – investment assessment; and back office – documentation management and follow-up.

To support the increase in business volumes and value of transactions during 2007, a major upgrade of the bank's processes and procedures was completed, and work commenced on a fully integrated IT system, due to be completed in 2008, the new system will provide the backbone for all front end, operations, accounting activities and incorporate specialised leasing applications, such as operating leases and club deals.

Operations has contributed to expedite the entire process from receipt of a proposal from the client until funding – which has helped the Bank achieve a high level of customer satisfaction. The Bank's goal is to complete standard transactions within a matter of days.

//
... average transaction size rose almost 5-fold, with many larger **deals ranging between \$5-15 million.**
//

Human Resources and Administration

FLB made great strides during 2007 in strengthening its Human Resources and Administration infrastructure in order to support the growing operations and future strategic plans of the Bank.

Major achievements include the completion of the Bank's new HR Policy and Procedures Manual, and the successful results of a concerted recruitment drive. The Bank was able to attract additional experienced and qualified professionals with a career background in reputed financial institutions to fill key positions throughout the organisation. As a result, staff numbers more than doubled during the year, and further appointments will be made in 2008 to meet future manpower requirements.

A detailed training needs analysis was conducted to assess staff development needs, and a budget was approved for the development of a comprehensive training programme. Courses in critical areas such as anti-money laundering, the Basel II accord and lease structuring were provided for staff.

In terms of operational effectiveness and efficiency, another key development was the successful move to new premises in the Seef district during 2007. The new purpose-designed offices provide staff with a pleasant and modern working environment, equipped with state-of-the-art support facilities.





Corporate Governance

First Leasing Bank (FLB) is committed to adopting the highest standards of corporate governance in order to ensure fairness for all stakeholders and achieve organisational efficiency. During 2007, the Bank established two Board Committees, an Executive & Investment Committee and an Audit & Risk Committee, and appointed a full-time Risk Management & Compliance Manager. FLB also implemented a comprehensive review of the Bank's high level policies and procedures for corporate governance, internal controls, risk management and compliance.

Board of Directors

The Board of Directors is responsible for the overall direction, supervision and control of the Bank. It meets regularly to consider key aspects of the Bank's affairs and strategy, including the financial statements and the operations of FLB.

The shareholders appoint the Board for a specific term of three years. There are currently eight Directors on the Board, all non-executive, with varied backgrounds and experience, who individually and collectively exercise independent and objective judgment.

The Board provides central leadership to the Bank. It has established and defined the objectives and strategies that direct the ongoing activities of FLB to enable it to achieve its goals. The Board performs its responsibilities as a supervisory board, while delegating responsibility to the Bank's Executive Management for the day-to-day management of FLB, in line with policies, guidelines and parameters set by the Board.

As prescribed in the Bank's Articles of Association, the Board plans at least four meetings per year, with further meetings to occur at the discretion of the Board. In 2007, the Board met five times, the Executive & Investment Committee four times, and the Audit & Risk Committee three times.

Board Committees

The Board of Directors has established two Board committees in line with industry best practice, namely, Executive & Investment Committee and Audit & Risk Committee, and has also directed the Executive Management to establish appropriate Management committees with relevant members. The Board has adopted a Board Charter which, together with the Bank's Memorandum and Articles of Association, and the Charters of various Board Committees, provides the authority and practices for governance of the Bank. The Board Charter imposes the highest level of ethical conduct and ensures the reporting of results with accuracy and transparency in a timely manner, in full compliance with the bye-laws, rules and regulations that govern the Bank's business.

EXECUTIVE & INVESTMENT COMMITTEE

The responsibilities, amongst others, of the Executive & Investment Committee are as follows:

- To exercise the powers of the Board of Directors in addressing matters that arise between scheduled meetings of the Board.
- Provide direction to the Executive Management on FLB's corporate strategy and review of business plans prior to submission to Board of Directors for approval.
- Review & approves all high value transactions related to investments and lease facilities, and monitor their performance on an ongoing basis.
- Review, approve and ratify all credit and market risks, and make appropriate recommendations to the Board.
- Review of quarterly performance reports submitted by the Executive Management.
- Appoint sub-committees such as a Credit Committee and a Management Committee.

AUDIT & RISK COMMITTEE

The responsibilities, amongst others, of the Audit & Risk Committee are as follows:

- Assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices
- Assist the Board in its oversight of:
 - (i) the integrity and reporting of the Bank's quarterly and annual financial statements,
 - (ii) compliance with legal and regulatory requirements; and
 - (iii) the independence and performance of the Bank's internal and external auditors.
- Assist the Board in ensuring that an adequate, effective, comprehensive and transparent corporate governance framework is in place; and in reviewing and supervising the implementation and enforcement of the Bank's Code of Conduct.
- Assist the Board in ensuring that an effective risk management framework is in place, and that all risk controls throughout FLB are in accordance with regulatory requirements and best practice standards for management of risks in banks.
- Assist the Board in fulfilling its oversight responsibilities with respect to setting the Bank's overall risk appetite, parameters and limits within which it conducts its activities.



... committed to adopting the highest standards
to ensure fairness for all stakeholders.



... CORPORATE GOVERNANCE CONTINUED



Code of conduct

The Board has approved and issued a Code of Conduct for the Directors, Executive Management, and members of staff of the Bank. The Code binds signatories to the highest standards of professionalism and due diligence in discharging their duties. The Code outlines areas of conflict of interest, confidentiality, and the responsibilities of signatories to adhere to best practices.

Compliance

The Bank conducts its business in compliance with all relevant bye-laws, rules and regulations pertaining to financial institutions. These comprise Central Bank of Bahrain rules and guidelines; compliance with Commercial Companies and Labour Laws; and international accounting standards. FLB has appointed a full time Risk Management & Compliance Manager. The Bank is guided on matters of compliance to the rules and principles of Islamic Sharia by an experienced and qualified Sharia Adviser.

Communications with Stakeholders

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



Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2007

On behalf of the Board of Directors, I am honoured to present the Directors' report together with the Audited Financial Statements of First Leasing Bank B.S.C. (c) ('FLB') for the year ended 31 December 2007. I am pleased to report that the Bank enjoyed a very successful year, which was characterised by significant strategic progress, strong financial performance, and substantial operational and organisational developments.

The vision of First Leasing Bank is to be the premier financial services company in the GCC specialising in Sharia-compliant equipment leasing and related boutique real estate investments.

During 2007, investment in equipment leasing was predominantly through finance leases. In line with its original business plan, the Bank expects to conclude operating lease transactions during 2008-2009, as the nascent equipment leasing market in the GCC continues to develop and mature.

Financial Performance

Continuing with its strategy of regional growth and increased transactional activity following the recapitalisation of the Bank at end of 2006 FLB recorded a sound financial and corporate performance during 2007, maintaining a sustainable growth since inception in 2004. FLB has also, achieved its first year of profitability in 2007.

Net profit for the year amounted to US\$ 4.50 million, compared to a loss of US\$ 0.97 million in 2006. This increase is mainly attributable to Income from Financing Activities, which increased to US\$ 3.22 million from US\$ 0.91 million in 2006 and Income from Placements with Banks, which showed an increase of US\$ 3.12 million. Total Operating Income for 2007 grew to US\$ 7.10 versus US\$ 1.44 million the previous year. By the end of 2007, total Shareholders' Equity had increased from US\$ 96.29 million in 2006 to US\$ 100.78 million, due to the Net Profit achieved during the year.

Since inception, the Bank has developed a geographically diversified market presence in the UAE, Kuwait and Bahrain, and plans to extend this presence during 2008 to Qatar and Oman. FLB continued to diversify its portfolio during 2007, adding medical equipment to its existing asset base, which includes but is not limited to, printing equipment, industrial processing equipment, construction equipment, manufacturing equipment, amusement park rides, and fleet vehicles.

Corporate Performance

Developments in the Bank during the year fall under two main headings. The first relates to the profitability, leasing portfolio and growth strategy of FLB, which have been reviewed above. The second concerns the organizational structure and institutional capability of the Bank.

In line with its commitment to adopt the highest standards of corporate governance, the Board established an Executive and Investment Committee, and an Audit and Risk Committee, in 2007. FLB also has commenced the implementation of a comprehensive review of the high level policies and procedures for corporate governance and all operational areas, which are expected to be in place by end of first quarter 2008. PricewaterhouseCoopers were appointed to assist the Bank in ensuring its readiness for compliance with Basel II Accord, and have completed a Gap Analysis and Diagnostic Study Analysis as part of the implementation process.

During 2007, the Bank made good progress in filling key management positions. The attraction, development and retention of highly qualified and experienced professionals is a critical success factor in the Bank's achievement of its corporate strategy and business objectives. Also during the year, FLB commenced the implementation of a new information and communications technology infrastructure, which is planned to be commissioned during 2008.

... DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 CONTINUED

Encouragingly, the Bank's achievements to date have been recognised by a poll of readers of Islamic Finance News, who named FLB as the 'Best Islamic Leasing Provider in 2007'. This award reflects growing international recognition for the Bank's high level of customer service and sound management principles.

In conclusion, on behalf of the Board of Directors, I would like to express my sincere appreciation for the ongoing support of our shareholders and clients; for the professionalism and dedication of our management and staff; and for the constructive cooperation that the Bank continues to receive from the regulatory and supervisory authorities.

Board of Directors

During the first quarter of 2007, following the Annual General Meeting of the shareholders and the change in the Bank's shareholding structure based on the capital increase, a new Board was selected and a new Chairman was appointed. I would like to take this opportunity to extend my gratitude to the outgoing Directors for their sterling contribution during the formative years of the Bank. As at 31 December 2007, the Board comprised the following eight directors including the Chairman, who together bring a wide range of skills and experience to the Bank:

Khalid M. Kanoo

CHAIRMAN OF THE BOARD OF DIRECTORS

Faruq Abu Shamat

SAGE CAPITAL MANAGEMENT GROUP,
V.P., HEAD OF FINANCIAL SERVICES

H. Russell Wilks

OVERLAND CAPITAL GROUP INC., PRESIDENT

Sh. Khalid M. Al-Khalifa

PALM CAPITAL S.P.C., CEO

Raafat Mokbal Hussain

FAISAL ISLAMIC BANK OF EGYPT, DEPUTY CEO

Michael P. Lee

ITHMAAR BANK B.S.C., CEO

Mohammed A. Hussain

AL DAR GLOBAL PRIVATE EQUITY FUND,
CEO OF SHAMIL BANK

Dr. Mahmoud El. Borai

PUMPING ENGINEERING LTD, CHAIRMAN

The number of shares held by the Directors and their related parties as at 31 December 2007 were 2,100,000 shares representing 2.1 per cent of the total number of shares.

Sharia Adviser

Dr. Fareed Mohammed Hadi, a prominent Bahraini Islamic scholar, and Chairman of Arabic and Islamic Studies at the University of Bahrain, is the Bank's Sharia adviser.

Auditors

The Bank's auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office, and a resolution proposing their re-appointment will be placed before the Annual General Meeting.

Khalid M. Kanoo

CHAIRMAN

10 February 2008

... INDEX TO THE FINANCIAL STATEMENTS

27	Independent Auditor's Report
29	Balance Sheet
30	Statement of Income
31	Statement of Changes in Equity
32	Statement of Cash Flows
33	Notes to the Consolidated Financial Statements
33	Incorporation and principal activity
33	Significant accounting policies
36	Financial risk management
41	Critical accounting estimates and judgements in applying accounting policies
42	Finance lease receivables
43	Available-for-sale investments
43	Fixed assets
44	Other assets
44	Accounts payable and other liabilities
44	Transactions with related parties
45	Share capital
45	Statutory reserve
46	Fee and commission income
46	Other operating expenses
47	Off balance sheet items
47	Capital adequacy



Independent Auditor's 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 of 31 December 2007 and the income statement, 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 the 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.

OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2007, 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 2007.

PricewaterhouseCoopers

Manama, Kingdom of Bahrain
13 February 2008

BALANCE SHEET

as at 31 December 2007

(Expressed in United States Dollars)

	Note	2007	2006
ASSETS			
Cash and balances with bank	10	435,690	260,905
Placements with banks	10	46,540,726	76,597,871
Finance lease receivables	5	44,388,081	20,789,474
Available for sale investments	6	10,112,968	-
Fixed assets	7	450,284	97,685
Other assets	8	412,863	680,416
Total assets		102,340,612	98,426,351
LIABILITIES			
Accounts payable and other liabilities	9	1,294,520	811,210
Due to related parties	10	263,410	1,325,918
Total liabilities		1,557,930	2,137,128
EQUITY			
Share capital	11	100,000,000	100,000,000
Statutory reserve	12	449,933	-
Translation reserve	6	(5,875)	-
Accumulated gains / (losses)		338,624	(3,710,777)
Total equity		100,782,682	96,289,223
Total liabilities and equity		102,340,612	98,426,351

These financial statements were approved for issue by the Board of Directors on 10th February 2008 and signed on its behalf by:

Khalid Mohamed Kanoo
Chairman

James A. Cracco
Chief Executive Officer

The notes on pages 33 to 47 are an integral part of these financial statements.

INCOME STATEMENT

For the year ended 31 December 2007

(Expressed in United States Dollars)

	Note	2007	2006
Income from financing activities		3,217,825	906,932
Profit on placements with banks		3,269,550	148,513
Fee and commission income	13	429,997	371,946
Other income		184,054	8,861
Total operating income		7,101,426	1,436,252
Staff costs		(1,840,747)	(961,973)
Other operating expenses	14	(1,448,454)	(638,976)
Release/(provision) for impairment		700,000	(700,000)
Finance cost		(12,891)	(106,455)
Total operating expenses		(2,602,092)	(2,407,404)
Net profit/(loss) for the year		4,499,334	(971,152)

These financial statements were approved for issue by the Board of Directors on 10th February 2008 and signed on its behalf by:

Khalid Mohamed Kanoo
Chairman

James A. Cracco
Chief Executive Officer

The notes on pages 33 to 47 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

(Expressed in United States Dollars)

	Note	Share capital	Share premium	Accumulated (losses)/gains	Translation reserve	Statutory reserve	Total
At 1 January 2006		11,000,000	-	(2,739,625)	-	-	8,260,375
Issue of new shares	11	89,000,000	-	-	-	-	89,000,000
Share premium	11	-	4,450,000	-	-	-	4,450,000
Shares issue cost	11	-	(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
At 1 January 2007	11	100,000,000	-	(3,710,777)	-	-	96,289,223
Net profit for the year		-	-	4,499,334	-	-	4,499,334
Statutory reserve	12	-	-	(449,933)	-	449,933	-
Translation reserve	6	-	-	-	(5,875)	-	(5,875)
At 31 December 2007		100,000,000	-	338,624	(5,875)	449,933	100,782,682

The notes on pages 33 to 47 are an integral part of these financial statements.

CASH FLOW STATEMENT

For the year ended 31 December 2007

(Expressed in United States Dollars)

	Note	2007	2006
Operating activities			
Net profit/ (loss) for the year		4,499,334	(971,152)
Adjustments for:			
Depreciation	7	93,400	35,244
Loss on disposal of fixed assets		33,315	-
(Released)/provision for impairment	5	(700,000)	700,000
		3,926,049	(235,908)
Changes in operating assets and liabilities:			
Increase in finance lease receivables		(22,898,607)	(14,683,428)
Decrease in advances on leases		-	1,266,136
Decrease/(increase) in other assets		267,553	(566,334)
Increase in accounts payable and other liabilities		483,310	581,686
(Decrease)/increase in due to related parties		(1,062,508)	1,004,181
Net cash used in operations		(19,284,203)	(12,633,667)
Investing activities			
Purchase of fixed assets	7	(512,589)	-
Proceeds from sale of fixed assets		33,275	-
Purchase of available-for-sale investments	6	(10,118,843)	-
Net cash used in investing activities		(10,598,157)	-
Financing activities			
Net proceed from issued shares		-	89,000,000
Net cash provided by financing activities		-	89,000,000
Net (decrease)/increase in cash and cash equivalents		(29,882,360)	76,366,333
Cash and cash equivalents at the beginning of the year		76,858,776	492,443
Cash and cash equivalents at the end of the year		46,976,416	76,858,776
Cash and cash equivalents comprise:			
Cash and balances with bank	10	435,690	260,905
Placements with banks		46,540,726	76,597,871
		46,976,416	76,858,776

The notes on pages 33 to 47 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

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 Wholesale Banking License issued by Central Bank of Bahrain. The registered office of the Bank 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.

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 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 4.

(a) Standards, amendment and interpretations effective in 2007:

IFRS 7, ‘Financial instruments: Disclosures’, and the complementary amendment to International Accounting Standards (the “IAS”), ‘Presentation of financial statements – Capital disclosures’ (effective 1 January 2007). Additional disclosures of significance arising from the implementation of IFRS 7 and amendment to IAS 1 have been made in these financial statements and include: concentration of risk

on financial instruments; maturity analyses of the financial liabilities; sensitivity analysis to market risk and the disclosures required by the amendments to IAS 1 relating to management of capital.

(b) Standards, amendments and interpretations effective in 2007 but not relevant:

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Bank's operations:

- IFRIC 7, ‘Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies’;
- IFRIC 8, ‘Scope of IFRS 2’;
- IFRIC 9, ‘Re-assessment of embedded derivatives’.
- IFRIC 10, ‘Interim financial reporting and impairment’;
- IFRIC 11, ‘IFRS 2 – Group and treasury share transactions’;

(c) Standards, amendments and interpretations to existing standards that are not yet effective and not relevant for the Bank operations:

The following standards amendments and interpretations to existing standards have been published and are mandatory for the accounting periods beginning on or after 1 January 2008 or later periods but are not yet effective:

- IFRIC 12, ‘Service concession arrangements’ (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Bank's operations.
- IFRIC 13, ‘Customer loyalty programmes’ (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

the customer is allocated between the components of the arrangement in using fair values. IFRIC 13 is not relevant to the Bank's operations.

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. IAS 23 is not relevant to the Bank's operations.
- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. IFRS 8 is not relevant to the Bank's operations.
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC 14 is not relevant to the Bank's operations.

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

recognized on a straight-line basis over the period for which the banking facilities are issued. Other fees and commissions are recognized when the service has been provided.

2.3 Finance expenses

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

2.4 Financial assets

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

a. Finance lease receivables

Finance lease receivables 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 recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

b. Available-for-sale financial assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in 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.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Available-for-sale investments 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.

Available-for-sale financial assets are subsequently carried at fair value. Finance lease receivable are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets 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 profit or loss. 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.

If there is no active market for a financial asset, the Branch establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

2.5 Fixed assets

Fixed assets 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 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 are 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.

2.6 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.

2.7 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 using actuarial techniques.

2.8 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.

2.9 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.10 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.

2.11 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.

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 minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze 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, concentrations of

risk, market risk and liquidity risk. Market risk includes currency risk, interest rate risk and price risk.

Risk controlling

The senior management is 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 is primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes in the Bank are audited annually by the Group internal audit department (Ithmaar) 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, finance lease receivables and available for sale investments. The Bank uses external ratings such as Standard & Poor's or its equivalent in order to measure its credit risk exposures.

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 risk 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 a revolving basis and 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in United States Dollars)

3 FINANCIAL RISK MANAGEMENT (continued)

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 legally authorized to take back the assets in case of customer defaults in paying the installments.

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 2007 was US\$ 27 million (31 December 2006: US\$ 50 million). The Bank's all financial assets are within 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 2007	Gross Maximum Exposure 31 December 2006
Cash and balances with bank	10	435,690	260,905
Placements with banks	10	46,540,726	76,597,871
Finance lease receivables	5	44,388,081	20,789,474
Total credit risk exposure		91,364,497	97,648,250

3.1.5 Collateral

In respect of finance lease receivables, 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 did not have any impaired financial assets at 31 December 2007 (31 December 2006: US\$ 700,000). The past due but not impaired financial assets are summarized below:

	Up to 3 months	More than 3 but less than 6 months	2007 Total
Finance lease receivables	21,079,406	3,603,595	24,683,001

	Up to 3 months	More than 3 but less than 6 months	2006 Total
Finance lease receivables	5,409,017	-	5,409,017

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in United States Dollars)

3 FINANCIAL RISK MANAGEMENT (continued)

The table below presents an analysis of financial assets by external rating designation at 31 December 2007 and 2006. The external ratings are based on Standard & Poor's (S&P) ratings or its equivalent:

	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

	At 31 December 2006			
	Cash and balances with bank	Placements with banks	Finance lease receivables	Total
B+	260,905	26,597,871	-	26,858,776
Not rated	-	50,000,000	20,789,474	70,789,474
Total	260,905	76,597,871	20,789,474	97,648,250

3.2 Market risk

The Bank is exposed to market risk, 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 exposed to price risk arising from the available for sale investments held by the Bank in United Kingdom and Middle East. The table below summarizes the impact of the increase/decrease in prices of the available for sale investments on the equity for the year ended 31 December 2007. The analysis is based on the assumptions that all other variables will remain constant.

	Impact on the equity of the Bank	
	31 December 2007	31 December 2006
Changes of \pm 5% of NAV of the available for sale Investments:	\pm 505,648	-

3.2.2 Currency risk

The Bank is not significantly exposed to any foreign currency risk at 31 December 2007 and 31 December 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in United States Dollars)

3 FINANCIAL RISK MANAGEMENT (continued)

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.

During the year ended 31 December 2007, 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 equity of the Bank	
	31 December 2007	31 December 2006
Changes of ± 100 basis points in interest rates of the following:		
Finance lease receivables	±50,800	±53,050

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 summarizes the Bank's exposure to interest rate risk. It includes the Bank's financial instruments categorized by earlier of contractual re-pricing or maturity dates:

	31 December 2007					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 bank	-	-	-	-	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
Available-for-sale investments	-	-	-	-	10,112,968	10,112,968
Fixed assets	-	-	-	-	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	11,075,960	102,340,612
Accounts payable 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		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in United States Dollars)

3 FINANCIAL RISK MANAGEMENT (continued)

	Interest rate sensitive				Non-interest rate sensitive	Total
	Up to 1 month	1-3 months	3-12 months	1-5 years		
	31 December 2006					
Cash and balances with bank	-	-	-	-	260,905	260,905
Placements with banks	26,044,243	50,553,628	-	-	-	76,597,871
Finance lease receivables	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
Accounts 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
Total interest repricing gap	26,702,081	51,514,338	4,861,342	13,515,849		

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. The Bank monitors future cash flows and liquidity on a regular basis.

3.3.1 Non-derivative cash flows

The table set out below presents 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 the Bank manages the inherent liquidity risk based on expected undiscounted cash flows:

	2007				Total
	Up to 1 month	1 - 3 months	3 - 12 months	Over 1 year	
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
	2006				
Liabilities					
Accounts payable and other liabilities	1,124	69,153	190,405	550,528	811,210
Due to related parties	-	793,735	532,183	-	1,325,918
Total	1,124	862,888	722,588	550,528	2,137,128

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

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 marketable assets that can be easily liquidated 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 JUDGMENTS 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 judgments 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 receivables

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in United States Dollars)

5. FINANCE LEASE RECEIVABLES

Gross investment in finance lease receivables:

	2007	2006
Not later than 1 year	15,892,900	9,133,359
Later than 1 year and not later than 5 years	35,710,766	17,169,906
	51,603,666	26,303,265
Unearned future finance income on finance leases	(7,215,585)	(4,813,791)
Provision for impairment	-	(700,000)
Net investment in finance leases	44,388,081	20,789,474
The net investment in finance leases is analysed as follows:		
Not later than 1 year	12,748,537	7,014,375
Later than 1 year and not later than 5 years	31,639,544	13,775,099
	44,388,081	20,789,474

Reconciliation of finance lease receivables:

	2007	2006
At 1 January	20,789,474	6,806,046
New Finance lease receivables	32,534,890	2,600,953
Finance lease income receivable	465,329	
Purchase of finance lease receivables	-	12,892,020
Transferred from construction finance	-	1,266,136
Finance lease receivables collected	(8,601,612)	(2,075,681)
Finance lease sold	(1,500,000)	-
Released/(provision) for impairment made	700,000	(700,000)
	44,388,081	20,789,474

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.

On 1st July 2007, the Bank sold the NOVA Industries Finance Lease receivables at their nominal book value to Solidarity Takaful SA for USD 1.5 million by entering into a Special Purpose Mudaraba Agreement. The Bank retained a 5.49% of the combined facilities sold to Solidarity amounting to USD 87,125.

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 Bank books at the date of transfer (Note 10).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in United States Dollars)

6. AVAILABLE-FOR-SALE INVESTMENTS

	2007	2006
Pinnacle Holdings Limited	5,118,843	-
Falak Aviation Investment Fund	5,000,000	-
	10,118,843	
Exchange loss for the year	(5,875)	-
	10,112,968	-

The Bank has subscribed for 2,500 equity shares of GBP 1,000 each of Pinnacle Holdings Limited, a property company investing in a real estate project development in the United Kingdom and registered in Anguilla Island, West Indies. The investment at year end is stated at cost.

The Bank has invested USD 5 million into FALAK Aviation Investment Fund. The fund is managed by United International Bank BSC (c), Kingdom of Bahrain, as a pre-private placement investment. This investment will be held over an anticipated holding period of 5 years. This investment at the year end is stated at cost.

The movement in the exchange gain reserve is as follows:

	2007	2006
At 1 January	-	-
Translation loss during the year	(5,875)	-
31 December	(5,875)	-

7. FIXED ASSETS

	Fixtures and fittings	Office equipment	Total
2007			
Cost			
At 1 January 2007	123,528	76,938	200,466
Additions during the year	240,633	271,956	512,589
Disposals during the year	(115,269)	(20,380)	(135,649)
31 December 2007	248,892	328,514	577,406
Accumulated depreciation			
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	35,178	91,944	127,122
Net book value as of 31 December 2007	213,714	236,570	450,284
2006			
Cost			
At 1 January 2006	123,528	76,938	200,466
Accumulated depreciation			
At 1 January 2006	21,385	46,152	67,537
Charge for the year	24,706	10,538	35,244
31 December 2006	46,091	56,690	102,781
Net book value as of 31 December 2006	77,437	20,248	97,685

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in United States Dollars)

8. OTHER ASSETS

	2007	2006
Accrued income receivable	255,447	446,028
Prepaid expenses and other receivables	157,416	234,388
	<u>412,863</u>	<u>680,416</u>

9. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2007	2006
Creditors	127,184	66,728
Advance from customers	897,421	550,000
Leaving indemnity	98,644	78,337
Other payables	171,271	116,145
	<u>1,294,520</u>	<u>811,210</u>

10. 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.

Balance Sheet

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

	2007	2006
Current accounts with Shamil Bank	435,049	259,543
Placements with:		
- Shamil Bank	26,540,726	26,597,871
- Ithmaar Bank	-	50,000,000
Purchase of finance lease receivables	-	12,892,020
Finance lease receivables	-	1,500,000
Due to:		
- Overland Capital Group	-	16,528
- Shamil Bank	51,458	793,735
- Khaleeji Commercial Bank	-	515,655
- Solidarity	115,539	-
- Ithmaar Bank	62,662	-
- Others	33,750	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in United States Dollars)

10 TRANSACTIONS WITH RELATED PARTIES (continued)

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.

	2007	2006
Income		
Income from financing activities	69,208	161,634
Profit from placements with banks	2,549,515	148,513
Commission from funds under management	29,794	155,298
Other fees	27,500	-
Expenses		
Management fee	325,000	250,000
Other operating expenses	81,641	111,175
Key management compensation	1,089,292	665,496

11. SHARE CAPITAL

	2007	2006
Authorised		
300 million ordinary shares of US\$ 1 each	300,000,000	300,000,000
Issued and fully paid		
100 million ordinary shares of US\$ 1 each	100,000,000	100,000,000

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

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

12. 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 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 US\$ 449,933 (2006:Nil) has been transferred to the statutory reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in United States Dollars)

13. FEE AND COMMISSION INCOME

	2007	2006
Management fee	400,203	216,648
Commission from funds under management	29,794	155,298
	<u>429,997</u>	<u>371,946</u>

Commission from funds under management represents mudaraba fee earned from managing the funds contributed by related parties (Note 10) in finance lease transactions in accordance with the Special Purpose Mudaraba Agreement.

14. OTHER OPERATING EXPENSES

Other operating expenses include the following:

	2007	2006
Management fee	325,000	250,000
Professional and regulatory expenses	231,088	101,133
Marketing and promotions	189,451	31,168
Board of Directors and Annual General Meeting expenses	109,305	26,079
Business travel	136,935	44,757
Occupancy Costs	215,077	69,113
Other expenses	241,598	116,726
	<u>1,448,454</u>	<u>638,976</u>

The management fee arises from a contract with Overland Capital Group (Note 10). The contract period is one year and is automatically renewed on December 31 of each year unless 90 days notice is given. During 2007 management fee has been increased to US\$ 325,000 (2006: US\$ 250,000) as approved by the Board of the Directors on 15 November 2007.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

(Expressed in United States Dollars)

15. OFF BALANCE SHEET ITEMS

Commitments

The Bank had commitments in respect of finance lease contracts which had been signed at 31 December 2007 of US\$ 10,869,000 (2006: US\$ 7,992,000).

Participations

For the purposes of financing lease transactions, the Bank has obtained participations in the lease transactions from participants amounting to US\$ 1,611,207 at 31 December 2007 (2006: US\$ 5,779,090). The Bank's obligation is limited to collect and make rental payments to the participants and is conditional upon it receiving the corresponding payments from the lessees. The participant shall have no recourse to the Bank in the event of any failure by the lessee to make such payments.

16. CAPITAL ADEQUACY

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 net capital base of the Bank is as follows:

	2007	2006
Tier 1 Core Capital		
Share capital	100,000,000	100,000,000
Statutory reserve	449,933	-
Accumulated gains / (losses)	338,624	(3,710,777)
	<u>100,788,557</u>	<u>96,289,223</u>
Tier 2 Core Capital		
Translation reserve	(5,875)	-
Net capital base	<u>100,782,682</u>	<u>96,289,223</u>

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

	2007		2006	
	Total	Risk weight	Total	Risk weight
On balance sheet assets	102,340,612		98,426,351	
Off balance sheet	10,869,000		7,992,000	
Total risk weight (A)		96,888		40,935
Total capital base (B)		100,783		96,289
Risk to Assets ratio (B / A)		104%		235%



Our People

Abbas Alrabiey

Adel Janahi

Agnel Pereira

Ahmed AlQasem

Ali Al-Sharaf

Fadhel Althahbah

Fatima Abdulltif

Huda Alwan

James A. Cracco

Jassim Awadh

Khalid M. Kanoo

Maitham Rajab

Mohammed Alorayed

Mohammed Turabi

Monther Al Basri

Nelissa D'souza

Nezar Radhi

Shaima Ali

Yaqoob Ali

Yaser Aqeel

Zulfikar Dhase