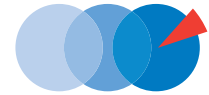


SYNERGY



بنك الإجارة الأول
FIRST LEASING
BANK

ANNUAL REPORT '08

Synergy

The Ithmaar banking group is a global financial services powerhouse with flagship subsidiaries and associates that include Ithmaar Bank, Shamil Bank, Solidarity, Faisal Private Bank (Switzerland), Faysal Bank Limited (Pakistan), BBK, First Leasing Bank and Ithmaar Development Company.

This year, we establish the synergy of this dynamic group. The word 'synergy' comes from the Greek 'syn-ergo' which means working together. It is the coming together of two or more forces in such a way that the resultant force is greater than the sum of its parts.

This is at the core of the success of the Ithmaar banking group. It is the mutually advantageous conjunction of expertise and experience, passion and productivity, innovation and insight. Together, these dynamic forces have delivered positive and sustained growth, and successfully weathered the recent turbulent financial times.

It seems that now, more than ever, the theme of synergy is appropriate in the context of the group's annual reports for 2008.



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Mission & Values

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.

Values

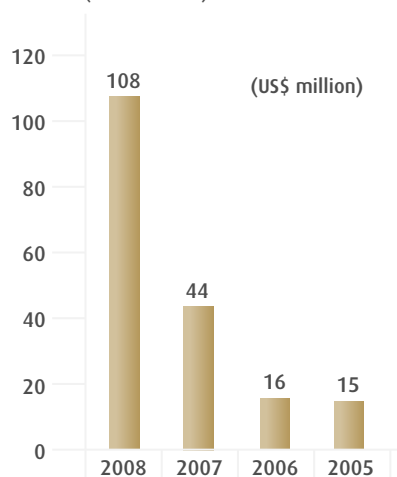
To create maximum shareholder value by combining two business models: the more lucrative, but sometimes volatile, real estate market with the stable equipment leasing market. To build shareholder value through portfolio growth and portfolio management.

Financial Highlights

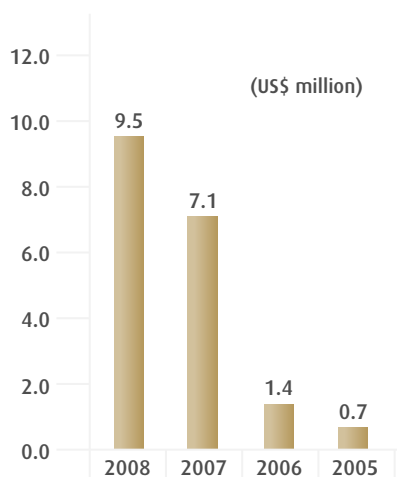
| | 2008 | 2007 | 2006 | 2005 |
|---|----------------|----------------|---------------|---------------|
| EARNINGS (US\$ '000) | | | | |
| Operating income | 9,531 | 7,101 | 1,436 | 732 |
| Expenses | 6,513 | 2,602 | 2,407 | 3,472 |
| Net income/(loss) | 3,018 | 4,499 | (971) | (2,740) |
| FINANCIAL POSITION (US\$ '000) | | | | |
| Cash and placements with banks | 34,967 | 46,976 | 76,859 | 493 |
| Finance lease receivables | 121,966 | 44,388 | 20,789 | 6,806 |
| Operating leases | 427 | - | - | - |
| Investment securities available-for-sale | 20,526 | 10,119 | - | - |
| Other assets | 1,489 | 863 | 778 | 1,513 |
| Total Assets | 179,374 | 102,346 | 98,426 | 8,812 |
| FINANCED BY (US\$ '000) | | | | |
| Owner's equity | 103,807 | 100,789 | 96,289 | 8,260 |
| Due to banks and other liabilities | 75,567 | 1,558 | 2,137 | 552 |
| Volume (originations) (US\$ '000)* | 108,128 | 44,148 | 16,180 | 15,093 |
| PROFITABILITY | | | | |
| Return on average equity (%) | 3.0 | 4.6 | -1.9 | -33.2 |
| Return on average assets (%) | 2.1 | 4.5 | -1.8 | -31.1 |
| ASSET QUALITY | | | | |
| Finance leases as a % of total assets | 68.0 | 43.4 | 21.1 | 77.2 |
| Investment securities available-for-sale as a % of total assets | 11.4 | 9.9 | 0.0 | 0.0 |
| LIQUIDITY | | | | |
| Liquid assets ratio (%) | 19.5 | 45.9 | 78.1 | 5.6 |
| Number of Employees | 27 | 19 | 8 | 8 |

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

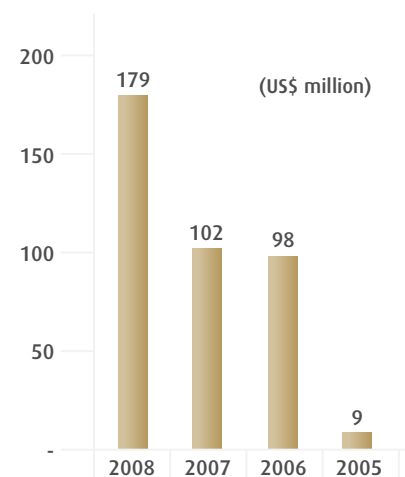
VOLUME (ORINATION)



OPERATING INCOME



TOTAL ASSETS



Chairman's Message to the Shareholders

In the name of Allah, most Gracious, most Merciful

On behalf of the Board of Directors, it is my privilege to present the annual report of First Leasing Bank (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's results – most notably the growth in our leasing portfolio and leasing revenues.

The Total Operating Income for the year grew to \$9.53 million from \$7.10 million in 2007. Income from financing activities grew more significantly, reaching \$7.91 million from \$3.22 million in 2007. Net profit for the year amounted to \$3.02 million, compared to \$4.50 million in 2007. The decrease in net profit was a result of the Bank's investment in infrastructure and staff to allow further expansion of the business, combined with capital constraints that have restricted 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 also 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 \$179.37 from \$102.35 million at the end of 2007, and Shareholders' Equity increased to \$103.81 million from \$100.78 million in 2007.

In 2008, FLB continued to expand its activities on a geographically diversified basis, with the United Arab Emirates, Kuwait, Bahrain and Qatar representing 90 percent of the leasing portfolio. The Bank plans on originating leases in Oman in 2009 and the Kingdom of Saudi Arabia in the 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.

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, a 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 the Bank's development initiatives.

On behalf of the Board of Directors, I would like to pay tribute to the leadership of the 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 his encouragement of the private sector.

I take this opportunity, also, to thank our shareholders, on behalf of the Board of Directors, for their ongoing support, our clients and business partners for their ongoing confidence and loyalty, as well all the Bank's management and staff for their hard work and dedication. We are grateful to former First Leasing Bank Director and Chairman of the Audit and Risk Committee, Faruq Abu Shamat, who resigned from the Board in October 2008. His valuable contributions have played an important role in the Bank's success. We also thank the Central Bank of Bahrain and all regulatory authorities for their cooperation and assistance extended to FLB.

Khalid Mohammed Kanoo
CHAIRMAN

CEO's Statement

On behalf of our management and staff, I am pleased to report 2008 as another successful year of growth and development for First Leasing Bank (FLB or Bank). Even with substantial growth in 2008, the Bank has yet to reach maturity. Sourcing adequate levels of debt capital remains the Bank's major obstacle in reaching such maturity. Our staff, management and board continue to work diligently to progress FLB toward maturity and sustainable levels of capitalisation, portfolio size and shareholder return.

Despite capital constraints, FLB 2008 annual results remain very positive and merit an optimistic outlook for the Bank's future. FLB achieved substantial portfolio growth, market expansion and continued success in the development of middle market equipment leasing in the GCC market. FLB raised significant debt capital under challenging market conditions and started to leverage its balance sheet in 2008. FLB significantly increased its income from core financing activities over 2007. FLB originated its first operating leases in 2008. FLB continued to push forward and accomplish noteworthy operation and organisation improvements in 2008. The foundation and core structure of the Bank became much stronger in 2008.

Throughout the year, we maintained our commitment to be the leading financial institution in the GCC specialising in Sharia compliant equipment leasing – both finance leasing (Ijara wa Iqtinaa) as well as operating leasing (Ijara). Demand for FLB's leasing products continued to grow. Lease margins over Bank cost of funds continued well above business plan levels in 2008. At these lease margins, the Bank's overall return on equity targets can be reached once a 3:1 debt-to-equity capitalisation ratio is achieved.

The Bank further strengthened its corporate governance, risk management framework and financial reporting to ensure compliance with Basel II requirements. Various measures were taken to streamline and strengthen processes and procedures as well as enhance the Bank's human capital and technical resources. FLB 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 – to further enhance ongoing Basel II compliance and decision-making standards. The Bank improved its collection practices to ensure highest probabilities of ongoing portfolio performance and cash flow.

The Bank's achievements in 2008 have not gone unnoticed. The *Islamic Finance News* once again recognised First Leasing Bank as the *Best Islamic Leasing Provider 2008*, as part of its annual reader's award poll. This is the second consecutive year First Leasing Bank has received this award, having been recognised as the *Best Islamic Leasing Provider 2007* as well.

Our significant portfolio and revenue growth in 2008 confirms high market demand for the Bank's leasing products. Looking forward, we have every reason to be both confident and optimistic. With adequate funding, we have a tremendous opportunity to keep growing, to produce higher profits and to further distinguish First Leasing Bank as a market leader for equipment leasing in the GCC region.

Most importantly, the Bank's achievements and successes in 2008 are a testimony to the hard work, commitment and dedication of our people – our staff, management and board. I am proud of our collective accomplishments and want to expressly thank each member of the extended Bank team for their efforts during this very challenging year.

Gregory T. Brinkerhoff
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 the 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.

H. Russell Wilks

DIRECTOR AND CHAIRMAN OF THE EXECUTIVE COMMITTEE

Mr. Wilks is Chairman of the Executive Committee of the Bank. He is the President of Overland Capital Group, Inc., a Senior Managing Director of Overland Leasing Group LLC and 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 ("KEF"), holding several positions, including Senior Vice President of Portfolio Investments and Senior Vice President of Capital Markets and Economics. In his 26 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 an MBA in Finance, Brigham Young University.



Shaikh Khalid bin Mohammed Al-Khalifa
DIRECTOR

Shaikh Khalid is a Member of the Executive 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.

Raafat Mokbel Hussein

DIRECTOR

Mr. Mokbel is Assistant to the Chief Executive Officer of Faisal Islamic Bank of Egypt. Mr. Mokbel is also a Member of the Resources and 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.



Mohamed Hussain

DIRECTOR

Mr. Hussain has been Co-CEO and a Member of The Board of the Ithmaar Bank Board of Directors since April 2008. He is also a member of Ithmaar Bank's Executive Committee. Mr. Hussain is responsible for overseeing Ithmaar Bank's holdings in subsidiaries, associates and strategic investments, as well as the Group's Treasury, Private Banking and Risk Management. Prior to his current appointment, Mr. Hussain was Chief Executive and Member of The Board of Shamil Bank (Bahrain), which is wholly-owned by Ithmaar Bank. A seasoned banker who joined Shamil Bank in 1998, Mr. Hussain previously held other senior positions at the Bank, including Deputy Chief Executive. He was also General Manager of Islamic Investment Company of the Gulf (E.C.) in Bahrain prior to its merger with Faysal Islamic Bank of Bahrain (E.C.) in 2000. His previous positions included Senior Vice President, Smith Barney Inc. Bahrain; Director, Marketing and Corporate Finance, Bahrain International Bank; and Assistant Vice President, Gulf International Bank. He currently serves on the boards of BBK (formerly known as Bank of Bahrain and Kuwait), Faisal Private Bank (Switzerland), Faysal Bank Limited (Pakistan), Solidarity, Ithraa Capital (Kingdom of Saudi Arabia), Emerging Markets Partnership (Bahrain) BSC (c) and CITIC International Assets Management Limited (Hong Kong). Mr. Hussain, a Bahraini National, holds a Bachelor of Arts degree in Economics and Finance.



Ahmed A. Rahim

DIRECTOR

A veteran of Bahrain's banking industry, Mr. Abdul Rahim is the Ithmaar Bank Chief Operating Officer and the Shamil Bank Deputy Chief Executive. Coming under his direct supervision at Ithmaar are Financial Control, IT and Operations, as well as Human Resources and Public Relations and Corporate Communications. Mr. Abdul Rahim had previously worked for 28 years with National Bank of Bahrain at various executive levels, including as Manager FX and Funding, Chief Internal Auditor and, finally, Assistant General Manager, Corporate Services. He holds an MBA from the University of Glamorgan, Wales (UK), and is an Associate in Financial Accounting from the Institute of Financial Accountants, London (UK). He also holds an Executive Management Diploma from the University of

Bahrain and Advance Banking Diploma from the Bahrain Institute of Banking and Finance. Mr. Abdul Rahim is a member of the Executive Committee of Shamil Bank and a member of the Board of Directors of Meezan Bank, Pakistan and Ithmaar Development Company. He is also a member of the InJAz Bahrain Board of Directors.

Dr. Mahmoud M. Elborai

DIRECTOR

Dr. Elborai is a Member of the Audit and Risk Committee of the Bank. He is a Founder and Chairman of Insiab Pumping Engineering in Libya. He is also, Chairman of Control Committee of Sahara Bank BNP PARIBAS GROUP in Libya. Dr. Elborai worked as a Chemical Engineering Professor at the University of Tripoli in Libya and had worked for eight years as Senior Consultant to MAN Oil and Gas, and for 12 years as a Project Management Consultant to Thyssen Stahl Union, Germany. Dr. Elborai holds a Ph.D. in Chemical Engineering from Karlsruhe Technical University, in Germany.



Faruq Abu Shamat

DIRECTOR AND CHAIRMAN OF THE EXECUTIVE COMMITTEE

(from 1 January 2008 to October 2008)

Mr. Abu Shamat is the Chairman of the Audit and 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 as a Senior Auditor, for six years, with Deloitte and Touche, Bahrain and for 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.



Executive Management



(Left to right)
Jassim Awadh, Monther Albasri, Gregory T. Brinkerhoff,
Agnel B Pereira, Ali Al-Sharaf and Adel Mohamad Janahi.

Executive Management

Gregory T. Brinkerhoff CHIEF EXECUTIVE OFFICER

Mr. Brinkerhoff is responsible for all First Leasing Bank's sales, marketing, operations and financial activities. Mr. Brinkerhoff comes to First Leasing Bank from Oracle Corporation where he was part of the senior management team which developed Oracle's global vendor financing programme – a multi-billion USD franchise, operating in over 50 countries. Mr. Brinkerhoff spent 14 years with Oracle Corporation developing and managing financial sales, lease and installment payment programmes for information technology assets in North America, Asia Pacific, Japan and Europe. Mr. Brinkerhoff previously held key positions at US Leasing in San Francisco, California and Ford Aerospace Corporation in Newport Beach, California. He has an MBA in Finance from the University of Notre Dame and a BS in Business Administration and Economics from the University of Montana.

Ali Al-Sharaf CHIEF FINANCE OFFICER

Mr. Al-Sharaf is responsible for the financial function of the Bank. Prior to joining First Leasing Bank, Mr. Al-Sharaf worked for Islamic Development Bank (IDB) in Jeddah, Arab Insurance Group (ARIG), Middle East Navigation Aid Service (MENAS), PricewaterhouseCoopers and the Ministry of Electricity and Water (E&W). While at IDB, he was responsible for the monthly and quarterly financial reporting of the Bank. 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. He began his career at E&W where he qualified as a professional accountant, subsequently gaining broad experience within various sections of the Financial Affairs Directorate of E&W. Mr. Al-Sharaf is a fellow member of the Association of Chartered Certified Accountants (ACCA), UK.

Jassim Awadh BUSINESS DEVELOPMENT DIRECTOR

Mr. Awadh is responsible for First Leasing Bank's sales, marketing and business development activities as well

as all planning and implementation of both direct and vendor programme channels, structuring transactions, and expanding into new markets and equipment classes. Mr. Awadh began his career at Citibank in cash management, where he developed business to financial institutions and corporates within the GCC, Levant and Africa. 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 BBK (formerly known as Bank of Bahrain and Kuwait). Immediately prior to joining First Leasing Bank, he was Vice President, Gulf International Bank (GIB) where he was responsible for the merchant and investment banking in Bahrain, Kuwait and Saudi Arabia. Mr. Awadh, who also served on Bank's Credit Committee expanded GIB's footprint and profitability in those markets. Before beginning his banking career, Mr. Awadh held engineering positions in the field of telecommunications and electronics at Bahrain Petroleum Company (Bapco) and Bahrain Telecommunications Company (Batelco). Mr. Awadh holds a BSc, with honours, in Electrical and Electronics Engineering from Newcastle upon Tyne as well as an MBA and an MSC in Electronics Engineering, both from the University of Wales in Cardiff. He also is an associate member of Institute of Electrical Engineers (IEE) in the United Kingdom.

Agnel B Pereira INVESTMENTS AND OPERATIONS DIRECTOR

Mr. Pereira is responsible for transaction structuring, investment reviews and approvals, documentation and client account monitoring for the lease and investment portfolio of the Bank. He is a member of the Credit Committee of the Bank which works under a delegated authority from the Executive Committee. As part of the senior management team, he also handles the liquidity management function of the Bank. He has a diverse background of over two decades in Management Consulting, Merchant Banking, Leasing and other asset finance, Audit and Risk Advisory Services, and Training. Prior to joining the Bank, he worked for KPMG Bahrain, during which, he managed 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 equipment leasing from his tenure at Indbank Merchant Banking Services Ltd., Bangalore, a subsidiary of a leading bank in India, where he was responsible for structured finance deals and equipment leases for corporate and public sector entities. His clients at Indbank also included venture capital firms, foreign institutional investors, IPO underwriters, finance brokers and mutual funds. He has also worked with a Management Consulting firm, A F Ferguson & Co., Bangalore. Mr. Pereira is a Commerce graduate from Mangalore University, India, 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 is responsible for the Human Resources and Administration function of the Bank. He 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. A Bahraini national, Janahi holds a B.Sc. in Banking and Finance from the University of Bahrain. He holds several other related qualifications and certificates 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.

Monther Albasri

MANAGER, COMPLIANCE AND RISK MANAGEMENT

Monther joined First Leasing Bank in 2007 from PricewaterhouseCoopers (PwC) – Bahrain with more than four years experience in Assurance and Advisory services. During his tenure with PwC, he was engaged in a wide range of clients in all sectors inside and outside Bahrain. He gained diverse experience as he was involved in audit assignments covering Islamic Banks, Conventional Banks, other financial institutions, Oil and Gas, Government organisations, Services organisations and Manufacturing sectors. He was also

involved in Transaction Services engagements including due diligence, valuation projects in addition to investigations assignments. Monther was responsible for establishing the Risk Management function of First Leasing Bank; covering all aspects of credit, market, liquidity and operational risks. He was also responsible for setting up the required foundation of the Compliance function for the Bank. Both functions are under his management to date. He currently works closely with the CEO to improve the financial strength of the Bank. Monther graduated with a B.Sc. in Accounting from University of Bahrain and is a member of the American Institute of Certified Public Accountants (CPA).

Management Review of Operations

Business Development

2008 was a particularly successful year for First Leasing Bank in terms of Business Development with the increase of capital (existing equity and new debt) allowing the Bank to create new business across the GCC region as well as increase its marketing activities.

First Leasing Bank set ambitious targets for 2008, worked towards selecting transactions that met stringent predefined criteria (generally transactions in the \$1 million to \$15 million range with a tenor not exceeding five years) while simultaneously keeping its focus on developing a diversified lease portfolio (by GCC country, industry and asset type).

In 2008, First Leasing Bank penetrated the Qatar lease market by closing a sizeable lease facility with a large international engineering company. The underlying project is government-sponsored roadway construction linking Qatar to Saudi Arabia.

First Leasing Bank also concluded a lease facility with a major healthcare business group in Kuwait. The transaction, the Bank's largest transaction in 2008, was to support the acquisition of medical equipment by a private, specialised hospital. The hospital is one of Kuwait's newest, most prominent medical facilities.

In 2008, First Leasing Bank also concluded its first operating lease transactions. The term of these transactions is longer than a typical rental period and shorter than a typical term loan, with greater asset management flexibility built in. The Bank's operating leases were all less than three years, at the end of which, the lessee will have the option to extend the lease, purchase the assets or return them to First Leasing Bank for redeployment.

In 2008, a number of very carefully selected leasing-related investment opportunities were also concluded. The terms of these investment range between three and five years, with some yielding during the investment term. These types of investments are made for portfolio diversity and included aviation, marine, real estate and manufacturing assets.

Meanwhile, the overall lease portfolio grew by more than

twofolds compared with 2007. The Bank continues to expand into new markets. We are in the process of concluding a number of transactions in Oman and developing joint ventures in Oman, UAE and Saudi Arabia to further expand the geographic breadth of First Leasing Bank's portfolio within the GCC region.

In an effort to further strengthen the Bank's image and improve awareness of the benefits of leasing throughout the region, the Bank's management delivered presentations 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 within all aspects of the business. These cover front office (support to business development in client offer letters, assets valuation and deal structuring), middle office (credit and investment assessment) and back office (documentation and client monitoring). The department also manages the Special Purpose Mudaraba Accounts on behalf of the participants in the Bank's equipment lease transactions.

During the year, the department was renamed as Investment and Operations, thereby identifying the multiple tasks of lease and other investment management with its operational support function.

To support the increase in business volume, number of clients and value of transactions during 2008, a major upgrade of the bank's processes and procedures was completed, and work commenced on a fully integrated IT system. The new system will provide the base for all front-end operations and accounting activities as well as incorporate specialised leasing applications, such as operating leases and club deals.

Operations has worked to further expedite the entire process of First Leasing Bank's core business of equipment leasing – from receipt of an initial client proposal to transaction funding and client/asset monitoring. This has helped the Bank achieve a high level of customer satisfaction. The Bank's goal is to complete standard transactions within a matter of a few days without compromising risk assessment and decision making integrity. In the middle market equipment leasing

segment, the Bank can readily structure tailored solutions for each customer's unique needs and thereby provide a more customised, advisory approach to closely map leasing solutions to customer requirements.

Human Resources and Administration

In 2008, First Leasing Bank increased investments in its human capital to accommodate planned growth.

The Human Resources and Administration department implemented new policies to help with the retention and motivation of staff, aligned its training and skills development and formulated informal interactive measures to support the growing operations and future strategic plans of the Bank.

In 2008, First Leasing Bank recruited nine employees – a 47 percent increase over 2007 – and maintained its low employee turnover ratio. Only three employees have left the bank throughout its four year existence.

The Bank also implemented retention and motivation practices and a new performance management system in 2008 to enable ongoing, consistent and formal, two-way communication between management and staff. The Bank experienced immediate improvement in its performance monitoring and goal setting processes.

As part of the performance management and quality enhancement of staff, First Leasing Bank increased its focus on providing for the training and developmental needs of its employees. In addition to formal training, team-building around social events was implemented and will continue to be developed to improve staff morale and productivity.

Corporate Governance

First Leasing Bank 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 and Investment Committee and an Audit and Risk Committee, and appointed a full-time Risk Management and Compliance Manager. First Leasing Bank 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 First Leasing Bank.

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

The Board provides central leadership to the Bank. It has established and defined the objectives and strategies that direct the ongoing activities of First Leasing Bank 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 First Leasing Bank, 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 2008, the Board met four times, the Executive and Investment Committee four times and the Audit and Risk Committee met four times.

Board Committees

The Board of Directors has established two Board committees in line with industry best practice, 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 and Investment Committee

The responsibilities of the Executive and 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 First Leasing Bank's corporate strategy and review of business plans prior to submission to Board of Directors for approval.
- Review and approve 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 and Risk Committee

The responsibilities of the Audit and 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 First Leasing Bank 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.

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.

Internal Audit

Internal Audit is conducted by the Group's Internal Auditor (Ithmaar Bank). The Group's Chief Internal Auditor reports directly to the Audit & Risk Committee to provide independent and objective assurance over the governance, adequacy, sustainability and effectiveness of the Bank's internal controls, policies and risk management processes. All key operational, financial and risk management processes are audited according to risk based methodologies.

Internal Audit examines the strategies of the Bank, the adequacy of the relevant policies and procedures and the Bank's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with Management and reports its findings, recommendations and opinions, via a structured process, to the Audit and Risk Committee. The Internal Audit recommendations are tracked for resolution via the Bank's Audit and Risk Committee.

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. First Leasing Bank has appointed Risk Management and Compliance Manager, who also acts as a Money Laundering Report Officer (MLRO). 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.

Risk Management

Directors of the Bank have an overall responsibility for establishing the Bank's risk culture and ensuring that an effective risk management framework is in place. In line with this, the Board approves and periodically reviews the risk management policies and strategies of the Bank.

The Audit and Risk Committee (ARC) is responsible for implementing risk management policies, guidelines and limits, and for ensuring that monitoring processes are in place. The Risk Management and Compliance department, together with the Internal Audit, provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board.

Risk strategy

ARC develops the risk strategy in line with the business strategy of the Bank and submit it to ARC for its recommendation. This strategy is approved by the BoD with the annual business strategy of the Bank. The descriptions of products in each of the business, the incidence of risks in each of the products, the desired risk and hence capital targets are contained in the risk strategy. The explicit formulation of risk strategy helps in the early detection of deviations from the planned course and in initiating the corresponding counter measures in a timely manner. The strategy incorporates forward-looking aspects with regard to potential risks and changes in business strategies.

The strategy also involves the establishment of the Bank's risk appetite over a specified time period by assigning the thresholds/risk appetite level for specific risks applicable to business units.

Risk policies

The Bank's risk policies identify approval authorities, reporting requirements, and the procedures for referring risk related issues to executive management, ARC and the Board, as appropriate.

Credit risk

Credit risk may arise from all products and services where counterparties of the Bank may fail to meet their payment obligations in accordance with the terms and conditions of the contract.

The Board of Directors (BoD) is responsible for the oversight of the risk management processes. To ensure that the risk management framework is implemented correctly the BoD, as an integral part of the risk management function at the Bank, has established a clearly defined and measurable risk appetite and capital assessment through the approval of the annual strategic plan and risk strategies.

The Bank has a Board approved risk management framework. This risk management framework consists of a Risk Management Policies and Procedures Manual which documents the entire risk management structure of the Bank.

The Board of Directors takes the responsibility for approving and periodically reviewing the credit risk strategy and the significant credit risk policies of the Bank. Senior management takes responsibility for implementing the Board approved credit risk strategy and developing policies and procedures for identifying, measuring, monitoring and controlling credit risk both at the individual credit and portfolio level.

Concentration of exposures in credit portfolios is an important aspect of credit risk. The first type, name concentration, relates to imperfect diversification of idiosyncratic risk in the portfolio either because of its small size or because of large exposures to specific individual obligors. The second type, sector concentration, relates to imperfect diversification across systematic components of risk, namely sectoral factors.

The policy calls for adequate diversification of the credit portfolio and categorises it into private financial services and government and quasi-government sectors, respectively.

The Bank has put in place the exposure limits to ensure adequate diversification and avoid any sectoral concentration. These limits fall under the following sections:

- Country limits;
- Sector / Industry limits;
- Counterparty limits;
- Product limits;
- Maturity limits and;
- Currency limits.

Market risk

Market Risk is defined as the risk of losses in the on and off-balance-sheet positions arising from movement in market prices. The risks covered here are: (1) interest or profit rate risk and equities price risk in the trading book and (2) foreign exchange risk and commodities risk throughout the Bank.

The Market Risk limit management policies and procedures ensure that activities are conducted in a manner that is commensurate with the Bank's risk tolerance and safety and soundness standards. Limits are established to ensure that the risk taking trading activities remain within the bounds of the Bank's risk tolerance while allowing for normal and profitable business activity.

The limits are monitored on a daily basis and excesses are reviewed to establish the cause and are resolved in an effective and timely manner. The following are the principal types of limits used to manage market risk activities:

- Portfolio limits (e.g. notional, market liquidity, or gap);
- Sensitivity limits;
- Stress test limits;
- Discretionary limits;
- Stop loss limits; and
- Guidance limits.

The key market risk factors the Bank is exposed to are discussed below:

Interest or profit rate risk in the trading book

Interest rate risk (IRR) is the risk of earnings loss to the Bank due to adverse movement in interest rates. The Bank's funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on the Bank's net interest income, while the long term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures are affected.

The Board of Directors (BoD) maintains ultimate responsibility for the risk management processes in Bank. The BoD sets the limit and monitors the level of mismatch of interest rate repricing that may be undertaken by the Bank.

Equity price risk

First Leasing Bank retains non-traded equity price risk through investments in equities held in the available-for-sale category. The Risk Management department independently monitors the equity price risk of the Bank while it is the responsibility of the business units to manage the equity price risk under the supervision and guidance from the Investment Committee of the Bank.

Currency risk

The Bank's currency risk is managed on the basis of limits on net open position set by the Board of Directors and a continuous assessment of current and expected exchange rate movements.

The Bank does not engage in foreign exchange trading, and if any, the Bank ensures regular measurement and monitoring of net open positions. The Bank's major exposures are in US Dollar.

Liquidity risk

Liquidity risk is defined as the risk that a Bank may have insufficient funds to meet its obligations as they fall due. This may arise if the Bank is exposed to an unexpected outflow of liabilities due to sudden changes in behavior or withdrawals of certain inter bank funding lines. Market liquidity risk is defined as the danger of the Bank's activity in an illiquid market, where the Bank influences the market prices directly.

The Investment Committee sets out a policy for global liquidity management which is approved by the BoD. The Management Committee and Risk Management department are responsible for the identification and monitoring of liquidity risk.

The Bank has adequate information systems for measuring, monitoring, controlling and reporting liquidity risk. Reports are submitted on a timely basis to the BoD, Senior Management and other appropriate personnel. All of the techniques used to measure liquidity risk must be approved by the Management Committee before usage. In addition the Management Committee prescribes the limits for acceptable liquidity risk as per the Policy; the Bank has an established process for the ongoing measurement of net funding requirements. These

Risk Management

must include, but not be limited to, regular liquidity gap reporting and scenario testing.

Through the adherence to the limits on liquidity mismatches, set out by the Management Committee and approved by the Board, the Bank's liquidity risks are managed.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, which includes but is not limited to, legal risk and Sharia compliance risk.

The BoD has established an organisational risk management framework by approving the risk management policies and procedures manual. The Board periodically reviews this framework and discusses all the major findings and recommendations which will be brought forward through senior management, the Risk Manager and Internal Audit.

Senior management takes responsibility for implementing operational risk management framework throughout the whole banking organisation. Senior management also takes responsibility for developing policies, processes and procedures for managing operational risk in all of the Bank's material products, activities, processes and systems.

The Bank identifies its main processes. For every process a process owner is clearly defined. The process owner manages operational risk arising from the process through monitoring, mitigation and control on a day-to-day basis.

The Risk Manager is responsible for identifying and assessing the operational risk inherent in all material products, activities, processes and systems. Before new products, activities, processes and systems are introduced, the Risk Manager has to assess their inherent risk.

Legal and regulatory risk

The Bank manages legal risk through the effective use of external legal advisers. The Risk Management and Compliance department monitors regulatory compliance and is also responsible for the Bank's anti-money laundering procedures.

The Board of Directors receives regular reports and updates on the status of risks facing the Bank.

Capital adequacy

The Bank's capital adequacy ratio for the year ending December 31, 2008 was calculated in accordance with CBB Basel II guidelines

Board of 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) 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 operation and organisation improvements. First Leasing Bank maintained its commitment to be the leading financial services company in the GCC specialising in Sharia compliant equipment finance leasing (Ijara wa Iqtinaa) as well as operating leasing (Ijara).

Financial Performance

Continuing with its strategy of GCC regional growth, First Leasing Bank 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 \$9.53 million from \$7.10 million in the previous year. Income from financing activities grew more significantly, reaching \$7.91 million from \$3.22 million in 2007. Net profit for the year amounted to \$3.02 million, compared to \$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 \$179.37 from \$102.35 million at the end of 2007, and Shareholders' Equity increased to \$103.81 million from \$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.

First Leasing Bank continued to expand its activities on a geographically diversified basis, with the UAE, Kuwait, Bahrain and Qatar representing 90 percent of the leasing portfolio. The Bank plans on originating leases in Oman in 2009 and the Kingdom of Saudi Arabia in the 2009-2010 timeframe. First Leasing Bank 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 and a 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 the Bank's development initiatives.

Board of Directors' Report

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 recognised the Bank as the *Best Islamic Leasing Provider 2008*, as part of its annual reader's award poll. This is the second consecutive year the Bank has received this award, having been recognised 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 the Bank's management and staff for their hard work and dedication. We also express our thanks to the Central Bank of Bahrain and all regulatory authorities for their cooperation and assistance extended to the First Leasing Bank.

Board of Directors

The following eight directors including the Chairman 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., Co-CEO and Member of the Board
Al Dar Global Private Equity Fund

Mr. Ahmed Abdul Rahim

Ithmaar Bank B.S.C., COO

Shaikh Khalid bin Mohammed Al-Khalifa

Palm Capital S.P.C., CEO

Mr. H. Russell Wilks

Overland Capital Group Inc., President

Mr. Raafat Mokbel Hussein

Faisal Islamic Bank of Egypt, Deputy CEO

Mr. Faruq Abu Shamat

Sage Capital Mgmt Group, V.P. and
Head of Financial Services

(resigned from Board in October 2008)

Dr. Mahmoud M. Elborai

Pumping Engineering Ltd., Chairman

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 percent of the total number of shares.

Sharia Advisor

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

Auditors

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



Khalid Mohammed Kanoo

CHAIRMAN

25 February 2009

Financial Statements & Notes

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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 B.S.C. (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.

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.

The logo for PricewaterhouseCoopers, featuring the company name in a stylized, cursive script.

Manama, Kingdom of Bahrain
26 February 2009

Balance Sheet

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

| | Note | As at 31 December | |
|--|------|--------------------|--------------------|
| | | 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 27 to 42 are an integral part of these financial statements.

Income Statement

(All amounts expressed in thousands of 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 | | 9,531,348 | 7,101,426 |
| 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 | | (6,512,856) | (2,602,092) |
| Profit for the year | | 3,018,492 | 4,499,334 |

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 27 to 42 are an integral part of these financial statements.

Statement of Changes in Equity

(All amounts expressed in thousands of 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 |

Cash Flow Statement

(All amounts expressed in thousands of 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) |
| | | 3,279,418 | 3,926,049 |
| <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 | | (815,227) | (19,284,203) |
| 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 | | (11,194,077) | (10,598,157) |
| Net decrease in cash and cash equivalents | | | |
| | | (12,009,304) | (29,882,360) |
| Cash and cash equivalents at the beginning of the year | | 46,976,416 | 76,858,776 |
| Cash and cash equivalents at the end of the year | | 34,967,112 | 46,976,416 |
| Cash and cash equivalents comprise: | | | |
| Cash and balances with bank | | 1,613,619 | 435,690 |
| Placements with banks | | 33,353,493 | 46,540,726 |
| | | 34,967,112 | 46,976,416 |

Notes

to the Financial Statements

For the year ended 31 December 2008

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.

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.

(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)

Notes

to the Financial Statements

For the year ended 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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)
- 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.

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.

Notes

to the Financial Statements

For the year ended 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 receivable 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.

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 Organisation 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.

Notes

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For the year ended 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 \$30 million (31 December 2007: \$27 million). The Bank's significant financial assets are within the Middle East.

Notes to the Financial Statements

For the year ended 31 December 2008

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

3. FINANCIAL RISK MANAGEMENT (continued)

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.

| | Note | 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 \$2,882,332 (31 December 2007: Nil). The Bank has made provision of \$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:

| | 31 December 2008 | | |
|---------------------------|------------------|--|------------|
| | Up to 3 months | More than 3 but less than 6 months | Total |
| Finance lease receivables | 45,039,293 | 1,742,387 | 46,781,680 |

| | 31 December 2007 | | |
|---------------------------|------------------|--|------------|
| | Up to 3 months | More than 3 but less than 6 months | Total |
| Finance lease receivables | 21,079,406 | 3,603,595 | 24,683,001 |

Notes to the Financial Statements

For the year ended 31 December 2008

(All amounts expressed in thousands of 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 \$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.

Notes to the Financial Statements

For the year ended 31 December 2008

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

3. FINANCIAL 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 \pm 100 basis points in interest rates: | $\pm 59,915$ | $\pm 50,800$ |

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 | Interest rate sensitive | | | Non-interest | | Total |
|---|-------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | rate sensitive | |
| 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 | | |

Notes to the Financial Statements

For the year ended 31 December 2008

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

3. FINANCIAL RISK MANAGEMENT (continued)

| 2007 | 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 | - | - | - | - | 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.

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 |
|--|------------------|-------------------|-------------------|-------------------|-------------------|
| | | | | | |
| 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 | | | | | |
| 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 |

Notes

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For the year ended 31 December 2008

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 POLICES

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 judgements 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 judgement. In making this judgement, 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.

Notes to the Financial Statements

For the year ended 31 December 2008

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

5. FINANCE LEASE RECEIVABLES

| | 2008 | 2007 |
|--|--------------------|-------------------|
| <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 |
| | 145,602,739 | 51,603,666 |
| Unearned future finance income on finance leases | (23,512,426) | (7,215,585) |
| Provision for impairment | (124,000) | - |
| Net investment in finance leases | 121,966,313 | 44,388,081 |
| 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 |
| | 121,966,313 | 44,388,081 |

Reconciliation of finance lease receivables:

| | 2008 | 2007 |
|--|--------------------|-------------------|
| 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 |
| | 121,966,313 | 44,388,081 |

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 \$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 Takaful SA for \$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.

Notes

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For the year ended 31 December 2008

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 \$5 million (500 shares of \$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 \$593,330 and accordingly reduced the value of each share from \$10,000 to \$8,811. Also the fund manager distributed \$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:

- \$5 million (5,000 shares at \$1,000 par value per share) in a private placement by Venture Capital Bank, Kingdom of Bahrain to acquire 3.73 percent 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.
- \$1 million (117,647 shares at \$1 par value and \$7.5 premium per share) in Omni Enterprise Holding Ltd, British Virgin Islands, to acquire 2.2 percent 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.
- \$5 million (500,000 shares at \$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 an impairment test for its investment held at cost at 31 December 2008 and concluded that none of its investment was impaired at that date.

Notes to the Financial Statements

For the year ended 31 December 2008

(All amounts expressed in thousands of 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 | 299,949 | 619,780 | 435,813 | 1,355,542 |
| <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 | 92,697 | 153,001 | 9,079 | 254,777 |
| Net book value as of 31 December 2008 | 207,252 | 466,779 | 426,734 | 1,100,765 |
| 2007 | | | | |
| <u>Cost</u> | | | | |
| At 1 January 2007 | 248,892 | 328,514 | - | 577,406 |
| <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 | 35,178 | 91,944 | - | 127,122 |
| Net book value as of 31 December 2007 | 213,714 | 236,570 | - | 450,284 |

8. OTHER ASSETS

| | 2008 | 2007 |
|--|----------------|----------------|
| Accrued income receivable | 210,937 | 255,447 |
| Prepaid expenses and other receivables | 603,798 | 157,416 |
| | 814,735 | 412,863 |

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 |
| | 1,310,390 | 1,294,520 |

Notes to the Financial Statements

For the year ended 31 December 2008

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

10. DUE TO BANKS

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

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.

| | 2008 | 2007 |
|--|-----------|-----------|
| <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 percent per annum.

| | 2008 | 2007 |
|---|-------------------|----------------|
| 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 |
| | 46,162,441 | 263,410 |

Notes to the Financial Statements

For the year ended 31 December 2008

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

12. SHARE CAPITAL

| | 2008 | 2007 |
|---|-------------|-------------|
| <u>Authorised</u> | | |
| 300 million ordinary shares of \$1 each | 300,000,000 | 300,000,000 |
| <u>Issued and fully paid</u> | | |
| 100 million ordinary shares of \$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 percent 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 \$301,849 (2007: \$449,933) has been transferred to the statutory reserve.

14. FEE AND COMMISSION INCOME

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

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:

| | 2008 | 2007 |
|--|------------------|------------------|
| 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 |
| | 1,762,835 | 1,448,454 |

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

Notes to the Financial Statements

For the year ended 31 December 2008

(All amounts expressed in thousands of 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 \$4,803,000 (2007: \$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 \$6,457,854 at 31 December 2008 (2007: \$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 percent.

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:

| | 2008 | 2007 |
|----------------------------|--------------------|--------------------|
| 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 |
| | 103,357,116 | 100,788,557 |

Notes to the Financial Statements

For the year ended 31 December 2008

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

17. CAPITAL ADEQUACY (continued)

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

| | 2008 | | 2007 | |
|------------------------------|-------------|-------------|-------------|-------------|
| | 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) | | 103,807 | | 100,783 |
| Risk to Assets ratio (B / A) | | 61% | | 104% |

18. PRIOR PERIOD ERROR

During 2007 a foreign exchange movements has been recognised 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 \$5,875 with a corresponding adjustment to the Translation Reserve as at the respective dates.

Basel II Pillar III Disclosures

Basel II Pillar III Disclosures

For the year ended 31 December 2008

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

1. Background

The new Public Disclosure (PD) module of the Central Bank of Bahrain (CBB) rulebook was introduced with effect from January 2008. The disclosures in this report are in addition to the disclosures set out in the Bank's financial statements for the year ended 31 December 2008, presented in accordance with the International Financial Reporting Standards (IFRS). These disclosures are mainly related to compliance with the Basel II Pillar III disclosure requirements and should be read in conjunction with the Bank's financial statements for the year ended 31 December 2008.

2. Basel II Framework

CBB has issued Basel II guidelines which are effective from January 2008. These guidelines have been issued for the implementation of Basel II capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel II framework provides a more risk based approach to the assessment of the risk and the calculation of regulatory capital as compared to the erstwhile Basel I framework.

The Basel II framework is based on three pillars as follows:-

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information

3. Approaches adopted for determining regulatory capital requirements

The approach adopted for determining regulatory capital requirements under CBB's Basel II guidelines is summarized as follows:

| | |
|------------------|--------------------------|
| Credit Risk | Standardised Approach |
| Market Risk | Standardised Approach |
| Operational Risk | Basic Indicator Approach |

Consolidated Capital Structure for capital adequacy purpose:

A. Tier 1 Capital

| | | |
|---|---------|----------------|
| Issued and fully paid-up ordinary capital | 100,000 | |
| Reserves | | |
| Retained profit brought forward | 339 | |
| Statutory reserve | 450 | |
| Total Tier 1 capital before PCD deductions | | 100,789 |

B. Tier 2 Capital

| | | |
|---|-------|--------------|
| Current profit | 3,018 | |
| Total Tier 2 capital before PCD deductions | | 3,018 |

C. Total Available Capital (A+B) 103,807

D. General Deductions from Tier 1 under PCD Module -

E. Total Eligible Capita (C-D) 103,807

Basel II Pillar III Disclosures

For the year ended 31 December 2008

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

4. Disclosure of the regulatory capital requirements for credit risk under standardised approach

| | Risk weighted assets | Capital requirement |
|--------------------------|----------------------|---------------------|
| Banks | 17,435 | 2,092 |
| Claims on corporates | 124,367 | 14,924 |
| Investment in securities | 15,611 | 1,873 |
| Holding of Real Estate | 20,236 | 2,428 |
| Other assets | 1,916 | 230 |
| Total | 179,565 | 21,547 |

5. Gross credit exposures

| | Gross credit exposure | Average gross credit exposure |
|--|-----------------------|-------------------------------|
| Cash and balances with bank | 1,614 | 3,607 |
| Placements with banks | 33,353 | 19,147 |
| Finance lease receivables | 121,966 | 92,489 |
| Total credit risk exposure – on balance sheet | 156,933 | 115,243 |
| Lease commitments – off balance sheet | 4,803 | 15,991 |
| Total credit exposure | 161,736 | 131,234 |

Average gross credit exposures have been calculated based on the average of balances outstanding during the year ended 31 December 2008.

6. Geographical distribution of credit exposures

| | Asia/Pacific | Middle East | Europe | North America | Total |
|--|--------------|----------------|--------------|---------------|----------------|
| On-balance sheet items | | | | | |
| Cash and balances with banks | - | 1,614 | - | - | 1,614 |
| Placements with banks | - | 33,353 | - | - | 33,353 |
| Finance lease receivables | - | 109,373 | - | 12,594 | 121,966 |
| Investment securities available-for-sale | 4,407 | 11,000 | 5,119 | - | 20,526 |
| Operating lease receivables | - | 427 | - | - | 427 |
| Other assets | - | 815 | - | - | 815 |
| Total on balance sheet items | 4,407 | 156,582 | 5,119 | 12,594 | 178,702 |
| Off balance sheet items | | | | | |
| | - | 6,458 | - | - | 6,458 |
| Total credit exposure | 4,407 | 163,040 | 5,119 | 12,594 | 185,160 |

Basel II Pillar III Disclosures

For the year ended 31 December 2008

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

7. Industry distribution of credit exposures

| | Banks and financial institutions | Manufacturing | Property and construction | Technology | Others | Total |
|--|----------------------------------|---------------|---------------------------|---------------|---------------|----------------|
| On-balance sheet items | | | | | | |
| Cash and balances with banks | 1,614 | - | - | - | - | 1,614 |
| Placements with banks | 33,353 | - | - | - | - | 33,353 |
| Finance lease receivables | - | 14,647 | 48,167 | 14,960 | 44,193 | 121,967 |
| Investment securities available-for-sale | - | - | 10,119 | - | 10,407 | 20,526 |
| Operating lease receivables | - | 427 | - | - | - | 427 |
| Other assets | - | - | 543 | - | 272 | 815 |
| Total on-balance sheet items | 34,967 | 15,074 | 58,829 | 14,960 | 54,872 | 178,702 |
| Off-balance sheet items | - | 1,034 | - | - | 5,424 | 6,458 |
| Total credit exposure | 34,967 | 16,108 | 58,829 | 14,960 | 60,296 | 185,160 |

8. Maturity breakdown of credit exposures

| | Up to 1 Month | 1-3 Months | 3-12 Months | 1-5 Years | Total |
|--|---------------|---------------|---------------|----------------|----------------|
| On-balance sheet items | | | | | |
| Cash and balances with banks | 1,614 | - | - | - | 1,614 |
| Placements with banks | 5,000 | 20,737 | 7,616 | - | 33,353 |
| Finance lease receivables | 3,441 | 6,262 | 22,208 | 90,054 | 121,965 |
| Investment securities available for sale | - | - | - | 20,525 | 20,525 |
| Operating lease receivables | - | - | - | 427 | 427 |
| Other assets | - | - | 814 | - | 814 |
| Total on-balance sheet items | 10,055 | 26,999 | 30,638 | 111,006 | 178,698 |
| Off-balance sheet items | 4,803 | - | - | - | 4,803 |
| Total credit exposure | 14,858 | 26,999 | 30,638 | 111,006 | 183,501 |

Basel II Pillar III Disclosures

For the year ended 31 December 2008

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

9. Related-party balances under credit exposure

A Banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2008 were \$46,162.

As at 31 December 2008, the Bank did not have any concentration of risk to individual counterparties where the credit exposure is in excess of the 15 percent individual obligor limit.

10. Past due and impaired financial assets by geographical areas and related provisions for impairment

The Bank had impaired financial assets at 31 December 2008 amounting to \$2,882,332 (31 December 2007: Nil). The Bank has made provision of \$124,000 (31 December 2007: Nil) against the impaired loans based on discounting the future cash flows. Impaired asset is overdue by more than 1 year and is located in United Arab Emirates.

Movement in impairment provisions

| | <u>Specific provisions</u> |
|------------------------------|----------------------------|
| At 1 January 2008 | - |
| Net charge during the period | 124 |
| At 31 December 2008 | <u>124</u> |

11. Credit exposures which are covered by eligible financial 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.

12. Disclosure of regulatory capital requirements for market risk under the standardized approach

| | <u>Risk weighted assets</u> | <u>Capital charge</u> | <u>Maximum</u> | <u>Minimum</u> |
|-----------------------|---------------------------------|-----------------------|----------------|----------------|
| Foreign exchange risk | 5,113 | 614 | 616 | 550 |

13. Disclosure of regulatory capital requirements for operational risk under the basic indicator approach

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Bank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15 percent under CBB Basel II guidelines. The capital requirement for operational risk at 31 December 2008 aggregated to \$748 thousands.

14. Tier 1 capital ratios and total capital ratios

| | <u>Tier 1 Capital Ratio</u> | <u>Total Capital Ratio</u> |
|-------------------------------|---------------------------------|--------------------------------|
| First Leasing Bank B.S.C. (c) | 52.79% | 54.38% |

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