GULF FINANCE HOUSE BSC

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an offshore Islamic investment bank).
Registered Office	:	Al Salam Building Diplomatic Area PO Box 10006, Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	:	Esam Yousif A. Janahi, *Chairman* Hamad A Aziz Al-Shaya, *Vice Chairman* Abdul Latif Abdullah Al-Meer Adel Dawood Al-Ohali Buti Bin Khalifa Al-Flasi Khalid Mohamed Najibi Samir Yacoub Al-Nefaisi Waleed A.Rahman Al-Ruwaih Yousif A.Latif Al-Sarkal Yousuf Mohammed Khayat
Acting Chief Executive Officer	:	Peter Panayiotou
Company Secretary	:	Dr. Haider Majali
Auditors	:	KPMG

GULF FINANCE HOUSE BSC

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007

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CHAIRMAN'S REPORT
for the year ended 31 December 2007

Dear Shareholders,

In the name of Allah, the Beneficent, the Merciful,
Prayers and Peace Be Upon the Last Apostle and Messenger, our Prophet Mohammed.

The tremendous and long established potential of our business has been realized as never before and we find ourselves in a new era of achievement.

On behalf of the Board of Directors, it is my privilege to present the annual report of Gulf Finance House (GFH) for the year ended 31st December 2007. Enormous strides have been taken over a year punctuated as it was by growth, achievement and success. Our bold and unique strategies have delivered tremendous progress and news of our swift emergence continues to reach key audiences the world over. Amongst all the good news, GFH continues to consolidate and source opportunities that will deliver further success in the months and years ahead.

Financial Performance

2007 is truly a year without precedent for GFH. Emboldened by the extraordinary demand for some of our most visionary projects to date, I am delighted to announce GFH has enjoyed the most profitable year in its eight year history, recording a net profit of US$340 million - an increase of 61% on 2006. In Each successive quarter of 2007, we posted greater profit than the last, delivering the dynamic and uninterrupted growth that has become synonymous with our increasingly global brand.

In what is best categorized as a watershed year for GFH, we've met and surpassed goals laid down in our 5 year plan. The oversubscription to our landmark Energy City India project was not simply a key element in our performance but an exciting indication of the investor confidence GFH currently commands.

Our infrastructure developments, conceived, planned and currently being implemented in partnership with Governments in Asia and the MENA region have an aggregate estimated development value in excess of US$12 billion. Of this, we've placed an aggregate value of equity investment totaling US$3 billion with our clients. With a further US$10 billion of anticipated end value now to be invested in India, GFH is fast becoming one of the worlds leading exponents in its sector. A fertile GCC marketplace is supporting a robust placement capability that continues to drive growth of our business.

To cap a year of 'firsts' for GFH, we were proud to announce the start of the trading of our Global Depository Receipts (GDRs) on the London Stock Exchange (LSE). We are the very first Islamic bank to trade on the LSE and the sale of more than 100 million existing ordinary shares to a prestigious list of European and North American institutional investors is a clear indication of widespread faith in our continued growth.

Underpinning many of these achievements is our unshakable belief in compliance with the tenets of Sharia'a law. Only through the application of the highest ethical standards in the creation of Islamic banking products can we earn the trust of our clients and the respect of the industry.

Strategic Progress

Our appetite for progressive investment initiatives in partnership with Government is undiminished. Indeed, 2007 saw us venture into key new territories, expanding our presence amongst regional economies in Asia and Africa while simultaneously consolidating and progressing existing projects.

CHAIRMAN'S REPORT
for the year ended 31 December 2007 *(continued)*

In the comparably prolific Indian marketplace we signed a broad ranging agreement in partnership with the Government of Maharashtra to develop a US$10 billion economic development zone on the outskirts of Mumbai. In addition, December 2007 witnessed our presentation of plans for a US$3 billion Tunis Financial Harbour to His Excellency, the President of Tunisia.

With further North African projects due in 2008, GFH will continue to foment its reputation as a visionary partner to Governments throughout Asia, the Middle East and North Africa in search of 21st Century economic infrastructures and enhanced social well-being.

In conjunction with the propagation of our core business activities we are also expanding our products across other business lines in Asset Management and Private Equity. Our new International Equity Management function is indicative of our strategy to expand beyond our existing territories and offer a more global reach.

Operational Achievements

In concert with the bank's numerous forthcoming ventures, 2007 marked the successful culmination of projects affording our investors excellent short to medium term returns.

In a deal valuing shares at over US$425 million, GFH arranged for the sale of the Financial Centre Investment Company to Emar Bahrain. Our exit from Energy City Qatar, the first cluster based development in an international network of energy focused business districts generated a return of 35% to investors. GFH also sold 60% of the shares in Khaleej Commercial Bank representing 100% of the shares offered by GFH.

In harmony with these achievements, we have earned further recognition of our financial position from leading credit rating agency Capital Intelligence, with a raised Foreign Currency Long-Term and Financial Strengths rating to BBB+. Furthermore, Standard and Poor's rating of BBB- at a time when GFH is implementing a strategic growth plan represents a clear vindication of our business model.

Citing strong fundamentals and positive results, global investment banking leader Merrill Lynch also endorsed GFH by reiterating its 'buy' recommendation for GFH stock, forecasting 30% upside potential on the GDRs.

With a keen eye on future operational achievement, GFH continues to source excellent investment opportunities. The current pipeline of projects and those we anticipate in the coming year will generate broad scope for returns in the short and medium term.

Organizational Developments

The past year has witnessed significant expansion across GFH as a whole and this is will be a pervasive strategic theme as we move forward.

Early in the year we announced the expansion of our infrastructure development division under a single management structure. The creation of this stand-alone division is a natural corollary of GFH's unique and evolving business model in the origination and management of large scale infrastructure projects.

February of 2007 saw the creation of GFH's European Private Equity Division focused on specific equity investments across the European continent that offer transactions in a broader range of industry sectors for clients. The Asset Management division has seen major recruitment, and the new International Equity Management team who have joined us from Norwich Union are in possession of a formidable reputation for generating exceptional investment returns. These appointments are in line with our ongoing priority to attract global talent to maximize client service, deliver increased future profitability and fundamentally strengthen our business. At the same time we have located offices in Portman Square, London, for our European team.

To date GFH has raised five successful property funds and to build on this achievement we have also strengthened our Real Estate Fund Management team and organized it as a separate line of business within Asset Management.

CHAIRMAN'S REPORT
for the year ended 31 December 2007 *(continued)*

Corporate Social Responsibility
The application and continued maintenance of a broad Corporate Social Responsibility programme, (CSR) is a natural extension of the Islamic values at the heart of our business. We recognize and embrace our social responsibilities for the well-being of the community we live in.

Excellence in education and sport are the key themes running through all our CSR activities, designed as they are to foster growth, nurture talent and develop the next generation of leaders who best exemplify the qualities inherent in Bahrain. Our work in education, encompassing scholarship, graduate programmes, the 'Gifted Students Centre' and the sponsorship of the very first private and purpose-built University given over entirely to the education of women underlines our fervent wish to reward ability and industry with support and opportunity.

Most recently in the sporting arena we've been proud to sponsor the Bahraini F3 racing icon Hamad Al Fardan and establish 'Team GFH' to support his compelling efforts, showcase his rare talent and ultimately promote the notion of Bahrain as a motor sport hub for the 21st Century.

Elsewhere, our sponsorship of the Um Al Hassam sports stadium is contributing in the delivery of a world class facility providing a home to a variety of sports and sport clubs, a number of whom GFH are sponsoring in their own right.

We recognize that Bahrain's future success lies in the effective mobilization of our resources, human or otherwise. Nurturing our youth and enabling the development of world class opportunity at home is a gauntlet GFH are proud to take up. Furthermore, 2008 will see the exciting expansion of our CSR activity beyond our own borders to the regional markets now playing host to GFH projects.

Looking Ahead
The fundamentals of our business are strong. From their strength we've derived wonderful results in 2007 which in turn allow us to invest in ever more exciting projects initiated by both domestic and foreign investors. Our investors and partners know this and one of our key goals for 2008 is to ensure many more of the world's leading investment banks and key financial audiences take note.

GFH has succeeded in raising US$200 million from a Sukuk issue in 2007. Given the current uncertainty of the credit market globally, we expect regional banks to be affected adversely in their ability to raise debt. However, from a GFH perspective we do not foresee difficulties as the our business model insulates us from the anticipated credit crisis fallout over the coming year.

We will continue to target the strong emerging markets that have served us and our clients so well to date. Delivering continuous growth across our business to further enhance our Islamic and investment banking profile worldwide is a strategic imperative for the year ahead.

We will maintain our focus on development of infrastructure projects in the GCC and North Africa alongside the expansion of existing operations including the GFH Mumbai Economic Development Zone, Tunis Financial Harbour and the forthcoming projects in China and Libya.

Neither our plans for the future though, nor indeed the success we have enjoyed in our 8 year history would be possible without the friendship and support of the Governments in whose countries we are privileged to operate. We owe a debt of gratitude to the rulers and respective governments of The Kingdom of Bahrain, The People's Democratic Republic of Algeria, The People's Republic of China, The Republic of India, The Hashemite Kingdom of Jordan, The State of Kuwait, The Kingdom of Morocco, The State of Qatar, The Kingdom of Saudi Arabia, The Tunisian Republic and the United Arab Emirates.

Yours truly,



Esam Yousif Janahi
Chairman

29 January 2008

REPORT OF THE AUDITORS TO THE SHAREHOLDERS
GULF FINANCE HOUSE BSC 29 January 2008
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Gulf Finance House B.S.C. ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows, the consolidated statement of changes in restricted investment accounts and the consolidated statement of sources and uses of charity and zakah fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the Directors for the consolidated financial statements
The Directors of the Bank are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with both the Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Report of the auditors to the shareholders (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007, and of its financial performance, its cash flows, the changes in its equity, changes in restricted investment accounts and sources and uses of charity and zakah fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

In addition, in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the terms of the Bank's license or its memorandum and articles of association having occurred during the year ended 31 December 2007 that might have had a material effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.



CONSOLIDATED BALANCE SHEET
as at 31 December 2007 US$ 000's

	Note	**2007**	2006
ASSETS			
Cash and bank balances	4	15,383	15,050
Placements with financial institutions	5	711,978	687,765
Islamic financing assets	6	96,179	98,927
Assets held for sale	7	446,882	24,196
Investment in associates	8	288,047	36,926
Investment securities	9	246,346	398,130
Receivable from investment banking services		171,183	123,404
Other assets	10	269,069	116,486
Total assets		**2,245,067**	1,500,884
LIABILITIES			
Investors' funds	13	147,370	526,134
Placements from financial and other institutions	14	349,162	75,475
Customers' current accounts		-	7,297
Islamic financing liabilities	15	586,620	87,860
Liabilities directly associated with assets held-for-sale	7	167,019	-
Other liabilities	16	114,566	77,454
Total liabilities		**1,364,737**	774,220
Unrestricted investment accounts	17	826	58,920
EQUITY			
Share capital	18	238,921	212,674
Advance towards proposed increase in share capital		-	2,708
Treasury shares		(8,926)	(14,127)
Share premium		180,382	178,321
Statutory reserve		83,529	46,337
Investments fair value reserve		2,799	364
Retained earnings		382,799	239,663
Subsidiary company share grants		-	1,804
Total equity (page 8)		**879,504**	667,744
Total liabilities, unrestricted investment accounts and equity		**2,245,067**	1,500,884
Off-balance sheet items			
Restricted investment accounts (page 11)		**77,038**	123,393

The consolidated financial statements, which consist of pages 6 to 57, were approved by the Board of directors on 29 January 2008 and signed on its behalf by:

Esam Yousif A. Janahi	Hamad A Aziz Al-Shaya	Peter Panayiotou
Chairman	*Vice-Chairman*	*Acting Chief Executive Officer*

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2007 US$ 000's

	Note	**2007**	2006
Income from investment banking services	19	400,180	266,647
Placement, arrangement and management fees		13,421	20,337
Income from placements with financial institutions		38,821	35,357
Income from Islamic financing		10,118	3,783
Income from investment in associates	21	21,883	11,354
Income from investment securities	22	12,683	4,346
Income from partial sale of a subsidiary	23	83,826	-
Other income, net		5,400	3,882
Total income		**586,332**	345,706
Staff costs	24	103,798	67,248
Investment advisory expenses		48,351	25,055
Allowance for impairment	9, 10	15,362	6,728
Finance expense	20	56,482	24,322
Other expenses		19,081	10,767
Total expenses		**243,074**	134,120
Profit for the year		**343,258**	211,586
Attributable to:			
Shareholders of the parent Bank		340,063	211,586
Minority interest		3,195	-
		343,258	211,586
Earnings per share (US cents)			
Basic	32	47.55	29.92

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2007 US$ 000's

	Attributable to the shareholders of the parent									Minority interest	Total equity
2007	**Share Capital**	**Advance towards share capital**	**Treasury Shares**	**Share premium**	**Subsidiary company share grants**	**Statutory reserve**	**Invest-ments fair value reserve**	**Retained earnings**	**Total**		
Balance at 1 January 2007	212,674	2,708	(14,127)	178,321	1,804	46,337	364	239,663	667,744	-	667,744
Gain on sale of treasury shares	-	-	-	-	-	2,737	-	-	2,737	-	2,737
Net fair value changes during the year	-	-	-	-	-	-	2,406	-	2,406	-	2,406
Transfer to income statement on disposal of available-for-sale investments	-	-	-	-	-	-	29	-	29	-	29
Net income recognised directly in equity	-	-	-	-	-	2,737	2,435	-	5,172	-	5,172
Net profit for the year	-	-	-	-	-	-	-	340,063	340,063	3,195	343,258
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**2,737**	**2,435**	**340,063**	**345,235**	**3,195**	**348,430**
Issue of bonus shares	25,600	-	-	-	-	-	-	(25,600)	-	-	-
Increase in share capital	647	(2,708)	-	2,061	-	-	-	-	-	-	-
Share grants vesting charge for the period	-	-	-	-	90	-	-	-	90	-	90
Dividend declared for 2006	-	-	-	-	-	-	-	(134,391)	(134,391)	-	(134,391)
Charity contribution declared for 2006	-	-	-	-	-	-	-	(1,598)	(1,598)	-	(1,598)
Board remuneration declared for 2006	-	-	-	-	-	-	-	(1,375)	(1,375)	-	(1,375)
Zakah contribution declared for 2006	-	-	-	-	-	-	-	(1,402)	(1,402)	-	(1,402)
Purchase of treasury shares	-	-	(50,193)	-	-	-	-	-	(50,193)	-	(50,193)
Sale of treasury shares	-	-	55,394	-	-	-	-		55,394	-	55,394
Allocation of minority interest on partial sale of shares in a subsidiary during the period	-	-	-	-	-	-	-	-	-	192,011	192,011
De-recognition on sale of controlling stake in a subsidiary	-	-	-	-	(1,894)	(2,999)	-	4,893	-	(195,206)	(195,206)
Transfer to statutory reserve	-	-	-	-	-	37,454	-	(37,454)	-	-	-
Balance at 31 December 2007	**238,921**	**-**	**(8,926)**	**180,382**	**-**	**83,529**	**2,799**	**382,799**	**879,504**	**-**	**879,504**

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2007 (continued) US$ 000's

2006	Attributable to the shareholders of the parent									Minority interest	Total equity
	Share Capital	Advance towards share capital	Treasury Shares	Share premium	Statutory reserve	Invest-ments fair value reserve	Retained earnings	Subsidiary company share grants	Total		
Balance at 1 January 2006	149,771	-	-	31,487	24,621	227	146,258	-	352,364	-	352,364
Gain on sale of treasury shares	-	-	-	-	508	-	-	-	508	-	508
Net fair value changes during the year	-	-	-	-	-	1,223	-	-	1,223	-	1,223
Transfer to income statement on disposal of available-for-sale investments	-	-	-	-	-	(1,086)	-	-	(1,086)	-	(1,086)
Net income recognised directly in equity	-	-	-	-	508	137	-	-	645	-	645
Net profit for the year	-	-	-	-	-	-	211,586	-	211,586	-	211,586
Total recognised income and expense	-	-	-	-	508	137	211,586	-	212,231	-	212,231
Issue of bonus shares	17,972	-	-	-	-	-	(17,972)	-	-	-	-
Increase in share capital	44,931	2,708	-	142,963	-	-	-	-	190,602	-	190,602
Share issue expenses	-	-	-	(129)	-	-	-	-	(129)	-	(129)
Fair value of share grants issued (note 19)	-	-	-	-	-	-	-	2,056	2,056	-	2,056
Unvested component of share grants issued (note 19)	-	-	-	-	-	-	-	(252)	(252)	-	(252)
Dividend declared for 2005	-	-	-	-	-	-	(71,890)	-	(71,890)	-	(71,890)
Charity contribution declared for 2005	-	-	-	-	-	-	(1,000)	-	(1,000)	-	(1,000)
Board remuneration declared for 2005	-	-	-	-	-	-	(1,050)	-	(1,050)	-	(1,050)
Zakah contribution declared for 2005	-	-	-	-	-	-	(1,061)	-	(1,061)	-	(1,061)
Purchase of treasury shares	-	-	(19,987)	-	-	-	-	-	(19,987)	-	(19,987)
Sale of treasury shares	-	-	5,860	-		-	-	-	5,860	-	5,860
Transfer from retained earnings to share premium	-	-	-	4,000	-	-	(4,000)	-	-	-	-
Transfer to statutory reserve	-	-	-	-	21,208	-	(21,208)	-	-	-	-
Balance at 31 December 2006	212,674	2,708	(14,127)	178,321	46,337	364	239,663	1,804	667,744	-	667,744

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2007 US$ 000's

	Note	**2007**	2006
OPERATING ACTIVITIES			
Proceeds from investment banking services		292,396	140,149
Placements from financial and other institutions, net		334,745	164,771
Net receipts from unrestricted investment accounts		82,946	23,220
Net increase in customers' current accounts		63,682	2,207
Islamic financing assets, net		(116,256)	(81,817)
Short term financing of projects		(98,202)	(32,091)
Investors' funds paid, net		(324,562)	(129,221)
Placement, arrangement and management fees received		9,484	20,337
Income from short-term placements		38,821	39,140
Finance expense		(56,483)	(22,655)
Payments for expenses		(160,217)	(68,113)
Cash flows from operating activities		**66,354**	55,927
INVESTING ACTIVITIES			
Net cash flows from partial sale of shares of a subsidiary	23	(30,204)	-
Net cash flow from investment securities		(41,063)	(133,729)
Purchase of investment in associates, net		(114,509)	-
Acquisition of a subsidiary held-for-sale, net		(239,171)	-
Advance paid for acquisition of trading property		-	(45,409)
Proceeds from sale of trading and investment property		34,207	-
Income from sukuks received	22	4,523	2,413
Acquisition of a subsidiary	11	(50,000)	-
Payment for purchase of equipment and capital work-in-progress		(11,661)	(4,036)
Dividends received and other income		5,326	628
Cash flows from investing activities		**(442,552)**	(180,133)
FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		-	190,602
Islamic financing liabilities, net		498,758	
Acquisition of treasury shares, net		14,106	(13,619)
Cash paid to charitable organisations		(1,857)	(695)
Board remuneration paid		(1,375)	(1,050)
Dividends paid		(130,075)	(72,587)
Cash flows from financing activities		**379,557**	102,651
Net increase / (decrease) in cash and cash equivalents		**3,359**	(21,555)
Cash and cash equivalents at 1 January		724,002	745,557
Cash and cash equivalents at 31 December		**727,361**	724,002
Cash and balances with banks	4	15,383	15,050
Placements with financial institutions	5	711,978	687,765
Investment in sukuks (short-term)	9	-	21,187
		727,361	724,002

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2007

2007	Balance at 1 January 2007			Movements during the year						Balance at 31 December 2007			
Company:	No of units (000)	Average value per share US$	Total US$ 000's	Investment US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's	Total % ownership
Mena Real Estate Company KSCC (formerly known as Gulf Development Real Estate Company KSCC)	10,910	0.35	3,775	(3,720)	3	(1,175)	1,175	-	-	150	0.37	58	1%
Kuwait National Real Estate Investment & Services Co. KSCC	6,870	0.35	2,376	(1,985)	23	-	-	-	-	1,130	0.37	414	0.4%
Bayan Holding Company KSCC	18,266	0.35	6,316	(6,316)	-	-	-	-	-	-	-	-	-
Gulf Holding Company	23,919	0.35	8,271	(4,813)	205	-	-	-	-	10,000	0.37	3,663	1%
Gulf North Africa Holding Company KSCC	11,500	0.35	3,976	-	236	-	-	-	-	11,500	0.37	4,212	8%
Gulf Real Estate Development Co (formerly known as Saudi Real Estate Company)	936	3.33	12,472	-	(1)	-	-	-	-	936	13.33	12,471	31%
Al Basha'er Fund	753	8.97	6,751	(5,072)	-	1,792	-	(106)	-	245	13.72	3,365	1%
Pan European Fund	35.85	1,315.40	47,155	-	5,700	4,943	(4,943)	-	-	35.85	1,474.40	52,855	90%
Energy City Qatar Holding Company	-	-	-	18,000	-	6,300	(24,300)	-	-	-	-	-	
Al Hareth French Property Fund *	24.65	1,210.40	32,301	(34,129)	1,077	2,378	(1,585)	(42)	-	-	-	-	-
			123,393	**(38,035)**	**7,243**	**14,238**	**(29,653)**	**(148)**	**-**			**77,038**	

*This restricted investment account has been de-recognised from the books as a result of de-consolidation on sale of a subsidiary during the year.

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2007 (continued)

2006	Balance at 1 January 2006			Movements during the year						Balance at 31 December 2006			
Company:	No of units (000)	Average value per share US$	Total US$ 000's	Investment US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's	Total % ownership
Gulf Atlantic Real Estate Company Ltd	500	1.72	860	(922)	-	62	-	-	-	-	-	-	-
Gulf Atlantic FZ LLC	0.02	118,440	2,369	(2,888)	-	519	-	-	-	-	-	-	-
Gulf Development Real Estate Company KSCC	10,910	0.34	3,720	-	55	260	(260)	-	-	10,910	0.35	3,775	7
Menajet Holding SAL	200	10.00	2,000	(2,811)	-	811	-	-	-	-	-	-	-
Kuwait National Real Estate Investment & Services Co. KSCC	6,250	0.37	2,344	32	-	-	-	-	-	6,870	0.35	2,376	23
Bayan Holding Company KSCC	18,266	0.34	6,255	-	61	-	-	-	-	18,266	0.35	6,316	2
Gulf Holding Company	72,749	0.34	24,914	(16,722)	79	-	-	-	-	23,919	0.35	8,271	3
Gulf North Africa Holding Company KSCC	11,500	0.35	4,070	-	(94)	-	-	-	-	11,500	0.35	3,976	8
Saudi Real Estate Company	904	13.33	12,049	420	3	-	-	-	-	936	13.33	12,472	31
Al Basha'er Fund	823	10.00	8,232	(706)	-	(702)	-	(73)	-	753	8.97	6,751	2
Pan European Fund	8.70	1,188.65	10,339	35,713	1,103	2,384	(2,384)	-	-	35.85	1,315.40	47,155	90
Al Hareth French Property Fund	24.65	1,186.25	29,241	-	3,184	3,242	(3,242)	(124)	-	24.65	1,310.40	32,301	100
			106,393	12,116	4,391	6,576	(5,886)	(197)	-			123,393	

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND
for the year ended 31 December 2007 US$ 000's

	2007	2006
Sources of charity and zakah fund		
Contributions by the Bank	3,000	2,061
Non-Islamic income (note 28)	192	301
Total sources	**3,192**	2,362
Uses of charity fund and zakah fund		
Contributions to charitable organisations	(1,857)	(695)
Deconsolidation due to sale of subsidiary during the year	(313)	-
Total uses	**(2,170)**	(695)
Excess of sources over uses	1,022	1,667
Undistributed charity and zakah fund at 1 January	2,634	967
Undistributed charity and zakah fund at 31 December (note 16)	**3,656**	2,634

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007 US$ 000's

1 INCORPORATION AND PRINCIPAL ACTIVITY

Gulf Finance House BSC ("the Bank") was incorporated in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136. The Bank's shares are listed on the Bahrain, Kuwait and Dubai Financial Market Stock Exchanges. During the year, the Bank also admitted its Global Depository Receipts ('GDR') for listing in the London Stock Exchange (refer note 18). The Bank operates as an Islamic Wholesale Investment Bank under a license granted by the Central Bank of Bahrain ("CBB").

The Bank's activities are regulated by the CBB and supervised by a Religious Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association.

The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Bank's Shari'a Board.

Consolidated financial statements

The consolidated financial statements for the year which are all wholly owned ended 31 December 2007 comprise the financial statements of the Bank and its subsidiaries (together referred to as "the Group").

The significant subsidiaries consolidated during the year which are wholly owned include Al Areen Leisure and Tourism Company – 'The Lost Paradise of Dilmun SPC' (refer note 11) and Legends Development Company LLC (refer note 7). Further, during the year, the Bank sold 59.995% stake in Khaleeji Commercial Bank BSC (c) ['KHCB'], which was a wholly owned subsidiary of the Bank. With effect from 30 September 2007, KHCB financial statements have been de-consolidated from the consolidated financial statements of the Group (refer note 23).

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with both the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards ('IFRS').

During the period, the Group adopted IFRS 7 Financial Instruments: Disclosures and revised IAS 1 Presentation of Financial Statements – Capital Disclosures on their required application date of 1 January 2007. The adoption of IFRS 7 and the amendment to IAS 1 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Group. In accordance with the transitional requirements of the standards, the Group has provided full comparative information.

(b) Basis of preparation

The financial statements are presented in US Dollars, being the principal currency of the Group's operations. They are prepared on the historical cost basis except for the measurement at fair value of certain available-for-sale investments and investments in associates designated at fair value through profit or loss.

The preparation of financial statements in conformity with the IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

2 Significant accounting policies (continued)

(c) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are those enterprises (including special purpose vehicles) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

(ii) *Associates*

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. On initial recognition of investment in each associate, the Bank makes an accounting policy choice as to whether the associate shall be equity accounted or designated as an investment at fair value through profit or loss.

The Group, being a venture capital organisation, designates certain of its investments in associates, as allowed by IAS 28 'Investments in Associates', as 'investments carried at fair value through profit or loss in accordance with IAS 39 [refer note 2 (e)].

If the equity accounting method is chosen for an associate, the consolidated financial statements include the Group's share of the associate's total recognised gains and losses. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency transactions

(i) *Functional and presentation currency*

Items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, which is the Bank's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items carried at their fair value, such as certain available-for-sale equity securities, are included in investments fair value reserve.

2 Significant accounting policies (continued)

(d) Foreign currency transactions (continued)

(iii) *Group companies*

The other Group companies functional currencies are either denominated in US dollars or currencies which are effectively pegged to the US Dollar, and hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in exchange differences.

(e) Investment securities

(i) Classification

Investments carried at fair value through profit or loss are financial assets that are held for trading or which upon initial recognition are designated by the Group as at fair value through income statement. These include investment in certain associates [refer note 2 (c) (ii)].

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Available-for-sale investments are financial assets that are not investments carried at fair value through profit or loss or held-to-maturity or loans and receivables. These include investments in quoted and unquoted equity securities.

(ii) Recognition and de-recognition

Investment securities are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments carried at fair value through profit or loss are initially recognised at fair value, and transaction cost are expensed in the profit or loss. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

(iii) Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given (in the case of an asset) or received (in the case of a liability), including transaction costs. Subsequent to initial recognition, investments at fair value through profit or loss and available-for-sale investments are re-measured to fair value. Held-to-maturity investments are measured at amortised cost less any impairment allowances. Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

(iv) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of investments carried at fair value through profit or loss are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in a separate fair value reserve in equity and when the investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the fair value reserve is transferred to the income statement.

2 Significant accounting policies (continued)

(e) Investment securities (continued)

(v) Fair value measurement principles

Quoted investments

Fair value for quoted investments is their market bid price.

Unquoted

i) Investments for which there is no quoted market price or other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

ii) For other unquoted investments, fair value is determined either by reference to the price of the most recent transactions in the shares, or based on recognised internal valuation models, or based on valuations undertaken by independent external valuers. The Group uses proprietary models, which usually are developed from recognised valuation models, for fair valuation of certain available-for-sale investments and investments in associates designated at fair value through the profit or loss. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

(f) Assets held-for-sale

(i) Classification

The Group classifies non-current assets or disposal groups as held for sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use within twelve months. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A subsidiary acquired exclusively with a view to resale is classified as disposal group held for sale and income and expense from its operations are presented as part of discontinued operation in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”.

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale and its recoverable amount at the date of the subsequent decision not to sell.

(ii) Measurement

Non-current assets or disposal groups classified as held for sale, other than financial instruments measured under International Accounting Standard (‘IAS’) 39 ‘Financial Instruments: Recognition and Measurement’, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and ‘held for sale’ are carried at fair value in accordance with IAS 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007 US$ 000's

2 Significant accounting policies (continued)

(g) Placements with financial institutions

These comprise placements in the form of Murabaha contracts which are stated at cost less impairment allowances.

(h) Islamic financing assets

Islamic financing assets comprise shari'a compliant commercial financing provided by the Group. These include Murabaha, Mudaraba and Wakala financing which are stated at amortised cost less impairment allowances.

(i) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

Impairment losses on Islamic financing assets and investment in sukuks are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognised in the income statement and reflected in an allowance account against Islamic financing assets and investment in sukuks. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

(j) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash, balances with banks and short-term highly liquid assets, (commodity Murabahas and certain short-term sukuks) with maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

(k) Equipment

Equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 1 to 5 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(l) Trading property

Trading properties are properties held for sale in the ordinary course of business. Trading properties are stated at the lower of cost and net realisable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007 US$ 000's

2 Significant accounting policies (continued)

(m) Impairment of other assets and cash generating units

The carrying amount of the Group's assets or its cash generating unit, other than financial assets (refer note 2 (i)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

(n) Dividends and board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

(o) Islamic financing liabilities

Islamic financing liabilities comprise murabaha financing facility from financial institutions and financing raised through issue of Sukuk. Islamic financing liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method.

(p) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

(q) Revenue recognition

Income from investment banking services is recognised when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to the service and it is highly probable that the economic benefits from the transaction will flow to the Group.

Placement, **arrangement and management fees** are recognised as income when earned.

Income from placements with financial institutions are recognised on a time-apportioned basis over the period of the related contract

Income from Islamic financing is recognised using the effective profit rates of the assets over the period of the contract.

Income from investments (**dividend income**) is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

(r) Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders.

2 Significant accounting policies (continued)

(s) Unrestricted investment accounts

Unrestricted investment accounts are funds held by the Group, which it can invest at its own discretion. The unrestricted investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Group charges management fee (Mudarib fees) to unrestricted investment account holders. Of the total income from unrestricted investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions and deducting the Group's share of income. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the unrestricted investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts.

(t) Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Bank uses these funds for charitable means.

(u) Zakah

Pursuant to the decision of the shareholders', the Group is required to pay Zakah on its undistributed profits. The Group is also required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Group's Shari'a Supervisory Board.

(v) Employees benefits

(i) Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a "defined contribution scheme" in nature under IAS 19 'Employee Benefits', and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis.

(ii) Expatriate employees

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment, , which is a "defined benefit scheme" in nature under IAS 19, has been made by calculating the notional liability had all employees left at the balance sheet date.

(iii) Employee savings scheme

The Group has a voluntary employees saving scheme. The Bank and the employee contribute monthly on a fixed percentage of salaries basis to the scheme. The scheme is managed and administered by a board of trustees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007 US$ 000's

2 Significant accounting policies (continued)

(w) Compensation benefits

Eligible employees of each of the Group entities are entitled to bonus in accordance with their respective Employee Incentive Schemes ("the schemes"). The Group operates different schemes for the parent Bank and its subsidiaries. Under the various schemes, employees are entitled to receive bonus in the form of cash and/ or shares in ratios determined by the terms of the respective schemes. The cash settled portion of the bonus is recognised as an expense and is included in staff costs in the income statement, with a corresponding increase in liabilities for any unsettled amounts. The liability is remeasured at each reporting date and at settlement date. Any changes in the value of the liability are recognised as staff costs in the income statement. The equity settled share-based payment component of the bonus is recognised at the fair values of the equity instruments at the grant date and is recognised as an expense rateably over the vesting period with a corresponding increase in equity.

(x) Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on trade date, i.e. the date that the Group contracts to purchase or deliver the asset. Regular way purchases or sale are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Judgements

(i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments designated at fair value through profit or loss, held-to-maturity or available-for-sale investment securities. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification [refer note 2 (e)].

(ii) Classification as assets held-for-sale

The Group classifies non-current assets or disposal groups as 'held for sale' if it's carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. In addition, the sale is expected to be completed within one year from the date of classification. The expected time of completion of sale and management's plan to sell is based on management assumptions in relation to the condition of the asset and its current performance and requires judgment. There is no certainty on the execution and completion of the sale transaction and any changes in the plan to sell may cause the classification of the disposal group to be changed and consequently the basis of measurement, presentation and disclosure in the consolidated financial statements.

(iii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group ability to make operational decisions for the SPE.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Estimations

(i) Fair value of investments

The Group determines fair values of investment in associates designated at fair value through profit or loss that are not quoted in active markets by using valuation techniques such as discounted cash flows and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial statements.

(ii) Impairment on available-for-sale investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment and is assessed for each investment separately. Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment. A significant portion of the Group's available-for-sale investments comprise of investments in long-term real estate development projects. In making a judgment of impairment, the Group evaluates among other factors, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

(iii) Impairment on Islamic financing assets

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying assets. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department and approved by the Board of Directors.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(iv) Impairment of cash generating units

Cash generating includes the Group's investments in certain subsidiaries that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy 2 (m). It is generally the Group's normal practice to sell the subsidiary representing a separate cash generating unit through a private placement or sale to an owner-operator of the cash generating unit after sufficient level of operations are achieved. For the purposes of assessment of recoverable amount of a cash generating unit, the Group makes best estimates of the value in use from an owner-operator's perspective. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

4 CASH AND BANK BALANCES

	2007	2006
Cash	112	304
Balances with banks	15,218	7,446
Current account with Central Bank	-	5,788
Reserve deposit with Central Bank	53	1,512
	15,383	15,050

5 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2007	2006
Gross commodity murabahas	713,923	689,639
Less: Deferred profits	(1,945)	(1,874)
	711,978	687,765

6 ISLAMIC FINANCING ASSETS

	2007	2006
Murabahas	13,695	37,912
Mudaraba	-	5,127
Wakala	82,484	55,888
	96,179	98,927

Murabaha financing receivables are net of deferred profits of US$ 992 thousand (2006: US$ 4,173 thousand).

7 ASSETS AND LIABILITIES HELD-FOR-SALE

	2007	2006
Assets of a newly acquired subsidiary held-for-sale	396,882	-
Investments in associates at fair value through income statement	50,000	24,196
	446,882	24,196
Liabilities directly associated with assets held-for-sale	**167,019**	-

Assets of a newly acquired subsidiary held-for-sale includes investment in a leisure project in Dubai. During July 2007, the Group renegotiated the terms of an existing project with its master developer, which resulted in the Bank developing a new leisure concept for a strategic site, in which an existing project company promoted by the Bank held an interest. In order to progress with the development of this concept and site, the Group assumed control of the existing project company and entered into an agreement with the land owner which led to revisions in the site boundaries and changes in the property interest from leasehold to freehold for part of the site. The assets acquired mainly include the freehold land acquired and certain investment securities and the liability represents mainly payables to the master developer towards the land cost and to other lenders of the existing project company. In its ordinary course of business, the Bank intends to sell down the project to investors through a structured placement within twelve months. Accordingly, the assets and liabilities of the project company have been consolidated and disclosed as 'held-for-sale' in accordance with IFRS 5. At 31 December 2007, in the opinion of the management, there are no additional liabilities or financial commitments on the Group arising from the terms of the revised agreements.

During the year, due to changes in the programme to sell, an asset held-for-sale amounting to USD 24,196 thousand has being reclassified as investment in associates at fair value through income statement. Such reclassification did not affect previously reported net profit or equity.

8 INVESTMENT IN ASSOCIATES

	2007	2006
- Designated at fair value through profit or loss	60,361	26,626
- Equity accounted	227,686	10,300
	288,047	36,926

8 INVESTMENT IN ASSOCIATES (continued)

(i) INVESTMENTS IN ASSOCIATES - DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2007	2006
At 1 January	26,626	20,910
Acquisitions during the year	562	500
Disposals during the year, at carrying value	(2,975)	(479)
Fair value changes during the year	11,952	3,445
	36,165	24,376
Add: Reclassified from assets-held-for-sale (note 7)	24,196	2,250
At 31 December	**60,361**	26,626

The Group accounts for venture capital investments in associates which are managed, evaluated and reported on internally, at fair value through income statement. At 31 December 2007, the valuation of certain of these investments has been determined using discounted cash flow techniques where recent market transactions or observable market data are not available. Cash flows have been projected for an initial period of five years and then a terminal value has been assessed based on a perpetual growth rate of 3%. The discount rates used for computing the present value of future cash flows range from 12% – 15% per annum. The discount rates have been arrived at after considering the risk free rate, expected market premium, country risk and systematic risk underlying each investee company. The potential effect of a movement of +/- 2% in the discount rates would impact the total value by +/- USD 955 thousand The valuation models include the Group's best estimate of the most appropriate model inputs (refer note 3). The valuation model and resultant valuations have been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the financial statements.

Summarised financial information of associates designated at fair value through income statement not adjusted for the percentage ownership held by the Group.

	2007	2006
Total assets	153,384	162,807
Total liabilities	24,446	31,131
Total revenues	86,941	96,324
Total net profits	(606)	20,855

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007 US$ 000's

8 INVESTMENT IN ASSOCIATES (continued)

(ii) INVESTMENTS IN ASSOCIATES – EQUITY ACCOUNTED

	2007	2006
At 1 January	10,300	10,300
Reclassification during the year *	132,455	-
Acquisitions during the year	75,000	-
Share of profits of associates	9,931	-
At 31 December	**227,686**	10,300

* Investment in associates includes investment in Khaleeji Commercial Bank BSC (c), which was until 30 September 2007 a wholly owned subsidiary of the Bank. Following the partial sale of the subsidiary, the investment is an associate (40.005%) as at 31 December 2007 and accounted for under the equity method (refer note 23).

Summarised financial information of associates that have been equity accounted not adjusted for the percentage ownership held by the Group.

	2007	2006
Total assets	1,581,912	32,772
Total liabilities	665,139	7,368
Total revenues	90,475	-
Total net profits	56,423	-

9 INVESTMENT SECURITIES

Investment securities comprise:

	2007	2006
Available-for-sale equity securities	246,346	320,137
Held-to-maturity - sukuks		
- Short term	-	21,187
- Long term	-	56,806
	246,346	398,130

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9 INVESTMENT SECURITIES (continued)

AVAILABLE-FOR-SALE-EQUITY SECURITIES

	2007	2006
At 1 January	320,137	168,325
Acquisitions during the year	81,376	162,095
Disposals during the year, at carrying value	(73,190)	(4,778)
De-consolidated on partial sale of subsidiary (note 23)	(37,821)	-
Impairment allowances	(10,526)	(6,728)
Fair value changes during the year	2,406	1,223
	282,382	320,137
Less: Reclassified to assets-held-for-sale	(36,036)	-
At 31 December	**246,346**	320,137

Investments amounting to US$ 239,448 thousand (2006: US$ 275,310 thousand) in unquoted equity securities are carried at cost less impairment in the absence of a reliable measure of fair value. Such investments are either private equity investments managed by external investment managers or represent investments in projects promoted by the Group. The Group intends to exit these investments principally by means of private placements, strategic buy outs or through initial public offerings.

10 OTHER ASSETS

	2007	2006
Project costs recoverable	38,831	6,873
Short-term financing	151,587	36,288
Receivable from sale of investment securities	1,427	-
Receivable from sale of trading properties	-	51,109
Trading properties	-	2,960
Prepayments and other receivables	8,192	6,638
Operating property and equipment (note 11)	47,812	-
Other equipment (note 12)	12,042	4,434
Others	9,178	8,184
	269,069	116,486

Impairment allowances recognised during the year amounts to US$ 4,836 thousand (2006: Nil).

11 ACQUISITION OF A WATER PARK

In March 2007 the Bank acquired the 'Lost Paradise of Dilmun Water Park', Bahrain (the 'water park') from Al Areen Desert Spa & Resort Holding Company BSC (c). The water park operations were subsequently transferred to Al Areen Leisure and Tourism Company, The Lost Paradise of Dilmun SPC which is now a subsidiary of the Bank.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date.

	Carrying amounts at fair value on date of acquisition
Operating property and equipment	48,405
Other operating assets	-
Other operating liabilities	(645)
Net identifiable assets and liabilities	**47,760**
Goodwill on acquisition	2,240
Total consideration paid (including transaction costs)	50,000
Less: Cash acquired on date of acquisition	-
Net cash flows from acquisition for the purposes of cash flow statement	**50,000**

The pre-acquisition carrying value of the assets and liabilities was determined based on applicable IFRS immediately before the acquisition. There were no fair value adjustments to the carrying value of the assets and liabilities on acquisition as the water park was acquired based on its recent cost of construction.

The goodwill on acquisition recognises the water park's unique status as the only water park of its kind in Bahrain and the largest in the Gulf countries.

The water park commenced commercial operations on 1 August 2007. The results of the water park operations during the period are as follows:

	2007
Gross revenues	1,651
Operating and other expenses	(3,251)
Depreciation	(593)
Net loss for the period	**(2,193)**

The change in the water park's carrying amount of operating property and equipment is as follows:

	2007
Cost	48,405
Depreciation for the period	(593)
Net carrying value for the period	**47,812**

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12 OTHER EQUIPMENT

	Furniture	Fixtures and equipment	Motor vehicles	Computers	2007 Total	2006 Total
Cost						
At 1 January	1,299	2,157	-	4,500	7,956	3,920
Additions	50	108	184	2,384	2,726	4,036
De-consolidated on disposal of subsidiary (note 23)	(165)	(987)	-	(1,703)	(2,855)	-
At 31 December	1,184	1,278	184	5,181	7,827	7,956
Depreciation						
At 1 January	741	1,025	-	1,756	3,522	2,226
Charge for year	209	320	14	1,337	1,880	1,296
De-consolidated on disposal of subsidiary (note 23)	(51)	(329)	-	(319)	(699)	-
At 31 December	899	1,016	14	2,774	4,703	3,522
Net book value At 31 December	**285**	**262**	**170**	**2,407**	**3,124**	4,434
Capital work-in-progress	-	-	-	-	8,918	-
Total	**285**	**262**	**170**	**2,407**	**12,042**	4,434

13 INVESTORS' FUNDS

These represent funds of projects set up or promoted by the Group which are placed with the Group pending utilisation for project purposes.

14 PLACEMENTS FROM FINANCIAL AND OTHER INSTITUTIONS

These comprise Murabaha payable to financial and other institutions.

15 ISLAMIC FINANCING LIABILITIES

	2007	2006
Murabaha financing facility	397,456	87,860
Sukuk liability	189,164	-
	586,620	87,860

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15 ISLAMIC FINANCING LIABILITIES (continued)

During the year, the Bank announced a US$ 1 billion medium term Sharia'a compliant Sukuk issuance programme (the 'Programme'). The Programme provides a facility for the issuance of Sukuk Certificates in series (each, a "Series"). Under the terms of the Programme, the Bank has issued its first Series of Sukuk Certificates amounting to US$ 200 million during the year. The Sukuk Certificates issued under the Programme have a tenure of 5 years and returns based on an agreed spread of 125 bps over the benchmark rate (LIBOR). The Sukuk Certificates issued are secured by a pool of assets of the Group and has a liquidity facility provided by the Bank to support timely payments of distributions under the Programme. The Sukuk Certificates issued have been admitted for trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market.

The applicable rate of return of sukuk shall be increased by 0.5% per annum if the investment grading falls below BBB- of the rating agencies.

At 31 December 2007, the Sukuk Certificates are secured by the Banks investment in associates with carrying values of US$ 215,968 thousand.

16 OTHER LIABILITIES

	2007	2006
Employee accruals	87,937	62,498
Unclaimed dividends	5,945	1,629
Provision for employees' leaving indemnities	458	285
Charity and zakah fund (refer page 13)	3,656	2,634
Accounts payable	6,535	4,485
Accrued expenses	10,035	5,923
	114,566	77,454

17 UNRESTRICTED INVESTMENT ACCOUNTS

Unrestricted investment accounts primarily relate to the operations of Khaleeji Commercial Bank BSC, and a majority portion of the balance has been de-consolidated subsequent to the partial sale of the Bank's investment during the year (note 23).

The average gross rate of return in respect of unrestricted investment accounts was 8.51% for 2007 (2006: 7.53%). Approximately 5.45% / US$ 5,574 thousand (2006: 4.73% / US$ 1,666 thousand) was distributed to investors and the balance was either set aside for provisions and/or retained by the Bank's subsidiary as a Mudarib fee.

Unrestricted investment accounts include profit equalisation reserve of US$ Nil (2006: US$ 159 thousand) and investment risks reserve of US$ Nil (2006: US$ 117 thousand).

The funds received from unrestricted investment account holders have been commingled and jointly invested with the Group in the following assets:

	2007	2006
Investment in sukuks	-	38,501
Islamic financing assets	-	41,525
Placements with financial institutions	826	-
	826	58,920

18 SHARE CAPITAL

	2007	2006
Authorised:		
909,090,909 ordinary shares of US$ 0.33 each	**300,000**	300,000
Issued and fully paid up:		
724,001,646 (2006: 644,467,372) shares of US$ 0.33 each	**238,921**	212,674

During the period, the paid up capital of the Bank increased from US$ 212,674 thousand to US$ 238,921 thousand and the share premium increased from US$ 178,321 thousand to US$ 180,382 thousand as a result of:

- issue of bonus shares (twelve shares for every hundred shares held) for 2006 amounting to US$ 25,600 thousand; and
- issue of ordinary shares of US$ 647 thousand at a premium of US$ 2,061 thousand.

Additional information on shareholding pattern

(i) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.

(ii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	**Number of Shares**	**Number of Shareholders**	**% of total outstanding shares**
Less than 1%	327,463,108	1,870	45.23
1% up to less than 5%	263,265,239	18	36.36
10% up to less than 20% **	133,273,299	1	18.41
	724,001,646	1,889	100

** Expressed as a percentage of total outstanding shares of the Bank.*

***Represents the shares held by Deutsche Bank Trust Co. Americas, USA as custodians of the Bank's Global Depository Receipts, London.*

Global depository receipts

During the year, the Bank admitted its Global Depository Receipts ('GDR') for listing in the London Stock Exchange (LSE). The Bank and its shareholders offered 106.6 million shares in the form of GDRs in a secondary issue to investors in Europe and USA. Each GDR represents 10 ordinary shares of the Bank. Of the total 106.6 million shares offered for GDR, the Bank has sold 22,342,880 of its treasury shares for a gain of US$ 2,737 thousand.

19 INCOME FROM INVESTMENT BANKING SERVICES

Income from investment banking services includes US$ 44,471 thousand (2006: US$ 74,426 thousand) which has been received by the Group in kind in the form of shares in exchange for investment banking services rendered.

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20 TOTAL FINANCE INCOME AND EXPENSE

	2007	2006
TOTAL FINANCE INCOME		
Income from short-term placements	38,821	35,357
Income from Islamic financing	10,118	3,783
Income from investments in Sukuk (note 22)	4,523	3,718
	53,462	42,858
TOTAL FINANCE EXPENSE		
Investors' funds	14,121	12,293
Placements from financial and other institutions	33,033	10,363
Islamic financing liabilities	5,320	-
Unrestricted investment accounts	4,008	1,666
	56,482	24,322
NET FINANCE (EXPENSE) / INCOME	**(3,020)**	18,536

21 INCOME FROM INVESTMENT IN ASSOCIATES

	2007	2006
Fair value changes on investments designated at fair value through profit or loss	11,952	11,354
Share of profits from investment in associates equity	9,931	-
	21,883	11,354

Fair value changes on investments designated at fair value through profit or loss include US$ 7,444 thousand (2006: US$ Nil) determined based on recent transaction prices in the shares of the investee companies and US$ 4,508 thousand (2006: US$ 11,354 thousand) determined using valuation techniques.

22 INCOME FROM INVESTMENT SECURITIES

	2007	2006
Dividend income from available-for-sale investments	1,487	628
Gain on sale of available-for-sale investments	6,673	-
Income from investment in sukuks	4,523	3,718
	12,683	4,346

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for the year ended 31 December 2007 US$ 000's

23 INCOME FROM PARTIAL SALE OF A SUBSIDIARY

During the year, the Bank sold 59.995% stake in Khaleeji Commercial Bank BSC (c), which was a wholly owned subsidiary of the Bank. With effect from 30 September 2007, the subsidiary's financial statements have been de-consolidated from the consolidated financial statements of the Group.

The partial sale of the subsidiary has been presented in the cash flow statement in accordance with International Accounting Standard 7 "Cash Flow Statements" as follows:

	US$ 000's
Total assets de-consolidated on sale	661,901
Total liabilities and minority interest de-consolidated on sale	(335,408)
Net assets removed on de-consolidation	326,493
Less: Carrying value of investment in subsidiary retained	(132,453)
Net carrying value of investments disposed	**194,040**
Add: Profit on sale of investments	83,826
Gross consideration received	**277,866**
Less: Cash and cash equivalents of the subsidiary on the date of de-consolidation	(308,070)
Net cash flows on partial sale of subsidiary	**(30,204)**

24 STAFF COSTS

	2007	2006
Salaries and benefits	102,128	65,040
Social insurance expenses	1,006	975
Other staff expenses	664	1,233
	103,798	67,248

25 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the balance sheet date, the Group had assets under management of US$ 2,141,855 thousand (2006:USD 2,111,215 thousand).

26 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group.

A significant portions of the Group's income from investment banking services and management fees are from entities over which the Group exercises influence. Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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26 RELATED PARTY TRANSACTIONS (continued)

The related party balances included in these consolidated financial statements are as follows:

	2007	2006
Assets		
Cash and bank balances	9,480	416
Placements with financial institutions	51,563	10,007
Islamic financing assets	96,179	67,656
Investment in associates	288,047	-
Assets held-for-sale	50,000	24,196
Investment securities	116,876	249,433
Other assets	311,014	215,702
Liabilities		
Investors' funds	132,735	526,135
Customers' current account	-	5,469
Placements from financial and other institutions	165,497	180,956

	2007	2006
Income		
Income from investment banking services	400,180	266,647
Placement, arrangement and management fees	4,296	11,664
Income from investment securities	-	11,354
Income from associates	21,883	-
Income from short-term placements	1,472	-
Income from islamic financing assets	4,703	2,940
Other income	-	3,796
Expenses		
Allowance for impairment on investments	15,362	6,728
Finance expense on placements	17,948	12,880

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were :

Categories*	Number of Shares	Number of Directors
Less than 1%	486,583	5
1% up to less than 5%	17,341,168	2

** Expressed as a percentage of total outstanding shares of the Bank.*

Details of material contracts involving directors' include:

	2007	2006
Directors' participation in investments promoted by the Group	22,235	3,543

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26 RELATED PARTY TRANSACTIONS (continued)

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation is as follows:-

	2007	2006
Board remuneration	1,200	1,050
Board member fees	840	831
Salaries and other short-term benefits	49,523	28,648
Post employment benefits	204	107

27 ZAKAH

Based on the computation approved by the Shari'a Board, the Bank has appropriated US$ 1,402 thousand (2006: US$ 1,061 thousand) from retained earnings towards payment of Zakah which is included in other liabilities.

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders in respect of the proposed distributable profits (refer note 31) for the year ended 31 December 2007 is US cents 0.73 (2006: US cents 0.54) for every share held.

28 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds.

The Group receives interest from deposits placed with the Central Bank of Bahrain and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amounts to US$ 192 thousand (2006: US$ 301 thousand).

29 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of four Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

30 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisations.

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31 PROPOSED APPROPRIATIONS

The Board of Directors of the Bank propose a dividend of 95% (2006: 75%) of the paid-up capital and other appropriations, subject to the approval of the shareholders' at the annual general meeting, as follows:

	2007	2006
Proposed dividend *	226,975	159,991
Charity contribution	3,000	1,200
Directors' remuneration	5,000	1,200

* Proposed dividend include bonus shares recommended by the Board of Directors at the rate of ten share for every hundred shares held at the date of the Shareholders Annual General Meeting (2006: twelve share for every hundred shares held).

32 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year ended 31 December 2007 as follows:

	2007	2006
Profit for the year (US$ 000's)	340,063	211,586
Weighted average number of equity shares (Nos. in 000's)	715,142	707,103
Basic earnings per share (in US cents)	**47.55**	29.92

33 MATURITY PROFILE

	Gross undiscounted cash flows						
2007	**Up to 3 months**	**3 to 6 months**	**6 months -1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Assets							
Cash and bank balances	15,383	-	-	-	-	**15,383**	**15,383**
Placements with financial institutions	621,010	74,079	18,577	-	-	**713,666**	**711,978**
Islamic financing assets	20,580	13,217	-	72,739	-	**106,536**	**96,179**
Assets held-for-sale	-	446,882	-	-	-	**446,882**	**446,882**
Investment in associates	-	-	70,902	-	217,145	**288,047**	**288,047**
Investment securities	8,516	-	120,959	56,408	60,463	**246,346**	**246,346**
Receivable from investment banking services	171,183	-	-	-	-	**171,183**	**171,183**
Other assets	35,050	152,967	13,654	57,432	9,966	**269,069**	**269,069**
Total assets	**871,722**	**687,145**	**224,092**	**186,579**	**287,574**	**2,257,112**	**2,245,067**

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34 *MATURITY PROFILE (continued)*

	Gross undiscounted cash flows						
2007	**Up to 3 months**	**3 to 6 months**	**6 months-1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Liabilities							
Investors' funds	142,476	3,397	1,497	-	-	**147,370**	**147,370**
Placements from financial and other institutions	258,472	91,648	-	-	-	**350,120**	**349,162**
Islamic financing liabilities	9,681	9,681	109,362	362,268	212,447	**703,439**	**586,620**
Liabilities held-for-sale	-	167,019	-	-	-	**167,019**	**167,019**
Other liabilities	110,525	-	1,638	2,403	-	**114,566**	**114,566**
Total liabilities	**521,154**	**271,745**	**112,497**	**364,671**	**212,447**	**1,482,514**	**1,364,737**
Unrestricted investment accounts	**826**	**-**	**-**	**-**	**-**	**826**	**826**
Off-balance sheet items							
Restricted investment accounts	**-**	**-**	**-**	**77,038**	**-**	**77,038**	**77,038**
Capital commitments	**7,082**	**-**	**-**	**-**	**-**	**7,082**	**7,082**

	Gross undiscounted cash flows						
2006	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total	Carrying amount
Assets							
Cash and bank balances	15,050	-	-	-	-	15,050	15,050
Placements with financial institutions	644,850	15,310	29,375	-	-	689,535	687,765
Islamic financing assets	49,051	2,480	12,085	21,615	15,996	101,227	98,927
Assets held-for-sale	24,196		-	-	-	24,196	24,196
Investment in associates	-	-	-	36,926	-	36,926	36,926
Investment securities	21,187	-	154,936	203,509	18,498	398,130	398,130
Receivable from investment banking services	123,404	-	-	-	-	123,404	123,404
Other assets	102,724	-	3,000	8,609	2,153	116,486	116,486
Total assets	980,462	17,790	199,396	270,659	36,647	1,504,954	1,500,884

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33 MATURITY PROFILE (continued)

	Gross undiscounted cash flows						
2006	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total	Carrying amount
Liabilities							
Investors' funds	518,009	3,906	4,622	-	-	526,537	526,134
Customer current account	7,297	-	-	-	-	7,297	7,297
Placements with financial and other institutions	75,694	-	-	-	-	75,694	75,475
Islamic financing liabilities	-	89,856	-	-	-	89,856	87,860
Other liabilities	72,982	1,209	780	2,197	286	77,454	77,454
Total liabilities	673,982	94,971	5,402	2,197	286	776,838	774,220
Unrestricted investment accounts	39,753	-	19,167	-	-	58,920	58,920
Off-balance sheet items							
Restricted investment accounts	-	2,376	-	114,266	6,751	123,393	123,393
Capital commitment	144,276	-	-	-	-	144,276	144,276

The previous table shows the cash flows on the Group's financial assets and liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, unrecognised loan commitments are not all expected to be drawn down immediately.

35 CONCENTRATION OF ASSETS, LIABILITIES, UNRESTRCITED AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

2007	Trading and manufacturing	Banks and financial institutions	Real-estate Infrastructure development	Technology	Others	Total
Assets						
Cash and bank balances	-	15,218	-	-	165	**15,383**
Placements with financial institutions	-	711,978	-	-	-	**711,978**
Islamic financing assets	-	-	96,179	-	-	**96,179**
Assets held-for-sale	-	-	446,882	-	-	**446,882**
Investment in associates	24,196	225,478	8,410	19,250	10,713	**288,047**
Investment securities	-	13,250	214,771	-	18,325	**246,346**
Receivable from investment banking services	-	-	171,183	-	-	**171,183**
Other assets	41	16,674	178,498	-	73,856	**269,069**
Total assets	**24,237**	**982,598**	**1,115,923**	**19,250**	**103,059**	**2,245,067**
Liabilities						
Investors' funds	1,582	2,092	108,970	-	33,726	146,370
Placements from financial and other institutions	-	349,162	-	-	-	349,162
Islamic financing liabilities	-	586,620	-	-	-	586,620
Liabilities held-for-sale	-	-	167,019	-	-	167,019
Other liabilities	2	6	257	-	114,301	114,566
Total liabilities	**1,584**	**937,880**	**276,246**	**-**	**148,027**	**1,363,737**
Unrestricted investment accounts	-	826	-	-	-	**826**
Off-Balance sheet items						
Restricted investment accounts	-	-	73,763	-	3,365	**77,038**

34 Concentration of assets, liabilities, unrestricted and restricted investment accounts (continued)

(a) Industry sector (continued)

2006	Trading and manufacturing	Banks and financial institutions	Real-estate Infrastructure Development	Technology	Others	Total
Assets						
Cash and bank balances	-	15,050	-	-	-	15,050
Placements with financial institutions	-	687,765	-	-	-	687,765
Islamic financing assets	-	5,676	86,118	-	7,133	98,927
Assets held-for-sale	24,196	-	-	-	-	24,196
Investment in associates	-	2,250	8,409	15,967	10,300	36,926
Investment securities	-	32,341	291,764	-	74,025	398,130
Receivable from investment banking services	-	-	123,404	-	-	123,404
Other assets	-	7,389	94,545	423	9,695	116,486
Equipment	-	-	-	-	4,434	4,434
Total assets	24,196	750,471	604,240	16,390	105,587	1,500,884
Liabilities						
Investors' funds	1,582	52,760	205,499	-	266,293	526,134
Customers' current accounts	-	-	7,297	-	-	7,297
Placements from financial and other institutions	-	75,475	-	-	-	75,475
Islamic financing liabilities	-	87,860	-	-	-	87,860
Other liabilities	2	164	4,462	-	72,826	77,454
Total liabilities	1,584	216,259	217,258	-	339,119	774,220
Unrestricted investment accounts	-	13,271	8,393	-	37,256	58,920
Off-Balance sheet items						
Restricted investment accounts	-	-	116,642	-	6,751	123,393

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34 Concentration of assets, liabilities, unrestricted and restricted investment accounts (continued)

(b) Geographic region

2007	GCC countries	Other MENA	Other Asia	UK	Europe (excluding UK)	USA	Total
Assets							
Cash and bank balances	12,404	-	389	331	-	2,259	**15,383**
Placements with financial institutions	705,961	-	-	-	6,017	-	**711,978**
Islamic financing assets	29,360	-	-	-	66,819	-	**96,179**
Assets held-for-sale	446,882	-	-	-	-	-	**446,882**
Investment in associates	288,047	-	-	-	-	-	**288,047**
Investment securities	170,840	29,408	41,000	-	5,098	-	**246,346**
Receivable from investment banking services	-	-	171,183	-	-	-	**171,183**
Other assets	244,228	302	23,817	238	471	13	**269,069**
Total assets	**1,897,722**	**29,710**	**236,389**	**569**	**78,405**	**2,272**	**2,245,067**
Liabilities							
Investors' funds	73,999	46,856	24,196	886	1,433	-	147,370
Placements from financial and other institutions	344,159	5,003	-	-	-	-	349,162
Islamic financing liabilities	-	-	-	586,620	-	-	586,620
Liabilities held-for-sale	167,019	-	-	-	-	-	167,019
Other liabilities	114,566	-	-	-	-	-	114,566
Total liabilities	**699,743**	**51,859**	**24,196**	**587,506**	**1,433**	**-**	**1,364,737**
Unrestricted investment accounts	**826**	**-**		**-**	**-**	**-**	**826**
Off-Balance sheet items							
Restricted investment accounts	24,181	-	-	-	52,857	-	77,038

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34 Concentration of assets, liabilities, unrestricted and restricted investment accounts (continued)

(b) Geographic region (continued)

2006	GCC countries	Other MENA	Other Asia	UK	Europe (excluding UK)	USA	Total
Assets							
Cash and bank balances	11,506	1,941	-	665	-	938	15,050
Placements with financial institutions	613,613	-	-	35,006	39,146	-	687,765
Islamic financing assets	98,927	-	-	-	-	-	98,927
Assets held-for-sale	24,196	-	-	-	-	-	24,196
Investment in associates	36,926	-	-	-	-	-	36,926
Investment securities	363,576	5,186	11,000	-	18,368	-	398,130
Receivable from investment banking services	6,035	97,369	20,000	-	-	-	123,404
Other assets	96,146	17,220	-	186	2,002	932	116,486
Total assets	1,250,925	121,716	31,000	35,857	59,516	1,870	1,500,884
Liabilities							
Investors' funds	460,319	57,501	-	859	7,455	-	526,134
Customers' current accounts	7,297	-	-	-	-	-	7,297
Placements from financial and other institutions	70,450	5,025	-	-	-	-	75,475
Islamic financing liabilities	-	-	-	87,860	-	-	87,860
Other liabilities	77,454	-	-	-	-	-	77,454
Total liabilities	615,520	62,526	-	88,719	7,455	-	774,220
Unrestricted investment accounts	58,920	-	-	-	-	-	58,920
Off-Balance sheet items							
Restricted investment accounts	25,372	18,563	-	-	79,458	-	123,393

36 FINANCIAL INSTRUMENTS

a) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Other than certain available-for-sale investments of US$ 239,448 thousand and Islamic financing assets of US$ 96,179 and investment in sukuks that are carried at cost, the estimated fair values of the Group's other financial instruments are not significantly different from their book values.

b) CLASSIFICATION OF FINANCIAL INSTRUMENTS

The classification of the financial instruments of the Group is as given below:

2007	Designated at fair value through income statement	Available-for-sale	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying value
Assets						
Cash and bank balances	-	-	-	15,383	-	**15,383**
Placements with financial institutions	-	-	-	711,978	-	**711,978**
Islamic financing assets	-	-	-	96,179	-	**96,179**
Investment in associates	60,361	227,686	-	-	-	**288,047**
Investment securities		246,346	-	-	-	**246,346**
Receivable from investment banking services	-	-	-	171,183	-	**171,183**
Other assets	-	-	-	209,215	-	**209,215**
Total financial assets	**60,361**	**474,032**	**-**	**1,204,138**	**-**	**1,738,531**
Liabilities						
Investors' funds	-	-	-	-	147,370	**147,370**
Placements from financial and other institutions	-	-	-	-	349,162	**349,162**
Islamic financing liabilities	-	-	-	-	586,620	**586,620**
Other liabilities	-	-	-	-	114,566	**114,566**
Total financial liabilities	**-**	**-**	**-**	**-**	**1,197,718**	**1,197,718**
Unrestricted investment accounts	**-**	**-**	**-**	**-**	826	**826**

35 FINANCIAL INSTRUMENTS (continued)

b) CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

2006	Designated at fair value through profit or loss	Available-for-sale	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying value
Assets						
Cash and bank balances	-	-	-	15,050	-	15,050
Placements with financial institutions	-	-	-	687,765	-	687,765
Islamic financing assets	-	-	-	98,927	-	98,927
Investment in associates	26,626	10,300	-	-	-	36,926
Investment securities	-	398,130	-	-	-	398,130
Receivable from investment banking services	-	-	-	123,404	-	123,404
Other assets	-	-	-	112,052	-	112,052
Total assets	26,626	408,430	-	1,037,198	-	1,472,254
Liabilities						
Investors' funds	-	-	-	-	526,134	526,134
Placements from financial and other institutions	-	-	-	-	75,475	75,475
Islamic financing liabilities	-	-	-	-	87,860	87,860
Customer current accounts	-	-	-	-	7,297	7,297
Other liabilities	-	-	-	-	77,454	77,454
Total liabilities	-	-	-	-	774,220	774,220
Unrestricted investment accounts	-	-	-	-	58,920	58,920

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37 COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group:

	2007	2006
Commitments to invest	-	136,226
Un-drawn commitments to extend finance	-	8,050
Capital commitments	7,667	-

The Group potentially has a commitment under a constructive obligation to extend finance to one of its projects of up to US$ 170,000 thousand. In the opinion of the management, based on their assessment of expected cash flows from the project, the financing is not expected to be drawn down. In the event of a drawdown, the Group would have a charge over the assets of the project.

During 2005, the Group exited one of its investment projects and issued a corporate guarantee of up to £ 57,000 thousand, securing the buyer against specific tax indemnities of £ 15,000 thousand and providing a guarantee to cover general corporate affairs. This guarantee expires in December 2008. In the opinion of the management, the possibility of the guarantee being invoked is negligible. The Group has also issued financial guarantees to financial institutions to secure credit facility arrangements of US$ 128,440 thousand (31 December 2006: US$ 3,440 thousand) for projects managed by the Group. It is the opinion of the management that US$ 125,000 thousand of these guarantees will be cancelled by the end of the first quarter of 2008.

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2007 due to the performance of any of its projects.

38 FINANCIAL RISK MANAGEMENT

Overview

Financial instruments of the Group include cash and cash equivalents, placement with financial institutions, Islamic financing assets, investment securities, investments in associates, certain receivables and other liabilities. Accounting policies for financial instruments are set out in note 2.

The Group has exposure to the following risks from its use of financial instruments:

- investment and credit risk
- liquidity risk
- market risks

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

37 FINANCIAL RISK MANAGEMENT (continued)

Risk management framework

The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports directly to the CEO and has access to the Chairman and the Board of Directors.

Our Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board of Directors approves and periodically reviews our risk management policies and strategies. The Audit Committee is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

The RMD submits a quarterly Risk Review and Investment Review report to the Audit committee. The Risk Review report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The Risk Review report also provides comments as to how risk factors are being addressed by the Group and the change in risk rating from the previous quarter. For each investment, which includes development infrastructure projects, the Investment Review report gives updated valuations and impairment assessment of each investment, a description of significant developments on projects or issues as well as an update on the strategy and exit plan for each project.

a) Investment and Credit risk

Investment and Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment securities, investment in associates, placements from financial institutions, Islamic financing assets and other receivables from project companies. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of investment and credit risk

The Board of Directors has delegated responsibility for the management of investment and credit risk to its Executive Investment Committee (EIC). This committee establishes operating guidelines and reviews and endorses the CEOs and Investment Department recommendations for investment strategies, products and services. Its actions are in accordance with the investment policies adopted by the Board of Directors.

The RMD is responsible for oversight of the Group's investment and credit risk, including:

- Formulating investment and credit policies in consultation with business units, covering credit assessment, risk reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are also allocated to Executive Management. Larger facilities require approval by EIC and the Board of Directors based on the authority limits structure of the Bank.
- Reviewing and assessing investment and credit risk. Risk department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.

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37 FINANCIAL RISK MANAGEMENT (continued)

- Limiting concentrations of exposure to counterparties, geographies and industries.
- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific investment / credit exposures. The current risk grading framework consists of two broad grades "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its investment and credit exposures as the credit characteristics of each exposure is considered to be different. The responsibility for setting risk grades lies with the final approving authority as appropriate. Risk grades are subject to regular reviews by Group RMD.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to EIC and the Board of Directors on the exposure limits.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment / credit risk.

The Risk Management Department works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A fair evaluation of investments takes place every quarter with inputs from the Investment and Risk management departments. Quarterly updates of investments are reviewed by the Board of Directors. Regular audits of business units and Group Credit processes are undertaken by Internal Audit.

The Group's maximum exposure to risk at 31 December 2007 is as follows:

37 FINANCIAL RISK MANAGEMENT (continued)

Exposure to credit risk

2007	Placement with financial institutions	Islamic financing assets	Investment securities	Assets held-for-sale	Investment in associates	Receivable from investment banking services and other financial assets
Neither past due nor impaired						
Carrying amount	**711,978**	**46,992**	**245,721**	**446,882**	**263,851**	**356,496**
Past due but not impaired						
Past due comprises						
30 – 60 days	-	10,301	-	-	-	-
60 – 90 days	-	545	-	-	-	-
90 – 180 days	-	509	-	-	-	607
Above 180 days	-	37,832	-	-	-	23,263
Carrying amount – Past due but not impaired	**-**	**49,187**	**-**	**-**	**-**	**23,870**
Individually impaired						
Gross amount	-	-	27,112	-	27,465	8,531
Allowance for impairment	-	-	(26,487)	-	(3,269)	(8,499)
Carrying amount – Individually impaired	**-**	**-**	**625**	**-**	**24,196**	**32**
Carrying amount	**711,978**	**96,179**	**246,346**	**446,882**	**288,047**	**380,398**

37 FINANCIAL RISK MANAGEMENT (continued)

Exposure to credit risk (continued)

2006	Placement with financial institutions	Islamic financing assets	Investment securities	Assets held-for-sale	Investment in associates	Receivable from investment banking services and other financial assets
Neither past due nor impaired	687,765	98,927	397,505	-	36,926	198,635
Past due but not impaired						
Past due comprises						
30 – 60 days	-	-	-	-	-	13,263
60 – 90 days	-	-	-	-	-	-
90 – 180 days	-	-	-	-	-	-
Above 180 days	-	-	-	-	-	23,526
Carrying amount	-	-	-	-	-	36,789
Individually impaired						
Gross amount	-	-	13,773	27,465	-	3,694
Allowance for impairment	-	-	(13,148)	(3,269)	-	(3,662)
Carrying amount	-	-	625	24,196	-	32
Carrying amount	687,765	98,927	398,130	24,196	36,926	235,456

37 FINANCIAL RISK MANAGEMENT (continued)

Impaired receivables and investments

Impaired receivables and investments are those for which the Group determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the receivables / investment agreement(s). These exposures are graded "Impaired" in the Group's internal credit risk grading system.

Past due but not impaired Islamic financing assets and receivables

Islamic financing assets and receivables where contractual payments are past due but the Group believes that impairment is not appropriate on the basis of the level of future expected cash flows and / or the stage of collection of amounts owed to the Group. These are primarily short term funding to the project Special Purpose Entities (SPEs). The credit and investment exposure to these SPEs is reviewed together by reviewing project cash flows periodically.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its receivables / available-for-sale investment securities portfolio. This allowance is a specific loss component that relates to individually significant exposures based on individual assessment for impairment.

Write-off policy

The Group writes off a receivables / investment balance (and any related allowances for impairment losses) when the Group RMD determines that the receivables / investments are uncollectible and after obtaining approval from the CBB. This determination is reached after considering information such as the occurrence of significant changes in the payee / issuer's financial position such that the payee / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The geographical and industry wise distribution of assets and liabilities are set out in note 34.

Concentration by location for financial assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

b) Liquidity risk

Liquidity risk is defined as the risk that the Group will not have funds available to meet its financial liabilities as they fall due.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

37 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Management of liquidity risk (continued)

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid murabaha placements with financial institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units are met through Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. It is our policy to keep a large part of our assets in highly liquid short-term instruments.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Exposure to liquidity risk

Our three primary measures of liquidity are stock of liquid assets, surplus cash capital and net funding requirements. For this purpose liquid assets include cash and cash equivalents, including commodity murabahas, sovereign and high quality sukuks and marketable securities. Cash capital is defined as the aggregate of the Banks capital base, inter-bank liabilities maturing later than 12 months and any undrawn committed Bank facilities. Cash capital is used to fund long term funding requirements including investment in associates, investment securities and equipments.

Details of the reported Group ratio of liquid assets and surplus cash capital at the reporting date and during the reporting period were as follows:

	Liquid asset / Total asset		Surplus cash capital	
	2007	2006	**2007**	2006
At 31 December	32.49%	48.49%	2.092	1.460
Average for the period	38.34%	57.56%	1.966	1.449
Maximum for the period	43.61%	65.43%	2.092	1.677
Minimum for the period	32.49%	48.49%	1.778	1.303

c) Market risk

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

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37 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Management of market risks

As a matter of general policy, the Group shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. All foreign exchange risk within the Bank is transferred to Treasury. The Group seeks to manage currency risk by continually monitoring exchange rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. Overall authority for market risk is vested in the Asset Liability Committee (ALCO). RMD is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Exposure to profit rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Majority of the Group's profit based asset and liabilities are short term in nature, except for certain long term liabilities which have been utilised to fund the Group's strategic investments in its associates. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

2007	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	15,383	-	-	-	-	**15,383**
Placements with financial institutions	693,702	18,276	-	-	-	**711,978**
Islamic financing assets	20,335	12,961	-	62,883	-	**96,179**
Total assets	**729,420**	**31,237**	**-**	**62,883**	**-**	**823,540**
Liabilities						
Investors' funds	142,476	3,397	1,497	-	-	**147,370**
Placements from financial and other institutions	344,160	5,002	-	-	-	**349,162**
Islamic financing liabilities	-	-	91,230	306,277	189,113	**586,620**
Total liabilities	**486,636**	**8,399**	**92,727**	**306,277**	**189,113**	**1,083,152**
Unrestricted investment accounts	**826**	**-**	**-**	**-**	**-**	**826**
Profit rate sensitivity gap	**241,958**	**22,838**	**(92,727)**	**(243,394)**	**(189,113)**	**(260,438)**

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37 FINANCIAL RISK MANAGEMENT (continued)

Exposure to profit rate risk(continued)

2006	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	15,050	-	-	-	-	15,050
Placements with financial and other institutions	643,080	15,310	29,375	-	-	687,765
Islamic financing assets	48,385	2,480	12,085	19,981	15,996	98,927
Investment in sukuks	21,187	-	-	38,308	18,498	77,993
Total assets	727,702	17,790	41,460	58,289	34,494	879,735
Liabilities						
Investors' funds	517,799	3,713	4,622	-	-	526,134
Placements from financial and other institutions	75,475	-	-	-	-	75,475
Islamic financing liabilities	-	87,860	-	-	-	87,860
Customers' current accounts	7,297	-	-	-	-	7,297
Total liabilities	600,571	91,573	4,622	-	-	696,766
Unrestricted investment accounts	39,753	-	19,167	-	-	58,920
Profit rate sensitivity gap	87,378	(73,783)	17,671	58,289	34,494	124,049

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-month portion of all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

2007	**100 bps parallel increase / (decrease)**	**50 bps increase / (decrease) after 1 year**
At 31 December	± 2,604	± 2,163
Average for the period	± 2,025	± 483
Maximum for the period	± 2,604	± 2,163
Minimum for the period	± 1,145	± 541

37 FINANCIAL RISK MANAGEMENT (continued)

Exposure to profit rate risk – non-trading portfolios (continued)

2006	100 bps parallel increase / (decrease)	50 bps increase / (decrease) after 1 year
At 31 December	± 1,240	± 464
Average for the period	± 1,506	± 311
Maximum for the period	± 2,258	± 300
Minimum for the period	± 1,240	± 464

Overall, profit rate risk positions are managed by Treasury, which uses placements from/ to financial institutions to manage the overall position arising from the Group's activities.

The effective profit rates on these assets, liabilities and unrestricted investment accounts are as follows:

	2007	2006
Placements with financial institutions	5.11%	4.98%
Islamic financing assets	6.20%	5.69%
Investment securities – Sukuks	7.24%	6.69%
Investors' funds	3.92%	3.02%
Placements from financial and other institutions	5.99%	4.60%
Islamic financing liabilities	6.34%	6.17%
Unrestricted investments	5.40%	4.73%

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Groups major exposure is in GCC currencies, which are primarily pegged to the US Dollar. The Group had the following significant net exposures denominated in foreign currency as of 31December:

	2007 US$ Equivalent	2006 US$ Equivalent
Sterling Pounds	1,684	1,111
Euros	5,995	22,805
Jordanian Dinar	416	1,944
Kuwaiti Dinars	4,172	20,928
Other GCC Currencies (*)	64,900	146,572

(*) These currencies are pegged to the US Dollar.

37 FINANCIAL RISK MANAGEMENT (continued)

Exposure to foreign exchange risk (continued)

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered on a monthly basis include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2007 US$ Equivalent	2006 US$ Equivalent
Sterling Pounds	84	56
Euros	300	1,140
Jordanian Dinar	21	97
Kuwaiti Dinars	209	1,046

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by Group Risk, but is not currently significant in relation to the overall results and financial position of the Group.

d) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. In addition the Group is committed to recruitment in addition to training of staff. The Group is currently undertaking an operational risk assessment in all divisions as part of internal risk assessment process in preparation for the implementation of the Basle II Capital Accord by the Central Bank of Bahrain.

39 CAPITAL MANAGEMENT

The Group's lead regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

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38 CAPITAL MANAGEMENT (continued)

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to at all times maintain a capital adequacy ratio in excess of the minimum required by the CBB, which is currently at 12%. The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Group Risk, and is subject to review by the ALCO.

The Group's regulatory capital position at 31 December was as follows:

Capital adequacy	**2007**	2006
Total risk weighted assets	**2,430,808**	**1,446,599**
Tier 1 capital		
Share capital	238,921	212,674
Advance towards share capital	-	2,708
Share premium	180,382	178,321
Statutory reserve	83,529	46,337
Retained earnings	382,799	239,663
Treasury shares	(8,926)	(14,127)
Subsidiary company share grants	-	1,804
Total Tier 1 capital	**876,705**	667,380
Tier 2 capital	1,259	164
Total regulatory capital	**877,964**	667,544
Total regulatory capital expressed as a percentage of total risk weighted assets	**36.12%**	46.15%

Beginning in 2008, the Bank will be required to follow the requirements of Basel II as implemented by the CBB. As per the current CBB proposed requirements for Basel II, the Bank's capital adequacy ratio is expected to decrease. This decrease is primarily due to the increased capital requirements under Basel II for unquoted investment securities and operational risk charge.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007 US$ 000's

40 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

During the year, the following new/ amended IFRS's standards and interpretations relevant to the activities of the Group have been issued which are not yet mandatory for adoption by the Group:

- IAS 1 - Presentation of Financial Statements (effective for annual period beginning on or after 1January 2009);
- IAS 23 - Borrowing Costs (effective for annual period beginning on or after 1January 2009)
- IFRS 8 - Operating Segments (effective for annual period beginning on or after 1 January 2009);
- IFRIC 11, IFRS-2 Group and Treasury shares transactions (effective for annual period beginning on or after 1 March 2007); and
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual period beginning on or after 1 January 2009)

The adoption of these standards and interpretations are not expected to have a material impact on the consolidated financial statements.

41 COMPARATIVES

Certain prior year amounts have been reclassified to conform to the current year's presentation. Such reclassifications do not affect previously reported net profit or equity.