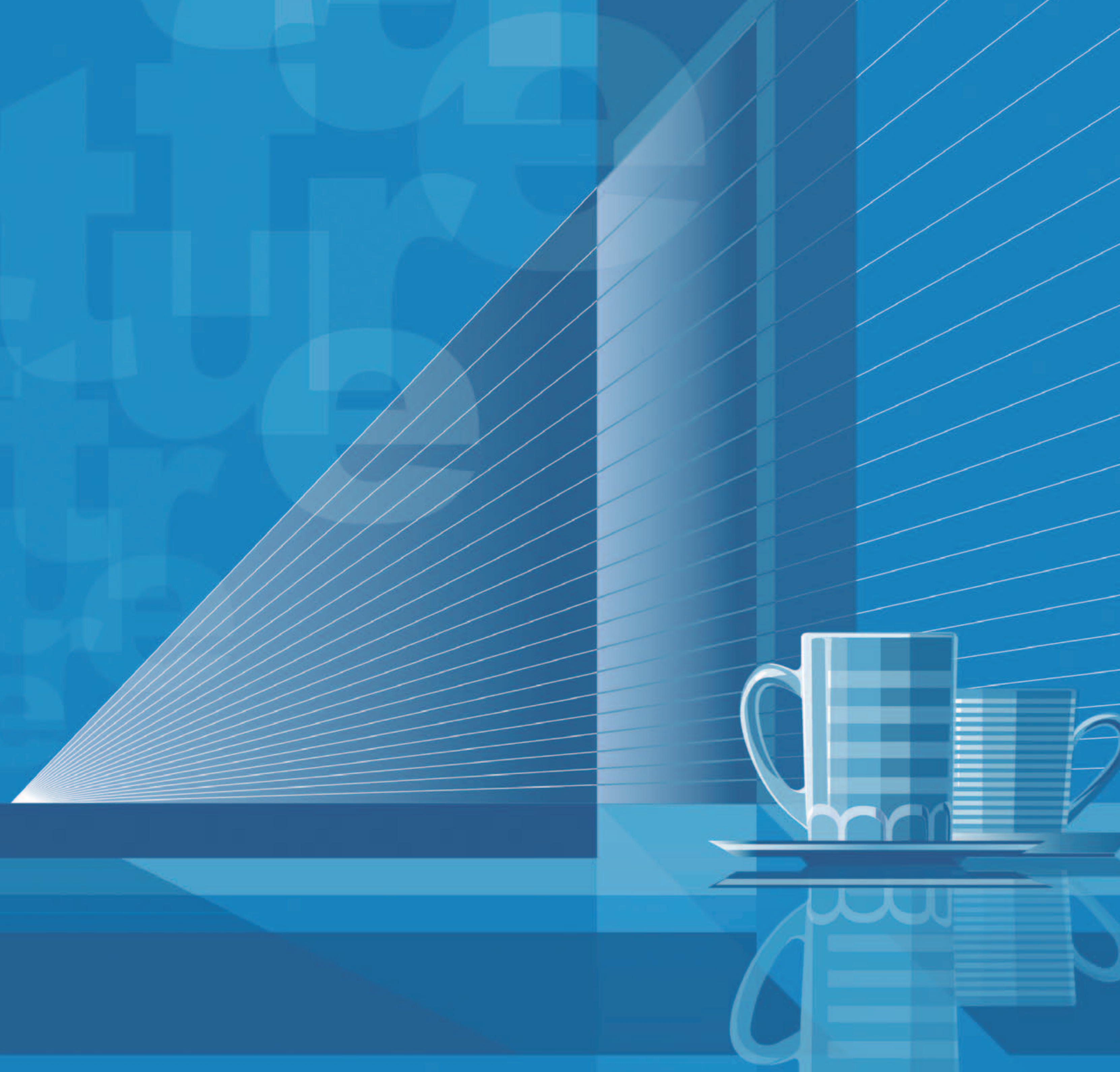
بنك المستقبل
futurebank

ANNUAL REPORT 2007

THE FUTURE PROMISES

EVEN MORE RELATIONSHIPS



بسم الله الرحمن الرحيم

MAIN BRANCH / HEAD OFFICE
P.O. Box 785
City Centre Building 199
Road 203, Block 304
Manama
Government Avenue
Kingdom of Bahrain

Tel: 17 505000
Fax: 17 224402
Swift: FUBBBHBM

SITRA BRANCH
P.O. Box 70115
Shop No. 57 Z
Area : West Al Eker, Road 4203
Sh. Jabbar Al Ahmed Al Sabah
Block 624
Sitra
(Next to Mohd Mahmood Kooheji Showroom)
Kingdom of Bahrain

Tel : 17 505032 / 17 704747
Fax: 17 704700
Swift: FUBBBHBMSIT

MUHURRAQ BRANCH
P.O. Box 22309
Shop No. 270
Shaikh Hamad Road
Muharraq 211
Kingdom of Bahrain

Tel: 17 505031 – 17 343840
Fax: 17 345672

TEHRAN REPRESENTATIVE OFFICE
No.25 Tandees Avenue
Africa Highway
Tehran
Iran

Tel: +9821 22053351
Fax: +9821 26201311

إنَّ مَعَ العُسْرِ يُسرا

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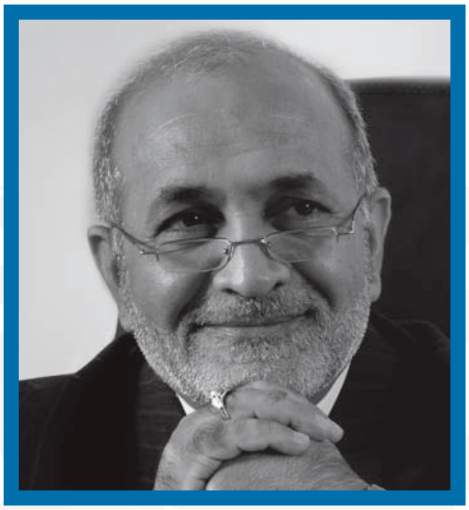
"When we envision the future, we see 'more'. More clients. Better products. Superior technology, leading to quality operations, taking the concept of client satisfaction to newer levels. We will interact to identify expectations, fulfill more promises, while exploring more possibilities... together. That's what the future is all about.

Going forward, despite challenges, we as a financial institution offer more new age financial services and solutions. By providing more options to our customers, we are confident of progressing from today's banking practices into a future full of timeless achievements."

FINANCIAL HIGHLIGHTS

	2007	2006	2005	2004
Income and Expenses (USD Millions)				
Net interest income	**30.3**	19.9	15.1	5.9
Other income	**2.7**	1.6	1.0	0.4
Total Income	**33.0**	21.5	16.1	6.3
Operating expenses	**6.9**	5.4	4.7	1.6
Profit before provisions	**26.1**	16.1	11.4	4.7
Net provision / write-back	**(2.6)**	(0.1)	1.3	(0.1)
Goodwill	**-**	-	-	1.5
Net profit/(Loss)	**23.5**	16.0	12.7	6.1
Financial Position (USD Millions)				
Total assets	**1,321.2**	1,016.1	399.4	416.3
Net loans	**221.0**	174.0	142.8	121.2
Placements	**904.0**	802.2	235.6	265.2
Investments	**27.0**	14.6	0.0	11.4
Total deposits	**1,151.3**	887.3	278.4	309.0
Customer deposits	**179.4**	145.6	131.8	107.8
Shareholder's equity	**154.4**	121.9	117.8	105.2
Ratios (percentage)				
Profitability				
Net income/Average equity	**17.9**	14.1	11.4	6.0
Net income/Average assets	**2.4**	2.5	3.1	3.0
Operating expenses/Total income	**21.0**	25.4	29.3	26.4
Earning per share (cents)	**21**	16	13	6
Liquidity				
Customer deposits/Net loan and advances	**81.2**	83.7	92.3	88.9
Loans and advances/Total assets	**16.7**	17.1	35.8	29.1
Liquid assets/Total assets	**53.4**	72.4	41.9	45.5
Capital Adequacy				
Capital Adequacy	**20.0**	15.7	35.6	28.3
Equity/Total Assets	**11.7**	12.0	29.5	25.3

The attached notes 1 to 31 form part of these financial statements.



Future Bank's growing global reach now extends far beyond its regional presence; thanks to the vast global reach of our shareholders network.

On behalf of the members of the Board of Directors of Future Bank, it is with great pleasure that I present the audited financial statements for the year ended 31st December 2007.

Established as a Joint Venture between Iranian and Bahraini banks in 2004, Future Bank has taken great leaps forward over the period under report to become a bank well on the strategic path envisioned by its founding shareholders.

The Bank's strategic mission is focused on exploiting the complimentary advantages of all the national economies which it has come to represent. The combined strength of Future Bank's major shareholders and their vast global network within the GCC, Europe and the Far Eastern markets extends the Bank's reach far beyond its regional presence.

With commercial banking activities progressing at a brisk pace throughout the year, the performance of the Bank remained well ahead of expectations and steadily aimed towards achieving our long-term goals. New business is being developed to increase profitability, while solid steps are being taken to strengthen new prospects and consolidate existing relationships.

In light of the commercial and financial evolution taking shape in Bahrain and the increasingly competitive market conditions during 2007, the Bank reemphasized its commitment to furthering its local presence and asset base. In serving the needs of corporate clients as well as local retail clients, Future Bank enhanced its credibility in the market. Concurrently, the Bank also maintained due diligence on all fronts, in light of recent political developments. Concrete measures were adopted at mitigating risk and immunizing all the Bank's operations from any adverse external effects.

Future Bank continued to maintain its competitive edge in the Iranian market, which has served as a significant source of business in the past. However, a shift in emphasis was in order to balance geographical distribution and mitigate the concentration of risk. The Bank is steadily amassing local and GCC market know-how and continues to build the necessary infrastructure to launch a more aggressive retail strategy.

On behalf of our shareholders, the Board of Directors wish to forward their utmost gratitude and appreciation to the authorities in the Kingdom of Bahrain and the Islamic Republic of Iran, with a special note of appreciation to the Central Bank of Bahrain for their ongoing support of Future Bank.

We also gratefully acknowledge the contributions of Future Bank's management and staff, whose efforts and dedication have served as the cornerstones to the continued growth of the Bank's operations, along with all our shareholders, customers and correspondents for their highly valued association.

By the grace of Allah the Almighty, the Board looks forward to the Bank's ongoing success and prosperity in the years ahead.

Dr. Hamid Borhani
Chairman

1. **DR. HAMID BORHANI**
   Chairman
   Board Member since 2006
   Chairman and Managing Director, Bank Saderat Iran
   Chairman, Bank Saderat PLC - UK
   Seated 3rd from Left

2. **MR. ALI SEDGHI**
   Deputy Chairman
   Board Member since 2006
   Chairman & Managing Director, Bank Melli Iran
   Seated 2nd from Left

3. **A.AZIZ AHMED A. MALEK**
   Deputy Chairman
   Board member effective 2008
   Non Executive Director, Netlinks Consultancy Telecommunications Bahrain
   Seated 2nd from Right

4. **ADEL AL MANNAI**
   Director
   Board member effective 2008
   CEO Investors Bank - Bahrain
   Standing Ist from Left

5. **DR. VALIOLLAH SEIF**
   Chief Executive Officer & Managing Director
   Board Member since 2004
   Chairman, Melli Bank PLC - UK
   Seated Ist from Left

6. **MR. GHOLAM H. ZAFERANI**
   Director
   Board Member since 2004
   Deputy CEO, Saman Bank Corporation - Iran
   Seated Ist from Right

7. **MR. GHOLAM SOURI**
   Director
   Board Member since 2004
   General Manager, Foreign Department, Bank Saderat Iran
   Standing 2nd from Right

8. **MR. ABBAS FATEMI TORSHIZI**
   Deputy CEO & Director
   Board Member since 2004
   Standing 3rd from Right

9. **MR. SHAHRAM RAZAVI**
   Deputy CEO & Director
   Board Member since 2004
   Standing Ist from Right

10. **MR. ADEL EL-LABBAN**
    Director
    (Resigned w.e.f. December 2007)

11. **MR. HAMAD AL MARZOUQ**
    Deputy Chairman
    (Resigned w.e.f. December 2007)

GROUP MANAGEMENT

DR. VALIOLLAH SEIF

Chief Executive Officer & Managing Director

PhD in Accounting & Finance from Allameh Tabatabaei University. Over 26 years of banking experience as Finance Director, Board Member of Bank Sepah, Chairman of the Board & Managing Director of Bank Mellat, Bank Saderat, Bank Sepah and Bank Melli Iran. Joined the Bank in 2006.

MR. SHAHRAM RAZAVI

Deputy Chief Executive Officer & Deputy Managing Director – Business Development, Treasury & Investment and Retail Banking

MBA Roosevelt University, USA. Over 26 years of banking experience as Economics Expert, Acting General Manager in Bank Saderat Iran, General Manager in Bank Saderat Iran; Athens Branch & Paris Branch & General Manager International Division. Joined the Bank in 2006.

MR. ABBAS FATEMI

Deputy Chief Executive Officer & Deputy Managing Director – Risk, Finance & Operations

BA in English Language, Tehran University. Over 38 years of banking experience in Bank Melli Iran. Assistant Director of Bank Melli Iran, International Division, Tehran; Manager of Bank Melli Iran, Dubai Main Branch for 7 years. Joined the Bank in 2004.

MR. VISTASP BURJOR SOPARIWALLA

Head of Finance

BCom, CA. Over 17 years of banking experience spanning Financial Control, Operations & Treasury services holding successively senior managerial positions. Prior work experience primarily with BNP PARIBAS, Bank of Bahrain & Kuwait and Bahraini Saudi Bank. Joined the Bank in 2006.

MR. HOSSEIN REZAEE NICO

Head of Information Technology

Master Degree in International Business from Wollongong University, Australia. Over 13 years of experience in banking; Treasury & Trade Finance and Information Technology Systems at Bank Melli Iran, Dubai and Commercial Bank of Dubai, Dubai. Joined the Bank in 2006.

MR. K. SURESH KUMAR

Head of Corporate Banking

CAIIB from Indian Institute of Bankers, Mumbai. Over 22 years of banking experience mainly in Corporate Credit - Marketing, Appraisal, Risk & Remedial Management at United Bank of India, Oman International Bank, IDBI Bank and as Senior Vice President at Mizuho Corporate Bank. Joined the Bank in 2005.

MR. MOHAN SHENOY YARMAL

Head of Treasury & Investment

Master of Commerce from the University of Mysore. Over 30 years of banking experience holding various banking positions as Chief Accountant and Assistant Dealer in Bank Saderat Iran, OBU, Bahrain. Joined the Bank since inception.

MR. MILIND VINAYAK KAMAT

Head of Risk

BCom, FCA. Over 21 years of banking experience holding various positions in various banks; Union Bank of India, Bank of Bahrain & Kuwait, Mumbai and as Vice President at Calyon Bank. Joined the Bank in 2005.

MR. Y. N. RAO

Head of Internal Audit

CIA from Institute of Internal Auditors USA, besides MBA (Finance) and CAIIB. Over 20 years of Banking and Audit experience in managerial positions. Joined the bank in April 2007.

MR. JALIL AL-SHEHABI

Head of Compliance & MLRO

Over 26 years of Banking experience and holding various Senior Managerial positions mainly Banking Operations, Internal control, Internal Audit and compliance / MLRO at various Banks in Bahrain. Joined the Bank in March 2007.

MRS. MUNIRA MOH'D TAQI NOORULLA

Head of Human Resources & Administration

Over 35 years of banking experience and holding various banking positions spanning from Chief Accountant, Manager Loan, Credit & Human Resources at Bank Melli Iran, Bahrain. Joined the Bank since inception.

MR. MAHMOOD YOUSIF MOHAMMED

Branch Manager - Main Branch

Over 35 years of banking experience and holding various banking positions spanning from Chief Accountant, Branch Manager at Bank Melli Iran Bahrain and Manager, Information Technology. Joined the Bank since inception.

MR. RIYADH RASHID ALI AL-SAMAHIJI

Regional Manager, Muharraq & Sitra Branch

Over 13 years of Banking experience and holding various Banking positions at Bank Saderat Iran, Bahrain Branch. Joined the Bank since inception.

MR. FEREIDOUN MOHD ABGHARI

Representative, Tehran Representative Office

Over 39 years of banking experience and holding various Managerial positions at Bank Melli Iran, Tehran & United Arab Emirates. Joined the bank in 2005.

BOARD COMMITTEES

The two principal Board Committees are:

The Board Audit Committee:
Mr. Gholam H. Zaferani – Chairman of Audit Committee
Mr. Gholam Souri
Mr. Abdulaziz Abdulmalek

The Executive Committee:
Mr. Abdulaziz Abdulmalek – Chairman of Executive Committee
Mr. Ali Sedghi
Dr. Valiollah Seif
Mr. Abbas Fatemi
Mr. Shahram Razavi

Mr. Vistasp Sopariwalla - Corporate Secretary

TERMS OF REFERENCE OF THE VARIOUS COMMITTEES

BOARD COMMITTEES

Executive Committee
Deputise for the Board on matters needing decision specifically delegated to it. Approve policies, objectives and strategies. Consider periodic management reports on the Bank's performance including financial & risk management reports.

Audit Committee
Assists the Board of Directors in discharging its responsibilities relating to the bank's accounting policy, internal audit controls, compliance procedures, risk management functions, ensures the integrity of the financial statements, reviews the performance of the internal audit function & liaise with the external auditors and regulators.

MANAGEMENT COMMITTEES

All the below mentioned meetings are chaired by the CEO & the Managing Director. All the meetings are held on a monthly basis, except for the Senior Management Committee meeting held on a fortnightly basis and the Senior Credit Committee meeting which is held once every week.

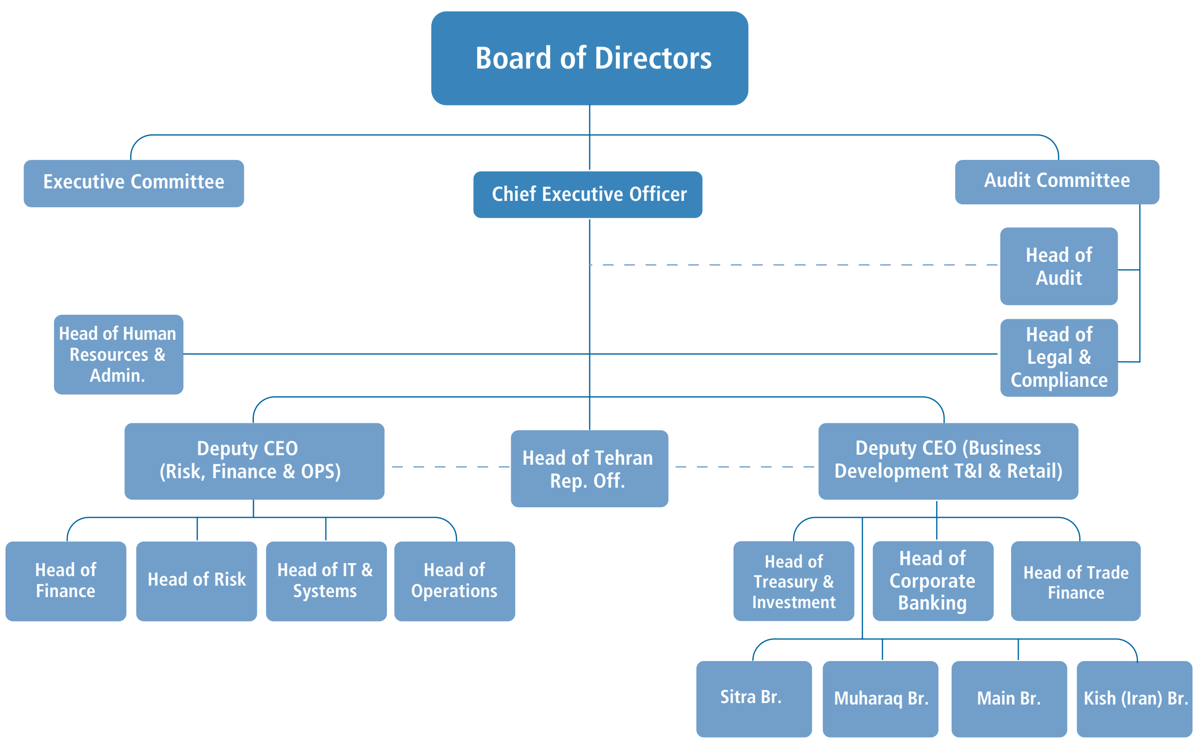
Senior Management Committee
Reviews and monitors progress on strategic initiatives, including regulatory, financial, operational and compliance issues.

Asset Liability Committee
Sets guidelines for the overall management of the liquidity risk & interest rate risk; determines the funding strategy of the bank in order to maximize net interest income at minimal risk.

Senior Credit Committee
Implements the Credit Policy as authorized by the Board inclusive of approval of the credit related proposals, renewal of facilities, business services and reviews new credit related products.

Risk Management Committee
Oversees the implementation, interpretation and follow up of the risk policy & establishes guidelines for all lending activities to promote a sound risk culture within the bank.

Information Technology Committee
Reviews and manages the overall IT strategy, with a focus on the projects under implementation and provides a forum for user-IT interface.



MAJOR SHAREHOLDERS, VOTING RIGHTS, AND DIRECTORS' INTERESTS

Major Shareholders (5% and above)

Name	Nationality	No. of Shares
Ahli United Bank	Bahraini	40,000,000
Bank Saderat Iran	Irani	40,000,000
Bank Melli Iran	Irani	40,000,000

Distribution schedule of each class of equity security, setting out the number of holders and percentage in the following categories:

Categories	No. of Shares	No. of Shareholders	% of Outstanding Shares
Less than 1%	------	------	------
1% up to less than 5%	------	------	------
5% up to less than 10%	------	------	------
10% up to less than 20%	------	------	------
20% up to less than 50%	120,000,000	3	100
50% and above	------	------	------
Total	**120,000,000**	**3**	**100**

Class of Equity

Class Type	No. of Holders	Voting Rights
Ordinary Shares 120,000,000	3	120,000,000

Directors' Interest and Details of Shareholding by Directors and their related parties:

None of the Directors' or their related parties had any shareholding in the Bank as at 31 December, 2007

"The future belongs to those who see possibilities before they become obvious."

Kahlil Gibran

2007 has been quite a year of reflection, considering that the environment within which the bank functioned continued to be highly volatile. The Bank has managed to not only increase its profitability from USD 16.0 mm to USD 23.5 mm , a growth of 46.9% over the previous year, but has fared well to sustain its business with its loyal customers and increase its Balance sheet size by 30%, from USD 1.0 billion to USD 1.3 billion. We consider this to be a significant accomplishment, considering the Bank's relatively short operating history and the challenging and turbulent investment environment which it has faced in the recent years.

The Bank has adopted a new three-year strategic roadmap aimed at accelerating future growth prospects. Yearly roll-outs will ensure that the strategy is phased into implementation and that the Bank remains focused on augmenting its non-bank customer asset base. Aligned to the strategic goals set out by the Board of Directors, Future Bank successfully managed to increase its capital by USD 21 million through a rights issue at par to its existing shareholders. This decision was essentially based on the Bank's vision of achieving steady growth through meaningful and diversified investments.

Operating Environment

Globally, 2007 has been a year of introspection for the banking industry, the most important factor being sub-prime debt market lending, fears of a recession setting in the US economy, and the recent impact of sudden rate cuts announced to stall the economy from further slides. Closer to home, the recent and impending issue of whether to continue with the dollar peg, witnessed a significant impact on the banking sector.

With emerging markets doing well over all, and a boom being witnessed in the regional economies, the financial markets have seen a mixed flavour during the current financial year 2007. Future Bank acted prudently on all operational fronts in light of the challenges which the Bank faced amidst a volatile external environment. The Bank's management took charge of preparing a highly robust contingency plan aimed towards meeting any exigencies. Nonetheless, we will continue to work towards the realization of our expansion plans in the markets which we are targeting.

Operational Achievements

The Bank's target markets are experiencing steady growth contributing to the increase in the L/C Bills Discounting portfolio by nearly 288% and an increase in the Bank's loans & advances to customers' portfolio by 27%. Future Bank remained focused on targeting small and medium enterprises in Bahrain as well as large corporate entities.

Focused on improving its infrastructural credibility, the Bank updated its information and network security systems, embarking upon various measures aimed at attaining the ISO certification.
The Bank also revised, and wherever necessary re-engineered and documented all its operating procedures and policies in order to reduce its operational risk and streamline its operations to render improved services to its customers.

Within Bahrain, Future Bank continued to renovate its Branch network for increased visibility and customer convenience. We will shortly be welcoming customers into our newly relocated Branch in Muharraq.

The relocation of our Sitra Branch to a modern, well-designed and strategically located shopping centre is also well underway.

Enhancement related to reporting challenges have also been satisfactorily addressed with the induction of new IFRS statements, the adoption of Basel-II as required under the Risk Management framework and the provisioning of Centralized Credit documentation.

Furthermore, Future Bank continued to provide high-quality syndication facilities to corporate clients at competitive rates. The Bank's expertise in Syndicated loans boosted its capabilities and encouraged its participation in other prospective syndications. The Bank's BCP / DRP framework was also approved and implemented.

Corporate Banking

Future Bank's corporate banking strategy is based on the provision of comprehensive and customized financial solutions to the Bank's corporate customers, based primarily in Bahrain, the GCC and Iran. The Bank extends a wide range of corporate banking products including Bahraini Dinar and Foreign Currency Debt, Working Capital Credit, Structured Financing, along with Syndication and Transaction banking products and services.

The steady growth achieved during the year in providing high-quality syndication facilities to corporate enterprises in Iran at competitive rates has allowed the Bank to bolster its expertise in Syndicated loans. This in turn has provided an additional thrust to Future Bank's attractiveness to other prospective syndication participants.

Information Technology

Future Bank's commitment to deploying cutting edge technology witnessed numerous development and upgrades in the Bank's IT system and network.

The Bank integrated a new SWIFT network to ensure RTGS implementation. In addition, it also integrated its ATM Network, ensuring that all machines were made EMV compliant. Basic SMS applications with push and pull were implemented and introduced to customers in September 2007. Additional SMS services like fund transfer and utility bill payments are in the pipe line and will commence in due course.

Augmenting the Bank's network security, new firewall settings for securing the internal network from intruders were also implemented, along with an anti-virus system which has been upgraded to the Enterprise version, to support the Bank's entire PC and servers network. The network has also been re-structured to enable proper segmentation and control. These measures are aimed at securing ISO 27001 certification in IT security. Supporting the steady advances in effective technology deployment, Future Bank strengthened its IT team with the appointments of two additional specialists. The department's staff underwent various professional courses ranging from CISA and PMP Courses, to training sessions in the Core Banking system and Ms-Exchange.

Human Resources

Future Bank's ongoing plans for growth and development requisite the recruitment and retention of high-caliber professionals, to guide the course of the Bank's core activities. In recognizing human resources as valuable assets, the Bank continued to streamline its HR policy during the year.

Progress in this field included furthering the skills of employees, to enable them to adapt to the ever changing and growing requirements of the financial industry in general and the banking sector in particular.

Staff training and development initiatives were intensified with the establishment and implementation of best practice procedures towards all branch operations.

Corporate Governance

In order to maintain high standards of corporate governance, Future Bank's Corporate Governance policies are designed to strengthen the ability of the Board of Directors, which comprises 9 seasoned bankers with track records of outstanding achievements to supervise management performance and to enhance long term shareholder value.

The strength of the Board is founded upon the backgrounds, qualities, skills and experience of its members.

A Corporate Governance Policy was implemented to address various issues such as Conflict of Interest. A Group Accounting Manual was also prepared in tandem with an improved Credit Risk Policy along with a revised ALM policy, which ensured Future Bank's compliance to the new Basel-II requirements for Capital Adequacy. With regard to Investment banking services, the bank aims to become the intermediary of choice with top corporations listed on the regional stock exchanges.

Compliance and anti-money laundering

Compliance with regulatory and statutory requirements is an ongoing process. The Bank is aware of its responsibility in observing all regulatory provisions and best international practices related to its functioning. The Bank has an established Compliance Unit in keeping with the Central Bank of Bahrain (CBB) guidelines, which acts as a focal point for regulatory compliance and other best practice compliance principles.

Anti-money laundering measures

These form an important area of the function, in addition to areas of corporate governance, disclosure standards, adherence to best practices, and conflict of interest. The Bank has documented its Anti-Money Laundering procedures, which contain sound customer and due diligence measures, procedures for identifying and reporting suspicious transactions, and a programme for periodic awareness training to staff and record keeping. The Bank has also taken numerous other initiatives in keeping with Comprehensive Anti-Money Laundering Regulations issued by CBB.

The Bank's anti-money laundering measures are audited by independent external auditors every year, and their report is submitted to the Board Members as well as CBB.

We have established compliance and MLRO functions to ensure the timely implementation of local regulations, and also to meet CBB requirements as applicable. The Bank is committed to combating money laundering and implements all 'Prevention of Money Laundering Regulations' and other guidelines issued by CBB.

These regulations and guidelines are consistent with the revised FATF 49 recommendations.

Future Outlook

Looking ahead, Future Bank aligns its aims with the needs of its growing client-base. With a close study of the risks surrounding our target markets, we have prepared different contingency plans to minimize risks and safeguard the interests of our customers on par with the best banking practice.

Future Bank's foremost goal, beyond the types of business which the Bank engages in, remains focused on value creation. Throughout the course of the past year, and despite the numerous challenges which it faced, the Bank has successfully generated value for its shareholders and customers, by offering unique products suited to their end needs. We firmly believe that only competition will serve to drive this industry forward and enable further growth. Future Bank is fully geared to play a stellar role, and confident that it will continue to succeed in this extremely competitive industry.

Dr. Valiollah Seif
Chief Executive Officer & Managing Director

Risk Management encompasses the identification, measurement, monitoring and control of all the financial and non financial risks which the Bank is potentially exposed to. It is based on the understanding that although risk cannot be eliminated, it can be effectively controlled and mitigated. This process requisites the continuous monitoring of political, economic and market conditions, along with the creditworthiness of the Banks' counterparts. Focused on achieving these objectives, the Bank has decided to adhere to the best management practices, as supported by the most skilled and experienced professionals and the most appropriate technological means.

The Board of Directors of the Bank assumes ultimate responsibility for the Risk Management function through a comprehensive set of policies and strategies which are subject to periodic review. The Board defines the risk appetite of the Bank through such policies and strategies which ultimately provide necessary direction and framework for all activities undertaken by the Bank. The Senior Management, under the direct supervision of the Board is responsible for establishing procedures for implementation of the policies and strategies.

The risk function at Future Bank was formalized in September 2005. Within a short span, the Bank successfully advanced into various areas of risk management. During the year 2007 the bank enhanced the risk management function, by formally introducing a Risk Charter which lays down the overall framework of strategies, infrastructure, policies and procedures. It also summarizes the committee structure adopted by the bank for Management of Risk. The Risk Management Committee (RMC) set up with the representation of senior management, reports to the Board of Directors. The Committee is chaired by the CEO and is responsible for the implementation, interpretation and follow-up of the risk policies. The Terms of reference of the committee broadly include the implementation of all policies relating to management of Credit, Market and Operational Risk on an ongoing basis.

The Risk Management Department (RMD) is responsible for the day-to-day management of risk which includes maintenance of various limits, monitoring of the limits, reporting all excesses and anomalies to the RMC and following up with the respective front office representatives for regularization.

Routine internal audits are utilized to assess whether or not the policies and procedures are complied with and if necessary, to suggest ways of improving internal controls.

The risks associated with Future Banks' business are broadly categorized into credit, market, liquidity and operational risks. These are detailed in the following sections.

Credit Risk

Credit risk encompasses the potential financial loss arising from counterpart default or counterpart failure to perform as per agreed terms. The objective of Credit Risk Management is to ensure that all credit exposures are undertaken and managed within the parameters defined in the credit risk policy and that the risk reward relationship is maintained. In December 2007, the Bank adopted a comprehensive Credit Risk Policy. All of the Bank's Credit activities are guided by a set of principles as described in this policy document and are managed through a set of procedures laid down in the same document.

The Credit approval process follows the well accepted principle of joint signature under which the Credit application is generated by the front office and is independently commented upon by a representative of the Risk Department before it is forwarded to the Credit Committee. The approval levels are well defined with clear delegations in terms of amount and tenor. In case of relatively risk free exposures such as cash collateralized loans, sub delegations are permitted under the policy.

The Bank has adopted an elaborate rating system with equal weightage to quantitative and qualitative factors. Rating is mandatory for all credit decisions. The Bank's entire portfolio has been segregated into three broad categories, namely the investment grade assets, the judgmental grade and the classification grade assets, which equate to Non Performing Assets.

Limits are also enforced to monitor various credit concentrations by counterpart / group, country, sector, ratings, etc. The responsibility for day-to-day monitoring of individual borrowers or counterparty exposures lies with the respective business unit. The Credit Administration unit ensures that credit facilities are released following proper approval and against proper documentation. The Credit Monitoring and Control unit ensures that limits and other parameters such as interest rates and covenants are properly maintained in the system and any deviations are promptly reported to the Risk Department. It also monitors past dues, expired credits, amongst other exceptions.

A remedial unit is in place to manage, resolve cases and follow up on difficult loans. The Bank follows IAS 39 guidelines for making provisions in regards to its impaired assets. All provisions are recommended by the Risk Department and approved by the Risk Committee.

The Bank has adopted the standardized approach for capital computation under Credit Risk.

Liquidity, Interest & Currency Risk (Banking Book)

Liquidity risk is the risk of Bank failing to meet its commitments, unless it raises funds at unreasonable prices, or is forced to sell its assets at an unfair price. It arises out of a funding mismatches.

At Future Bank the liquidity and interest rate risks are managed through the mechanism of the Asset Liability Committee (ALCO). The Bank uses the maturity ladder (time buckets) approach for managing its liquidity. For interest rate risks the Bank considers the interest reset dates. The limits for each time bucket on the maturity ladder, the cumulative outflow of cash for each time bucket and limits on each gap as approved by the Board are reviewed and monitored by ALCO. It is the Banks policy to keep its assets in high quality liquid assets such as inter-bank placements to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals. A substantial portion of the Banks deposits are made up of retail, current and fixed deposit accounts which, although payable on demand or at short notice, have traditionally formed part of a stable deposit base and serve as a source of stable funds.

Currency risk takes into consideration how the value of a financial instrument will fluctuate in the face of changing foreign exchange rates. As the Bahraini Dinar is pegged to the US Dollar, the currency risk is minimized. As a policy the Bank is not undertaking any open positions.

The Bank does not have trading portfolios and is therefore not exposed to interest and / or currency risks on that count. The Treasurer is responsible for the day-to-day management of liquidity, interest and FX risk arising in the banking book and reports directly to the Senior Management and ALCO.

Market Risk

Market Risk is defined as the risk of potential losses in the on balance sheet and off balance sheet positions, arising out of adverse movements in interest rates, equity prices, exchange rates, commodity prices and derivatives. This risk arises from the Asset –Liability mismatch, changes in yield curve and offsets in the volatilities of the market value of derivatives.

The magnitude of market risk carried on the Balance sheet is minimal. At present the Bank does not trade in foreign exchange for its own account, nor does it carry open positions except for its nostros. The Bank also refrains from trading in commodities.

The Bank currently holds no trading portfolio and therefore for the time foresees no need for the application of VaR techniques. The Bank has invested specified amounts in Iranian Government Bonds and has adopted a cut-loss policy to prevent any loss arising from the possible depreciation of the Iranian Rial. The Bank is however indirectly exposed to loss on account of the depreciation of Iranian Rial, as it has granted loans designated in Bahraini Dinars in Bahrain, against Iranian Rial deposits pledged in Iran. The exchange risk is being monitored on a regular basis. In Bahrain, the Bank is indirectly exposed to the Real Estate sector as major portions of its lending portfolio in Bahrain are secured by real estate mortgages.

The Bank is indirectly exposed to Market Risk in Iranian equities as a major portion of its offshore Credit portfolio is secured by listed Iranian stocks. A policy is in place to diversify this risk into various stocks to avoid concentrations and obtain adequate cushioning to protect against possible price falls, regular monitoring, with top-up and sell down thresholds.

Operational Risk

Operational risk addresses the risk of direct or indirect loss resulting from failed processes, technology, personnel or external events. It includes reputation risk. The Bank has implemented Standard Operating procedures which comply with the highest Internal Control standards. In the process, all activities have been segregated into back-office and front-office categories in accordance with international best practices.

The IT processes were re-engineered and streamlined through an ISO audit. The Bank's MIS framework is being fortified with particular emphasis on exception management. The Internal Audit Department is considered the final authority on Internal Control and reports directly to the Board of Directors.

A Business Continuity plan is in place to ensure the continuity of essential services to customers in the face any calamity which could result in the disruption of normal business activity. Similarly, a disaster recovery plan is also in place. The Bank has set up a disaster recovery site at one of its branches to ensure back-up.

An operational risk management policy framework has also been adopted to define key operational risk areas, key control standards and key risk indicators in line with the Basel II recommendations. The Bank currently follows the basic indicator approach for operational risk. The operational risk sub committee is in charge of the implementation of the operational risk policy and reports to the RMC.

Deposit Protection Scheme

Deposits held with the Bank are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board. No liability is due until one of the member commercial banks associated with the scheme is unable to meet its deposit obligations.

> “For tomorrow belongs to the people who prepare for it today.”
>
> Confucius

Income Statement

Future Bank's strong operating performance has resulted in a record net profit of USD 23.5 million, registering an increment of 46.9 per cent over last year's net profit of USD 16.0 million. This exemplary growth is primarily attributed to the strong revenue growth witnessed by the Bank across all of its major business banking activities. Consequently, the Return on Average Equity increased from 14.1 per cent in the previous year to 17.9 per cent in 2007.

Net Operating Income grew by 41.7 per cent from USD 21.5 million to USD 30.5 million. This robust financial performance reflected the Bank's continued growth across all principal business activities. The significant year-on-year increase in the Bank's profitability was attributable to increases in both interest and non-interest earnings, with containment over the growth in expenses during the year.

The Bank saw its Net Interest income rise by USD 10.4 million as compared to the previous year. This accounted for an increase of 52.1 per cent which was achieved despite the increase in the interest expense during the year. The increase in the interest earnings was principally due to a significantly higher Bill discounting portfolio under the Bank's risk and higher loan volumes, related in particular to Iranian projects and international syndicated financing.

Although the year commenced with the FED increasing its benchmark rates consistently over the first half of the financial year, the recent slash in interest rates by the FED signifies that there are appreciable down side risks to growth.

Prudent use of liquidity positions and the deployment of net available funds were mainly responsible for the maintenance of the net interest margin at 2.2 percent, as compared to 2.5 per cent in the previous year.

Fees and commission income once again nearly doubled over the previous year, mainly due to commission income earned on the trade finance portfolio, new syndication deals carried out by Bank with companies based in Iran, and a few corporate deals finalized within Bahrain with major corporate clients. This resulted in the Fee income rising from USD 0.60 million to USD 1.4 million. Together with foreign exchange profits, the Bank's non-interest income during 2007 represented a contribution of 8.3 per cent (USD 2.7 million) to total income, as compared to 7.5 per cent (USD 1.6 million) in the previous year.

Although the Bank's operating expenses increased from USD 5.5 million to USD 6.9 million, for a comparative 26.7 per cent increase over the previous year, they were mainly allocated to the rising costs related to staffing the Bank's operations. The Cost to Income ratio was further improved to 21.0 per cent in 2007 from 25.4 per cent in the previous year and was notably one of the lowest in the industry - a true testament to the Bank's increased operational efficiency and increased ability to contain revenue expenditures.

The Bank follows the International Accounting Standard (IAS) 39 for the provisioning requirements of its non-performing portfolio. The Bank significantly increased its provision requirements during the year and has made a collective impairment provision of USD 2.2 mm towards a healthier and a stronger Balance sheet. Consequently the ratio of total provisions to non performing loans as of year-end 2007 was significantly higher at 73.7% when compared to 66.1% as recorded in the previous year. The Bank holds significant assets as collateral in regards to many of these facilities.

Balance Sheet

The Bank's balance sheet has grown from USD 1016.1 million to USD 1321.2 million. This represents an increase of 30 per cent in the Bank's total assets and is attributable mainly to the significant growth which the Bank achieved in its Loans & Advances portfolio and the Bills under the Banks' portfolio.

> "Life is a series of progressions with the future; it is not the sum of what we have been, but what we yearn to be. Better."
>
> Sir Francis Bacon

In 2007 the bank successfully managed to increase its Share Capital by USD 21 million through a rights issue at par to its existing shareholders. The decision to increase the Bank's capital was essentially based on our strategic vision of achieving steady growth by making larger diversified investments in both regional and international markets, in addition to complying with Capital Adequacy standards towards the new Basel-II requirement.

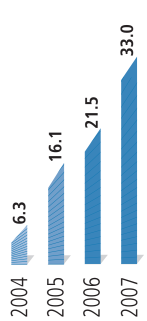
During the year, the Bank also adopted a flexible approach to its asset mix which was instrumental in yielding higher returns. The Bank's asset allocation model has moved away from the Interbank market to the more lucrative Bills discounted under the Bank's portfolio which now comprises of almost 32.4 per cent of its Balance sheet at the year-end, up from 10.8 per cent in the previous year.

Net loans and advances to customers rose by USD 47 million registering an increase of 27.1 percent during the year, as compared to previous years, owing mainly to the surge in corporate lending, and the Bank's participation in international Syndicated deals with Iranian based companies. Net Loans and Advances comprised 17.0 per cent of the Bank's total assets, compared to a similar percentage in the previous year, whilst the Inter-bank portfolio now comprises 35.9 per cent of the Bank's total assets, compared to 68.1 per cent in the previous year.

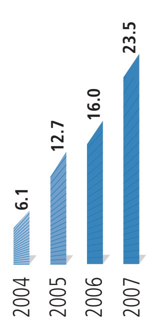
A sum of USD 26.9 million comprised specific investments which the Bank made in high yielding Iranian Bonds. These investments are classified under the "Held to Maturity" (HTM) category as per IAS 39.

Inter-bank deposits form major sources of funding for the Bank towards its Inter-bank portfolio. The ratio of Inter-bank deposits to total liabilities and the shareholders fund stood at 73.5 per cent, as compared to 72.9 per cent in the previous year. For the year ended 2007, the loans to customer deposit ratio including Medium Term facilities availed by the Bank, stood at 98.9 per cent, compared to 99.2 per cent in the previous year to reflect better utilizations.

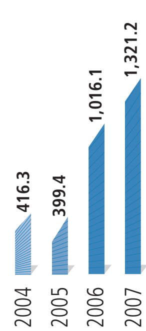
Equity before appropriation increased to USD 154.4 million at the end of 2007, up from USD 121.8 million at the end of the previous year. Equity to Total assets accounted for 11.7 per cent of the Total assets of the Bank, as compared to 12.0 per cent in the previous year. The Bank's Capital adequacy ratio sufficiently improved from 15.7 per cent in the previous year to 20 per cent, which is significantly high when compared to the minimum requirement of 12 per cent, as prescribed by the Central Bank of Bahrain (CBB) for banks operating in Bahrain. This increase was partly due to the fresh infusion of Capital by its existing shareholders to the extent of USD 21 million, contributed in equal proportion by its existing shareholders. The above ratio is based on the guidelines issued by the CBB which are in line with those issued by the Basel committee for measuring risk weighted assets.



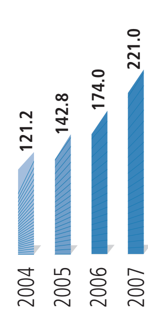
Total Income (USD Millions)



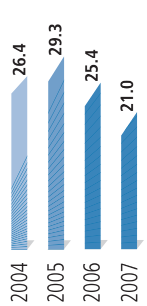
Net profit (USD Millions)



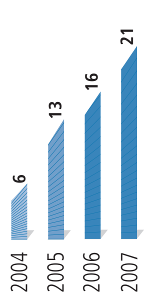
Total assets (USD Millions)



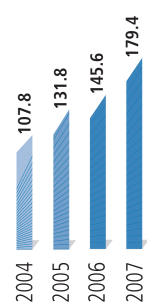
Loans & Advances (USD Millions)



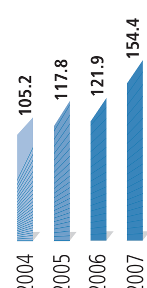
Cost / Income (Percent)



Earning per share (cents)



Customer deposits (USD Millions)



Shareholder's equity (USD Millions)

AUDITORS' REPORT TO THE SHAREHOLDERS OF FUTURE BANK B.S.C. (c)

We have audited the accompanying financial statements of Future Bank B.S.C. (c) ("the Bank"), which comprise the balance sheet as at 31 December 2007 and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Director's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the financial statements and the content of the chairman's report relating to these financial statements are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law nor of the memorandum of articles of association of the Bank have occurred during the year ended 31 December 2007 that might have had a material adverse effect on the business of the Bank or on its financial position and that the Bank has complied with the terms of its banking license.

Ernst & Young

24 February 2008
Manama, Kingdom of Bahrain

FINANCIAL STATEMENTS 2007

STATEMENT OF INCOME

Year ended 31 December 2007

	Note	2007 USD'000	2006 USD'000
Interest and similar income	5	77,859	42,919
Interest expense and similar charges	6	47,541	22,992
Net interest income		30,318	19,927
Fees and commissions - net	7	1,431	599
Net gains arising from dealing in foreign currencies		1,118	651
Loss on disposal of equipment		-	(10)
Other operating income		206	381
		2,755	1,621
OPERATING INCOME		33,073	21,548
Provision for loan losses - net	10	2,610	60
NET OPERATING INCOME		30,463	21,488
Staff expenses		4,361	3,203
Depreciation		379	252
Other operating expenses		2,207	2,025
OPERATING EXPENSES		6,947	5,480
NET PROFIT FOR THE YEAR		23,516	16,008

The attached notes 1 to 31 form part of these financial statements.

At 31 December 2007

	Note	2007 USD'000	2006 USD'000
ASSETS			
Cash and balances with central banks	8	137,833	8,404
Due from banks	9	903,950	802,164
Loans and advances to customers	10	221,026	174,008
Non-trading investments	11	26,984	14,596
Other assets	12	15,638	5,569
Property and equipment	13	5,268	936
Goodwill		10,455	10,455
TOTAL ASSETS		1,321,154	1,016,132
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		927,728	711,657
Medium term loan	14	44,118	30,000
Customers' deposits	15	179,444	145,643
Other liabilities	16	15,488	6,972
Total liabilities		1,166,778	894,272
EQUITY			
Share capital	17	120,000	99,000
Statutory reserve	18	5,839	3,487
Retained earnings		13,537	7,373
Proposed dividend	19	15,000	12,000
Total equity		154,376	121,860
TOTAL LIABILITIES AND EQUITY		1,321,154	1,016,132

(Chairman)

(CEO & Managing Director)

The attached notes 1 to 31 form part of these financial statements.

Year ended 31 December 2007

	Note	2007 USD'000	2006 USD'000
OPERATING ACTIVITIES			
Profit for the year		23,516	16,008
Adjustments for:			
Depreciation		379	252
Provision for loan losses - net	10	2,610	60
Loss on disposal of equipment		-	10
Operating profit before changes in operating assets and liabilities		26,505	16,330
Changes in operating assets and liabilities:			
Mandatory reserve deposit with Central Bank of Bahrain		(2,201)	(1,804)
Due from banks		(210,729)	14,801
Loans and advances to customers		(49,628)	(31,256)
Other assets		(8,979)	(2,949)
Due to banks		216,071	565,205
Customers' deposits		33,801	13,745
Other liabilities		8,516	3,766
Net cash from operating activities		13,356	577,838
INVESTING ACTIVITIES			
Purchase of non-trading investments		(23,917)	(14,569)
Proceeds from maturity of non-trading investments		11,529	-
Purchase of property and equipment		(4,711)	(397)
Proceeds from disposal of equipment		-	2
Net cash used in investing activities		(17,099)	(14,964)
FINANCING ACTIVITIES			
Proceeds from issue of share capital		21,000	-
Medium term loan raised		44,118	30,000
Medium term loan repaid		(30,000)	-
Dividend paid		(12,000)	(12,000)
Net cash from financing activities		23,118	18,000
INCREASE IN CASH AND CASH EQUIVALENTS		19,375	580,874
Cash and cash equivalents at the beginning of the year		685,686	104,812
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	20	705,061	685,686

The attached notes 1 to 31 form part of these financial statements.

Year ended 31 December 2007

	Share capital USD'000	Statutory reserve USD'000	Retained earnings USD'000	Proposed dividend USD'000	Total USD'000
Balance at 1 January 2006	99,000	1,886	4,966	12,000	117,852
Dividend paid during the year (note 19)	-	-	-	(12,000)	(12,000)
Net profit for the year - 2006	-	-	16,008	-	16,008
Transfer to statutory reserve (note 18)	-	1,601	(1,601)	-	-
Proposed dividend (note 19)	-	-	(12,000)	12,000	-
Balance at 31 December 2006	99,000	3,487	7,373	12,000	121,860
Issue of share capital (note17)	21,000	-	-	-	21,000
Dividend paid during the year (note 19)	-	-	-	(12,000)	(12,000)
Net profit for the year - 2007	-	-	23,516	-	23,516
Transfer to statutory reserve (note 18)	-	2,352	(2,352)	-	-
Proposed dividend (note 19)	-	-	(15,000)	15,000	-
Balance at 31 December 2007	120,000	5,839	13,537	15,000	154,376

The attached notes 1 to 31 form part of these financial statements.

1 ACTIVITIES

Future Bank B.S.C. (c) ("the Bank") is a closed Bahrain Joint Stock Company incorporated on 1 July 2004 when the Bank acquired the Bahrain commercial branches of Bank Melli Iran (BMI) and Bank Saderat Iran (BSI) and the offshore banking unit of BSI. The Bank operates in the Kingdom of Bahrain under a retail banking license issued by the Central Bank of Bahrain and is engaged in commercial banking activities. The Bank has three branches in Bahrain and has obtained regulatory approval for opening a branch in Kish Island in the Islamic Republic of Iran. The address of the Bank's registered office is PO Box 785, Manama, Kingdom of Bahrain.

The financial statements for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the directors on 24 February 2008.

2 BASIS OF PREPARATION

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

Accounting convention

The financial statements are prepared under the historical cost convention modified for measurement at fair value of derivatives. The financial statements have been presented in US Dollars being the functional currency of the Bank, and all values are rounded to the nearest thousand (US$) except when otherwise indicated.

During the year the Bank adopted IFRS 7 Financial Instruments: Disclosures and consequent amendments to IAS 1 – Capital Disclosures which has resulted in amended and additional disclosures regarding financial instruments and associated risks and capital management.

Standards Issued but not adopted

The Bank has not adopted the revised IAS 1 "Presentation of Financial Statements" which will be effective for the year ending 31 December 2009. The application of this standard will result in amendments to the presentation of the financial statements.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Bank's accounting policies, management has used its judgment and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Impairment losses on loans and advances

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to such allowance.

Collective impairment provisions on loans and advances

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income .

Financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially measured at their fair value plus, any directly attributable incremental costs of acquisition or issue.

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on trade date, i.e. the date that the Bank commits to purchase or sell the asset.

(ii) Held-to-maturity investments

Held-to-maturity investments are those which carry fixed or determinable payments and fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the statement of income. The losses arising from impairment of such investments are recognised in the statement of income.

(iii) Loans and advances

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. This accounting policy relates to the balance sheet captions 'Due from banks' and 'Loans and advances to customers'. After initial measurement, the loans and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such loans and advances are recognised in the income statement in 'Provision for loan losses'.

(iv) Derivatives

Derivatives represent forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negatives. Changes in fair value of derivatives held for trading are included in the statement of income.

(v) Medium term loan

Medium term loan is stated at amortised cost using the effective interest rate method.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Fair value

For investments quoted in an active market, fair value is calculated by reference to quoted bid prices. The fair value of forward exchange contracts is calculated by reference to forward exchange rates with similar maturities.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, any impairment loss, is recognised in the statement of income.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account and the corresponding amount recognised in the statement of income. If a future write-off is later recovered, the recovery is credited to the 'Provision for loan losses - net'.

Impairment is determined as follows:

(a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate;

(b) for assets carried at fair value, impairment is the difference between cost and fair value; and

(c) for assets carried at cost, impairment is based on present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet, if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and similar income

For all financial instruments measured at amortised cost, interest-income or expense is recorded at the effective interest rate.

(ii) Fee and commission income

Credit origination fees are treated as an integral part of the effective interest rate of financial instruments and are recognised over their lives, except when the underlying risk is sold to a third party at which time it is recognised immediately. Other fees and commission income are recognised when earned.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated using the straight-line method to write down the cost of equipment to their residual values over their estimated useful life of 5 years. Land is not depreciated.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognised.

Goodwill

Goodwill arising on acquisition is measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised, but reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit, to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits

The Bank provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Bank makes contributions to the General Organisation for Social Insurance calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with central banks (excluding mandatory reserve deposits), deposits with banks with original maturities of less than ninety days.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'provision for loan losses-net'. The premium received is recognised in the statement of income in 'Fees and commissions - net' on a straight line basis over the life of the guarantee.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of the new loan conditions. Once the term have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

5 INTEREST AND SIMILAR INCOME

	2007 USD'000	2006 USD'000
Loans and advances	39,517	24,124
Due from banks	35,054	18,012
Non-trading investments	3,288	783
	77,859	42,919

6 INTEREST EXPENSE AND SIMILAR CHARGES

	2007 USD'000	2006 USD'000
Due to banks	38,588	16,595
Customers' deposits	7,794	6,341
Medium term loan	1,159	56
	47,541	22,992

7 FEES AND COMMISSIONS - NET

	2007 USD'000	2006 USD'000
Fee and commission income	1,481	662
Fee and commission expense	(50)	(63)
	1,431	599

8 CASH AND BALANCES WITH CENTRAL BANKS

	2007 USD'000	2006 USD'000
Cash	982	770
Current account with the Central Bank of Bahrain	313	589
Mandatory reserve deposit with the Central Bank of Bahrain	8,156	5,955
Time deposit with the Central Bank of Bahrain	128,382	-
Deposit with the Central Bank of Iran	-	1,090
	137,833	8,404

Mandatory reserve deposit is not available for use in the day-to-day operations of the Bank.

9 DUE FROM BANKS

	2007 USD'000	2006 USD'000
Placements	475,365	691,828
Loans and advances	428,585	110,336
	903,950	802,164

10 LOANS AND ADVANCES TO CUSTOMERS

	2007 USD'000	2006 USD'000
Retail	20,609	16,161
Corporate	209,430	163,760
	230,039	179,921
Less: Provision for loan losses	(6,088)	(3,549)
Suspended interest	(2,925)	(2,364)
	221,026	174,008

The movements in provision for credit losses were as follows:

	2007			2006		
	Retail USD'000	Corporate USD'000	Total USD'000	Retail USD'000	Corporate USD'000	Total USD'000
At 1 January	1,306	2,243	3,549	1,168	2,812	3,980
Charge for the year	95	2,626	2,721	223	154	377
Recoveries	(66)	(45)	(111)	(59)	(258)	(317)
Net provision	29	2,581	2,610	164	(104)	60
Amounts written off	(51)	(20)	(71)	(26)	(465)	(491)
At 31 December	1,284	4,804	6,088	1,306	2,243	3,549
Individual provision	1,284	2,565	3,849	1,306	2,243	3,549
Collective provision	-	2,239	2,239	-	-	-
Total provision	1,284	4,804	6,088	1,306	2,243	3,549
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	3,615	8,620	12,235	3,400	5,547	8,947

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2007 amounts to USD 19.69 million (2006: USD 13.41 million). The collateral consists of cash, securities, letters of guarantee from banks and properties.

11 NON-TRADING INVESTMENTS

Non-trading investments include USD 26.96 million (2006: USD 14.57 million) of Iranian Government bonds of which investments of USD 23.94 million mature within one year of the balance sheet date. The balance mature in 2010. These are designated by the Bank as 'held-to-maturity' and are stated at amortised cost.

12 OTHER ASSETS

	2007 USD'000	2006 USD'000
Interest receivable	14,604	5,054
Sundry debtors and prepayments	1,022	485
Other	12	30
	15,638	5,569

13 PROPERTY AND EQUIPMENT

Property and equipment include freehold land purchased during the year of USD 3.4 million for construction of the Bank's new head office premises. No commitments in connection with the new premises had been entered into at the year end.

14 MEDIUM TERM LOAN

During the year the Bank prepaid its medium term loan from Melli Bank plc, a related party, of USD 30 million that existed as of 31 December 2006.

In December 2007 the Bank raised a medium term loan from Bank Saderat Iran, a related party, amounting to Euro 30 million (USD 44 million). The medium term loan is repayable in 2010 and carries effective annual interest rate of LIBOR + 25 basis points.

15 CUSTOMERS' DEPOSITS

	2007 USD'000	2006 USD'000
Current and call accounts	22,041	20,929
Savings	11,885	11,276
Term deposits	145,518	113,438
	179,444	145,643

16 OTHER LIABILITIES

	2007 USD'000	2006 USD'000
Interest payable	9,990	4,429
Staff related accruals	1,351	763
Accounts payable	1,937	944
Other	2,210	836
	15,488	6,972

17 SHARE CAPITAL

	2007 USD'000	2006 USD'000
Authorised:		
200 million (2006 : 200 million) ordinary shares of USD 1 each	200,000	200,000
Issued and fully paid:		
120 million (2006 : 99 million) ordinary shares of USD 1 each	120,000	99,000

In the Extraordinary General Assembly of Shareholders' Meeting held on 25 April 2007, the shareholders approved the increase of the Bank's issued share capital from USD 99 million to USD 120 million. The increase was subscribed to equally by the Bank's shareholders.

18 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equates to 50% of the paid up share capital. This reserve is non distributable, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

19 DIVIDEND PROPOSED AND PAID

	2007 USD'000	2006 USD'000
Dividend paid during the year:		
Final dividend for 2006 - US Cents: 0.121 per share (for 2005: US Cents: 0.121 per share)	12,000	12,000
Dividend proposed during the year:		
Proposed dividend for 2007 - US Cents: 0.125 per share (for 2006: US Cents: 0.121 per share)	15,000	12,000

20 CASH AND CASH EQUIVALENTS

	2007 USD'000	2006 USD'000
Cash and balances with the Central Bank of Bahrain excluding mandatory reserves	129,677	1,359
Due from banks with an original maturity of less than ninety days	575,384	684,327
	705,061	685,686

21 RELATED PARTY TRANSACTIONS

Related parties represent shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Bank's management.

The balances of related parties included in the financial statements were as follows:

	2007 USD'000	2006 USD'000
Placements with shareholders (included in due from banks in the balance sheet)	444,268	443,940
Loans and advances to shareholders (included in due from banks in the balance sheet)	252,523	38,363
Loans to group entities of shareholders (included in loans and advances)	34,000	30,000
Deposits from shareholders (included in due to banks in the balance sheet)	9,460	11,939
Medium term loan	44,118	30,000

The income and expenses in respect of related parties included in the statement of income are as follows:

	2007 USD'000	2006 USD'000
Interest income	34,532	19,932
Interest expense	956	1,706

Compensation of the Directors and key management personnel is as follows:

	2007 USD'000	2006 USD'000
Salaries and allowances	1,394	711
End of service benefits	72	30
Total compensation paid to Directors and key management personnel	1,466	741

22 DERIVATIVES

	2007 USD'000	2006 USD'000
Foreign exchange purchase contracts	-	15,794
Foreign exchange sale contracts	-	14,968

23 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Bank's customers.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Bank to make payments on behalf of customers.

The Bank has the following credit related commitments:

	2007 USD'000	2006 USD'000
Commitments on behalf of customers:		
Acceptances	2,266	776
Letters of credit	22,590	2,178
Guarantees	8,822	3,966
	33,678	6,920

24 CAPITAL ADEQUACY

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The risk asset ratio, calculated in accordance with the capital adequacy guidelines approved by the Central Bank of Bahrain, for the Bank is as follows:

	2007 USD'000	2006 USD'000
Capital base:		
Tier 1 capital	130,860	105,852
Tier 2 capital	25,755	16,008
Goodwill	(10,455)	(10,455)
Total capital base (a)	146,160	111,405
Risk weighted assets (b)	731,864	707,958
Capital adequacy (a/b * 100)	20%	16%
Minimum requirement	12%	12%

25 RISK MANAGEMENT

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operational risk.

Risk management framework

The risk management framework is summarised through the risk charter of the Bank which was approved by the board of directors in December 2007. The objective of risk charter is to define the board framework consisting of policies and procedures for management of credit, operational, market and liquidity risk. It also defines the roles and responsibilities of various committees, such as board, executive committee, management committee, risk committee, and the risk management department. The board of directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of directors

The board of directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive committee

The executive committee is responsible for evaluating and approving business and risk strategies, plans and policies of the Bank.

Audit committee

The audit committee is responsible for ensuring the Bank's internal controls and systems are properly tested. The audit committee is also responsible for ensuring that Bank meets various regulatory guidelines and undertakes continuous disclosure in line with the accounting and regulatory standards.

Risk management committee

The risk management committee has overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk decisions. There is an operational risk sub committee to monitor operational risk.

Risk management department

The risk management department is responsible for implementing and maintaining risk related procedures to ensure independent reporting and control processes exist.

Asset liability management committee

The asset liability management committee (ALCO) is the management's governing committee mainly responsible for market and liquidity risks pertaining to on balance sheet and off balance sheet items by optimising liquidity constraints, profitability expectations, foreign exchange exposures, income and asset volatility and capital adequacy requirements.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the board of directors, the risk committee, and the head of each business division. The report includes aggregate credit exposure, analysis of lending portfolio by sectors, ratings and security as well as country exposure. The liquidity and interest rate risk related ratios are reported and discussed in the monthly ALCO meetings. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board receives a comprehensive overview through the minutes of the risk meetings which are placed for information of the Board. In addition the ten largest watch listed borrower accounts and the ten largest non-performing borrower accounts are reported to the Board at each meeting with the status of follow up in each case.

Risk mitigation

Significant risk mitigation techniques are applied in the area of credit. The Bank actively uses collateral to reduce its credit risks.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending in Bahrain, charges over real estate properties; and
- For lending outside Bahrain (mainly Iran) collateral of shares listed on the Tehran stock exchange.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

26 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank manages credit risk by setting limits for individual borrowers, and groups of borrowers and for geographical and industry segments. The Bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, (refer note 25) enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

(a) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral .

	Gross maximum exposure 2007 USD'000	Gross maximum exposure 2006 USD'000
Balances with central banks	136,851	7,634
Due from banks	903,950	802,164
Loans and advances to customers	221,026	174,008
Non-trading investments	26,957	14,569
Other assets	14,616	5,084
Total on balance sheet exposures	1,303,400	1,003,459
Contingent liabilities and commitments	33,678	6,920
Total credit risk exposure	1,337,078	1,010,379

26 CREDIT RISK (continued)

(b) Risk concentrations of the maximum exposure to credit risk

The distribution of assets (excluding goodwill), liabilities, and off-balance sheet items by geographic region and industry sector was as follows:

	2007			2006		
	Assets USD'000	Liabilities USD'000	Credit commitments USD'000	Assets USD'000	Liabilities USD'000	Credit commitments USD'000
Geographic region:						
Domestic (Bahrain)	273,431	194,931	12,897	337,324	159,801	6,920
Other Middle East countries	1,024,538	971,784	10,161	474,467	673,529	-
Europe	12,510	16	10,620	193,764	60,895	-
Asia, North America and Rest of the World	220	47	-	122	47	-
	1,310,699	1,166,778	33,678	1,005,677	894,272	6,920
Industry sector:						
Trading and manufacturing	124,403	-	25,179	67,244	-	-
Banks and financial institutions	1,080,431	971,846	-	851,238	741,657	6,920
Construction and real estate	79,112	-	8,084	37,428	-	-
Other	26,753	194,932	415	49,767	152,615	-
	1,310,699	1,166,778	33,678	1,005,677	894,272	6,920

As at 31 December 2007, five (31 December 2006: five) largest customers accounted for 30% (31 December 2006: 43%) of the net loans and advances.

(c) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Bank's credit rating system.

	31 December 2007				
	Neither past due nor impaired				
	High grade USD'000	Standard grade USD'000	Past due but not impaired USD'000	Individually impaired USD'000	Total USD'000
Balances with central banks	136,851	-	-	-	136,851
Due from banks					
Placements	-	475,365	-	-	475,365
Loans and advances	-	428,585	-	-	428,585
Loans and advances					
Retail	1,535	15,125	334	3,615	20,609
Corporate	93,566	69,249	37,995	8,620	209,430
Non-trading investments	26,957	-	-	-	26,957
	258,909	988,324	38,329	12,235	1,297,797

	31 December 2006				
	Neither past due nor impaired				
	High grade USD'000	Standard grade USD'000	Past due but not impaired USD'000	Individually impaired USD'000	Total USD'000
Balances with central banks	7,634	-	-	-	7,634
Due from banks					
Placements	-	691,828	-	-	691,828
Loans and advances	-	110,336	-	-	110,336
Loans and advances					
Retail	1,825	7,497	3,439	3,400	16,161
Corporate	47,386	83,729	27,098	5,547	163,760
Non-trading investments	14,569	-	-	-	14,569
	71,414	893,390	30,537	8,947	1,004,288

(d) Aging analysis of past due but not impaired loans per class of financial assets

2007

	Less than 30 days USD'000	31 to 60 days USD'000	61 to 90 days USD'000	Total USD'000
Loans and advances				
Retail	226	29	79	334
Corporate*	16,773	14,635	6,587	37,995
	16,999	14,664	6,666	38,329

* The Bank has collected USD 12.73 million of the corporate loans past due for less than 30 days subsequent to the year end.

2006

	Less than 30 days USD'000	31 to 60 days USD'000	61 to 90 days USD'000	Total USD'000
Loans and advances				
Retail	637	422	2,380	3,439
Corporate	5,381	6,780	14,937	27,098
Total	6,018	7,202	17,317	30,537

The above past due loans and advances include those that are only past due by a few days.

(e) Carrying amount per class of financial assets whose terms have been renegotiated

	2007 USD'000	2006 USD'000
Loans and advances		
Retail	54	80
Corporate	784	716
Total renegotiated loans	838	796

27 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

27.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank's management believe that the Bank is not exposed to material interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities as the repricing of assets and liabilities occur at similar intervals.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates by major currencies, with all other variables held constant, of the Bank's statement of income. The Bank's equity is not sensitive to changes in interest rates as at 31 December 2007 and 2006 as the Bank has no available-for-sale investments.

	31 December 2007		31 December 2006	
	Increase in basis points USD'000	Impact on net interest income USD'000	Increase in basis points USD'000	Impact on net interest income USD'000
US Dollars	100	863	100	1,131
Bahraini Dinar	100	285	100	(37)
Euro	100	(39)	100	21
Iranian Rials	100	270	100	146

The impact of a similar decrease in basis points will be approximately opposite to the impact disclosed above.

27.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank views the US Dollar as its functional currency. As the Bahraini Dinar is pegged to the US Dollar, the currency risk is minimal. The Board has set limits on positions by currency. Positions are monitored on a daily basis and strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2007 and 2006. The analysis calculates the effect of a reasonably possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the statement of income. A negative amount in the table reflects a potential net reduction in statement of income, while a positive amount reflects a net potential increase.

Currency	Change in currency rate in % 2007	Effect on profit 2007 USD'000	Change in currency rate in % 2006	Effect on profit 2006 USD'000
Euro	10	(222)	10	(37)
Swiss Francs	10	51	10	192
Iranian Rials	3	816	3	444

28 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The Bank has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of Bahrain equal to 5% of customer deposits denominated in Bahraini Dinars. The Bank also maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consists of cash, short term bank deposits and liquid debt securities available for immediate sale, less deposits for banks and other issued securities and borrowings due to mature within the next month. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Bank's deposit retention history.

The maturity profile of management's best estimate of expected maturities of the assets and liabilities at 31 December 2007 was as follows:

	Up to 1 month USD'000	1 to 3 months USD'000	3 to 6 months USD'000	6 months to 1 year USD'000	1 to 3 years USD'000	Over 3 years USD'000	No fixed maturity USD'000	Total USD'000
Assets								
Cash and balances with central banks	129,677	-	-	-	-	-	8,156	137,833
Due from banks	450,611	124,371	140,988	187,980	-	-	-	903,950
Loans and advances	18,125	24,763	7,175	73,038	46,647	51,278	-	221,026
Non-trading investments	-	-	10,520	13,417	-	3,020	27	26,984
Other assets	9,970	2,843	2,825	-	-	-	-	15,638
Property and equipment	-	-	-	-	-	-	5,268	5,268
Goodwill	-	-	-	-	-	-	10,455	10,455
Total assets	608,383	151,977	161,508	274,435	46,647	54,298	23,906	1,321,154
Liabilities								
Due to banks	212,916	126,799	11,098	576,915	-	-	-	927,728
Medium term loan	-	-	-	-	44,118	-	-	44,118
Customers' deposits	13,710	13,113	-	-	152,621	-	-	179,444
Other liabilities	11,291	3,701	294	-	202	-	-	15,488
Total liabilities	237,917	143,613	11,392	576,915	196,941	-	-	1,166,778
Net liquidity gap	370,466	8,364	150,116	(302,480)	(150,294)	54,298	23,906	
Cumulative liquidity gap	370,466	378,830	528,946	226,466	76,172	130,470	154,376	

28 LIQUIDITY RISK (continued)

The maturity profile of management's best estimate of expected maturities of the assets and liabilities at 31 December 2006 was as follows:

	Up to 1 month USD'000	1 to 3 months USD'000	3 to 6 months USD'000	6 months to 1 year USD'000	1 to 3 years USD'000	Over 3 years USD'000	No fixed maturity USD'000	Total USD'000
Assets								
Cash and balances with central Banks	1,359	-	-	-	-	-	7,045	8,404
Due from banks	622,821	109,099	18,053	39,785	12,406	-	-	802,164
Loans and advances	10,140	13,825	2,658	40,527	88,638	18,220	-	174,008
Non-trading investments	-	2,344	-	9,185	-	3,040	27	14,596
Other assets	5,569	-	-	-	-	-	-	5,569
Property and equipment	-	-	-	-	-	-	936	936
Goodwill	-	-	-	-	-	-	10,455	10,455
Total assets	639,889	125,268	20,711	89,497	101,044	21,260	18,463	1,016,132
Liabilities								
Due to banks	200,261	125,472	-	385,924	-	-	-	711,657
Medium term loan	-	-	-	-	30,000	-	-	30,000
Customers' deposits	11,161	10,594	-	-	123,888	-	-	145,643
Other liabilities	6,770	-	-	-	202	-	-	6,972
Total liabilities	218,192	136,066	-	385,924	154,090	-	-	894,272
Net liquidity gap	421,697	(10,798)	20,711	(296,427)	(53,046)	21,260	18,463	
Cumulative liquidity gap	421,697	410,899	431,610	135,183	82,137	103,397	121,860	

28 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. Repayments which are subjected to notice are treated as if notice were to be given immediately.

Financial liabilities	On demand USD'000	less than 3 months USD'000	3 - 6 months USD'000	6 - 12 months USD'000	1 - 3 years USD'000	Total USD'000
As at 31 December 2007						
Due to banks	102,406	244,228	20,957	591,425	-	959,016
Medium term loan	-	537	510	964	47,752	49,763
Customers' deposits	13,710	14,117	1,848	2,772	161,860	194,307
	116,116	258,882	23,315	595,161	209,612	1,203,086
Contingencies and commitments	687	24,628	659	3,016	4,688	33,678
Total undiscounted financial liabilities	116,803	283,510	23,974	598,177	214,300	1,236,764
As at 31 December 2006						
Due to banks	147,702	537,078	355	30,722	-	715,857
Medium term loan	-	30,158	-	-	-	30,158
Customers' deposits	36,699	57,845	25,214	18,350	9,551	147,659
	184,401	625,081	25,569	49,072	9,551	893,674
Contingencies and commitments	5,543	-	55	-	1,322	6,920
Total undiscounted financial liabilities	189,944	625,081	25,624	49,072	10,873	900,594

29 LEGAL RISK AND CLAIMS

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Bank. The Bank has developed controls and procedures to identify legal risks and believes that losses will be avoided.

30 OPERATIONAL RISK

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and saving accounts without specific maturity and variable rate financial instruments.

The held to maturity investments mature within 12 months from the balance sheet date. Therefore the fair value of these investments approximate the carrying value.

The estimated fair values of other financial assets and financial liabilities are not materially different from their carrying values as stated in the balance sheet.