مصرف الطاقة الأول
FirstEnergyBank

FIRST ENERGY BANK BSC (c)
FINANCIAL STATEMENTS

For the year ended 31 December 2008
Date of incorporation: 23 June 2008

FIRST ENERGY BANK BSC (c)

Commercial registration	:	69089 (registered with Central Bank of Bahrain as a wholesale Islamic bank)
Registered Office	:	Al Salam Tower, Diplomatic Area, P.O.Box 209, Manama, Kingdom of Bahrain Telephone +973 17100001
Directors	:	Esam Yousif A. Janahi, Chairman
		Hamad Rashed Nehail Al Neaime, Vice-Chairman
		Mustafa Mohd Zarti, Vice-Chairman
		Abdulla Abdulkarim Showaiter
		Khadim Abdulla Al Qubaisi
		Ahmed Saif Al Darmaki
		Khalid Jassim Mohd. Bin Kalban
		Sadoun Bargash Hamoud Al Sadoun
		Adel Abdulaziz Aljabr
		Khalid Mohamed Najibi
		Ebrahim Hussain Ebrahim
		Mehran Jamsheer Merza
		Hesham Ismaeel Abdulrahman
Acting Chief Executive Officer	:	Vahan Zanoyan
Auditors	:	KPMG Fakhro

CONTENTS

CHAIRMAN'S REPORT

For the period from 23 June 2008 to 31 December 2008

Dear Shareholders,

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

On behalf of the Board of Directors, it is my privilege to present the first annual report of First Energy Bank B.S.C. (c) ("FEB" hereinafter referred to as the "Bank") for the period ending December 31st 2008.

As our inaugural year, 2008 saw the Bank mark several milestones on the path leading from its incorporation to being fully operational today. Firstly, and most notably, was the strong paid-in capital injected by its shareholders, which was capped at US$ 1 Billion, a significant increase to the initial private placement offering that was originally set at US$ 750 Million. I am pleased to report that the Bank's current equity position remains intact, thus standing us in good stead to forge ahead with operations and planned investments in 2009.

FEB has a good pipeline of potential deals under consideration. Since last year was our inaugural year, we were not leveraged by external borrowings and as a result of the global financial climate, acquisition costs of some of our potential investments have come down. MENAdrill, our newly established offshore drilling company, is forging ahead with its plans and is expected to contribute to the Bank's growth and profitability in the near future.

The period ending 31st December 2008 saw modest net profits for the Bank of around US$ 42,000, which for the first few months of operations is encouraging considering that they account for operating expenses, as well as the one-time pre-operating set up costs of the Bank. The operating profit in 2008 therefore (excluding pre-operating costs) was US$ 9.03 million.

FEB Milestones in 2008

The first Annual General Meeting of FEB was held on 19 June 2008 and its first Board of Directors meeting was held on 6 July 2008. At its first meeting, the Board of Directors elected me as Chairman of the Bank and I would like to take this opportunity to thank the Board members for their trust and confidence in me.

The Board meeting also saw the announcement of The Central Bank of Bahrain's (CBB) award of a wholesale banking license (Islamic principles) to FEB, together with the appointment of KPMG as the Bank's external auditors and the crucial appointments of two Sharia'a Scholars to the Sharia'a advisory board.

In July 2008, FEB launched its first project "MENADrill", in collaboration with our valued partners GFH and Arab Drilling and Work Over Company (ADWOC), along with our strategic and technical advisors PFC Energy International and Noble Denton. MENAdrill is planned to be fully operational with its acquired assets and operational management by January 2011.

2009 Plans

Looking ahead, 2009 will be a unique year, in terms of the opportunities it presents for cautious investors who maintain a higher proportion of their portfolios in cash. While the Bank's overall strategy and mandate have not changed, and while its central mission, "To Create and Capture Value in Global Energy" remains endorsed by its Board of Director, its business model and specific approach to opportunities in 2009 will reflect the unique circumstances of the current environment.

Two factors will drive our overall investment strategy and create a solid business approach for 2009 and the beginning of 2010. Firstly, the fact that we believe the cyclical nature of the energy business will exert its influence, and as very few of the fundamental capacity problems that haunted the industry before the economic recession have been addressed, we predict they will re-exert their bullish influence on the sector when economic recovery sets in. Also, in the absence of global recession, the energy sector fundamentals would support a range of US$ 65 to US$ 85 per barrel for crude oil, meaning that FEB and its current cash position, will be well placed to take advantage of a generally depressed sector.

FEB Operations and Transition Program

Our operations are currently being reviewed in order to streamline and increase efficiency. As such, the Bank's arrangement for 2009 with GFH is now under review, to ultimately enable all services and processes provided by GFH to be transitioned to the Bank to enable operations on a stand-alone basis. The Bank has also engaged Ernst & Young and Catalyst Management Services to assist in the core banking systems selection and in reviewing our policies and procedures. Moreover, in conjunction with these experienced consultants, a full Transition Program has been developed to allow the Bank to operate fully and independently by July 2009.

As part of this transition, a Steering Committee composed of members of the senior management of the Bank has been established to manage this task and report to the relevant Board Committee. The intention is for the policies and procedure manuals already approved by both KPMG and the CBB to be enhanced and updated to better reflect the final operational model of the Bank. A core banking system will be selected and implemented within an agreed timeframe. CBB approvals will ultimately be sought marking the success of the process undertaken by the Bank.

Management Structure and Recruitment

The Bank's senior management team is now in place, and other second level management positions are in either interview or recruitment status.

Yours truly,

Esam Yousif Janahi

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

KPMG

FIRST ENERGY BANK BSC (c)

Manama, Kingdom of Bahrain

27 February 2009

Report on the financial statements

We have audited the accompanying financial statements of First Energy Bank BSC (c) (the 'Bank'), which comprise the balance sheet as at 31 December 2008, and the statements of income, changes in equity and cash flows for the period from 23 June 2008 to 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the Board of Directors for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with both the Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2008, and its financial performance, cash flows and changes in equity for the period from 23 June 2008 to 31 December 2008 in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

In addition, in our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2008 and its financial performance and its cash flows for the period from 23 June 2008 to 31 December 2008 in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Bank has maintained proper accounting records and the financial statements are in agreement therewith. We have reviewed the accompanying chairman's report and confirm that the information contained therein is consistent with the financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the terms of the Bank's license or its memorandum and articles of association having occurred during the six months ended 31 December 2008 that might have had a material effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

kpmg

KPMG

BALANCE SHEET

as at 31 December 2008

US$ 000's

	Note	31 December 2008
ASSETS		
Cash and bank balances	4	2,225
Placements with financial institutions	5	970,665
Other assets	6	45,285
Equipment and capital work-in-progress	7	3,016
Total assets		**1,021,191**
LIABILITIES AND EQUITY		
Liabilities		
Payable to a related party	13	18,294
Accruals and other liabilities	8	2,855
Total liabilities		**21,149**
Equity		
Share capital	9	1,000,000
Statutory reserve		4
Retained earnings		38
Total equity (page 6)		**1,000,042**
Total liabilities and equity		**1,021,191**

The financial statements, which consist of pages 4 to 19, were approved by the Board of Directors on 27 February 2009 and signed on its behalf by:

Esam Janahi Chairman	Khalid Mohamed Najibi Director	Vahan Zanoyan Acting Chief Executive Officer

INCOME STATEMENT

For the period from 23 June 2008 to 31 December 2008 US$ 000's

	Note	Six months ended 31 December 2008
Income from placements with financial institutions		17,025
Total income		**17,025**
Staff cost	10	2,056
Other operating expenses	11	5,941
Pre-operating expenses	12	8,986
Total expenses		**16,983**
PROFIT FOR THE PERIOD		42
Earnings per share (US cents)		
Basic	19	**0.004**

The accompanying notes 1 to 26 form an integral part of these financial statement

STATEMENT OF CHANGES IN EQUITY

For the period from 23 June 2008 to 31 December 2008

US$ 000's

2008	Share capital	Share premium	Statutory reserve	Retained earnings	Total
Profit for the period	-	-	-	42	42
Total recognised income and expense	**-**	**-**	**-**	**42**	**42**
Share capital introduced (note 9)	1,000,000	9,100	-	-	1,009,100
Share issue expenses (note 12)	-	(9,100)	-	-	(9,100)
Transfer to statutory reserve	-	-	4	(4)	-
Balance at 31 December 2008	**1,000,000**	**-**	**4**	**38**	**1,000,042**

STATEMENT OF CASH FLOWS

For the period from 23 June 2008 to 31 December 2008 US$ 000's

	Six months ended 31 December 2008
OPERATING ACTIVITIES	
Income from placements with financial institutions received	13,550
Payment for expenses and project costs	(43,090)
Cash flows from operating activities	**(29,540)**
INVESTING ACTIVITIES	
Advance paid for acquisition of an investment	(3,646)
Payment for purchase of equipment and capital work-in-progress	(3,024)
Cash flows from investing activities	(6,670)
FINANCING ACTIVITIES	
Proceeds from issue of ordinary shares	1,009,100
Cash flows from financing activities	**1,009,100**
Net increase in cash and cash equivalents	**972,890**
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at 31 December 2008	**972,890**
Cash and cash equivalents comprise:	
Cash and bank balances	2,225
Placements with financial institutions	970,665
	972,890

The accompanying notes 1 to 26 form an integral part of these financial statement

1 INCORPORATION AND PRINCIPAL ACTIVITY

First Energy Bank BSC (c) (the 'Bank') was incorporated on 23 June 2008 in the Kingdom of Bahrain under Commercial Registration No. 69089. The Bank operates as an Islamic Wholesale Bank under a license granted by the Central Bank of Bahrain ('CBB').

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these financial statements are set out below.

This being the first financial reporting period of the Bank, no comparative information has been presented.

(a) Statement of compliance

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

(b) Basis of preparation

The financial statements are presented in US Dollars, being the principal currency of the Bank's operations and are prepared on the historical cost basis.

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

(c) Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items are included as a component of equity.

(d) Financial assets and liabilities

(i) Recognition and de-recognition

The Bank initially recognises placements, receivables, investors' funds and payables on the date at which they are originated. All other financial assets and liabilities are recognised at the trade date i.e. the date that the Bank contracts to purchase or sell the asset, at which the Bank becomes party to the contractual provisions of the instrument.

A financial asset or liability is initially measured at fair value which is the value of the consideration given (in the case of an asset) or received (in the case of a liability), including transaction costs that are directly attributable to its acquisition or issue.

The Bank derecognises a financial asset when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risk and rewards of ownership. The Bank writes off certain financial assets when they are determined uncollectible. The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Measurement principles

Financial assets and liabilities are measured either at fair value, amortised cost or in certain cases carried at cost.

Fair value measurement
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Bank uses valuation techniques to establish a reliable measure of fair value.

Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

Measurement at cost
When a financial asset or liability does not have fixed or determinable payments and a reliable measure of fair value cannot be determined, it is carried at cost.

(e) Placements with financial institutions
These comprise placements made in the form of wakala contracts or international commodity murabaha contracts. Placements are usually short term in nature and are stated at their amortised cost.

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

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

(h) Impairment of assets
The Bank assesses at each balance sheet date whether there is objective evidence that an asset is impaired.

Financial assets
Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a financing or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. Impairment losses are recognised in the income statement and reflected in an allowance account.

Other non-financial assets
The carrying amount of the Bank's assets, other than financial assets, is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Dividends and board remuneration

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

(j) Project costs recoverable

Incremental costs that are directly attributable to securing an investment contract are recognised as an asset if they can be identified separately, measured reliably and if it is probable that they will be recovered.

(k) Statutory reserve

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

(l) Income from placements with financial institutions is recognised on a time-apportioned basis over the period of the related contract using the effective profit method.

(m) Earnings prohibited by Shari'a

The Bank is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, non-Islamic income (if any) will be credited to a charity account which is utilised for charitable purposes.

(n) Zakah

The Bank is not required to pay Zakah on behalf of its shareholders on its undistributed profits. However, the Bank is required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Bank's Shari'a Supervisory Board.

(o) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a 'defined contribution scheme' in nature under IAS 19 'Employee Benefits', and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

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

(p) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(q) Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular environment (geographical segment), which is subject to risks and rewards that are different from those of other segment. The Bank currently only operates in one primary segment of investment banking.

For the period from 23 June 2008 to 31 December 2008 US$ 000's

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(i) Impairment of receivables

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

(ii) Special purpose entities

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

4 CASH AND BANK BALANCES

	31 December 2008
Cash	3
Bank balances	2,222
	2,225

5 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2008
Wakala contracts	830,486
Gross commodity murabaha contracts	140,357
Less: Deferred profits	(178)
	970,665

6 OTHER ASSETS

	31 December 2008
Project costs recoverable	37,452
Advance paid for acquisition of an investment	3,646
Murabaha profits receivable	3,475
Others	712
	45,285

The accompanying notes 1 to 26 form an integral part of these financial statement

For the period from 23 June 2008 to 31 December 2008 US$ 000's

7 EQUIPMENT AND CAPITAL WORK-IN-PROGRESS

	Equipment	Computers	Total
Cost			
Additions during the period	16	253	269
At 31 December	**16**	**253**	**269**
Depreciation			
Charge for the period	1	8	9
At 31 December	**1**	**8**	**9**
Net book value	**15**	**245**	**260**
Capital work-in-progress	-	-	2,756
Total	**15**	**245**	**3,016**

8 ACCRUALS AND OTHER LIABILITIES

	31 December 2008
Employee-related accruals	190
Accounts payables	69
Accrued expenses	1,296
Advance from investors	1,300
	2,855

9 SHARE CAPITAL

	31 December 2008
Authorised:	
2,000,000,000 ordinary shares of US$ 1 each	**2,000,000**
Issued, subscribed and paid-up:	
1,000,000,000 ordinary shares of US$ 1 each	**1,000,000**

As per the terms of the subscription for shares in the Bank, the shareholders paid certain fees to the promoters in addition to the subscription amounts. On closure of the subscription, the promoters transferred to the Bank USD 9.1 million of fees collected to cover part of the share issue expenses and has been recognised as share premium.

Details of the shareholders and the number of shares held are as follows:

	No of shares	% of holding
Financial institutions	195,000,000	19.50%
Corporate and other entities	554,000,000	55.40%
Individuals	261,000,000	26.10%

For the period from 23 June 2008 to 31 December 2008 US$ 000's

10 STAFF COST

	31 December 2008
Salaries and benefits	1,911
Social insurance expenses	65
Other staff expenses	80
	2,056

11 OTHER OPERATING EXPENSES

	31 December 2008
Rent and utilities	262
Travelling and related expenses	965
Professional and consultancy fee	2,656
Advertising and marketing expenses	1,386
Other expenses	672
	5,941

12 PRE-OPERATING EXPENSES

	31 December 2008
Professional, legal and consultancy charges	18,086
Less: Adjusted against share premium	(9,100)
	8,986

Pre-operating expenses primarily relate to expenses incurred by the founders in relation to the share issue and formation of the Bank and certain expenses incurred prior to incorporation of the Bank. Share issue expenses have been adjusted against share premium to the extent of the available balance and the remaining amounts has been charged to the income statement as pre-operating expenses. The pre-operating expenses were reimbursed to the founders based on the approval of the shareholders and the Board of Directors.

13 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence or joint control over the other party in making financial and operating decisions. Related parties include major shareholders, Board of Directors and Executive Management of the Bank and entities over which they exercises control and/ or significant influence.

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

For the period from 23 June 2008 to 31 December 2008 US$ 000's

13 RELATED PARTY TRANSACTIONS (continued)

	31 December 2008
Assets	
Placements with financial institutions	750,256
Murabaha profits receivable	3,475
Liabilities	
Payable to a related party	18,294

	31 December 2008
Income and expenditure (transactions)	
Income from placements with financial institutions	16,226
Reimbursement of pre-operating expenses	17,250

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

Categories*	Number of shares	Number of Directors
10% and above	100,000,000	1

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

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

	31 December 2008
Board member fees	145
Salary and other short-term benefits	318
Post employment benefits	10

14 ZAKAH

The Bank does not collect or pay Zakah on behalf of its shareholders or investors. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. During the period no Zakah is payable by the shareholders as the Bank was in operation for a period of six months only.

15 EARNINGS PROHIBITED BY SHARI'A

During the period, there were no earnings from non-islamic transactions that are prohibited by Shari'a.

16 SHARI'A SUPERVISORY BOARD

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

17 SOCIAL RESPONSIBILITY

The Bank intends to discharge its social responsibilities through donations to charitable causes and organisations.

18 PROPOSED APPROPRIATIONS

No appropriations are currently being proposed by the Board of Directors. Appropriations, if any, shall be considered for approval of the shareholders at the annual general meeting.

19 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the period by the weighted average number of equity shares outstanding during the period ended 31 December 2008 as follows:

Profit for the period (US$ 000's)	42
Weighted average number of equity shares (000's)	1,000,000
Basic earnings per share (in US cents)	0.004

The Bank has not issued any potentially dilutive instruments.

20 MATURITY PROFILE

The maturity profile of financial assets and financial liabilities based on the remaining periods to contractual maturity dates was as follows:-

	Gross undiscounted cash flows						
2008	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	Carrying amount
Assets							
Bank balances	2,222	-	-	-	-	2,222	**2,222**
Placements with financial institutions	971,779	-	-	-	-	971,779	**970,665**
Other assets	3,873	3,960	37,452	-	-	45,285	**45,285**
Total financial assets	**977,874**	**3,960**	**37,452**	**-**	**-**	**1,019,286**	**1,018,173**
Liabilities							
Payable to a related party	18,294	-	-	-	-	18,294	**18,294**
Accruals and other liabilities	2,805	-	-	-	-	2,805	**2,805**
Total financial liabilities	**21,099**	**-**	**-**	**-**	**-**	**21,099**	**21,099**

Certain balances in the above table will not agree directly to the balances in the balance sheet as the table incorporates all cash flows on an undiscounted basis. The expected maturities of the financial assets and liabilities are not significant different from their contractual maturities.

For the period from 23 June 2008 to 31 December 2008 US$ 000's

21 CONCENTRATION OF ASSETS AND LIABILITIES

a) Industry sector

2008	Banks and financial institutions	Others	Total
Assets			
Bank balances	2,222	-	**2,222**
Placements with financial institutions	970,665	-	**970,665**
Other assets	3,475	44,826	**48,301**
Total assets	**976,362**	**44,826**	**1,021,188**
Liabilities			
Payable to a related party	18,294	-	**18,294**
Accruals and other liabilities	-	2,855	**2,855**
Total liabilities	**18,294**	**2,855**	**21,149**

b) Geographic region

The geographic concentration of the Bank's assets and liabilities as at 31 December 2008 is limited to GCC countries.

22 COMMITMENTS AND CONTINGENCIES

The capital commitments contracted by the Bank as at 31 December 2008 in relation to project costs amounted to US$ 330.28 million. In its normal course of business, the Bank initially undertakes the contractual commitments in relation to project assets and then places the project with its investors along with the associated contractual commitments.

23 FINANCIAL INSTRUMENTS

a) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The estimated fair values of the Bank's financial instruments are not significantly different from their book values.

b) CLASSIFICATION OF FINANCIAL INSTRUMENTS

All the financial assets of the Bank are classified as 'loans and receivables' and all the financial liabilities are classified as 'others at amortised cost'.

24 FINANCIAL RISK MANAGEMENT

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

- credit risk;
- liquidity risk;
- market risks; and
- operational risk

The Bank has a risk management framework in place for managing these risks which is constantly evolving as the business activities change in response to credit, market, product and other developments.

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

24 FINANCIAL RISK MANAGEMENT (continued)

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions, products and services offered.

The Board of Directors is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.
The principal risks associated with the Bank's business and the related risk management processes are as follows:

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the placements with financial institutions and certain receivables.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

Risk is assessed on an individual basis for each receivable and has been reviewed by the Board of Directors as at 31 December 2008. The Bank does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Credit exposures are subject to regular reviews by the Board of Directors.

Maximum credit exposure

The maximum credit risk exposure has been disclosed below:

2008	Bank balances	Placements with financial institutions	Other assets
Total carrying amount	2,222	970,665	45,285

The Bank's credit risk on bank balances and placements with financial institutions is limited as these are placed with banks having good credit ratings. The other credit exposures have been evaluated on a case-by-case basis and the Board of Directors has assessed that the exposures are currently performing and not impaired. The credit exposures of the Bank are not collateralised and there were no significant past due exposures as at 31 December 2008.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Bank does not have a trading portfolio and has not investment in equity instruments and hence is not exposed to market risk and other equity price risks in relation to such instruments. The different types of risks with exposures, objectives, policies and processes to manage the risk have been detailed hereunder.

24 FINANCIAL RISK MANAGEMENT (continued)

Profit rate risk
Profit rate risk arises due to differences in timing of re-pricing of the Bank's assets and liabilities. The Bank's profit rate sensitive assets are mainly placements with financial institutions. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. The effective profit rate on placements with financial institutions during the period was 2.39%.

The Bank's exposure to profit rate risk is currently considered to be limited due to the short-term nature of the funds invested in placements with financial institutions.

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's major exposure is in GCC currencies, which are primarily pegged to the US Dollars.

The Bank does not have significant net exposures denominated in other foreign currencies as at 31 December 2008.

Liquidity risk
Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Board of Directors approves significant policies and strategies related to the management of liquidity. The Management reviews the liquidity profile of the Bank on a regular basis and any material change in the Bank's current or prospective liquidity position is notified to the Board. The maturity profile of assets and liabilities has been provided in note 20.

Operational risk
Operational risk is the risk of loss arising from systems and control failures, fraud and human error, which can result in financial and reputation loss, and legal and regulatory consequences. The Bank manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances. In addition the Bank is committed to the training of its staff. The Bank is in the process of conducting Risk Control Self Assessment of Operational risk in all departments of the Bank to identify the important Key Risk Areas and Key Risk Triggers. This process is expected to be completed by 2009.

25 CAPITAL MANAGEMENT

The Bank's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. Capital requirements of CBB have been complied through out the period.

The Bank is required to comply with the provisions of the revised Capital Adequacy Module of the CBB (based on the Basel II and IFSB framework) in respect of regulatory capital. The Bank has adopted the standardised approach to credit and basic indicator approach for operational risk management under the revised framework.

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

For the period from 23 June 2008 to 31 December 2008 US$ 000's

25 CAPITAL MANAGEMENT (continued)

Capital adequacy	2008
Total risk weighted assets	1,116,488
Tier 1 capital	1,000,042
Tier 2 capital	-
Total regulatory capital	1,000,042
Total regulatory capital expressed as a percentage of total risk weighted assets	89.57%

26 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

- IAS 1 Presentation of Financial Statements (effective for annual period beginning on or after 1January 2009);
- IAS 23 - Borrowing Costs (effective for annual period beginning on or after 1January 2009); and
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual period beginning on or after 1 January 2009).

The adoption of these standards and interpretations and certain other amendments to existing standards with varied effective dates made by International Accounting Standards Board as part of its first annual improvements project are not expected to have any material impact on the financial statements.

P.O. Box 209, Manama, Kingdom of Bahrain - Tel +973 17100001, Fax +973 17100002

www.1stenergybank.com