RISK MANAGEMENT DISCLOSURES

(based on Basel 2 and IFSB guidelines)

31 DECEMBER 2008

Khaleeji Commercial Bank

These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports, CBB Rule Book, Volume II for Islamic Banks. To avoid any duplication, information required under PD module but already disclosed in other sections of annual report has not been reproduced. These disclosures are part of the annual report for the year ended 31 December 2008 and should be read in conjunction with the financial statements for the year ended 31 December 2008 and other sections of the annual report.

RISK MANAGEMENT DISCLOSURES

(based on Basel 2 and IFSB guidelines)

Executive Summary

The Central Bank of Bahrain's (CBB) Basel 2 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008. These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports and CBB Rule Book, Volume II for Islamic Banks. Section PD-1.3 reflect the requirements of Basel 2 - Pillar 3 and the Islamic Financial Services Board's (IFSB) recommended disclosures for Islamic banks.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31 December 2008, presented in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). To avoid any duplication, information required under PD module but already disclosed in other sections of Annual report has not been produced in these disclosures.

All figures presented in this section are reported in BD thousands and are as of 31 December 2008 unless otherwise stated.

Khaleeji Commercial Bank BSC (the "Bank") has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk to determine its capital requirements. This section contains a description of the Bank's risk management and capital adequacy policies and practices including detailed quantitative information on risk components and capital adequacy.

The Bank's Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel 2 framework.

The Banks total risk weighted assets as at 31 December 2008 amounted to BD 334,291. Credit risk accounted for 88.62 per cent, operational risk 8.96 per cent, and market risk 2.42 per cent of the total risk weighted assets. Tier I and regulatory capital were BD 137,540 and BD 138,662 respectively

At 31 December 2008, Bank's Tier I and total adequacy ratios were 41.14 per cent and 41.48 per cent respectively.

1 Group Structure

The Bank operates under a retail banking license granted by the Central Bank of Bahrain ("CBB") on 20 October 2003. The Bank does not have significant operating subsidiaries. The subsidiaries set-up are primarily special purpose entities with nominal capital to execute specific investment transactions. The subsidiaries qualify as commercial entities as per the CBB capital computation guidelines and are risk weighted as investments for capital adequacy purposes.

2 Introduction to Basel II & Risk Management

The Central Bank of Bahrain (CBB) has mandated that the Basel Committee on Banking Supervision's (Basel Committee) Basel II capital adequacy framework is applicable to all banks incorporated in the Kingdom of Bahrain from 1st January 2008. The Bank has accordingly taken steps to comply with these requirements. The Basel II framework is intended to strengthen risk management practices and processes within the financial institutions.

CBB's Basel II framework is based on three pillars, consistent with the Basel II framework adopted by the Basel Committee, as follows:

- Pillar I: calculation of the risk weighted assets (RWAs) and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

Pillar I

Pillar I defines the regulatory minimum capital requirements for each bank to cover the credit risk, market risk and operational risk inherent in its business model. It also defines the methodology for measurement of these risks and the various elements of qualifying capital. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total Risk Weighted Assets (RWAs). CBB has mandated that the ratio be maintained at a minimum of 12 % and has set a trigger ratio of 12.5%. If the capital adequacy ratio falls below 12.5 per cent, additional prudential reporting requirements apply, and a formal action plan to restore the ratio above the target level is to be formulated and submitted to the CBB.

The table below summarises the Pillar I risks and the approach used by the Bank to calculate the RWAs in each case in accordance with the CBB's Basel II capital adequacy framework:

Risk Type	Approach used by KHCB
Credit Risk	Standardised Approach
Market Risk	Standardised Approach
Operational Risk	Basic Indicator Approach

Pillar II
Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately its capital adequacy.

Under the CBB's Pillar II guidelines, each bank is to be individually assessed by the CBB and an individual minimum capital adequacy ratio is to be determined for each bank. The CBB is currently undertaking the assessment exercises, which will allow their setting of minimum capital ratios in excess of 8 per cent, based on the CBB's assessment of the financial strength and risk management practices of the institution. Currently, pending finalisation of the assessment process all banks incorporated in Bahrain are required to continue to maintain 12 per cent minimum capital adequacy ratio. An external consultant has been appointed to undertake this assessment process on behalf of CBB and the assessment report is under consideration by the CBB.

Pillar II comprises two processes:

- An Internal Capital Adequacy Assessment Process (ICAAP), and
- A supervisory review and evaluation process.

The Bank has recently adopted certain ICAAP procedures for computation of economic capital for all risks including those not covered under Pillar I. The Bank regularly monitors its internal capital adequacy ratio to ensure that there is adequate cover for all risks faced by the Bank.

Pillar III
Pillar III complements the other two pillars and focuses on enhanced transparency in disclosure of information by the Banks to promote better market discipline. The information to be disclosed covers all areas including business performance, capital adequacy, risk management etc. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

In April 2008, the Central Bank published a paper covering the detailed disclosure requirements to be followed by licensed banks in Bahrain to be in compliance with Pillar III under the Basel II frame work. This document is prepared in accordance with these directives and the disclosures herein are in addition to those in the audited consolidated financial statements.

2.1 The Risk Management Function

The Board of Directors (BoD) has overall responsibility for risk management in the Bank. The Board lays down the risk management policies of the Bank and quantifies its risk appetite through appropriate definitions of various risk limits and tolerances. The Board discharges its risk management responsibilities through the Board Risk Management Committee (BRMC).

The Board has established an Executive Risk Management Committee (ERMC), which is responsible for developing and monitoring Bank risk management policies in the specified areas. The committee consists of heads of business and other functional units in the Bank and will report regularly to the Board Risk Management Committee.

The day to day risk management functions are performed by the Risk Management Department (RMD) of the Bank. RMD is responsible to ensure that the policies laid down by the Board are consistently implemented across the Bank and to review the adequacy of these policies periodically. It monitors all risk taking activities and ensures that the risk limits defined by the Board are complied with. The department has specialised personnel dealing with Credit, Market and Operational Risks. It is independent of all risk taking functions in the Bank and reports to the BRMC through the Executive Risk Management Committee (ERMC) chaired by the Chief Executive Officer (CEO).

The Asset Liability Management Committee (ALCO) of the Bank acting through the Treasury department monitors the Bank's liquidity position and recommends appropriate action to the Board where necessary. There is a high level of co-ordination between the Risk Management Department and ALCO.

A risk overview report which details out the various risks faced by the Bank is prepared by RMD and discussed at the ERMC, BRMC and the Board on a quarterly basis.

The RMD, together with the Internal Audit and Compliance departments, provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

3 Capital Management and Capital Adequacy ratio

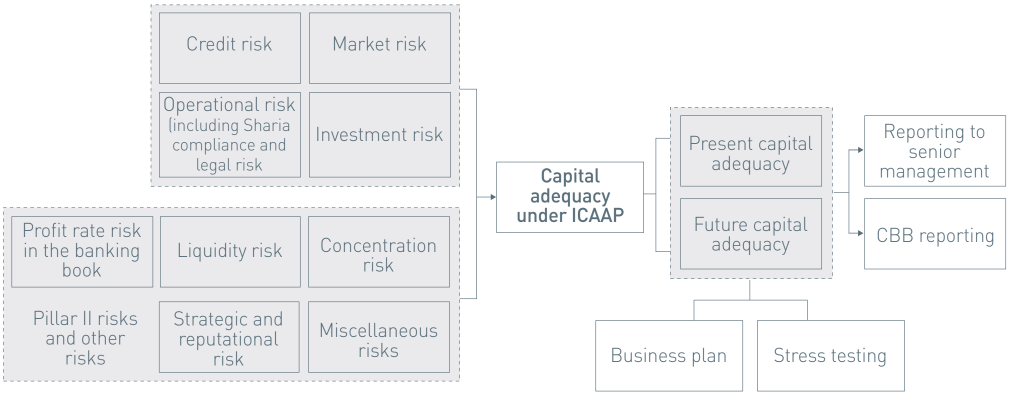
3.1 Capital management

The Bank's policy is to maintain a strong capital base to develop investor, creditor and market confidence and to sustain the future development of business. The Bank recognises the impact of a high level of capital on shareholders' returns, while not losing sight of the security and market confidence afforded by a sound capital base. The Bank aims to maintain a minimum total capital adequacy ratio significantly in excess of that mandated by the CBB.

3.2 Internal Capital Adequacy Assessment Process ("ICAAP")

The Bank has recently developed its Internal Capital Adequacy Assessment Process ("ICAAP") as per the requirements under Pillar II of Basel II. ICAAP prescribes procedures and measures designed to ensure appropriate identification, measurement, aggregation and monitoring of the Bank's risks. It also defines an appropriate level of internal capital in relation to the Bank's overall risk profile and business plan.

ICAAP framework at the Bank



3.2.1 Risk Addressed by the ICAAP

Risk Type	Metrics based on which internal capital is allocated
Credit risk Market risk Investment risk Operational risk	Regulatory capital adequacy guidelines to be used as proxy for internal capital for Pillar I risks
Liquidity risk	Maximum cumulative gap, Liquidity ratio, Financing to deposit ratio
Profit rate risk (banking book)	Revaluation sensitivity of the repricing gaps
Credit concentration risk	Thresholds for counterparty, country, sector exposure
Fiduciary Risk	Size of off balance sheet vehicles (RIAs) & Large Investment Products
Reputational risk	Credit quality, Operational risk, Reputation related loss
Other Risks (strategic, Shari'a/regulatory compliance, business cycle)	Additional capital based on Pillar 1 risk weighted exposures

3.3 Capital Structure, minimum capital requirements and capital adequacy

Net Available Capital	31 December 2008
Issued and fully paid ordinary shares	100,000
Less: Treasury shares	(4,915)
Less: ESOP shares	(2,380)
Statutory reserve	5,988
Share premium	581
Others reserves	-
Retained earning	38,266
Tier 1 Capital	**137,540**
Profit equalisation reserve	649
Investment risk reserve	473
Tier 2	**1,122**
Net Available Capital	**138,662**

Risk Weighted Assets	December 2008
Credit Risk Weight Exposures	296,228
Market Risk Weight Exposures	8,100
Operational Risk Weight Exposures	29,963
Total Risk Weighted Assets	**334,291**
Capital Adequacy Ratio (Tier 1)	**41.14%**
Capital Adequacy Ratio (Total Capital)	**41.48%**

The capital adequacy ratio is calculated by dividing the regulatory capital base by the total Risk Weighted Assets (RWAs).

Regulatory capital components

The above components of Tier I and Tier II capital are as per the relevant CBB guidelines. According to these Tier II capital is restricted to 100 % of Tier I capital after all deductions of investments pursuant to PCD module of CBB rule book. As at 31st Dec 08 Bank was not required to make any prudential deduction from its regulatory capital base.

Risk Weighted Assets

Credit risk

For regulatory reporting purposes the Bank calculates the capital requirements for credit risk based on the standardised approach. Under the standardised approach the on-and off-balance sheet credit exposures are assigned risk weights based on the type of counterparty, underlying exposure, or source of funding – URIA or own funds. . The risk weights for types of counterparties and exposures are prescribed by CBB. . Further for capital adequacy computations 100% of the RWA's is reckoned for self financed assets while only 30 % is considered for assets funded through URIA.

Market risk

The Bank uses standardised approach to measure market risk. Market risk is primarily on account of the foreign exchange exposures that are considered as specific risks. As per the CBB guidelines, capital for foreign exchange risk is computed at 8% of overall net open foreign currency positions of the Bank and is multiplied by 12.5 to derive the market RWAs.

Operational risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the CBB capital adequacy module for Islamic Banks. According to this approach, Bank's average gross income for past three financial years is multiplied by a fixed coefficient alpha of 15% set by CBB and a multiple of 12.5% is used to arrive at the risk weighted assets that are subject to capital charge.

Break up of capital requirement in accordance with the Capital Adequacy Module of the CBB for the year ended 31 December 2008.

Risk Weighted Assets	Exposure			Risk weighted assets			Capital requirement		
	Self – financed	URIA	Total	Self – financed	URIA	Total	Self – financed	URIA	Total
Cash and collection items	309	-	309	-	-	-	-	-	-
Sovereigns	18,202	19,260	37,462	-	-	-	-	-	-
Banks	136,819	-	136,819	27,364	-	27,364	3,284	-	3,284
Corporates	67,528	114,397	181,925	67,528	34,319	101,847	8,103	4,118	12,221
Investments in equities/funds	170	28,038	28,208	170	12,617	12,787	20	1,514	1,534
Holdings of real estate	61,315	-	61,315	122,630	-	122,630	14,716	-	14,716
Other assets	31,600	-	31,600	31,600	-	31,600	3,792	-	3,792
Credit Risk Weight Exposures:	**315,943**	**161,695**	**477,638**	**249,292**	**46,936**	**296,228**	**29,915**	**5,632**	**35,547**
Market Risk Weight Exposures	648	-	648	8,100	-	8,100	972	-	972
Operational Risk Weight Exposures			29,963			29,963		-	3,596
Total Risk Weighted Assets	**316,591**	**161,695**	**508,249**	**257,392**	**46,936**	**334,291**	**30,887**	**5,632**	**40,115**
Capital Adequacy Ratio (Tier I)						**41.14%**			
Total Capital Adequacy Ratio						**41.48%**			

4 Credit Risk

4.1 Credit risk management

Credit Risk is the risk that a counterparty fails to meet its obligations in accordance with agreed terms and conditions. The major sources of credit risk in the Bank are under the following classes of assets:

- Placements with other Banks and Financial Institutions
- Islamic Financing Assets
- Assets acquired for leasing
- Available-for-sale investments
- Investments in Sukuks
- Investment in Associates
- Other receivables

The Bank has the necessary internal processes for assessing, monitoring and controlling credit risk both at the individual credit and portfolio levels. Credit limits are approved after a thorough assessment which takes into account the financial strength of the counterparty, the technical feasibility and economic viability of the business being financed, the adequacy and quality of the cash flow available for repayment etc. in addition to availability of collateral security by way of physical assets or guarantees. The RMD reviews every credit proposal and incorporates its remarks on the proposal before the same is considered by the appropriate authority as per delegated approval levels granted by the Board of Directors.

At the portfolio level, the Board has established risk concentration limits for single counterparties, related counterparties forming a business group, geographical and economic sectors as well as exposures to counterparties connected to the Bank and/or its major shareholders. The RMD regularly monitors compliance with these limits and deviations if any are reported regularly to the Senior Management, Risk Management Committees and the Board of Directors.

4.2 Growth in Exposure levels

Years 2007 and 2008 saw significant growth in overall credit exposure levels. The table below shows Gross credit exposure as on 31st December 2008 along with average credit exposure broken down under different exposure classes.

Gross / Average Credit Exposures

BD'000

	Average Exposure[1]	Gross Exposure	
		Self	URIA
Cash and Bank balances	22,615	23,069	-
Placement with Banks/FIs	140,503	131,952	-
Islamic Financing Assets	122,731	25,746	114,397
Investments in equity securities	60,563	55,100	-
Assets Acquired for Leasing	20,145	23,482	-
Investment in Sukuks	30,949	-	47,298
Investments in Associates	6,460	6,385	-
Asset held for sale	5,655	5,655	-
Other assets	26,141	26,077	-
Total On Balance Sheet Credit Exposure	**435,762**	**297,466**	**161,695**
Guarantees Issued	5,020	5,020	-
Other Non Funded Commitments	43,052	27,156	-
Total Off Balance Sheet Credit Exposure	**48,072**	**32,176**	**-**

[1] Average exposure for the year has been computed based on quarterly average balances for the year 2008.

4.3 Concentration of credit risk

4.3.1 Geographic distribution

The geographical exposure profile as at 31 December 2008 was as follows:

2008	GCC countries	Europe	Asia	Australia	Africa	Total
Assets						
Bank balances	21,390	207	1,472	-	-	23,069
Placements with financial institutions	125,725	6,227	-	-	-	131,952
Islamic financing assets	133,190	6,953	-	-	-	140,143
Investment securities	76,869	5,039	18,605	-	1,885	102,398
Assets acquired for leasing	23,482	-	-	-	-	23,482
Investment in associates	6,385	-	-	-	-	6,385
Asset held for sale	-	-	-	5,655	-	5,655
Other assets	26,077	-	-	-	-	26,077
Total funded exposures	**413,118**	**18,426**	**20,077**	**5,655**	**1,885**	**459,161**
Commitments to finance	10,375	1,701	-	-	-	12,076
Underwriting commitments	-	-	-	-	15,080	15,080
Guarantees	5,020	-	-	-	-	5020
Total unfunded exposures	**15,395**	**1,701**	**-**	**-**	**15,080**	**32,176**

4.3.2 Industry/ sector wise distribution of exposure

The Board of Directors has stipulated maximum exposures to various industry sectors. The industry sector wise non-funded exposure is as follows:

2008	Banks and financial institutions	Real estate	Others	Total
Assets				
Bank balances	23,069	-	-	23,069
Placements with financial institutions	131,952	-	-	131,952
Islamic financing assets	9,279	83,968	46,896	140,143
Investments securities	40,108	62,120	170	102,398
Assets acquired for leasing	-	15,965	7,517	23,482
Investment in associates	-	6,385	-	6,385
Asset held for sale	-	-	5,655	5,655
Other assets			26,077	26,077
Total funded exposures	**204,408**	**168,438**	**86,315**	**459,161**
Off-balance sheet items				
Commitments to finance	-	2,640	9,436	12,076
Underwriting commitments	-	15,080	-	15,080
Guarantees	-	-	5,020	5,020
Total unfunded exposures	**-**	**17,720**	**14,456**	**32,176**

4.3.3 Transactions with connected counterparties

Connected counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties, and all such transactions have been done at an arms length basis and on commercial terms that bring no disadvantage to the Bank. For the purpose of identification of connected parties the Bank strictly follows the guidelines issued by Central Bank of Bahrain for the purpose. Detailed break up is presented in note no 23 in the notes to the consolidated financial statements for the year ended 31 December 2008

4.3.4 Exposures in excess of 15% of capital base

Single exposures in excess of 15 % of the Bank's capital base on individual counterparties require prior approval of CBB except where exempted under para CM 4.5 of the rule book. The Bank does not have any such 'large exposures' that are not exempted and therefore requires prior approval of CBB.

Exposures exceeding single exposure limits as of 31 December 2008

	Amount in BD
Banks	
Bank A	18,946
Bank B	25,227
Total	**44,173**
Non-Banks	
Counterparty A	27,877
Counterparty B	28,303
Total	**56,180**
Grand Total	**100,353**

4.3.5 Exposures in highly leveraged counterparties

The Bank has no exposure to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24.

4.3.6 Residual maturity of the credit portfolio

The Bank's policy allows exposures up to a maximum period of 7 years. However, most of the Bank's exposures are limited to an original maturity of 5 years. The Bank constantly monitors the residual maturity profile of its assets to ensure that any mismatch with the maturity of its liabilities is kept within acceptable limits. The actual residual maturity profile of the Bank's credit portfolio is given in the table below.

Maturity Scale	< 1 M	1 - 3 M	3 - 6 M	6M - 1 Y	1 - 3 Y	> 3 Y	Total
Murabaha	-	25,694	19,803	22,724	29,240	21,700	119,161
Musharaka	-	-	3,268	-	9,931	-	13,199
Wakala	-	2,805	4,035	-	-	256	7,096
Istisna	-	-	-	-	-	687	687
Ijarah	-	1,561	1,839	692	9,221	10,169	23,482
Total		**30,060**	**28,945**	**23,416**	**48,392**	**32,812**	**163,625**
Investment securities							
Investments in							
sukuks	2,910	9,500	6,850	-	11,059	16,979	47,298
Total	**2,910**	**9,500**	**6,850**	**-**	**11,059**	**16,979**	**47,298**
Grand Total	**2,910**	**39,560**	**35,795**	**23,416**	**59,451**	**49,791**	**210,923**

* Credit Portfolio includes Islamic Financing Assets and Assets acquired for Leasing

4.4 Equity risk in banking book

The Bank does not have a trading book and hence all of its equity investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include available-for-sale investments, majority investments in commercial entities and associate investments in non-financial entities.

Please refer to the notes to the consolidated financial statements for policies covering the valuation and accounting of equity holdings, including the accounting policies and valuation methodologies used, key assumptions and practices affecting valuation.

The RMD works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. An impairment assessment of investments takes place every quarter with inputs from the Investment department and RMD. Quarterly updates of investments are reviewed by the Board of Directors. Regular audits of business units and processes are undertaken by Internal Audit.

The Bank's equity investments are predominantly in its own projects, which include private equity and infrastructure development projects. The intent of such investments is a later stage exit along with the investors principally by means of strategic sell outs at the project level or through initial public offerings. The Bank also has a strategic investment portfolio which is aligned with the long term investment objectives of the Bank.

Information on equity investments

Privately held	54,930
Quoted in an active market	170
Realised gain/ (loss) during the year	-
Unrealised gain/ (loss) in equity	(396)

Capital adequacy computations for various categories of equity investments are given in the table below.

Equity investments in banking book	Gross exposure		Risk weighted exposure		Capital charge	
	Self financed	URIA financed	Self	URIA	Self financed	URIA
Quoted equity investment	170	-	170	-	20	-
Unquoted equity investment	-	-	-	-	-	-
Investments in managed funds	-	-	-	-	-	-
Real estate holdings	54,930	-	109,860	-	6,592	-
Total	**55,100**	**-**	**110,030**	**-**	**6,612**	**-**

4.5 Risk grading of exposures

The Bank has an internal risk grading system for credit exposures based on a 10 point scale in which grades 9 and 10 are non performing exposures. Each counterparty credit exposure is assigned a risk grade based on several quantitative and qualitative factors, including financial strength, past record and availability of collateral security. The grading is done at the time of assuming an exposure and each renewal of the same. The grading sheets are prepared by the Business Department and approved by the RMD. No new exposure will be assumed if the assigned grade for any counterparty is below 6. Grades are continuously monitored by the Bank's credit administration department within RMD and are downgraded as and when the quality of the exposure has deteriorated, based on criteria in the Bank's credit policy.

For exposures or potential exposures with the Banks and Financial Institutions, the Bank has established internal ratings which have been classified into 6 categories, A to F, in descending order of creditworthiness. These ratings are derived on the basis of the external credit ratings provided by established credit rating agencies like Moody's, Standard & Poor (S&P), Capital Intelligence (CI) & Fitch. When the ratings of S&P and/or Moody's are available, those ratings will be used. In case of differences in ratings of these agencies, the more conservative rating will be used for classification. The ratings of these agencies have been mapped to internal categories as follows:

External Rating Agencies	Internal Ratings					
	A	B	C	D	E	F
S & P	>= AA-	>=A-	>=BBB-	>=B-	Below B-	Unrated
Moody's	>=aa3	>=A3	>=Baa3	>=B3	C & D	
CI	>= AA-	>=A-	>=BBB-	>=B-	C & D	
Fitch	>= AA-	>=A-	>=BBB-	>=B-	Below B-	

Please refer to Note 30 of the consolidated financial statements for the year ended 31 December 2008 for details of the rating profile of exposures of the Bank.

4.6 Past dues, impaired accounts, provisions

Customers may occasionally fail to meet their obligations to the Bank on due dates. Any amount not paid when due is classified as past due and the Bank initiates focused recovery efforts on such accounts.

However if the account remains past due for a continuous period of 90 days it is considered as impaired. The Bank conducts a comprehensive review of all such accounts on a quarterly basis and provisions are created through Profit & Loss (P&L) account where necessary. Such provisions are made on the basis of expected shortfall in present value of projected future cash flows from the assets / securities and the estimates of such cash flows are done on a conservative basis.

On each balance sheet date the Bank reviews all assets classified as Available-for-Sale for any objective evidence that the financial assets are impaired. In case of any such evidence the asset is revalued at cost of acquisition less impairment and a provision is created for the difference amount through the profit and loss account.

For a detailed policy on impairment of financial assets, refer note 2 (q) in the notes to the consolidated financial statements for the year ended 31 December 2008.

For the quantitative disclosures relating to exposure which were past due or impaired as of 31 December 2008, please refer to Note 30 to the consolidated financial statements for the year ended 31 December 2008.

During the year 2008, Bank has undertaken a detailed assessment of its credit portfolio and has considered specific impairment allowances where necessary. In view of the current market conditions, the Bank has also created a portfolio provision at a level of approximately 1% of its Islamic financing assets. The Bank is in the process of developing a detailed risk rating based model to identify and maintain collective provision on portfolio basis going forward.

4.7 Restructured/renegotiated credit facilities

For disclosure of renegotiated loans refer note 30 to the consolidated financial statements for the year ended 31 December 2008

4.8 Legal Action and Write off of exposures

The Bank has policies for initiation and prosecution of legal action when all other avenues for recovery of dues from a customer has exhausted. No such legal action has been initiated so far.

The Bank has a policy that permits write off of exposures when there is no possibility of recovery of the dues through legal and other means. However the Bank has so far not written off any such dues or exposures.

4.9 Penalties for Delayed Payments

In cases where customers delay the payments of dues to the Bank, the Bank has the right to collect penalties, subject to the provisions of the agreement between the customer and the Bank. The Bank recovers such penalties from customers when the amounts are significant. As per policy such penalties are maintained in a separate account and used for charity purposes approved by the Bank's Shari'a Board.

For quantitative disclosures refer Statement of sources and uses of Zakah and Charity fund for the year ended 31 December 2008.

4.10 Credit Risk Mitigation

The Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collateral security. While existence of collateral security is not a policy precondition for financing, in practice a large part of current exposures are at least partially collateralised. The Bank has clear policies on the type of assets that can be accepted as collateral security and the mode of valuation of these assets. In general all assets accepted as collateral are valued at least once in a year. The legal validity and enforceability of the documents used for creating these collaterals have been established by external legal experts.

The position of collateral cover for all credit exposures categorised on the basis of the type of security is given in the table below.

Extent of collateral security cover for credit exposures for the year ended 31 December 2008;

Collateral Type	Murabaha	Musharaka	Wakala	Istisna	Ijarah	Value of Collateral[1]	Total Gross Exposure	% age of cover	% age of total
Real Estate	132,785	5,905	13,644	1,107	38,037	191,478	100,536	190	82
Listed Securities	5,598	985	-	-		6,583	5,000	132	3
Unlisted Securities	5,344	-	-	-		5,344	4,540	118	2
Bank Guarantee	1,000	9,425	-	-		10,425	9,419	111	4
Cash Collateral	5,077	-	-	-		5,077	4,652	109	2
Unsecured	-	-	-	-		-	31,039	0	0
Others	473	6,979	-	-	8,659	16,111	9,475	170	7
Total	**150,277**	**23,294**	**13,644**	**1,107**	**46,696**	**235,018**	**164,661**	**143**	**100**

[1] (Represents the last valuation carried out based on the Bank's valuation policy)

Real Estate properties are reckoned at values certified by qualified valuators. Other physical assets like machinery are valued at book value, invoice value or as certified by an outside expert. Listed securities are valued at market price while unlisted ones are at book value. The Bank has an approved panel of valuators for real estate property. Valuations are arrived at by the Risk Management Department of the Bank, independent of the business units.

Assets financed under Ijara Muntahia Bittamleek are considered at par with physical collateral and included under Real Estate or Others in the above calculations.

The declared value of exposures in all cases is the gross exposure. The Bank does not carry out any on balance sheet or off balance sheet netting for the securities held. The Bank has not claimed any capital relief for Credit Risk Mitigation under Section CA 4 of the Capital Adequacy module of CBB rule book.

The Bank has a policy of disposal of asset held as collateral not readily convertible into cash, after completion of necessary legal formalities. During the year there has been no such instance.

4.11 Regulatory Capital Requirements by type of Islamic financing contracts

Islamic financing contracts	Exposures (BHD'000)		Credit Risk Weighted Assets		Capital requirement	
	Self	URIA	Self	URIA	Self	URIA
Murabaha	25,746	100,431	25,746	100,431	3,090	3,616
Istisna'a receivable	-	-	-	-	-	-
Ijarah assets	23,482	-	23,482	-	2,818	-
Mudaraba	-	-	-	-	-	-
Musharaka	-	13,278	-	13, 278	-	478
Wakala	-	-	-	-	-	-
Istisna'a	-	688	-	688	-	25
Total	**49,228**	**114,397**	**49,228**	**114,397**	**5,908**	**4,119**

5 Market Risk

5.1 Market risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, profit rates, equity prices, and commodity prices will affect the Bank's income or the value of its holdings of financial instruments.

Basel II requires that the Bank separate its exposure to market risk between trading and non-trading portfolios. The Bank has no trading positions in equity or commodities and the main source of market risk for the Bank is its foreign exchange exposure, although this is quite limited. There is also an extent of profit rate risk arising out of mismatches in its asset liability structure. The Bank has well defined policies approved by the Board with clear risk limits and thresholds to effectively manage its market risk.

Details on market risk management, net exposures and sensitivities are given as part of the Note 30 of the consolidated financial statements for the year ended 31 December 2008.

5.2 Regulatory Capital Allocation against Market Rate Risk

Table below shows the capital requirements for each category of the market risk as at year end along with the maximum and minimum values during the period:

	As at 31 December	Max	Min
Equity position risk	-	-	-
Market risk on trading positions in sukuk	-	-	-
Foreign exchange risk	972	1,133	972
Commodity risk	-	-	-
Total	**972**	**1,133**	**972**

6 Operational Risk

6.1 Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems and/or from external events which includes but is not limited to, legal risk and Shari' a compliance risk. Operational risk is an inherent part of normal business operations. Whilst operational risk cannot be eliminated entirely the Bank endeavors to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. The components of this framework are effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting.

Details on operational risk management are given as part of the Note 30 of the consolidated financial statements for the year ended 31 December 2008.

The Risk Management Department monitors all operational processes to ensure that the Board directives are fully implemented and also reports deviations if any to the Senior Management and the Board. The department has specialised personnel engaged in this process. In addition, the Bank's policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions.

6.2 Litigation

As on the reporting date, the Bank has no material legal contingencies including pending legal actions. The Bank has a dedicated legal team who is consulted on all major activities conducted by the bank. All contracts, documents, etc have to be reviewed by the legal department as well.

6.3 Shari'a compliance

The Shari'a Supervisory Board (SSB) is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'a. The Bank also has a dedicated internal shari'a reviewer, , who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'a standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with shari'a rules and principles.

6.4 Regulatory Capital Allocation against Operational Risk

The Bank uses the Basic Indicator Approach (BIA) in calculating its regulatory capital requirement for operational risk.

The risk weighted assets and capital requirement for operational risk as at 31 December is as given below:

Average gross income for 3 years	15,980
Operational Risk Weighted Assets	29,963
Capital requirement	3,596

7 Other risks

7.1 Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Bank's approach to managing liquidity is to ensure, that it will always have sufficient funds to meet its liabilities when due without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank has a liquidity risk policy in place, which describes the roles and responsibilities of the Asset Liability Management Committee (ALCO), Treasury and other concerned departments in management of liquidity. It also stipulates various liquidity ratios to be maintained by the Bank, as well as gap limits under each time bucket of the maturity ladder. It is the Bank's policy to keep adequate level of high quality liquid assets such as inter-bank placements, CBB sukuks to ensure that funds are available to meet maturing deposits and other liabilities, as and when they fall due.

For maturity profile of assets and liabilities refer note 27 of the consolidated financial statements. The following are the key liquidity ratios which reflect the liquidity position of the Bank:

	2008	2007	2006	2005
Interbank assets to interbank liabilities	293.93	179.02	383.00	-
Liquid assets to total assets	16.38	16.59	26.65	41.11
Liquid assets to total deposits	97.01	155.64	199.50	338.73
Net liquid assets to total deposits	49.80	50.30	46.00	143.90

7.2 Profit rate risk in the banking book

The banking book is exposed to the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the Bank's Risk Management Department in its day-to-day monitoring activities.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bps) parallel fall or rise across all yield curves and a 50 bps rise or fall of all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market profit rates has been disclosed in Note 30 to the consolidated financial statements.

7.3 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity or credit market defaults prior to maturity of the contract. The Bank does not engage in proprietary trading of equity, foreign exchange or its derivatives. However, the Bank enters into shari'a compliant foreign exchange risk/ profit rate risk transactions to hedge its risks arising out of mismatch in its asset liability portfolios. Clear policies for such transactions are in place. For other credit market transactions (primarily inter-bank placements), the Bank has established a matrix of counterparty limits based on external credit rating of such counterparties. Such limits are constantly monitored by the Banks Risk Management Department.

7.4 Concentration risk

Concentration risks arises when a number of obligors, counterparties or investees are engaged in similar business activities or activities in the same geographic region such that their ability to meet obligations to the Bank will be similarly affected by changes in economic, political or other conditions. Accordingly, such concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or region. The Bank has established exposure limits to various geographic regions and industry sectors.

7.5 Reputational risk

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base or lead to costly litigation that could have an adverse impact on liquidity or capital of the Bank. Among the issues that could affect the Bank's reputation are the inability to exit from investments, lower than expected returns on investments and poor communication to investors. The Bank has a well developed and coherently implemented communication strategy to cover such contingencies. Additionally, the RMD has recently put together an Internal Capital Adequacy Assessment Process (ICAAP) Policy to effectively assess and measure non Pillar 1 risks.

7.6 Displaced commercial risk

Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by Unrestricted Investment Accounts. This can be due to the return on such assets being lower than that of competitiors. The Bank has adequate policies and procedures in place to identify, monitor and address all potential risks that may arise from such activities. Please refer to the section on URIA for further details.

7.7 Other risks

Other risks include strategic risk, fiduciary risks, regulation risks etc. which are inherent in all business and are not easily measurable or quantifiable.. The Bank's Board has overall responsibility for approving and reviewing the risk strategies and amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board. The management also ensures that internal systems of corporate governance and regulatory compliance for management of fiduciary and reputational risks are robust and effective.

8 Product Disclosures

8.1 Product Descriptions & Consumer Awareness

The Banking license of Khaleeji Commercial Bank BSC permits it to offer to its customers all types of banking products except Consumer/personal facilities other than real estate, retail leasing activities other than real estate, and Assurance. The Bank has approached CBB to remove these restrictions in its license and the request is under consideration of the Central Bank.

Within the above constraints the Bank offers a comprehensive mix of Shari'a compliant commercial and investment banking products. The investment department of the Bank has expertise in creating innovative high end and value added products offering a wide range of structures, expected returns, tenors and risk profiles.

Proposal for any new product is initiated by individual business lines within the Bank. The Executive Risk Management Committee (ERMC) of the Bank reviews such proposal to ensure that the new product/ business is in line with the Bank's business and risk strategy. All new products will need the approval of the Board of Directors and the Shari'a Supervisory Board of the Bank. .

Information on new products or any change in existing products will be placed on the Bank's website www.khcbonline.com and/or published in the media. Product details are also shared with customers and the general public through brochures and/ or, advertisements.

8.2 Complaint Handling

The Bank takes disputes and complaints from all customers very seriously. These have the potential for a breakdown in relationships and can adversely affect the Bank's reputation. Left unattended these can also lead to litigation and possible censure by the regulatory authorities. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy.

The Bank has a designated nodal officer for handling of all external complaints and his contact details are displayed on the website and also at the Branch and in all printed publicity materials. Complaints are normally investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints within five working days. Wherever this is not possible, the customer is contacted directly and a time frame for rectification of his complaint advised. A periodical report on status of complaints is also submitted to the Board.

8.3 Unrestricted Investment Accounts (URIAs)

Bank offers Unrestricted investment Accounts (URIAs) to both small investors and high net worth individuals. Unrestricted investment Accounts (URIAs) represents funds offered by customers to the Bank to be invested in a Sharia compliant manner, at the Bank's discretion as Mudarib. All URIA accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence. The Bank charges a Mudarib fee as its share of profit.

Currently, the Bank offers Unrestricted Investment Accounts in Bahraini Dinar, US Dollar and Euro for maturity periods ranging from 1 month to 18 months. The Bank completes its full range of KYC due diligence prior to accepting any investment. The customer also signs a written agreement covering all terms and conditions of the investment including tenor, basis of profit allocation, early withdrawal etc.

URIA is a significant funding source for the Bank. However, the failure to pay the expected return to URIA holders exposes the Bank to Displaced Commercial Risk leading to loss of reputation and business. The Bank regularly monitors rate of return offered by competitors to evaluate the expectations of its Investment Account Holders. Bank's policy also provides for whole or partial waiver of the Mudarib share of income from investments due to it, to provide a reasonable return to its investors. Bank further mitigates this risk by setting up and maintaining an appropriate level of Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) to smoothen return to URIA holders.

The Bank comingles its own funds and URIA funds which are invested together. The Bank has an identified pool of assets where the URIA funds are invested the income from which is allocated to such accounts. Out of the gross income the investor's share is computed after deducting the Mudarib share and contribution to PER and IRR. The profit allocation schedule signed by the customer prior to investment contains the scheme of allocation of the Mudarib share and reserves.. Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts.

URIAs are carried at their book values and include amounts retained towards PER and IRR. Creation of these reserves results in an increase in the liability towards the pool of URIAs.

Till date, the Bank has not made any drawals on PER or IRR. Any movements on these accounts are therefore only on account of additional reserves added.

Subject to the provisions thereof, deposits held with the Bahrain office of Khaleeji Commercial Bank are covered by the Deposit Protection Scheme established by the Central Bank of Bahrain regulation concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

The details of income distribution to URIA holders is given below.

				Amount in BD
	2008	**2007**	**2006**	**2005**
Allocated Income to URIA	9,106,554	3,012,307	917,000	278,899
Distributed Profit	7,049,799	2,446,444	627,938	206,980
Mudarib Fees	2,056,754	565,863	299,062	71,919
As at 31 December				
URIA [1]	128,813,721	38,404,563	12,083,460	4,856,813
Profit Equalisation Reserve (PER)	648,749	206,099	60,000	13,945
Investment Risk Reserve (IRR)	472,619	133,604	43,277	8,697
Profit Equalisation Reserve-to-URIA	0.50%	0.54%	0.50%	0.29%
Investment Risk Reserve-to-URIA	0.37%	0.35%	0.36%	0.18%

[1] Represents average balance during the year.

Ratio of profit distributed to PSIA by type of URIA (based on tenor)

Tenor	Profit Paid amount in BD				Ratio of profit paid as a percentage of total			
	2008	2007	2006	2005	2008	2007	2006	2005
1 Month Mudharaba	3,346,280	1,576,071	334,753	107,889	47.5	64.4	53.4	52.1
3 Months Mudharaba	1,313,928	148,166	78,003	39,247	18.6	6.1	12.4	19.0
6 Months Mudharaba	372,645	70,774	25,814	9,158	5.3	2.9	4.1	4.4
12 Months Mudharaba	690,499	106,399	44,656	27,473	9.8	4.3	7.1	13.3
VIP Mudharaba	544,780	308,608	64,077	-	7.7	12.6	10.2	-
PER and IRR expenses	781,667	236,426	80,635	23,213	11.1	9.7	12.8	11.2
Total	**7,049,799**	**2,446,444**	**627,938**	**206,980**	**100.0**	**100.0**	**100**	**100**

Year	Avg. profit earned from URIA assets (%age of asset)	PER set aside as a %age of profit earned	IRR set aside as a %age of profit earned	Mudharib fees as a %age of profit earned	Profit paid as a %age of profits earned
2008	7.07	0.34	0.26	1.60	4.87
2007	7.84	0.38	0.24	1.47	5.75
2006	7.59	0.38	0.29	2.39	4.53
2005	5.74	0.29	0.18	1.48	3.80

Market Bench mark rates:

The Bank refers to the a group of commercial Islamic banks incorporated in the Kingdom of Bahrain so as to bench mark the rate of return on URIA:

Following are the profit rate declared and distributed to the investors by the Bank.

	2008	2007
1 Month Mudharaba	4.80	6.30
3 Months Mudharaba	5.25	5.20
6 Months Mudharaba	5.13	5.15
12 Months Mudharaba	5.40	5.30
VIP Mudharaba	4.52	5.09
Total Average Profit	**5.02**	**5.41**

8.4 Restricted Investment Accounts (RIAs)

The Bank offers Restricted Investment Accounts ("RIAs") to both small investors and high net worth individuals in the GCC. The Bank structures its RIA products to offer its customers an opportunity to choose from a wide range of returns, maturity periods, sectors, asset classes and risk levels.

All RIA offering documents ("Offering Document") are drafted and issued with input from the Bank's Investment Banking, Shari'a, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors.

The Board of Directors is responsible for providing clear guidelines for the development, management and risk mitigation of its' RIA investments and to ensure that there exist sound management and internal control systems to ensure that the interests of the investment account holders are protected at all times. Wherever it is necessary for the Bank to establish Special Purpose Vehicles for management of the investment, the Board ensures that the management of such SPVs are conducted in a professional and transparent manner by a duly appointed Board.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank's Policy regarding its' fiduciary responsibilities to the RIA investors and their funds, includes the following:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Shari'a principles and the CBB regulations;
- Appropriately advising Investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the Investor before accepting the investment funds;
- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the Investors with the same level of rigor as the Bank requires for its' own investments;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;
- Putting in place suitable resources and systems to manage and administer the investment and any necessary RIA SPV(s) to generate optimum return to Investors and to proactively manage all risks;
- Preparing and disseminating periodical investment updates to Investors on a regular basis during the tenor of the investment;
- Exiting the investments at the appropriate time and distributing the capital and profits to the Investor in a just and equitable manner as Mudareb; and
- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the abovementioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Shari'a, Financial Control, Legal, Investment Administration and the Risk Management Departments.

Investment update reports are prepared and disseminated by the Bank to the RIA Investors on a periodic (at least on a half yearly) basis outlining any material contracts/decisions, investment performance, distribution (if any) or exit criteria/ information.

RIA Name	Details	Launch Date	Projected Returns (%)	Return Frequency	% Returns p.a.			
					2008	2007	2006	2005
Al Hareth French Property Fund	An investment product designed to deliver attractive return from income producing properties in France, which is currently yielding 9.5% p.a. exceeding the 9% promised to investors. An approximate capital redemption of 30% was completed in April 2007. The product generated a capital gain of 6% on the redeemed portion.	2005	9	Annual	9.5	9.5	9.5	4.4
RIA-1 Safana	An investment structure designed to participate in the equity interest of Safana Investment WLL. A company established for the purpose of acquiring reclaimed land to subdivide and sell. The product has a three year term with the distribution expected upon exit in May 2010	2007	61.78 over 3 years	Bullet payment on maturity	-	-	-	-
RIA-2 Hajer Tower	A restricted investment structure designed to acquire the 21st floor of Al-Hajer Tower in the Holy City of Mecca. The exit of this product was completed in June 2008 with the expected return of 14.90% been met.	2007	14.90	Bullet payment on maturity	14.90	-	-	-
RIA-3 Aramis	Participation in Murabaha backed by a promissory issued by a guarantor SPV with BBB+ rating. KHCB offered this as a short-term investment to investors with 3 month term on a renewal option and successfully exited all investors from this project during quarter ended 1 March 2008	2007	3 M LIBOR + 187 bps per quarter	Quarterly	7.5	7.72	6.34	-
RIA 4 Janayen	A restricted Mudarabah Product designed to invest in income generating property mainly designed for labour Accommodation. Total cash yield on portfolio is currently in the region of 11% p.a. with quarterly distributions of 2.75% which is over the quarterly distribution rate of 2.50% (projected from April 2008 onwards) specified in the offering documents. Janayen is expected to exit on completion of 30 months in January 2010.	2007	2.5 per quarter	Quarterly	10.65	-	-	-
RIA-5 North Gate	A Restricted Mudharabah product which owns a 6.0% stake in Shaden Real Estate Investment WLL which will in turn through its subsidiaries, hold a parcel of reclaimed land and measuring approximately 3.875 million sq. meter located in Al Hidd, Muharraq. The mixed-use plot will be sold to end-users subsequent to the completion of infrastructure works. The distribution is expected to be in a bullet payment.	2008	90.66 over 3 years	Bullet return at maturity	-	-	-	-

9 Corporate Governance & Other Disclosures

9.1 Corporate Governance Structure

The Bank's corporate governance framework focuses on Board responsibility, oversight and management accountability vis-à-vis governing regulations and better practices. The framework is in line with global best practices and regulatory requirements which seek to balance entrepreneurship, control and transparency, while creating value for all stakeholders.

Corporate governance, the way the Board and Management is organised and how they operate in practice ultimately aims at leading the Bank towards successfully meeting its strategic objectives. The Board of Directors is accountable to the Bank's shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. To achieve this, the Board approves and monitors the Bank's strategy and financial performance, within a framework of sound corporate governance and effective risk management.

The Bank is committed to continuously reviewing and developing its corporate governance standards to ensure compliance with the requirements of the revised corporate governance framework being implemented by the Central Bank of Bahrain and other regulatory bodies, and also to keep abreast with international best practice.

9.2 Board of Directors

The Board of Directors currently comprises of ten members. During the year 2008, the shareholders during the Annual General Meeting (AGM), elected a new Board which represents the new and changed shareholding of the Bank. The Chairman of the Board of Directors is charged with regular supervision and assessment of executive management and is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Chief Executive Officer (CEO), and maintaining a dialogue with the Bank's stakeholders. The Board has constituted certain committees with specific delegated authorities to oversee and guide the management in specific areas of the Bank's operations and decision-making. The Board, either directly or through its various committees will oversee the management of the Bank.

The names, title, and other positions held by the Board of Directors are set out below.

- **Dr. Fuad Abdulla Al-Omar,** Chairman
  Director Since 2004 (Independent and Non-Executive)
  Chairman of MENA Real Estate Company, Kuwait
- **Dr. Essam Yousif Janahi,** Vice Chairman
  Director Since 2004 (Non-Executive)
  Nominated by Gulf Finance House BSC
  Chairman - Gulf Finance House
  Member -Shura Council of the Kingdom of Bahrain
  Chairman - Bahrain Financial Harbour Holding Company
  Chairman - Bayan Holding Company
  Vice Chairman - Al Areen Holding Company
  Board Member - Arab Finance House
  Board Member - Legends Development Company
  Board Member - Abu Dhabi Investment House
- **Abdul Latif Abdulla Al-Meer,** Director
  Director Since 2004 (Non-Executive)
  Nominated by Gulf Finance House BSC
  CEO - QInvest
  Board Member - Islamic Insurance & Assurance Co,Bahrain
  Board Member - Arab Finance House, Beirut
  Board Member - European Finance House, London
  Board Member - Asian Finance House, Malaysia
  Board Member - Gulf Finance House
- **Hesham Abdullatif H. Al Jaber,** Director
  Director Since February 2008 (Non-Executive)
  Nominated by Gulf Finance House BSC
  Board Member - Al-Jabr Trading Company, KSA
  Board Member - United Gas Transmission Co, UAE
  Board Member - Advanced Electronics Equipment, KSA
  Board Member - Golden Chip Company, KSA
  Board Member - Nattily Company, KSA

- **Talal Hazim R. Al Ghalib,** Director
  Nominated by Gulf Finance House BSC
  Director Since February 2008 (Non-Executive)
  Executive Director - Gulf Finance House
- **Abdulrahman Mohamed Al Shared,** Director
  Director Since February 2008(Independent and Non-Executive)
  Secretary General & Board Member -Awqaf and Minor Affairs foundation, Dubai
  Board Member -Dubai World Trade Centre
  Board Member - Dubai Investment Industry
- **Rashad Yusuf Abdulla Janahi,** Director
  Director Since February 2008 (Non-Executive)
  Nominated by Esam Yousif Janahi
  CEO - Abu Dhabi Investment House
  Chairman- Qatar Entertainment City
  Board Member - Al Arabi Private Equity Fund
  Board Member - Gulf Holding Company
  Board Member - Global Banking Corporation(GBCorp)
- **Abdulla A. Karim Showaiter,** Director
  Director Since February 2008 (Non-Executive)
  Nominated by Emirates Islamic Bank
  General Manager – Corporate & Investment, Emirates Islamic Bank
  Board Member - Bahrain Islamic Investment Co, Bahrain
  Board member - Saba Islamic Bank, Yemen
- **Abdullateef Moosa Al Abdul Razzaq,** Director
  Director Since February 2008 (Non-Executive)
  Nominated by Al Imtiaz Investment Company
  CEO Consultant - Al Imtiaz Investment Company
- **Ebrahim Hussain Ebrahim,** Director
  Director Since February 2008 (Executive)
  CEO - Khaleeji Commercial Bank
  Chairman - Capital Real Estate Company
  Chairman - Janayen Holding Company
  Chairman - Danat India investment Company
  Board member – Eqarat Al Khaleej
  Board member – First Gulf Real Estate Company SPC
  Board member – Gulf German Residences
  Board member – Amlak II Bahrain
  Board member – Amlak II Walkers
  Board member – Surooh Bahrain SPC
  Board member – Danat India Holding Company
  Board member – Jawhara Greens Company

Note: The qualifying criteria for 'Independent' Directors are as per the Corporate Governance guidelines of the Central Bank of Bahrain.

The Chairman, the Board of Directors and the Board Committees have direct access to the heads of Internal Audit, Risk Management, Regulatory Compliance & Shari'a Compliance.

9.3 Board of Directors' Interests

The members of the Board collectively held 17,859,801 shares in the Bank as of the year ended 31 December 2008 (2007: 10,285,047 shares).

9.4 Code of Conduct

The Board has approved a code of conduct for all staff of the Bank as well as the Board members. The code which includes how to deal with areas of conflict of interest, binds the directors, executive management and staff to the highest standards of professionalism and due diligence on discharging their duties.

9.5 Insider Trading

During 2008, the Board approved the policy on Insider Trading in line with regulatory requirements with the main objective of preventing abuse of inside information. Insiders include all board members, all executive management and any person from the Bank or working on assignments related to the Bank who have access to material and price sensitive information.

9.6 Board Committees

The Board of Directors has constituted four Committees with specific delegated authorities.

Committee	Members	Primary Responsibilities
Board Nominations, Remunerations & Governance Committee (BNRGC)	Dr. Esam Yusuf Janahi Abdulla Abdulkarim Showaiter A. Latif Moosa Al Abdulrazzaq	Hr & Related Policies Compensation And Incentives Human Resources Administration Corporate Governance
Board Audit Committee (BAC)	A.Latif Abdulla Al Meer Talal Hazim Rajih Al Ghalib Rashad Yousif Janahi	Internal Audit External Audit Accounting Policies Compliance Anti Money Laundering
Board Investment & Credit Committee (BICC)	Dr. Fuad Abdulla Al Omar Dr. Esam Yusuf Janahi Abdulla Abdulkarim Showaiter A. Latif Moosa Al Abdulrazzaq Ebrahim Hussain Ebrahim	Investment & Credit Approval Limits Investment Policies Asset Liability Management
Board Risk Management Committee (BRMC)	Dr. Fuad Abdulla Al Omar Hesham Hamad Abdulatif Al Jabr Abdulrahman Mohamed Al Shared	Risk Management Policies Related To Risk Management
Insiders Committee	Dr. Fuad Abdulla Al Omar Dr. Esam Yusuf Janahi Ebrahim Hussain Ebrahim	Insider Trading

The Board of Directors and its committees receive regular reports on various aspects of the Bank's business from senior management as well as from internal audit, risk management, operations and finance departments.

9.7 Shari 'a Supervisory Board

The Bank's Shari'a Supervisory Board consists of three 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.

- **Dr. Fareed Yaqoob Al Miftah,** Chairman
  Member of the Supreme Council of Islamic Affairs
  Undersecretary of the Ministry of Islamic Affairs, Kingdom of Bahrain
  Former judge of the high Shari' a Court
  Former Lecturer at the University of Bahrain.
  PhD from the University of Edinburgh, United Kingdom.
- **Dr. Fareed Mohammed Hadi,** Executive Member
  Assistant Professor at the College of Arts, Department of Arabic and Islamic studies, University of Bahrain
  Member of Shari'a Supervisory Boards of a number of Islamic banks
  PhD in Ibn Hazm's Methodology of Jahala, Edinburgh university, UK
  PhD in Al-Bukhari's Methodology, University of Mohammed V, Morocco
- **Shaikh Nizam Mohammed Saleh Yaqoobi,** Member
  Executive Member of the Shari'a Supervisory Board of Abu Dhabi Islamic Bank
  Executive Member of the Shari'a Supervisory Board of Bahrain Islamic Bank
  Executive Member of the Shari'a Supervisory Board of and Shamil Bank
  Member of Shari'a Supervisory Boards of a number of Islamic banks
  Board Member of the Dow Jones Islamic index

- **Abdulnasser Al Mahmood**
  Head of Shari'a Compliance - Regulatory Shari'a & Compliance

9.8 Executive / Management Committee

The Board of Directors delegates the authority for day-to-day management of the business to the Chief Executive Officer (CEO) who is responsible for implementing the Bank's strategic plan. The CEO manages the Bank through the following management committees

Committee	Primary Responsibilities
Management Committee	Strategy, Performance Review, Budget, Human Resources, Administration
Asset Liability Management Committee	Balance Sheet Management, Funding, Liquidity, Banking Relationships
Executive Credit & Investment Committee	Review Of Investments, Exit And Credit Proposals, Monitoring Of Investments
Executive Risk Management Committee	Risk Management Policies, Risk Review, Provisions And Impairment

Executive Management & Other Senior Management

The names & title of each member of our Executive& other Senior Management are set out in the table below:

- **Mr. Ebrahim Hussain Ebrahim,** Chief Executive Officer & Board Member
  Experience - Over 25 years of experience in both Islamic and conventional banks and financial institutions. Joined the Bank in 2004.

  Qualification - Master of Business Administration with a concentration in Finance

- **Mr. Silvan Varghese,** Deputy General Manager & COO
  Experience - Over 16 years experience in banking and financial services industry in the areas of risk and credit management, project finance and corporate banking. Joined the Bank in 2007

  Qualification - BS in Chemical Engineering from BITS, Pilani,India, MBA from the Indian Institute of Management (IIM), Lucknow, India, certified by Global Association of Risk Professionals (GARP) as a Financial Risk Manager (FRM)

- **Fuad Ali Taqi,** Deputy General Manager- Commercial Banking
  Experience – Over 27 years of banking experience in Islamic and conventional banks. Joined the Bank in 2006.

  Qualification - Business Studies Diploma, currently enrolled in an MBA program.

- **Dimitry Blasi,** Deputy General Manager- Investment Banking
  Experience – Over 12 years experience Islamic and conventional banking including in a number of prominent international jurisdictions. Joined the Bank in 2005.

  Qualification - ACA (United Kingdom), qualified lawyer (NSW, Australia)

- **Mahdi A. Nabi Mohammed,** Assistant General Manager – Operations & Administration
  Experience - Over twenty five years of banking experience. Joined the Bank in 2005. Prior to joining the Bank, he held several senior positions including the Head of Treasury and Investment Department and a Deputy Senior Manager for the entire Operations Division.

  Qualification - Certified Diploma in Accounting & Finance from The Chartered Association of Certified Accountants (ACCA), MBA from the University of Strathclyde, United Kingdom.

- **Khalil Zaabi,** Head of Investment Placement- Investment Banking
  Experience - Over 25 years of banking experience in Islamic, conventional bank and financial institutions. Joined the Bank in 2006.

  Qualification – Diploma in Mathematics from Arthur King Collage, Canada, Diploma in Computer Programming from Computer Institute of Canada.

- **Ahmed Ali Bucheery,** Head of Internal Audit
  Experience – 15 years of internal audit experience with banks. Joined the Bank in 2007.

  Qualification - Certified Internal Auditor (from the Institute of Internal Audit, USA), B.S Accounting from King Fahad University of Petroleum and Minerals.

- **Hussam Saif,** Head of Treasury
  Experience – 19 years of experience in treasury and Islamic banking. Joined the Bank in 2007.

  Qualification - Graduate of Western International University – London with a degree in Business Administration & Management.

- **T N Ramesan,** Head of Risk & Credit Management
  Experience - 29 years of banking experience. Joined the Bank in 2007.

  Qualification - MSc in Physics from the Indian Institute of Technology, Madras, India, Diploma in International Finance & Investment from Hong Kong Management Association, Certified Associate of the Indian Institute of Bankers

- **Yaser Mudhafar,** Head of Financial Control
  Experience – 11 years extensive experience in the Islamic banking industry. Joined the Bank in 2005.

  Qualification - CPA, CIPA, EMBA and a Bachelor of Science in accounting from University of Bahrain

- **Fetooh Al Mannai,** Head of Human Resources
  Experience – 13 years of experience in human resources, training and administration Joined the Bank in 2007

  Qualification - MBA and a BA (Hons) in Human Resource Management, Member of Bahrain Society for Training and Development (BSTD), Member of Bahrain Management Society (BMS), Fellow of the Chartered Institute of Personnel & Development (Chartered FCIPD), Member of Society of Human Resource Management (SHRM)

- **Ramnath Narayanan,** Head of Legal- Legal Department
  Experience – Over 11 years experience in Legal and Banking industry. Joined the Bank in 2008.

  Qualification – Master of Laws from the University of Virginia School of Law, USA, Bachelor of Laws from the University of Madras, India, and a Certified associate of the New York Attorney and Solicitors Regulation Authority.

- **Abdulnasser Al Mahmood,** Head of Shari'a Compliance - Regulatory Shari'a & Compliance
  Experience – Over 18 years of experience in Shari'a Audit and Islamic banking. Joined the Bank in 2008.

  Qualification – BS in Shari'a and Islamic studies, Associate Diploma in Shari'a Control, currently enrolled in MBA Program.

- **Ameen Bahaaldin,** Board Secretary
  Experience – 15 years in the legal field. Joined the Bank in 2007.

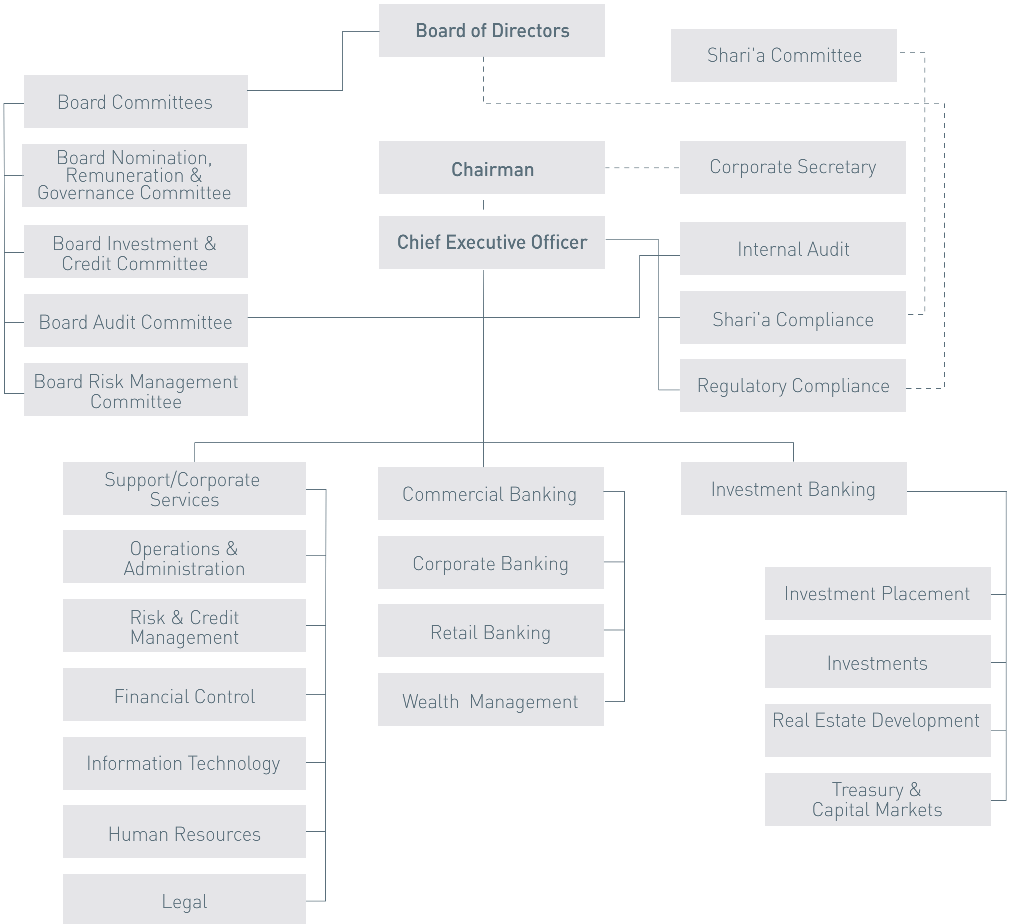
  Qualification - Master in Political Science from University of Khartoum, Postgraduate Diploma in International Relations.

9.9 Executive Management Interests

The members of the Executive Management team held 2,440,608 shares as at 31 December 2008 (2007: 1250,000 shares).

9.10 Organisation Chart

Set out below is the Bank's organisation chart, which outlines the different committees and the lines of reporting.



There have been no major structural changes to the organisation structure from the previous year.

9.11 Executive compensation

The Bank has both a short-term and long-term compensation structure for its executive management which has been developed based on current market surveys and industry norms. The Bank also operates an incentive scheme where in eligible employees are awarded a combination of shares and cash incentives on achievement of pre-determined performance targets. For further details please refer note 20 in the consolidated financial statements for the year ended 31 December 2008. The Board of Directors is entitled to sitting fees and their annual remuneration is subject to the approval of the shareholders at the end of each year.

9.12 Shari'a Compliance, Regulatory Compliance and Anti-Money Laundering

Compliance with Shari'a laws, regulatory and statutory requirements is an ongoing process and the Bank is conscious of its responsibilities in observing all applicable provisions and best international practices in its functioning. The Bank has established the Shari'a Compliance Function and the Regulatory Compliance Function in keeping with Basel and CBB guidelines. The respective units act as a focal point for all Shari'a and regulatory compliance and for adapting other best practice compliance principles.

Anti-Money Laundering measures form an important area of the Compliance Function. The Bank has an Anti-Money Laundering and Combating Terrorist Financing Policy and Procedure approved by the Board, which contains sound Customer Due Diligence measures, procedure for identifying and reporting suspicious transactions, a programme for periodic awareness training to staff, record-keeping, and a designated Money Laundering Reporting Officer (MLRO). The Bank's Anti-Money Laundering measures are audited by independent external auditors every year and their report is submitted to the CBB. The Bank is committed to combating money laundering and, towards this end, implements all 'Prevention of Money Laundering Regulations' and other guidelines issued by the CBB.

10 Financial performance

Following are basic quantitative indicators of the financial performance:

	2008	2007	2006	2005
Return on Average Equity	20.00%	23.50%	20.89%	13.00%
Return on average assets	7.40%	11.50%	9.54%	8.11%
Net finance margin	154.11%	187.97%	144.59%	176.71%
Cost- to- Income-Ratio	42.79%	30.46%	41.49%	37.65%

For detailed discussion on the performance for the year kindly refer Chairman's statement.