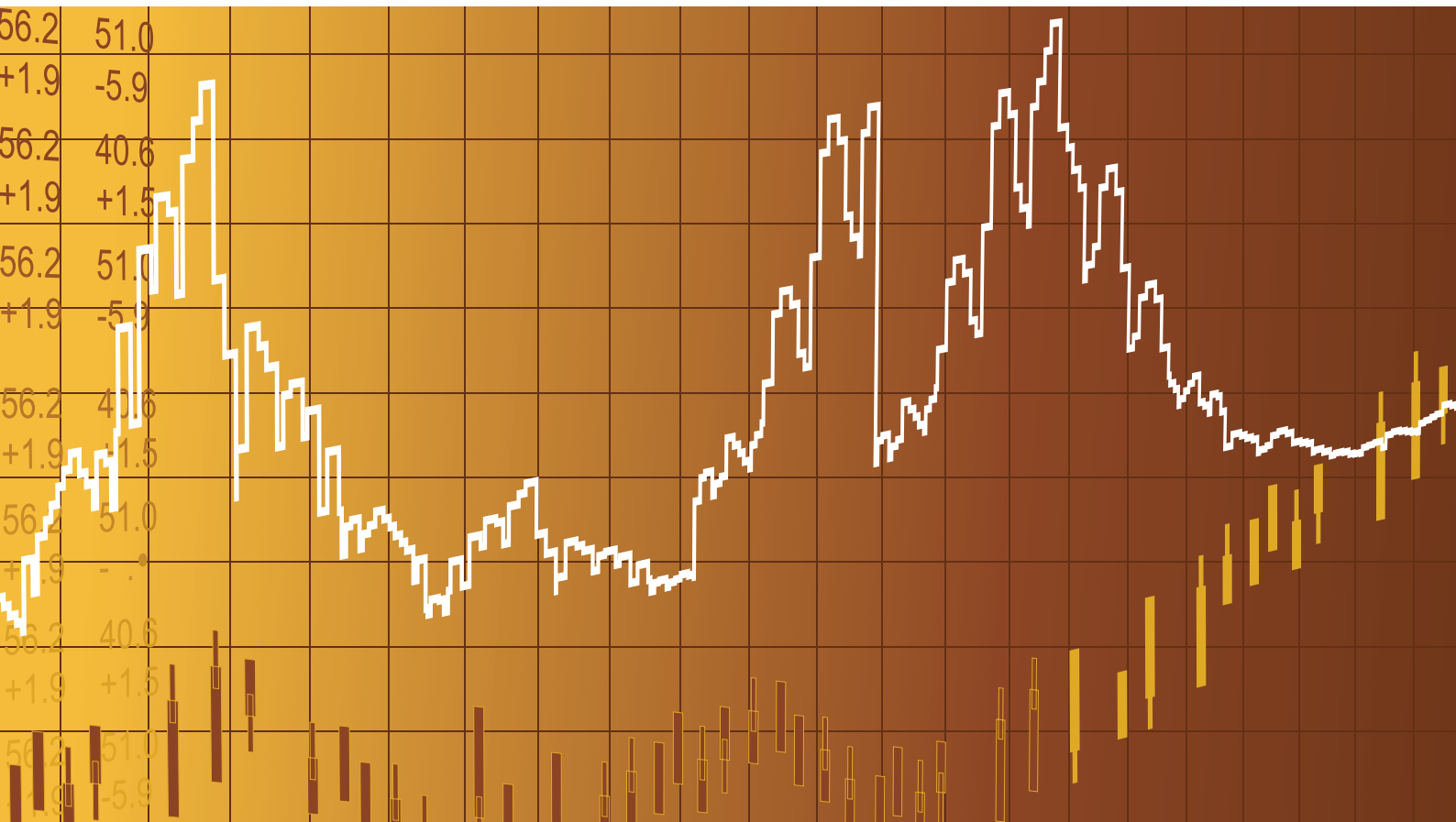
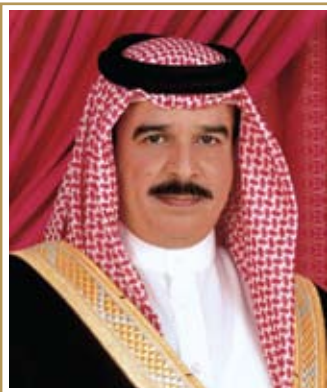


ANNUAL REPORT 2008





**H.H. Shaikh Khalifa
Bin Salman Al Khalifa**
The Prime Minister



**H.M. King Hamad
Bin Isa Al Khalifa**
The King of
The Kingdom of Bahrain



**H.H. Shaikh Salman
Bin Hamad Al Khalifa**
The Crown Prince and
Deputy Supreme Commander



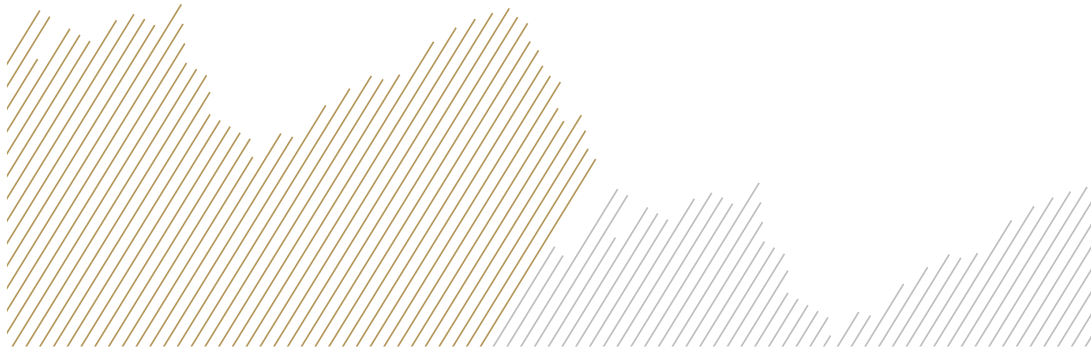
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BAHRAIN STOCK EXCHANGE



Vision:

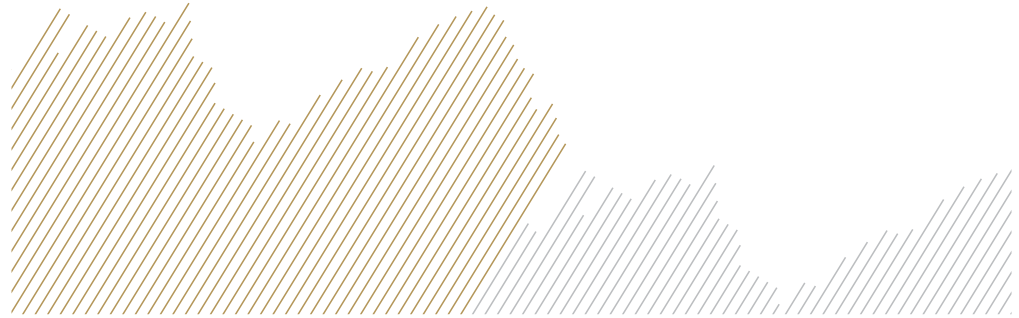
To enhance the investment environment in securities and investment instruments in order to become a leading regional and international market and a major listing center for mutual funds.

Mission:

To continuously improve all activities performed by the exchange in accordance to the international standards to ensure a fair, transparent, diversified and efficient market, capable of meeting the demands of all parties involved with BSE with high professionalism. BSE will aim to enhance its competitiveness by attracting investments in order to achieve its objectives and strategies, thus contributing to the economic growth of the Kingdom of Bahrain.



H.H. Shaikh Salman bin Hamad Al Khalifa The Crown Prince and Deputy Supreme Commander during signing the MOU between BSE and Singapore Exchange (SGX).



Chairman's Statement | 2008

The global financial crisis that began with the mortgage crisis in the U.S. has severely affected the performance of bourses and financial markets worldwide, triggering sharp declines in indices compared to the gains recorded in the previous years.

The indices of GCC and Arab financial markets along with Bahrain Stock Exchange were apparently affected by the crisis to reflect the interrelation between financial markets worldwide.

The performance of Bahrain All Share Index in 2008 was not any different than the other indices of bourses, Arab and financial markets. The index posted negative growth of 34.52% during 2008 compared to 2007 although the trading activity was unprecedented in terms of the value and volume of shares traded, and the number of transactions executed throughout the year.

During 2008, BSE implemented its strategic plan that was approved in 2007 in which it upgraded its technical capabilities, allowing the Exchange to launch its online trading service to brokers. Moreover, BSE developed the Exchange's Settlement and Central Depository services with the aim of facilitating investors' transactions and allowing them to perform most of their transactions through the Exchange's website. In implementing BSE's strategy, BSE in cooperation with the Central Bank of Bahrain listed several mutual funds on the Exchange during the year.

Shaikh Salman bin Hamad Al Khalifa The Crown Prince and Deputy Supreme Commander honored the signing ceremony held in Singapore by his presence, where a Memorandum of Understanding (MOU) between BSE and Singapore Exchange (SGX) was signed. The MOU mainly aims to foster a closer relationship and develop channels of information exchange in the areas of operations, regulatory framework, and the equities products traded on the respective markets.

In addition, BSE has taken a strategic move towards developing the Exchange by signing a consultancy agreement with Singapore Exchange (SGX). According to this consultancy agreement, SGX will provide recommendations in order to develop BSE for the purpose of enhancing its competitiveness both regionally and internationally.

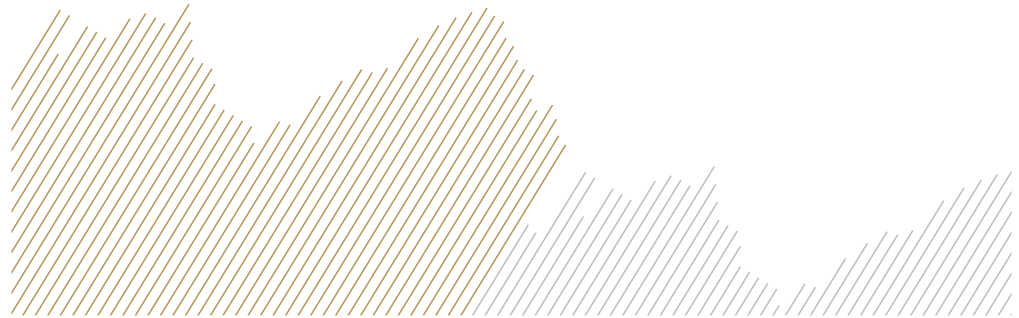
In regards to BSE's relocation to Bahrain Financial Harbour, the contractor has been appointed and the setup of BSE's offices has been proceeded. The Exchange is expected to fully commence its operations and provide its services from its new premises in the second half of 2009.

BSE's financial results for the year 2008 showed positive results that led to a growth in the operating surplus activate revenue that reached BD 1,284,338 compared with BD 901,334 in 2007, posting a growth of 42.49%. The accumulated surplus also increased to reach BD 3,950,112 compared to BD 2,665,774 in 2007 recording a growth of 48.17%.

On behalf of the members of the Board of Directors of BSE and BSE's staff, I would like to express my thanks and gratitude to His Majesty King Hamad bin Isa bin Salman Al Khalifa, King of the Kingdom of Bahrain and His Highness Shaikh Khalifa bin Salman Al Khalifa, the Prime Minister, and His Highness Shaikh Salman bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander for their guidance and continuous support of BSE.

I would also like to extend my thanks to the members of BSE's Board of Directors for their efforts in developing the BSE during the previous years. I would also like to thank BSE's management and staff for their hard work during the year, hoping that such efforts will continue to further develop the Exchange.

Rasheed Mohammed Al Maraj
Chairman



Director's Message | 2008

Bahrain Stock Exchange (BSE) during 2008 reported a record in its trading activity where both the value and volume of shares traded increased by 95.33% and 96.91% respectively compared to 2007, while the number of transactions was also up by 57.14%.

Despite the positive performance of the trading activity witnessed at BSE during the first half of 2008, BSE's performance was adversely affected during the second half of the year due to the impact of the global financial crisis on bourses and financial markets worldwide. Bahrain All Share Index declined along with the indices of GCC markets. The percentage declines ranged between 28% and 72%, where Bahrain All Share Index decreased by 34.25% compared to its closing at the end of 2007, and BSE's market capitalization dropped 26.17%.

In the year 2008, Khaleeji Commercial Bank was listed as a Bahraini public shareholding company with a paid-up capital of BD100 million. In addition, two Sukuk issues were listed with a total value exceeding US\$1.25 billion. The first Sukuk issue was Dar Al Arkan Sukuk issued by Dar Al Arkan International Sukuk Co. with a value of US\$ 1 billion, while the second issue was the Islamic Leasing (Ijara) Sukuk of the Kingdom of Bahrain with a value of BD95 million. A total of 10 mutual funds were also listed this year. With these listings, the number of companies listed on BSE reached 51, Bonds and Sukuk issues 15, and the mutual funds 39.

In executing its strategy, BSE had made several achievements this year starting with the launching of the online trading service. Online trading allows brokerage firms to provide such service in a way that will make their clients more capable of interacting with the shares' price fluctuation. It also enables investors to track their portfolios through the brokers' electronic trading system regardless of geographic location, in which we hope that online trading will enhance trading activity in the market. BSE also extended its trading session from two hours to three hours to give investors and brokers more time to place their orders and execute transactions. Moreover, BSE launched a variety of services through its website, allowing investors to open their accounts electronically, monitor the execution of transactions, and keep track of their portfolios.

In enhancing the joint cooperation between BSE and stock markets worldwide for the purpose of benefiting from their experiences, BSE signed a Memorandum of Understanding (MOU) with Singapore Exchange in the presence of his Excellency Shaikh Salman bin Hamad Al Khalifa, Crown Prince and Deputy Supreme Commander. The MOU aims to collaborate for the benefit of the financial services industries in Singapore and Bahrain and develop channels of information exchange in the areas of operations, regulatory framework, and the equities traded on the respective markets.

BSE also signed a Memorandum of Understanding (MOU) with Dubai Financial Market (DFM). The MOU aims at strengthening and widening the areas of cooperation between Bahrain Stock Exchange and Dubai Financial Market, especially in the areas of mutual expertise and exchange of information relating to the developments in both markets.

Moreover, BSE signed a consultancy agreement with Singapore Exchange (SGX). According to this agreement, Singapore Exchange will set up a plan to develop BSE in a way that enhances its competitiveness and play a more effective role in the economic development of the Kingdom of Bahrain.

On the financial front, BSE managed to increase its total income by 43.6%, from BD2,360,827 to BD3,391,776 in 2007, while the total expenses reached BD2,107,438 in 2008 compared to BD1,459,493 increasing by 44.3% resulting in an operating surplus activate revenue of BD1,284,338 in 2008 compared to BD901,334 in 2007, recording a growth of 42.4%. Total assets increased from BD3,435,645 in 2007 to BD4,628,121 in 2008, marking growth of 34.7%, while total liabilities decreased by 11.9% from BD769,871 in 2007 to BD678,009 in 2008.

BSE continued its efforts to develop and improve the skills of the staff by conducting a training program in all different areas in order to ensure they are updated with the latest developments in their work areas in a way that will make them more competitive and capable of facing future challenges by performing their jobs with high professionalism.

In regards to BSE's relocation to Bahrain Financial Harbour, the Exchange's premises is in the construction process and it is expected to move to the new location during the second half of 2009.

On behalf of the members of the Board of Directors of BSE and BSE's staff, I would like to express my thanks and gratitude to His Majesty King Hamad bin Isa bin Salman Al Khalifa, King of the Kingdom of Bahrain and His Highness Shaikh Khalifa bin Salman Al Khalifa, the Prime Minister, and His Highness Shaikh Salman bin Hamad Al Khalifa, Crown Prince and Deputy Supreme Commander for their guidance and continuous support of BSE since its establishment.

I would also like to express my thanks and appreciation to the members of BSE's Board of Directors for their contribution and efforts to develop the BSE. I also thank BSE's management and staff for their efforts during the year, hoping them greater success in the coming years by working as a team towards achieving BSE's mission. I would also like to extend my thanks to the listed companies and brokerage firms for their support and cooperation.

Fouad A.Rahman Rashid
Director of the Exchange

BOARD OF DIRECTORS

Mr. Rasheed Mohammed Al Meraj
Chairman

Mr. Anwar Khalifa Al Sadah
V. Chairman
Until 31st May 2008

Mr. Ali Salman Thamer **
Director

Mr. Khalid Mohammed Kanoo
Director

Dr. Esam Abdulla Fakhroo
Director

Mr. Hassan Ali Juma *
Director

Shaikh Mohammed bin Issa Al Khalifa *
Director

Mr. Adel Mohammed A. Shafi El Labban *
Director

Mr. A. Majeed A. Salam Breish **
Director

* Member of the Executive Committee

** Member of the Auditing Committee

MANAGEMENT TEAM

Mr. Fouad A. Rahman Rashid
Director

Mr. Yousif Ahmed Al Sharaf
Head, Administration and Finance

Mr. Ebrahim Jaffar Al Aradi
Head of Trading and Members' Affairs

Mr. Mohammed Khalid Hamed
Head of Internal Audit

Mr. Adel Sameer Tawfiq
Legal Advisor

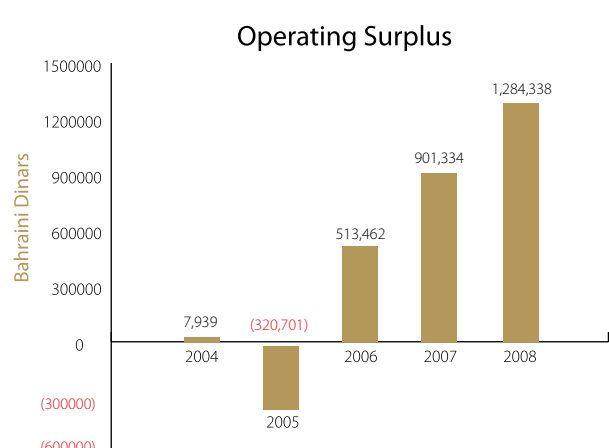
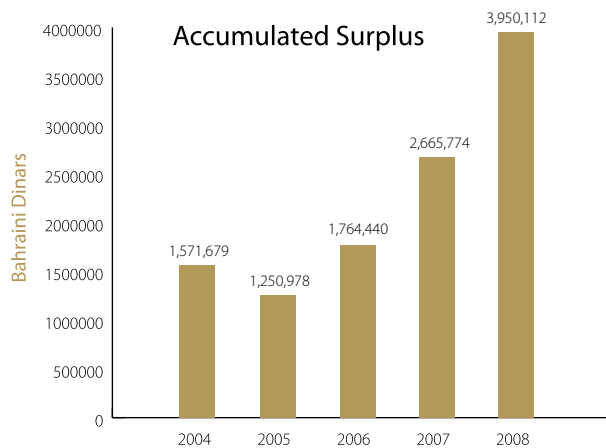
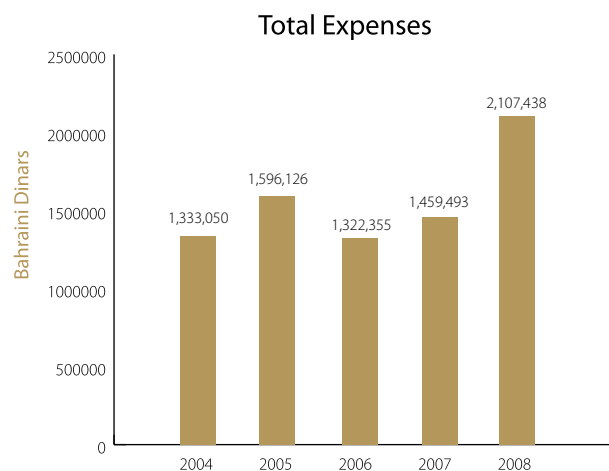
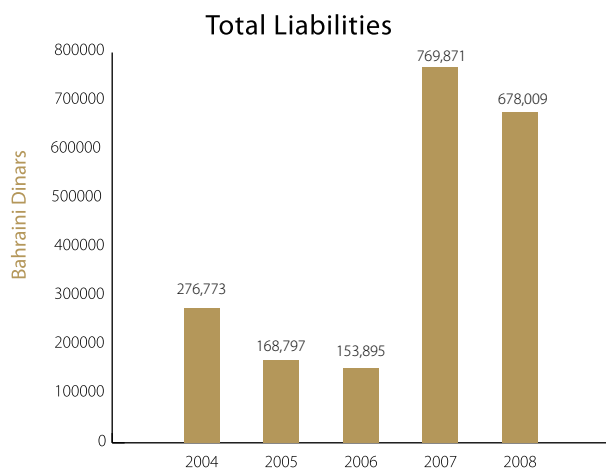
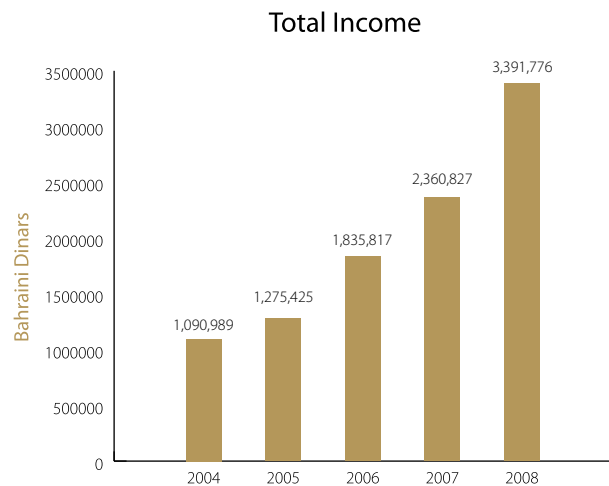
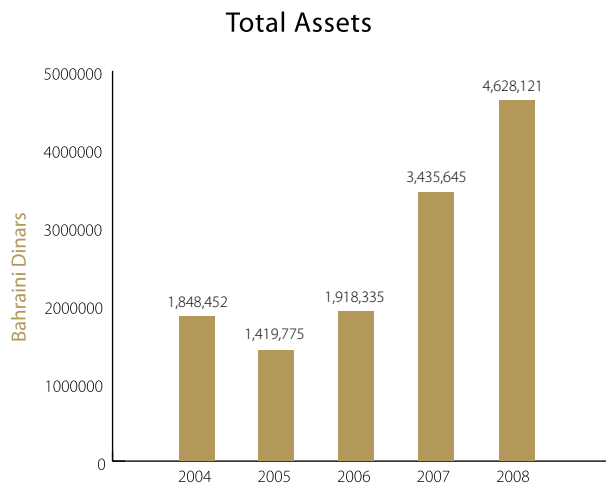
Mr. A. Hameed Ahmed A.Ghaffar
Head of Financial Analysis & Research

Mr. Ali Ahmed Al Mansoor
Head of Public Relations & Marketing

Mr. Abdulla Jaffar Abdin
Head of Clearing & Settlement and Central Depository

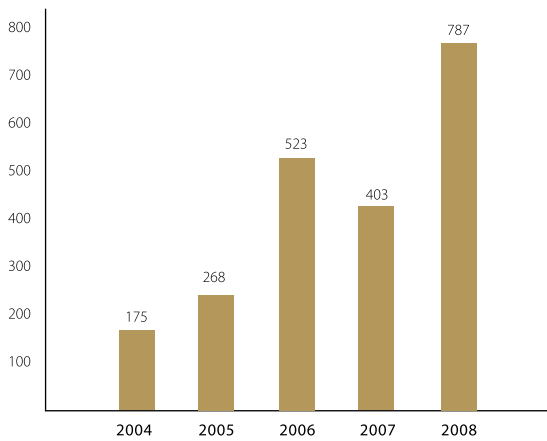
Mrs. Narjes Farookh Jamal
Head of Information Tecnology

BSE's Five-Year Financial Highlights | 2004 -2008

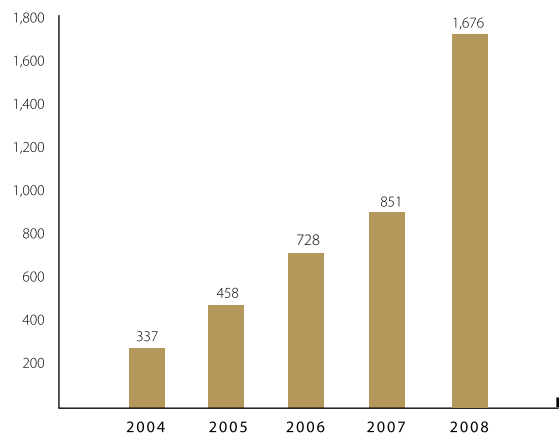


BSE's Five-Year Trading Activities | 2004 – 2008

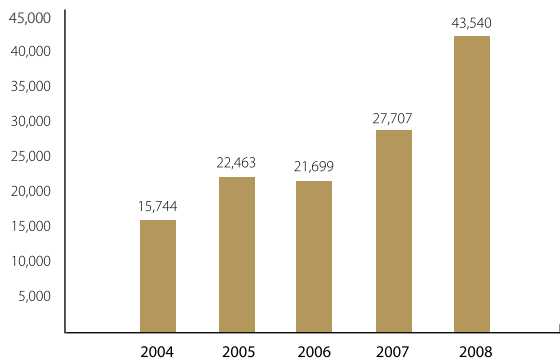
Value of Shares Traded (BD Million)



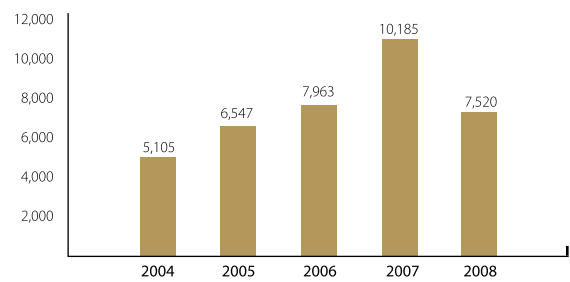
Volume of Shares Traded (Million Shares)



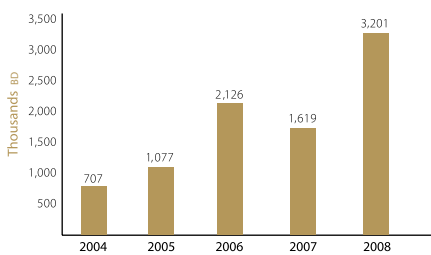
Number of Transactions



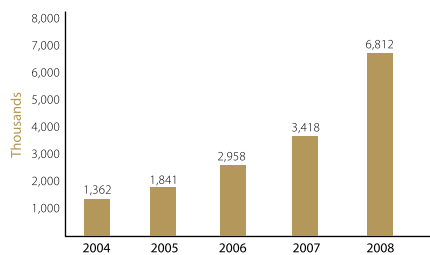
Market Capitalization (BD Million)



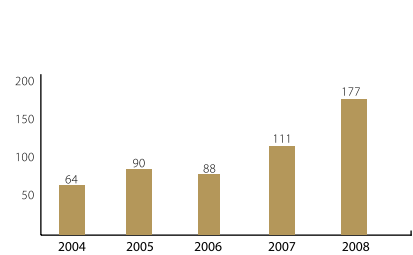
Daily Average Value



Daily Average Volume



Daily Average Transactions





ANNUAL REPORT 2008

BAHRAIN STOCK EXCHANGE

World Stock Markets' Performance During | 2008

The International Markets:

Financial markets worldwide have been hit by the worst financial crisis since the Great Depression in the 1930's, leading to the collapse of a few large institutions. The crisis began when financial institutions started providing high-risk mortgage without sufficient guarantees of meeting their obligations. The consequences of the crisis proliferated to reach economies all over the world, threatening the advent of a recession since the U.S. economy is interrelated to the European and Asian economy.

The International Monetary Fund (IMF) re-evaluated the growth of the world economy during 2008 to reach 3.9%, indicating the depth and severity of the financial crisis. The reason behind that was the failure to react and take effective action on time. While the consequences of the crisis became evident, six major central banks ensured the necessity of coordinating the actions that should be taken, agreeing on enforcing more flexible monetary policies and reducing interest rates simultaneously as well injecting liquidity directly to financial markets.

With the emergence of the deficiency in the financial system, more efforts were taken to recover the financial system by pumping more liquidity in banks, while some institutions began to acquire other collapsing institutions, either wholly or partially. Governments started providing guarantees on bank deposits and other financial assets, while some countries put financial and monetary plans to prevent the crisis.

The Federal Reserve reduced the U.S. interest rates to 0.25% in 16 December 2008 compared to 4.25% at the beginning of the year. The Central Bank of England also reduced its interest rates to 2% in 4 December 2008 compared to 5.50% at the beginning of the year. Moreover, the European Central Bank interest rates dropped to 2.50% in 9 December 2008 in comparison with 4% at the beginning of the year. The Japanese Central Bank also cut its interest rates to 0.10% in 22 December 2008 compared to 0.5% at the beginning of the year.

The price of the Brent oil fell by 58.16 dollars per barrel in 2008 compared to the beginning of the year, closing at 36.17 dollars in comparison with 94.33 dollars at the beginning of 2008, posting a decline of 61.66%.

The Euro and Sterling Pound decreased against the U.S. dollar during 2008 compared to the beginning of the year by 4.19% and 26.31% respectively. The U.S. dollar also declined by 18.81% against the Yen during the same period. On the other hand, the price of gold increased by 5.41% compared to the beginning of the year to reach US \$878.2 per ounce, while the price of silver decreased by 23.49%.

Regarding the major market indices, the French CAC40 index posted the largest decline, decreasing by 42.68%. Then came the Japanese Nikkei225 index dropping by 42.12%, the German DAX index by 40.37%, the American S&P500 index by 38.49%, and finally the British FTSE100 index by 31.97%.

Performance of International Financial Markets

| Date | 2008 | 2007 | Growth (%) |
|-------------------|----------|-----------|------------|
| France (CAC40) | 3,217.97 | 5,614.08 | (42.68) |
| Japan (Nikkei225) | 8,859.56 | 15,307.78 | (42.12) |
| Germany (DAX) | 4,810.20 | 8,067.32 | (40.37) |
| America (S&P500) | 903.25 | 1,468.36 | (38.49) |
| UK (FTSE100) | 4,392.68 | 6,456.89 | (31.97) |

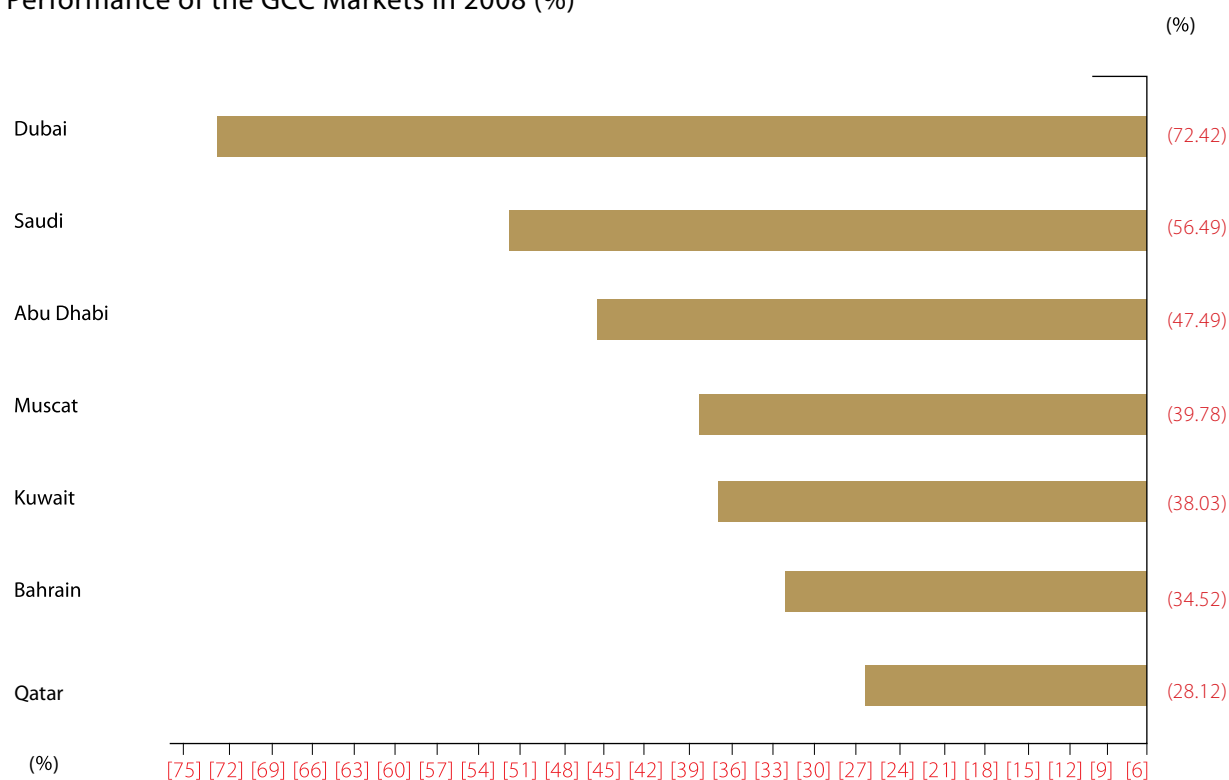
The Arab Markets:

Tunis Stock Exchange recorded a growth of 1.78% during 2008, while the percentages of other Arab stock markets decreased variedly, as the market index for Cairo and Alexandria declined by 56.43%, Beirut Stock Exchange's index (21.54%), Amman Stock Exchange's index (36.27%), and Casablanca Stock Exchange decreased by 13.48%.

The GCC Markets:

Similarly, GCC stock markets fell significantly, posting sharp declines in all of the indices. Dubai Financial Market decreased by 72.42%, followed by the Saudi Stock Exchange (56.49%), Abu Dhabi Securities Exchange (47.49%), Muscat Securities Market (39.78%), Kuwait Stock Exchange (38.03%), Bahrain Stock Exchange (34.52%), and Doha Securities Market (28.12%).

The Performance of the GCC Markets in 2008 (%)



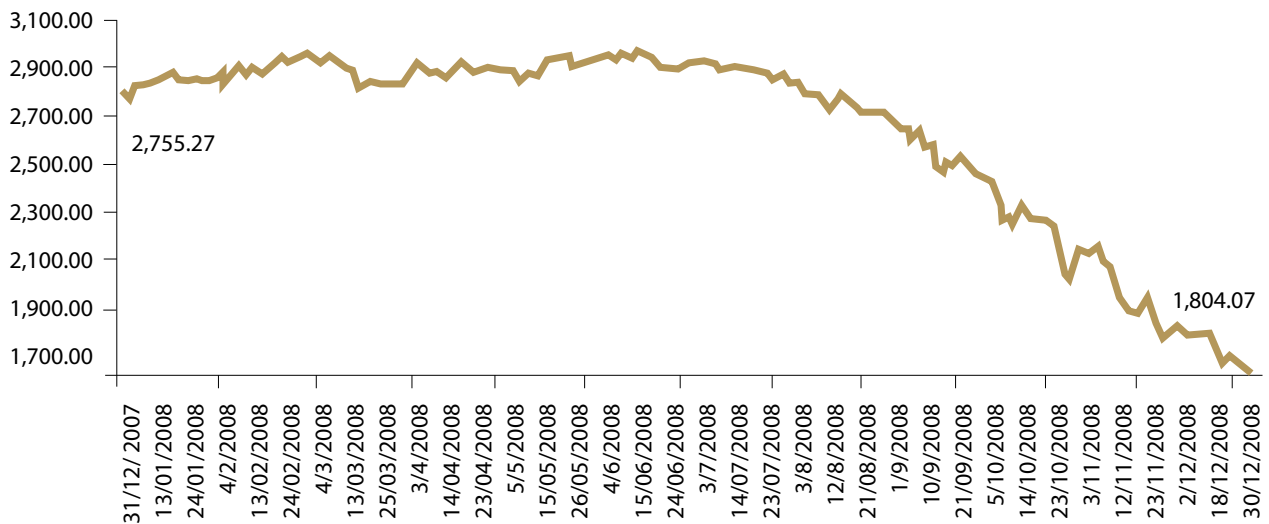
The Local Market:

The GDP of Bahrain posted a growth of 5.2% in 2008 compared to 6.1% in 2007. Bahrain has one of the most diversified sources of income in the region, making it the least affected by the volatility of oil prices. Bahrain was ranked the 16th internationally in the economic freedom index in the MENA region, and it was the only country rated among the first 20 countries in the world's economic freedom. Bahrain was also ranked first among GCC countries, maintaining this rank for fifteen years since the establishment of the index of economic freedom. The index includes ten components: business freedom, trade freedom, fiscal freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, labor freedom.

According to the Global Competitiveness Report 2008-2009 released by the World Economic Forum and is based on the Global Competitiveness Index, the Kingdom of Bahrain was ranked the 14th out of 134 countries in financial markets sophistication leading the other countries in the region. Such ranking supports Bahrain's position as a leading financial market in the region as well as the region's financial hub due to the availability of a variety of distinctive financial services and an advanced and transparent legislative system enabling it to attract foreign investments.

Regarding the performance of Bahrain Stock Exchange in 2008, Bahrain All Share Index decreased by 34.52% closing at 1,840.07 points at the end of 2008, marking the lowest close in 2008 by losing 951.20 points.

Performance of Bahrain All Share Index during | 2008



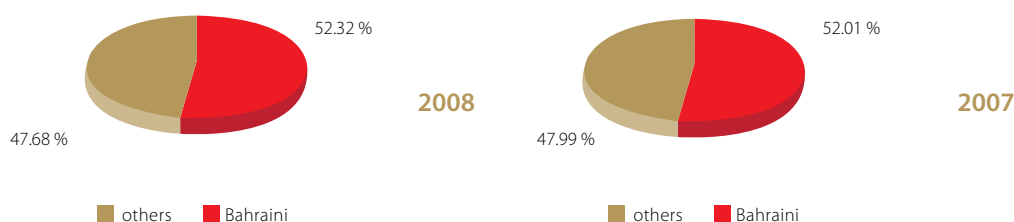
Regarding the price movements, the prices of 9 companies increased, while the prices of 31 companies decreased, while 11 companies maintained their previous prices. The total value of shares traded reached BD787.4 million compared to BD403.1 million in 2007, recording a growth of 95.33%. The volume of shares traded increased to 1.68 billion shares compared to 851.1 million shares in 2007.

The Commercial Banks Sector captured the largest share in terms of the value of shares traded capturing 56.04% of the total value, followed by the Investment sector (26.1%), Services Sector (13.27%), Insurance (0.63%), Hotels & Tourism (0.44%), Industrial (0.05%). BBK came first among the major advancers in terms of the value of shares traded, with BD 301.5 million accounting for 38.3% of the total value of shares traded. Then came Gulf Finance House capturing 11.2% of the total value, Batelco (10.3%), Al Salam Bank (9.4%), and Ithmaar Bank (7.5%).

In terms of the volume of shares traded, the Commercial Banks Sector captured the largest share accounting for 56.38% of the total volume, followed by the Services Sector (11.34%), Hotels and Tourism Sector (1.26%), Insurance Sector (0.74%), and the Industrial Sector (0.09%). BBK came first among the major advancers in terms of the volume of shares traded, with 436.7 million shares, accounting for 26.1% of the total volume. Then came Al Salam Bank (20.2%), Ithmaar Bank (14.3%), Batelco (6.7%), and Khaleeji Commercial Bank (5.6%).

The percentages of trading according to nationalities showed that Bahrainis had the biggest share capturing 52.3% of the total value traded, while other nationalities accounted for 47.7% of the total value of transactions.

Percentage of Trading in Terms of Nationality (Buy & Sell)



In terms of new listings in 2008, Khaleeji Commercial Bank was listed in June 2008 with a paid-up capital of BD100 million, bringing the total number of listed companies on Bahrain Stock Exchange to 51 companies. While the number of mutual funds and bond/Sukuk issues were 39 and 15 respectively.

Market Capitalization:

The market capitalization of Bahraini public shareholding companies listed on the Exchange was BD7.52 billion compared to BD10.19 billion at the beginning of 2008, declining by 26.2%. The Investment Sector accounted for 44.9% of the total market capitalization, followed by the Commercial Banks Sector (33.7%), Services (16.5%), Insurance (2.7%), Hotels and Tourism (2%), and the Industrial (0.2%). In addition, the Hotels and Tourism Sector recorded the highest growth in terms of market capitalization compared to beginning of 2008, posting a growth of 23.1%. While the market capitalization of the Insurance, Industrial, Services, Commercial Banks, and Investment decreased by 1.7%, 11.4%, 19.4%, 23.6%, 32.2% respectively.

Market Capitalization among Sectors (Million Dinars)

| Sector | 2008 | 2007 | Change (%) | Relative Weight (%) |
|---------------------|-----------------|------------------|----------------|---------------------|
| Investment | 3,376.78 | 4,983.62 | (32.24) | 44.90 |
| Commercial Banks | 2,531.30 | 3,313.67 | (23.61) | 33.66 |
| Services | 1,242.91 | 1,542.03 | (19.40) | 16.53 |
| Insurance | 201.76 | 205.24 | (1.70) | 2.68 |
| Hotels & Tourism | 152.66 | 124.03 | 23.09 | 2.03 |
| Industrial | 14.74 | 16.64 | (11.44) | 0.20 |
| Total Market | 7,520.15 | 10,185.22 | (26.17) | 100 |

Financial indicators:

Financial indicators varied among sectors. The table below presents the growth of financial indicators at the end of 2008 compared to 2007.

Financial Indicators in December

| Sector | P/E | | Div. Yield | | P/BV | |
|---------------------|-------------|--------------|-------------|-------------|-------------|-------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Commercial Banks | 11.10 | 14.05 | 4.57 | 3.28 | 1.49 | 1.89 |
| Investment | 6.96 | 9.32 | 3.89 | 4.49 | 1.15 | 1.56 |
| Insurance | 20.27 | 9.15 | 3.04 | 6.48 | 1.15 | 0.95 |
| Services | 7.88 | 9.69 | 7.50 | 4.49 | 1.67 | 2.28 |
| Industrial | 7.81 | 9.12 | 6.52 | 5.78 | 0.51 | 0.56 |
| Hotels & Tourism | 7.68 | 7.62 | 4.93 | 5.12 | 1.08 | 0.96 |
| Total Market | 8.56 | 10.51 | 4.79 | 4.14 | 1.33 | 1.70 |

Central Depository:

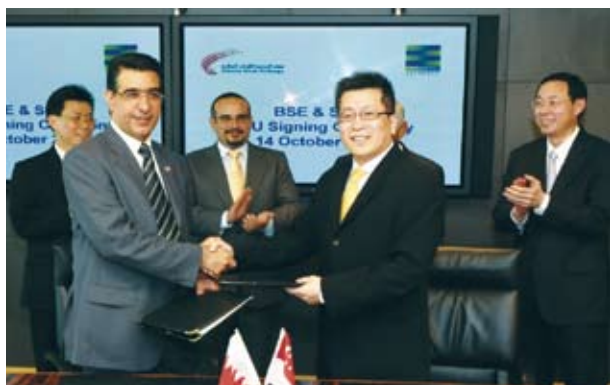
The total number of shares deposited at BSE's Central Depository reached 8,546 billion shares at the end of December 2008, representing 39.53% of the total issued and outstanding shares of listed companies, compared to 6,775 billion shares at the beginning of the 2008, posting a growth of 26.14% . The market capitalization of shares deposited in the Central Depository was BD3,185 billion at the end of December 2008 compared to BD3,946 billion at the beginning of the year, decreasing by 19.28%.

The number of nationalities registered in BSE's Central Depository reached 93 nationalities, while the number of investors holding shares of listed companies reached 21,960 by the end of 2008 compared to 18,249 at the beginning of the year, posting growth of 18.86%.

BSE's Main Achievements | 2008

- Signing MOU between BSE and Singapore Exchange (SGX).
- Signing MOU between BSE and Dubai Financial Market.
- Signing consultancy agreement between BSE and Singapore Exchange (SGX).
- Listing Khaleeji Commercial Bank with a paid-up capital of BD100 million.
- Listing Dar Al Arkan Sukuk issued by Dar Al Arkan International Sukuk Co. with a value of US\$1 billion.
- Listing six mutual funds of Global Investment House.
- Listing 2 funds of National Bank of Kuwait with a value of US\$500 million each.
- Listing Alpha Mena Fund issued by Alpha Mena Funds Company with a value of US\$80.8.
- Listing SICO Gulf Equity Fund with a value of US\$20 million.
- Listing Islamic Leasing (Ijara) Sukuk of the Kingdom of Bahrain with a value of BD95 million.
- Launching the online trading service.
- Launching of online account service that enable Investors to electronically view their accounts.
- Extending BSE's trading session from two hours to three.

BSE's Main Achievements | 2008



Signing MoU with Singapore Exchange (SGX).



Signing Consultancy Agreement with Singapore Exchange



Signing MoU with Dubai Financial Market (DFM).



Listing of Khaleeji Commercial Bank .



Listing of Dar Al Arkan Sukuk.



Listing of National Bank of Kuwait Mutual Funds.

Key Statistical Data | 2008 - 2007

Comparison of Trading Activity

| | 2008 | 2007 | Change | Change % |
|------------------------------------|---------------|----------------|-----------------|----------|
| Total Market Capitalization (BD) | 7,520,149,780 | 10,185,220,954 | (2,665,071,174) | (26.17) |
| Value of Shares (BD) | 787,349,991 | 403,085,611 | 384,264,380 | 95.33 |
| Volume of Shares | 1,675,842,977 | 851,075,407 | 824,767,570 | 96.91 |
| No. of Transactions | 43,540 | 27,707 | 15,833 | 57.14 |
| Total Trading Days | 246 | 249 | (3) | (1.20) |
| Daily Average Value of Shares (BD) | 3,200,610 | 1,618,818 | 1,581,792 | 97.71 |
| Daily Average Volume of Shares | 6,812,370 | 3,417,974 | 3,394,396 | 99.31 |
| Daily Average no. of Transactions | 177 | 111 | 66 | 59.06 |

BSE Indices Performance

| Bahrain All Share Index | 2008 | 2007 | Change (points) | Change (%) |
|--------------------------------|----------|----------|-----------------|------------|
| Year end | 1,804.07 | 2,755.27 | (951.20) | (34.52) |
| High | 2,915.40 | 2,755.27 | 160.13 | 5.81 |
| Low | 1,799.76 | 2,106.70 | (306.94) | (14.57) |
| Dow Jones Bahrain Index | | | | |
| Year end | 151.90 | 233.82 | (81.92) | (35.03) |
| High | 247.21 | 233.82 | 13.39 | 5.73 |
| Low | 151.90 | 178.70 | (26.80) | (15.00) |
| Esterad Index | | | | |
| Year end | 1,829.60 | 2,929.35 | (1099.75) | (37.54) |
| High | 3,079.33 | 2,938.52 | 140.81 | 4.79 |
| Low | 1,818.51 | 2,168.60 | (350.09) | (16.14) |

Sectorial Indices for Bahrain All Share Index

| Index | 2008 | 2007 | Change (%) |
|------------------|----------|----------|------------|
| Commercial Banks | 2,117.04 | 3,479.10 | (39.15) |
| Investment | 1,582.53 | 2,546.61 | (37.86) |
| Insurance | 2,275.97 | 2,315.99 | (1.73) |
| Services | 1,638.30 | 2,031.39 | (19.35) |
| Industrial | 1,273.93 | 1,438.47 | (11.44) |
| Hotels & Tourism | 2,848.57 | 2,315.15 | 23.04 |

Listings| 2008 - 2007

| No. of Listed Companies | 2008 | 2007 |
|-------------------------|-----------|-----------|
| Public Companies | 43 | 42 |
| Closed Companies | 2 | 2 |
| Non Bahraini Companies | 6 | 7 |
| Total | 51 | 51 |

| Preferred Shares | 2008 | 2007 |
|------------------|------|------|
| Preferred Shares | 1 | 1 |

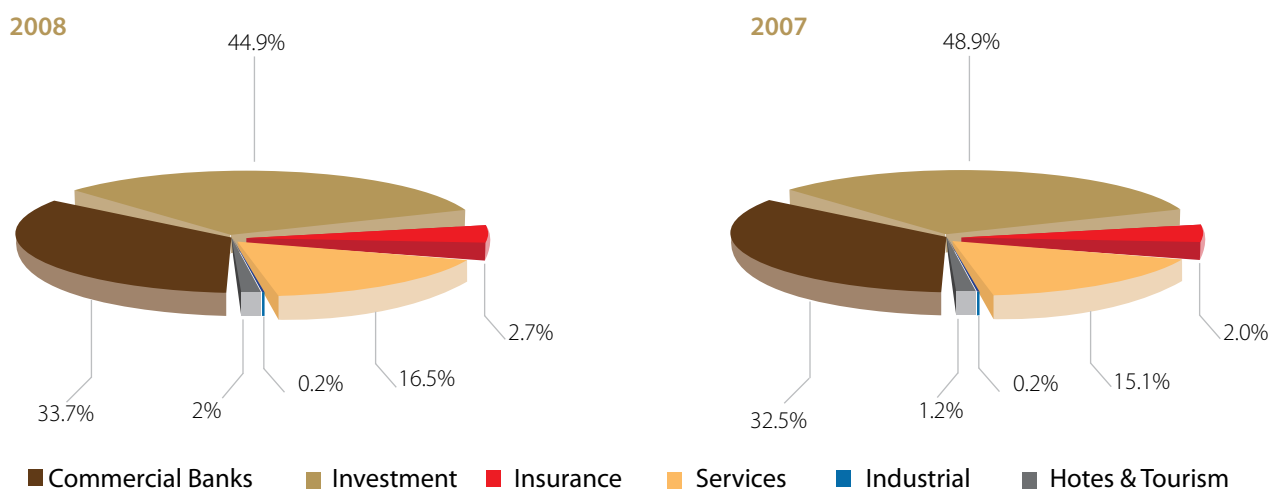
| No. of Bonds & Sukuk | 2008 | 2007 |
|----------------------|------|------|
| Bonds | 5 | 7 |
| Sukuk | 10 | 10 |

| No. of Mutual Funds | 2008 | 2007 |
|---------------------|------|------|
| Mutual Funds | 39 | 32 |

Comparison of Market Capitalization by Sectors (BD million)

| Sector | 2008 | 2007 | Change (%) |
|-------------------|----------------|-----------------|---------------|
| Commercial Banks | 2,531.3 | 3,313.7 | (23.6) |
| Investment | 3,376.8 | 4,983.6 | (32.2) |
| Insurance | 201.8 | 205.2 | (1.7) |
| Services | 1,242.9 | 1,542.0 | (19.4) |
| Industrial | 14.7 | 16.6 | (11.4) |
| Hoteles & Tourism | 152.7 | 124.0 | 23.1 |
| Market | 7,520.1 | 10,185.2 | (26.2) |

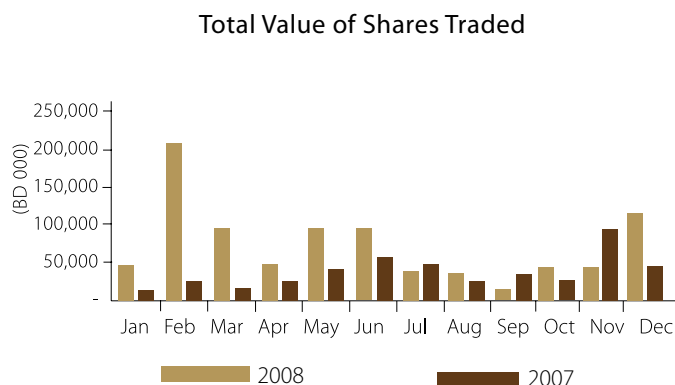
The Breakdown of Market Capitalization by Sectors



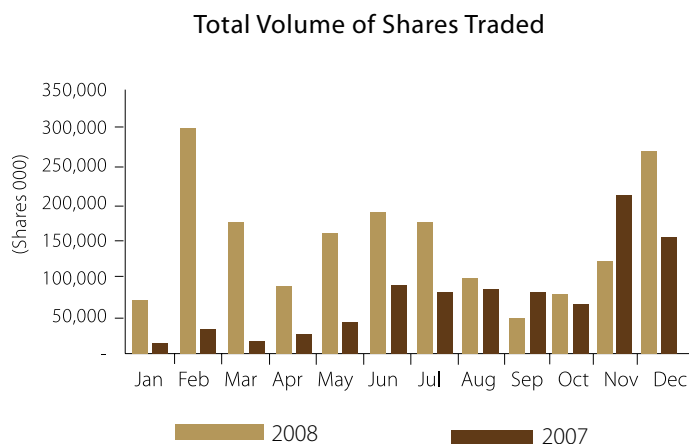
Key Statistical Data | 2008 - 2007

Equity Trading Activity

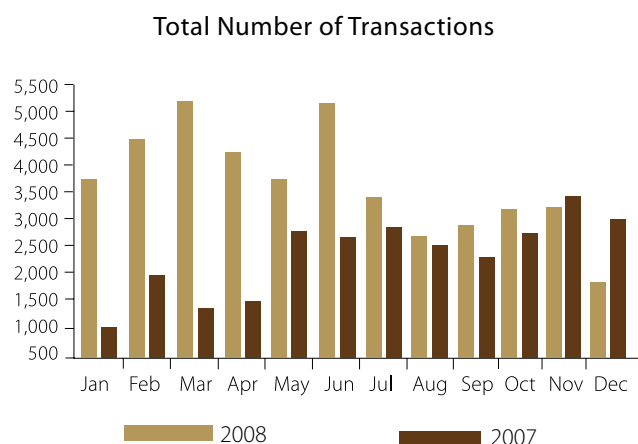
| Value (BD 000) | 2008 | 2007 | Change(%) |
|------------------|----------------|----------------|--------------|
| Jan | 38,797 | 10,297 | 276.78 |
| Feb | 201,730 | 18,894 | 967.69 |
| Mar | 70,860 | 11,828 | 499.11 |
| Apr | 37,896 | 16,786 | 125.77 |
| May | 83,387 | 34,431 | 142.18 |
| Jun | 82,312 | 40,790 | 101.79 |
| Jul | 34,819 | 40,571 | (14.18) |
| Aug | 29,776 | 20,339 | 46.40 |
| Sep | 14,436 | 33,920 | (57.44) |
| Oct | 42,900 | 22,593 | 89.88 |
| Nov | 46,240 | 94,163 | (50.89) |
| Dec | 104,196 | 58,475 | 78.19 |
| Market | 787,350 | 403,086 | 95.33 |



| Volume (000) | 2008 | 2007 | Change(%) |
|----------------|------------------|----------------|--------------|
| Jan | 78,497 | 14,126 | 455.68 |
| Feb | 302,158 | 28,883 | 946.15 |
| Mar | 179,037 | 18,932 | 845.71 |
| Apr | 94,198 | 18,829 | 400.27 |
| May | 153,746 | 75,443 | 103.79 |
| Jun | 199,501 | 68,148 | 192.75 |
| Jul | 96,275 | 83,092 | 15.87 |
| Aug | 61,536 | 52,094 | 18.13 |
| Sep | 38,043 | 78,065 | (51.27) |
| Oct | 79,394 | 52,813 | 50.33 |
| Nov | 114,890 | 219,044 | (47.55) |
| Dec | 278,567 | 141,605 | 96.72 |
| Market | 1,675,843 | 851,075 | 96.91 |



| No. of Transactions | 2008 | 2007 | Change(%) |
|---------------------|---------------|---------------|--------------|
| Jan | 3,709 | 1,085 | 241.84 |
| Feb | 4,362 | 1,847 | 136.17 |
| Mar | 5,181 | 1,320 | 292.50 |
| Apr | 4,279 | 1,357 | 215.33 |
| May | 3,760 | 2,729 | 37.78 |
| Jun | 5,150 | 2,630 | 95.82 |
| Jul | 3,421 | 2,785 | 22.84 |
| Aug | 2,617 | 2,549 | 2.67 |
| Sep | 2,815 | 2,286 | 23.14 |
| Oct | 3,170 | 2,743 | 15.57 |
| Nov | 3,254 | 3,384 | (3.84) |
| Dec | 1,822 | 2,992 | (39.10) |
| Market | 43,540 | 27,707 | 57.14 |



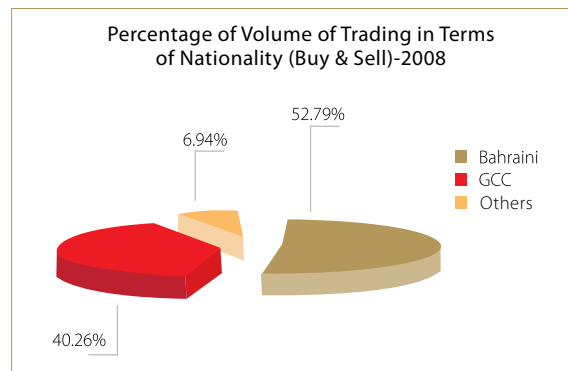
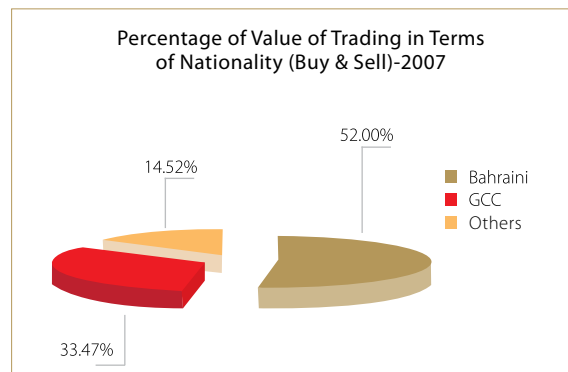
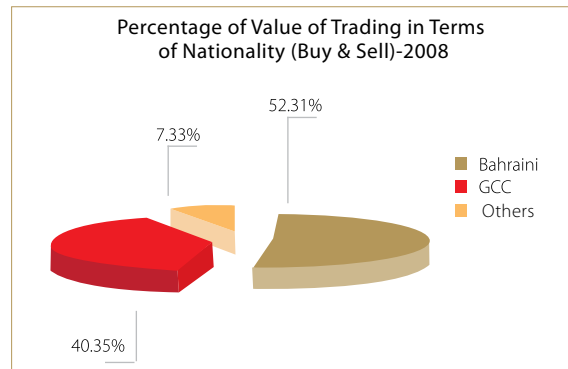
Trading by Nationalities

| Volume | 2008 | 2007 | Change (%) |
|--------------|----------------------|----------------------|--------------|
| Bahraini | 1,769,487,692 | 874,566,693 | 102.33 |
| GCC | 1,349,478,715 | 592,676,460 | 127.69 |
| Others | 232,719,547 | 234,907,661 | (0.93) |
| Total | 3,351,685,954 | 1,702,150,814 | 96.91 |

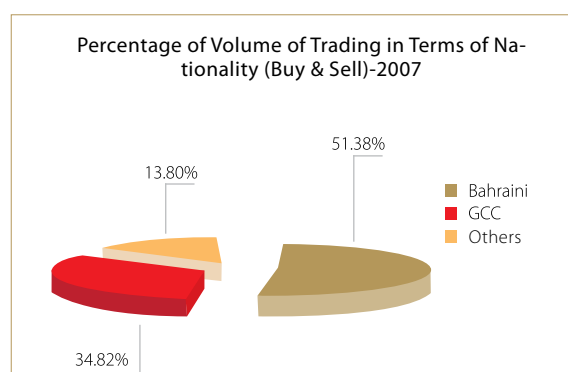
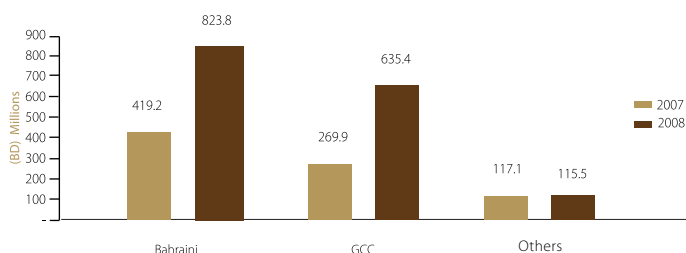
| Value | 2008 | 2007 | Change (%) |
|--------------|----------------------|--------------------|--------------|
| Bahraini | 823,772,401 | 419,247,660 | 96.49 |
| GCC | 635,425,809 | 269,852,766 | 135.47 |
| Others | 115,501,771 | 117,070,795 | (1.34) |
| Total | 1,574,699,981 | 806,171,221 | 95.33 |

| Volume of Trading by Nationality (Buy & Sell) | 2008 | 2007 |
|---|--------|--------|
| Bahraini | 52.79% | 51.38% |
| GCC | 40.26% | 34.82% |
| Others | 6.94% | 13.80% |

| Value of Trading by Nationality (Buy & Sell) | 2008 | 2007 |
|--|--------|--------|
| Bahraini | 52.31% | 52.00% |
| GCC | 40.35% | 33.47% |
| Others | 7.33% | 14.52% |



Trading by Nationalities (Value - BD)



Traded Securities and Instruments

Listed Companies on the BSE

Commercial Banks Sector

NATIONAL BANK OF BAHRAIN
BBK
AHLI UNITED BANK
BAHRAINI ISLAMIC BANK
THE BAHRAINI SAUDI BANK
AL SALAM BANK
KHALEEJI COMMERCIAL BANK

Investment Sector

GULF MONETARY GROUP
ARAB BANKING CORPORATION
UNITED GULF BANK
INVESTCORP BANK
BAHRAIN MIDDLE EAST BANK
BAHRAIN COMMERCIAL FACILITIES CO.
UNITED GULF INVESTMENT CORP.
TAIB BANK
SHAMIL BANK OF BAHRAIN
ESTERAD INVESTMENT CO.
GULF FINANCE HOUSE
AL KHALEEJ DEVELOPMENT CO.
ITHMAAR BANK
AL BARAKA BANKING GROUP

Insurance Sector

BAHRAIN KUWAIT INSURANCE CO.
AL-AHLIA INSURANCE CO.
ARAB INTERNATIONAL INSURANCE CO.
TAKAFUL INSURANCE CO.
ARAB INSURANCE GROUP
BAHRAIN NATIONAL HOLDING CO.

Services Sector

BAHRAIN SHIP REPAIRING & ENG. CO.
BAHRAIN CINEMA CO.
GENERAL TRADING & FOOD PROCESS. CO.

BAHRAIN MARITIME & MERCN. INT. CO
BAHRAIN TELECOMMUNICATIONS CO.
BAHRAIN CAR PARKS CO.
BAHRAIN DUTY FREE SHOP COMPLEX
NASS CORPORATION
SEEF PROPERTIES

Industrial Sector

BAHRAIN FLOUR MILLS CO.
DELMON POULTRY CO.

Hotels & Tourism Sector

BAHRAIN HOTELS CO.
NATIONAL HOTELS CO.
BAHRAIN TOURISM CO.
BAHRAIN FAMILY LEISURE CO.
BANADER HOTELS CO.

Closed Companies

SECURITIES & INVESTMENT CO.
UNITED PAPER INDUSTRIES

Non-Bahraini Companies

BANKMUSCAT (Oman)
INTERNATIONAL INVESTMENT GROUP (Kuwait)
SUDAN TELECOMMUNICATIONS CO. (Sudan)
QATAR TELCOM (Qatar)
UNITED FINANCE COMPANY (Oman)
GLOBAL INVESTMENT HOUSE (Kuwait)

Traded Securities and Instruments

Listed Mutual Funds

| | |
|--|---|
| Unit Investment Bank | Global Increasable Guaranteed Fund |
| SICO Selected Securities (SSS) | The Zenith Fund |
| Khaleej Equity Fund | Global US Dollar Money Market Fund |
| SICO Gulf Equity Fund | Delmon Fund |
| MAN - AHLI Guaranteed 360 E.C. | Global US Equity Index Fund |
| MAN - AHLI Prisma Guaranteed E.C. | Global GCC Real Estate Fund |
| MAN - AHLI Guaranteed 220 plus E.C. | Global European Equity Index Fund |
| Everest Fund | Global Distressed Fund |
| American Explorer Fund | Global US Dollar Islamic Money Market Fund |
| CARAVAN FUND | Global Yield Enhancement Fund |
| First Arabian Equity 2000 Fund | Global Egypt Fund |
| Makaseb Emirates Equity Fund | Global Islamic Fund of Funds |
| Makaseb Qatar Equity Fund | Global Jordan Fund |
| Makaseb Emirates Opportunities Fund | Global GCC Islamic Fund |
| Makaseb Arab Tigers Fund | Palestine Dedicated Fund |
| Makaseb Income Fund | Global Energy, Petrochemical and Downstream Industries Fund |
| Al-Tawfeek Arab Telecommunication Fund | Alpha MENA Fund |
| Al-Tawfeek Gulf Equity Fund | NBK GULF EQUITY FUND |
| Global Opportunistic Fund | NBK QATAR EQUITY FUND |
| Global GCC Large Cap Fund | |

Listed Bonds & Sukuk

| | |
|---|---|
| Alba Floating Rate Bonds 2013 | Esterad Floating Rate Bond - 2010 |
| National Industries Group S.A.K | Islamic Govt. Leasing Sukuk (12 Issue) 2011 |
| BMA International Sukuk Company (SPC) 2009 | Sukuk Al Musharaka (Investment DAR Sukuk Co.) - 2010 |
| Ijarah Sukuk in Bahraini Dinar by BMA | Bahrain Commercial Facilities (FRN) Sixth Issue - 2011 |
| EMAAR Variable Return Ijara Sukuk 2009 | Sukuk Al Manafa'a (Golden Belt 1 Sukuk Co. BSC (c)) - 2012 |
| Islamic Govt. Leasing Sukuk (Eleventh Issue) 2010 | Dar Al-Arkan 2 Sukuk (Dar Al-Arkan International Sukuk Company) |
| The Commercial Real Estate Sukuk Company B.S.C.(C) - 2010 | Government Islamic Lease (Ijara) Securities Sukuk |
| Bahrain Commercial Facilities (FRN) Fifth Issue - 2010 | |

Members of the Exchange



Authorised Brokers

Brokerage Firms

ABC Securities
BBK
Ahli United Bank
Gulf Securities
Securities & Investments Co.
TAIB Securities Co.
Gulfinvest Securities
U.G.B Securities
Global Investment House
IndoGulf Financial services Co.
Mubasher Financial services

Individual Brokers

Abdulla Jaffer Zain Al-Abedin
Nassir Abbas Khosrou
Yousif Hassan Al-Ajaji

Custodians

HSBC Bank Middle East Limited

Listing and Annual Subscription Fees

Local Equities

Listing*

0.1% of the company's paid-up capital, with a maximum amount of BD 15,000 and minimum amount of BD 5,000.

Annual subscription**

- 1• 0.1% of the first BD 10 million of the company's paid up capital, with a minimum of BD 3,000/-
- 2• 0.05% of the amount exceeding BD 10 million, up to BD 50 million.
- 3• 0.025% of the amount exceeding BD 50 million, with a maximum amount of BD 20,000/-

Clearing & Settlement

- 1• 0.0125% of the first BD 15 million of the company's paid-up capital with a minimum of BD 1,000
- 2• 0.00625% of the amount exceeding BD 15 million of the company's paid-up capital, with maximum gross fees of BD 4,000.

Non-Bahraini Equities

Listing*

0.1% of the company's paid-up capital, with a maximum amount of BD 15,000 and a minimum amount of BD 5,000

Annual Subscription**

50% of the Bahraini shareholding company

Local closed companies

Listing*

BD 1,000

Annual Subscription**

- 1• 0.025% of the first BD 5 million of the company's paid-up capital, with a minimum of BD 1,000
- 2• 0.025% of the amount exceeding BD 5 million, with a maximum amount of BD 5,000

Mutual funds

Listing*: BD 300
Annual subscription BD 250

Bonds & Sukuk

Government:

Listing* BD 1,500
Annual subscription**: BD 2,000

Private & Non Bahraini

Listing*: 0.05% of the total value with a minimum of BD 2,000 and maximum of BD 5,000
Annual subscription**: BD 2,000

Currency Warrants:

Listing*: BD 250
Annual subscription**: Nil

Transfer Agents

Membership*: BD 500
Annual subscription: BD 1,000

Individual Brokers

Membership* BD 500
Annual subscription BD 250

Brokerage Firms

Membership* BD 1,000
Annual subscription: BD 500

Custodianship

Membership* BD 1,000
Annual subscription BD 500

All the above amounts are expressed in Bahraini Dinars (BD)

* A one - off payment

** Applicable to companies only, whereby the remaining part of the financial year of a company's registration will be taken into consideration and charged on a quarterly basis.

| | | | |
|----------|----------|----------|----------|
| 8.8.1066 | 8.8.8880 | 8.8.0000 | 8.8.8608 |
| 8.8.3890 | 8.50000 | 8.8.3800 | 8.8.2000 |
| 8.8.0910 | 8.8.8880 | 8.8.0000 | 8.8.8850 |
| 8.8.0700 | 8.15000 | 8.8.0680 | 8.50000 |
| 8.8.0193 | 8.10000 | 8.8.0185 | 10.8.800 |
| 8.8.0705 | 8.50000 | 8.8.0660 | 8.50000 |
| 8.8.0158 | 8.8.8880 | 8.8.0000 | 8.8.5000 |
| 8.8.0525 | 8.20000 | 8.8.0580 | 8.8.8880 |
| 8.8.0035 | 8.8.8880 | 8.8.8880 | 8.8.8880 |
| 8.8.2220 | 8.8.5000 | 8.8.2050 | 8.8.8333 |

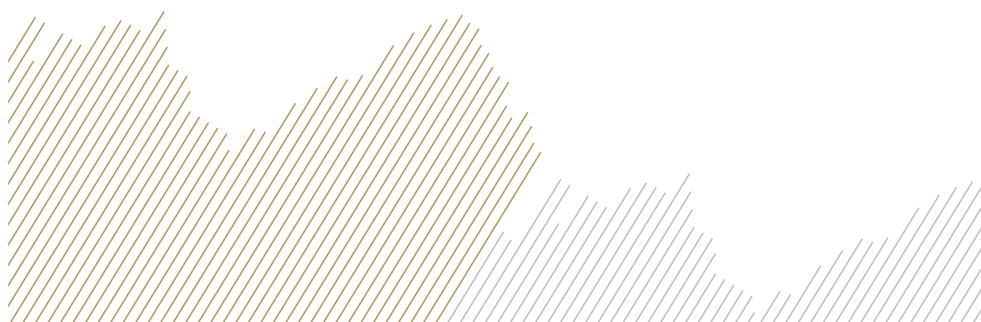
WAVETECH

ANNUAL REPORT 2008

BAHRAIN STOCK EXCHANGE



BAHRAIN STOCK EXCHANGE FINANCIAL STATEMENTS 31 DECEMBER 2008



Board of Directors : Rasheed Mohamed Al Maraj, Chairman
Anwar Khalifa Al Saddah, Vice Chairman (until 31 May 2008)
Ali Salman Thamer, Member
Khaled Mohamed Kanoo, Member
Dr. Essam Abdullah Fakhro, Member
Hassan Ali Juma, Member
Shaikh Mohamed bin Essa AL-Khalifa, Member
Adel Mohammed Abdul Shafi El-Labban, Member
Abdul Majid Abdul Salam Breish, Member

Director of the Exchange : Fouad A. Rahman Rashed

Offices : The Bahrain Stock Exchange
Al-Hedaya House, Government Avenue
PO Box 3203, Manama, Bahrain
Telephone: 17261260, Fax 17227857

Bankers : National Bank of Bahrain
BBK
Bahrain Saudi Bank
Al-Salam Bank

Auditors : KPMG



FINANCIAL STATEMENTS

For the year ended 31 December 2008

| CONTENTS | Page |
|--|-------|
| Independent auditors' report to the Board of Directors | 35 |
| Financial statements | |
| Balance sheet | 36 |
| Income statement | 37 |
| Statement of cash flows | 38 |
| Notes | 39-50 |

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS

Bahrain Stock Exchange

Manama, Kingdom of Bahrain

| 30 March 2009

Report on the financial statements

We have audited the accompanying financial statements of The Bahrain Stock Exchange (The "Exchange"), which comprise the balance sheet as at 31 December 2008, and the income statement and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the directors for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 Exchange as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Exchange has maintained proper accounting records and the financial statements are in agreement therewith. We are not aware of any violations of the Central Bank of Bahrain and Financial Institutions Law 2006 or the terms of the law of establishing the Exchange or its internal regulation having occurred during the year that might have had a material effect on the business of the Exchange or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

BALANCE SHEET

as at 31 December 2008

Bahraini dinars

| | Notes | 2008 | 2007 |
|--|-------|------------------|------------------|
| Current assets | | | |
| Cash and bank | | 112,466 | 113,461 |
| Short-term deposit | | 3,531,895 | 2,419,476 |
| Accounts receivable | 3 | 206,970 | 142,562 |
| Other receivables | 4 | 125,704 | 282,586 |
| Total current assets | | 3,977,035 | 2,958,085 |
| Non-current assets | | | |
| Held to maturity investments | 5 | - | 267,706 |
| Furniture, equipment and work-in- process | 6 | 651,086 | 209,854 |
| Total non-current assets | | 651,086 | 477,560 |
| TOTAL ASSETS | | 4,628,121 | 3,435,645 |
| CURRENT LIABILITIES | | | |
| Accounts payable | | 10,076 | 96,776 |
| Accrued expenses and other accounts payable | | 138,360 | 131,990 |
| Deferred revenue | 12 | 490,379 | 500,000 |
| Provisions for labour law obligations | 7 | 39,194 | 41,105 |
| TOTAL LIABILITIES | | 678,009 | 769,871 |
| ACCUMULATED SURPLUS (page 37) | | 3,950,112 | 2,665,774 |
| TOTAL LIABILITIES AND ACCUMULATED SURPLUS | | 4,628,121 | 3,435,645 |

Rasheed Mohamed Al Maraj
Chairman

Fouad A. Rahman Rashed
Director of the Exchange

The Board of Directors approved the financial statements consisting of pages 36 to 50 on 30 March 2009.

INCOME STATEMENT

for the year ended 31 December 2008

Bahraini dinars

| | Notes | 2008 | 2007 |
|---|-------|------------------|------------------|
| INCOME | | | |
| Subscription fees | | 1,233,334 | 1,146,366 |
| Registration fees | | 24,500 | 21,000 |
| Dealing commission | 8 | 1,252,994 | 908,426 |
| Other income | 9 | 217,665 | 169,869 |
| Interest income | | 122,686 | 115,166 |
| Government grant | 12 | 540,597 | - |
| | | 3,391,776 | 2,360,827 |
| EXPENSES | | | |
| Salaries and related costs | | 1,130,599 | 937,180 |
| General and administrative | 10 | 736,200 | 400,414 |
| Remuneration of the Board of Directors and committees | | 16,800 | 18,600 |
| Depreciation | 6 | 134,614 | 103,299 |
| Allowance for doubtful debts | 3 | 89,225 | - |
| | | 2,107,438 | 1,459,493 |
| Operating Surplus activate revenue | | 1,284,338 | 901,334 |
| ACCUMULATED SURPLUS at 1 January | | 2,665,774 | 1,764,440 |
| ACCUMULATED SURPLUS at 31 December | | 3,950,112 | 2,665,774 |

Rasheed Mohamed Al Maraj
Chairman

Fouad A. Rahman Rashed
Director of the Exchange

The financial statements are comprised of pages 36 to 50.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2008

Bahraini dinars

| | 2008 | 2007 |
|--|------------------|------------------|
| OPERATING ACTIVITIES | | |
| Cash received from subscribers | 1,205,938 | 1,147,144 |
| Commissions and other revenues | 1,348,970 | 1,046,031 |
| Payments for salaries and related costs | (1,132,517) | (928,781) |
| Payments for general and administrative expenses | (608,932) | (585,818) |
| Payments for remuneration of the Board of Directors and committees | (16,800) | (18,600) |
| Net cash flows from operating activities | 796,659 | 659,976 |
| INVESTING AND FINANCING ACTIVITIES | | |
| Acquisition of furniture and equipment | (395,477) | (24,665) |
| Work in progress | (180,360) | - |
| Financial support received from the Central Bank of Bahrain | 500,000 | 500,000 |
| Bank interest | 390,602 | 111,164 |
| Net cash flows from investing and financing activities | 314,765 | 586,499 |
| Net increase in cash and cash equivalents | 1,111,424 | 1,246,475 |
| Cash and cash equivalents at the beginning of the year | 2,532,937 | 1,286,462 |
| Cash and cash equivalents at the end of the year | 3,644,361 | 2,532,937 |
| Cash and cash equivalents per balance sheet comprising from: | | |
| Cash and bank | 112,466 | 113,461 |
| Short-term fixed deposits | 3,531,895 | 2,419,476 |
| | 3,644,361 | 2,532,937 |

The financial statements are comprised of pages 36 to 50.

NOTES

to the 2008 financial statements

Bahraini dinars

1. STATUS AND OPERATIONS

The Bahrain Stock Exchange ("the Exchange") was established pursuant to Amiri Decree 4/1987 as an independent entity and is governed by by-laws issued by the Ministry of Commerce and Agriculture under Ministerial Order 13/1988.

During 2002, the supervision authority of the market was transferred from the Ministry of Commerce to the Bahrain Monetary Agency, pursuant to Decree 21/2002

After the issuance of Central Bank of Bahrain and financial institution law for 2006, the Exchange was licensed by the Central Bank of Bahrain (CBB) under the law, and has to comply with supervising requirements issued by CBB.

The objectives of the Exchange are to develop the market, encourage savings, spread investment awareness among the nationals, develop traded securities and financial instruments in the market to serve economic development in the Kingdom and to help in achieving the objectives of the Kingdom's economic policies and to promote the Kingdom as a financial centre.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards.

b) Basis of preparation

The financial statements have been drawn up from the accounting records of the Exchange under the historical cost convention and have been consistently applied by the Exchange and are consistent with those used in the previous year.

The most significant applied accounting policies:

Revenues

From subscriptions, registration fees, rents, fixed deposit interest, dealing commissions and other income are recognised when earned.

Specific purposes grants are recorded as liability until it has been expensed for the purpose assigned for.

Expenses

Expenses of goods and services are recognised based the value of goods delivered or services rendered during the financial year, even if not paid.

Furniture and equipment

l) Recognition

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its residual amount if the carrying amount of the asset is greater than its estimated recoverable amount.

When an item of property and equipment is sold or discarded, the respective cost and accumulated depreciation relating thereto are eliminated from the balance sheet, the resulting gain or loss being recognized in the income statement.

NOTES

to the 2008 financial statements

Bahraini dinars

2 Significant accounting policies (continued)

II) Subsequent cost

The Exchange recognises in the carrying amount of an item of furniture and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Exchange and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

III) Depreciation

Depreciation is calculated on cost by the straight-line method at annual rates which are intended to write off the net cost of the assets over the following estimated useful lives.

| | |
|--|---------|
| Furniture equipment, electronic dealing system | 5 years |
| Computers and Vehicles | 5 years |

Fixed assets costing less than BD 50 are fully depreciated in the acquisition year.

Impairment

The carrying amounts of the Exchange's assets are 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. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. All impairment losses are recognised in the income statement.

Trade receivables

Trade receivables are recognised initially at cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Exchange will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. A provision is made when the carrying amount of the asset exceeds the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Held to maturity investments

Investments held to maturity are carried at cost, less provision for impairment.

Employee benefits

Pensions and other social benefits for Bahraini employees are covered by the Pension Fund Commission scheme to which employees and employers contribute monthly on a fixed-percentage-salaries basis. The Exchange's share of contributions to the funded scheme, which is a defined contribution scheme under IAS 19, is recognised as an expense in the income statement.

Expatriate employees are entitled to leaving indemnities payable under the Bahrain Labour Law for the Private Sector 1976, based on length of service and final salary and other allowances paid. Provision for this unfunded commitment, which represents a defined benefit scheme under IAS 19, has been made by calculating the notional liability had all employees left at the balance sheet date.

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2 Significant accounting policies (continued)

Foreign currencies

I) The financial statements are presented in Bahraini Dinars which is the exchange's functional and presentation currency.

II) At the balance sheet date, foreign currency monetary assets and liabilities are converted into Bahraini dinars at exchange rates ruling at the balance sheet date. Resulting exchange differences are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and at bank including time deposits of short maturity of three months or less.

3 ACCOUNTS RECEIVABLE

| | 2008 | 2007 |
|------------------------------------|----------------|---------|
| Subscription and registration fees | 113,244 | 61,210 |
| Commissions receivable | 177,601 | 68,428 |
| Services fees receivable | 5,350 | 12,924 |
| | 296,195 | 142,562 |
| Allowance for doubtful debts | (89,225) | - |
| | 206,970 | 142,562 |

4 OTHER RECEIVABLES

| | 2008 | 2007 |
|------------------|----------------|---------|
| Interest payable | 11,184 | 8,374 |
| Prepaid expenses | 114,520 | 271,202 |
| Accrued income | - | 3,010 |
| | 125,704 | 282,586 |

5 HELD TO MATURITY INVESTMENT

| | 2008 | 2007 |
|-------------------------|-----------|---------|
| As of 1 January | 267,706 | 267,706 |
| Matured during the year | (267,706) | - |
| As 31 December | - | 267,706 |

Islamic Sukuk (Kingdome of Bahrain) matured in April 2008; its rental return was 3.75%

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6 FURNITURE AND EQUIPMENT

| | Furniture and equipment | Computers | Vehicles | Work in process * | 2008 Total | 2007 Total |
|-----------------------|-------------------------|----------------|--------------|-------------------|------------------|------------|
| Cost | | | | | | |
| At 1 January | 358,660 | 1,342,190 | 7,435 | - | 1,708,285 | 1,683,620 |
| Additions | 6,369 | 389,117 | - | 180,360 | 575,846 | 24,665 |
| At 31 December | 365,029 | 1,731,307 | 7,435 | 180,360 | 2,284,131 | 1,708,285 |
| Depreciation | | | | | | |
| At 1 January | 302,248 | 1,193,953 | 2,230 | - | 1,498,431 | 1,395,132 |
| Charge for the year | 21,677 | 111,450 | 1,487 | - | 134,614 | 103,299 |
| At 31 December | 323,925 | 1,305,403 | 3,717 | - | 1,633,045 | 1,498,431 |
| Net book value | 41,104 | 425,904 | 3,718 | 180,360 | 651,086 | 209,854 |

* represent capital expenditure for equipping the new offices of Bahrain Stock Exchange in the Bahrain financial harbour.

7 PROVISIONS FOR LABOUR LAW OBLIGATIONS

| | 2008 | 2007 |
|-----------------------------------|---------------|--------|
| Balances at 31 December | | |
| Leave entitlements | 33,791 | 36,098 |
| Leaving indemnity and air tickets | 5,403 | 5,007 |
| | 39,194 | 41,105 |

The Exchange employed 58 Bahraini nationals and 3 expatriates as at 31 December 2008 (54 and 3 employees respectively for 2007).

Pension rights and other social benefits for the Bahraini employees are covered by the Pension Fund Commission to which the exchange and employees contribute monthly on a fixed percentage of salary basis. The Exchange's contributions for Bahraini employees for 2008 amounted to BD 116,054 (2007: BD 72,962).

Expatriates employed under a specified contract period are entitled to leaving indemnity at the rate of one month's salary for each completed year of service.

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8 DEALING COMMISSION

| | 2008 | 2007 |
|-----------------------------------|------------------|----------------|
| Commission from ordinary dealings | 866,085 | 347,207 |
| Commission from exempted dealings | 386,909 | 561,219 |
| | 1,252,994 | 908,426 |

9 OTHER INCOME

| | 2008 | 2007 |
|---|----------------|----------------|
| Central depository income | 66,309 | 44,706 |
| Remote trading income | 19,800 | 17,410 |
| Advertisements | 44,255 | 35,911 |
| Trading data | 38,187 | 3,967 |
| Investor guidance | 24,000 | 24,800 |
| Services | 14,160 | 14,520 |
| Write-off of allowance for doubtful account | - | 14,037 |
| Other revenues | 10,954 | 14,518 |
| | 217,665 | 169,869 |

10 GENERAL AND ADMINISTRATIVE EXPENSES

| | 2008 | 2007 |
|------------------------------|----------------|----------------|
| Rent | 419,166 | 88,187 |
| Services | 223,669 | 207,388 |
| Consumables | 29,210 | 32,599 |
| Conferences and subscription | 36,166 | 51,547 |
| Other | 27,989 | 20,793 |
| | 736,200 | 400,414 |

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11 TRANSACTIONS WITH RELATED AND ASSOCIATED PARTIES

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Exchange. The key management personnel comprise members of the Board of Directors and the director of the Exchange. There were no commercial transactions between the key management personnel and the Exchange during the year. Their short term compensation is as follows:

| | 2008 | 2007 |
|--|--------|--------|
| Salaries and related costs of executive management | 69,072 | 64,197 |
| Board and committees attendance fees | 16,800 | 18,600 |

12 DEFERRED REVENUES

Deferred revenue represents the financial support received from the Central Bank of Bahrain (CBB) for assisting the Exchange to move to its new location in the Bahrain Financial Harbour and rental its offices

| | 2008 | 2007 |
|---|------------------|----------------|
| As at 1 January | 500,000 | - |
| Addition during the year | 500,000 | 500,000 |
| Total received amount | 1,000,000 | 500,000 |
| Used for moving project to the Financial Harbour | (180,360) | - |
| Used for offices rents in the Financial Harbour | (360,237) | - |
| Total amount used and recognized in income statement | (540,597) | - |
| As at 31 December | 459,403 | 500,000 |

13 CAPITAL COMMITMENT

Commitments contracted during the year, as follows:

| | 2008 | 2007 |
|--------------------------------------|-----------|------|
| Consulting contract | 519,566 | - |
| New offices in the Financial Harbour | 4,086,090 | - |
| | 4,605,656 | - |

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Rental lease for offices in Financial Harbour

| | 2008 | 2007 |
|--|------------------|------------------|
| Minimum expected rent: | | |
| Less than 1 Year | 617,549 | 360,237 |
| From 2 – 5 Years | 2,109,960 | 2,727,509 |
| Total commitment for rental as 31 December 2008 | 2,727,509 | 3,087,746 |

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

Financial instruments include financial assets and financial liabilities. Financial assets of the Exchange include cash and cash equivalents, accounts receivable, held-to-maturity investments. Financial liabilities of the Exchange include trade payables and other financial current liabilities.

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

- credit risk
- liquidity risk
- market risk

This note presents information about the Exchange's exposure to each of the above risks, the Exchange's objectives, policies and procedures for measuring and managing risk. The note also presents certain quantitative disclosures in addition to the disclosures throughout the financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Exchange's risk management framework. The Board has established certain executive management committees, which assist the Board of Directors in effectively discharging their responsibilities for developing and monitoring the Exchange's risk management policies.

The Exchange audit committee oversees how management monitors compliance with the Exchange's risk management procedures and review the adequacy of the risk management practices in relation to the risks faced by the Exchange.

The Exchange audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

Credit risk

Credit risk is the risk that a counter party to a financial instrument will fail to discharge an obligation and cause the Exchange to incur a financial loss. The Exchange is exposed to credit risk primarily on its cash and cash equivalents, accounts receivable and investment in funds, and debt instruments.

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14 Financial Instrument and Risk Management (continued)

Credit Risk (continued)

Exchange's credit risk on cash and cash equivalents is limited as these are placed with banks in Bahrain having good credit ratings.

The Exchange establishes provision for impairment of accounts receivables when there is objective evidence that the Exchange will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the accounts receivable is impaired.

The Exchange manages credit risk on its investments by ensuring that investments are made only after careful credit evaluation and due diligence of the issuer of the security. The Exchange limits its exposure to credit risk by mainly investing in government securities.

The ageing of accounts receivables at the reporting date was:

| | 2008 | | 2007 | |
|----------------------|----------------|---------------|---------|------------|
| | Gross | Impairment | Gross | Impairment |
| Not past due | 117,591 | - | 52,182 | - |
| Past due 0-90 days | 4,666 | - | 27,726 | - |
| Past due 91-180 days | 33,247 | - | 8,899 | - |
| More than 180 days | 135,342 | 89,225 | 53,755 | - |
| | 290,846 | 89,225 | 142,562 | - |

Balance of past due and impaired accounts receivables as at 31 December 2008 was BD 89,225

(2007: BD Nil).

Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that the Exchange will not be able to meet its financial obligations as they fall due. The Exchange'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 Exchange's reputation.

Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Exchange ensures that a significant amount of the funds are invested in cash and cash equivalents, which are readily available to meet liquidity requirements.

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The following are the contractual maturities of financial liabilities:

| 2008 | Carrying amount | 6 months or less | 6-12 months | 1-2 years | More than 2 years |
|--|-----------------|------------------|-------------|-----------|-------------------|
| Financial liabilities | | | | | |
| Accounts payable | 22,216 | 3,498 | 18,718 | - | - |
| Accrued expenses and other current liabilities | 55,056 | 44,174 | 10,882 | - | - |
| | 77,272 | 47,672 | 29,600 | - | - |

| 2007 | Carrying amount | 6 months or less | 6-12 months | 1-2 years | More than 2 years |
|--|-----------------|------------------|-------------|-----------|-------------------|
| Financial liabilities | | | | | |
| Accounts payable | 96,776 | 1,948 | 6,238 | - | 88,590 |
| Accrued expenses and other current liabilities | 131,990 | 99,911 | 32,079 | - | - |
| | 228,766 | 101,859 | 38,317 | - | 88,590 |

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14 Financial Instrument and Risk Management (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Exchange'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 Exchange incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors.

Interest rate risk

Interest rate risk is the risk that the Exchange's earnings will be affected as a result of fluctuations in the value of financial instruments due to changes in market interest rates.

The Exchange's interest rate risk is limited to its interest bearing short-term deposits and investment in debt instruments. The Exchange's short-term bank deposits are at fixed interest rates and mature within 90 days. The Exchange's investment in debt instruments is at variable interest rates. The Exchange earned an effective interest rate of 3.35 % p.a. for the year ended 31 December 2008 (2007: 4.6%) and 3.75% on Islamic leasing sukuk (2007: 3.75%).

At the reporting date, the interest rate profile of the Exchange's interest-bearing financial instruments was:

| | 2008 | 2007 |
|----------------------------------|------------------|------------------|
| Fixed rate instruments | | |
| Short-term bank deposits | 3,531,895 | 2,419,476 |
| Variable rate instruments | | |
| Investment in debt instrument | - | 267,706 |
| | 3,531,895 | 2,687,182 |

Capital Management

The Board's policy is to maintain acceptable reserve for the Exchange so as to maintain investor, creditor and market confidence and to sustain future development of the Exchange. The Exchange uses the available financial surplus by investing in low risk investment with achieving acceptable return for the Exchange.

Foreign exchange risk

Foreign exchange risk is the risk that the Exchange's earning will be affected as a result of fluctuations in currency exchange rates.

Predominantly, the purchase of product is from local suppliers. The US dollar is pegged against the Bahraini dinar and therefore the Exchange is not exposed to any significant risk.

Fair values

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.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

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14 Financial Instrument and Risk Management (continued)

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

| 31 December 2008 | Loans and receivables | Financial liabilities at amortized cost | Total carrying value |
|--------------------------|-----------------------|---|----------------------|
| Assets | | | |
| Cash and bank | 112,466 | - | 112,466 |
| Short-term fixed deposit | 3,531,895 | - | 3,531,895 |
| Receivables | 206,970 | - | 206,970 |
| | 3,851,331 | - | 3,851,331 |
| Liabilities | | | |
| Accounts payable | - | 10,076 | 10,076 |
| Accrued expenses | - | 138,360 | 138,360 |
| | - | 148,436 | 148,436 |
| 31 December 2007 | Loans and receivables | Financial liabilities at amortized cost | Total carrying value |
| Assets | | | |
| Cash and bank | 113,461 | - | 113,461 |
| Short-term fixed deposit | 2,419,476 | - | 2,419,476 |
| Receivables | 142,562 | - | 142,562 |
| | 2,675,499 | | 2,675,499 |
| Liabilities | | | |
| Accounts payable | - | 96,776 | 96,776 |
| Accrued expenses | - | 131,990 | 131,990 |
| | - | 228,766 | 228,766 |

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15 FIDUCIARY ACTIVITIES

There are two bank accounts with total balance of BD 54,493 as 31 December 2008 (2007: BD 23,742) in the name of the Exchange and they are not shown as part of its assets as they belonging to brokers and their customers to be used for clearing and settlement of deals.

16 DISTRIBUTION OF ASSETS AND LIABILITIES

All of the Exchange's assets and liabilities are in Bahrain. Therefore, the exchange is not exposed to any risk outside Bahrain.

17 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Estimations

The Exchange determines that investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. Where fair values are not available, the recoverable amount of such investment is estimated to test for impairment. In making this judgment, the Exchange evaluates among other factors, the normal volatility in share price, evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Exchange establishes provision for impairment of accounts receivables when there is objective evidence that the Exchange will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the accounts receivable is impaired.

18 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

During the year the following relevant new / amended IFRS standards and interpretations have been issued, which are not yet mandatory for adoption by the exchange:

- IAS 1 "Presentation of Financial Instruments": effective for financial periods beginning on or after 1 January 2009.

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