

Gulf Finance House Commercial Bank BSC(c)
Financial Statements 2005



Report of the Sharia'a Supervisory Board

In the name of Allah, the Beneficent, the Merciful, Prayers and peace upon the Last Apostle and Messenger, Our Prophet Mohammed, His Comrades and Relatives.

The Sharia'a Supervisory Board of Gulf Finance House Commercial Bank BSC (c) has reviewed the Bank's investment activities and compared them with the previously issued fatwas and rulings during the financial year ended 31 December 2005 and found them to be compatible with the previously issued fatwas and rulings.

The Board believes that it has expressed its opinion in respect of the activities carried out by the Bank and it is the responsibility of the management to ensure the implementation of such decisions. It is the duty of the Board to express an independent opinion on the basis of its control and review of the Bank's operations and to prepare a report about them.

A representative of the Bank's management explained and clarified the contents of the balance sheet, attached notes and income statement for the financial year ended 31 December 2005 to our satisfaction. The report of the Board has been prepared on the basis of its review of the contracts issued by the Bank.

The Board is satisfied that the activities of the Bank and its services are in compliance with the Glorious Islamic Sharia'a.

Peace be to Allah, Lord of the Worlds.

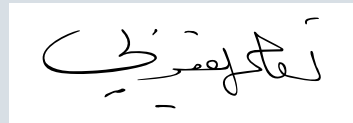
Prayers be upon Prophet Mohammed (Peace Be Upon Him),
all His Family and Companions.



Dr. Fareed Yaqoob Al Miftah
Chairman



Dr. Fareed Mohammed Hadi
Executive Member



Shaikh Nizam Mohammed Saleh Yaquby
Executive Member

Auditors' Report

Report of the Auditors to the Shareholders

Gulf Finance House Commercial Bank BSC(c)

Manama, Kingdom of Bahrain

We have audited the accompanying financial statements of Gulf Finance House Commercial Bank BSC (c) ("the Bank") as at, and for the year ended, 31 December 2005 as set out on pages 28 to 44.

Respective responsibilities of directors and auditors: These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the directors of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion: We conducted our audit in accordance with both Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion: In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2005, the results of its operations, the changes in its equity, its cash flows and restricted investment

accounts for the year then ended, in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, International Financial Reporting Standards and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Other regulatory matters: In addition, in our opinion, the Bank has maintained proper accounting records and the financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Bahrain Monetary Agency law 1973 (as amended) or the terms of the Bank's license or its memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.



KPMG

28 January 2006


Balance Sheet

as at 31 December 2005

BD 000's

	Note	31 December 2005	31 December 2004
ASSETS			
Balances with financial institutions	3	676	-
Due from financial and non-financial institutions	4	54,693	30,223
Trading properties	5	3,265	-
Available-for-sale investments	6	5,175	-
Other investments	7	6,209	-
Other assets	8	1,087	-
Total assets		71,105	30,223
LIABILITIES			
Investors' funds	9	21,511	-
Due to parent company		-	421
Customers' current accounts		1,919	-
Other liabilities	10	309	2
Total liabilities		23,739	423
Unrestricted investment accounts	11	13,459	-
EQUITY			
Share capital	12	30,154	30,154
Statutory reserve		375	-
Retained earnings/ (accumulated losses)		3,378	(354)
Total equity (page 30)		33,907	29,800
Total liabilities, unrestricted investment accounts and shareholders' equity		71,105	30,223
Off-balance sheet items			
Restricted investment accounts (page 32)		11,024	-

The financial statements, which consist of pages 28 to 44, were approved by the Board of directors on 28 January 2006 and signed on its behalf by:



Fuad Abdulla Al-Omar
Chairman



Esam Yousif A. Janahi
Vice Chairman



Ebrahim Hussain Ebrahim
General Manager

The accompanying notes 1 to 29 form an integral part of these financial statements.

Income Statement

for the year ended 31 December 2005

BD 000's

Note **31 December 2005** 24 November 2004
to 31 December 2004

INCOME

Income from advisory services	13	4,031	-
Placement, management and arrangement fees		399	-
Income from murabaha receivables		1,319	69
Income from investment in sukuks		149	-
Gain on disposal of trading properties		689	-
Total income		6,587	69

EXPENSES

Staff costs	14	453	17
Profit allocated to investors' funds and unrestricted investment accounts		505	-
Investments related expenses		266	-
Other operating expenses	15	1,256	47
Pre-operating expenses		-	359
Total expenses		2,480	423

PROFIT/ (LOSS) FOR THE YEAR

		4,107	(354)
Basic earnings per share (fils)	26	136	(1)

The accompanying notes 1 to 29 form an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2005

BD 000's

2005	Share Capital	Statutory Reserve	Retained earnings	Total
Balance at 1 January 2005	30,154	-	(354)	29,800
Profit for the year	-	-	4,107	4,107
Transfer to statutory reserve	-	375	(375)	-
Balance as at 31 December 2005	30,154	375	3,378	33,907
2004				
Share capital introduced	30,154	-	-	30,154
Loss for the period	-	-	(354)	(354)
Balance at 31 December 2004	30,154	-	(354)	29,800

The accompanying notes 1 to 29 form an integral part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2005

BD 000's

	Note	2005
OPERATING ACTIVITIES		
Cash receipts from investment advisory services	13	3,843
Musharaka financing	7	(464)
Placement, management and arrangement fees received		397
Murabaha profits received		1,319
Profits on investors' funds and unrestricted investment accounts paid		(505)
Payments for operating expenses		(2,243)
Cash flows from operating activities		2,347
INVESTING ACTIVITIES		
Purchase of Available-for-sale investments	6	(6,683)
Proceeds from sale of investment securities	6	1,508
Purchase of trading properties	5	(4,630)
Proceeds from sale of trading properties	5	1,550
Purchase of sukuku	7	(5,655)
Investors' funds received, net	9	21,511
Sukuk profits received		59
Capital advances paid	8	(279)
Advances received from customers	10	154
Cash flows from investing activities		7,535
FINANCING ACTIVITIES		
Project costs paid, net		(114)
Net increase in customers' current accounts		1,919
Receipts from unrestricted investment account holders	11	13,459
Cash flows from financing activities		15,264
Net increase in cash and cash equivalents		25,146
Cash and cash equivalents at 1 January		30,223
Cash and cash equivalents at 31 December		55,369
Cash and cash equivalent comprise of:		
Balances with financial institutions	3	676
Due from financial and non-financial institutions	4	54,693
		55,369

For the period ended 31 December 2004, the Bank did not maintain a bank account and all transactions were routed through the parent company's bank account and accordingly a cash flow statement was not prepared for 2004.

The accompanying notes 1 to 29 form an integral part of these financial statements.

Statement of Changes in Restricted Investment Accounts

for the year ended 31 December 2005

31 December 2005	Balance at 1 January 2005			Movements during the year						Balance 31 December 2005			
	No of units (000)	Average value per share BD	Total BD 000's	Investment BD 000's	Revaluation BD 000's	Gross Income BD 000's	Dividends Paid BD 000's	Bank's fees as an agent BD 000's	Administration expenses BD 000's	No of units (000)	Average value per share BD	Total BD 000's	Total % ownership
Al Hareth French Property Fund	-	-	-	11,007	-	532	(486)	(29)	-	25	447.22	11,024	100
	-	-	-	11,007	-	532	(486)	(29)	-	-	-	11,024	-

The accompanying notes 1 to 29 form an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2005

BD 000's

1 INCORPORATION AND PRINCIPAL ACTIVITY

Gulf Finance House Commercial Bank BSC (c) ("the Bank") was incorporated on 24 November 2004 in the Kingdom of Bahrain under Commercial Registration No. 55133 as a wholly owned subsidiary of Gulf Finance House BSC ("the parent company"), a Bahraini incorporated company. The Bank operates under a license granted by the Bahrain Monetary Agency ("BMA") on 20 October 2003.

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

The principal activities of the Bank include financing real estate projects in accordance with Islamic rules and principles according to the opinion of the Bank's Shari'a Board.

2 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

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

(b) Basis of preparation

The financial statements are presented in Bahraini Dinars, being the principal currency of the Bank's operations. They are prepared on the historical cost basis except for the measurement at fair value of available-for-sale investments.

The preparation of financial statements in conformity with the IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 16.

(c) Foreign currency transactions

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Bahraini Dinars, which is the Bank's functional and presentation currency. Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items classified as available-for-sale financial assets are included in investments fair value reserve.

(d) Available-for-sale investments

The Bank recognises available-for-sale investments when it becomes entitled to ownership. This is determined based on either agreements made to acquire stakes in investments or equity stakes received in kind for services rendered. From this date any gains and losses arising from changes in fair value of the assets are recognised.

Available-for-sale investments are initially measured at cost, which is the fair value of the consideration given (in the case of an asset) or received (in the case of a liability), including transaction costs. Subsequent to initial recognition, available-for-sale investments are re-measured to fair value.

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

Investments for which there is no quoted market price or other appropriate methods from which to derive reliable fair values, are stated cost less impairment allowances. For other unquoted investments, fair value is determined either by reference to price of the most recent transactions in the shares, or based on management's assessment of the present value of future cash flows, or based on valuations undertaken by independent external valuers.

Notes to the Financial Statements

for the year ended 31 December 2005

BD 000's

2 Significant accounting policies (continued)

(d) Available for sale investment (continued)

Impairment of available-for-sale investments

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

(e) Cash and cash equivalents

Cash and cash equivalents comprise balances with financial and non-financial institutions and short-term highly liquid investments (including due from financial and non-financial institutions) with maturities of three months or less when acquired.

(f) Murabaha receivables

Murabaha receivables are stated at cost less impairment allowances.

(g) Investment in Mudaraba

Investment in Mudaraba is stated at cost less impairment allowances.

(h) Investments in Sukuk

Investments in Sukuk are stated at cost less impairment allowances.

(i) Trading property

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

(j) Impairment

The carrying amount of the Bank's assets other than for available-for-sale investment securities (refer note 2 (d)), 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. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

(k) Statutory reserve

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

(l) Revenue recognition

Income from investment advisory services is recognised when the services for the transaction are provided and income is earned. This is usually when the Bank obtains from investors a legally binding and irrevocable commitment to subscribe for shares in an investment promoted by the Bank. The Bank then recognises revenue based on the pro rata amount of such signed subscription agreements as of the reporting date.

Income from investment advisory services is either received in cash or in kind (i.e. equity shares of the investment being promoted). Income received in kind is measured at the fair value of the consideration received.

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

Income from Murabaha contracts are recognised on a time-apportioned basis over the period of the contract.

Notes to the Financial Statements

for the year ended 31 December 2005

BD 000's

2 Significant accounting policies (continued)

(l) Revenue recognition (continued)

Profit from Musharaka contracts that continue for more than one financial period are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Bank's share of Musharaka capital.

Income from Sukuk is recognised on a time-apportioned basis over the term of the Sukuk.

Income from investments (**dividend income**) is recognised when the right to receive is established.

(m) Restricted investment accounts

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

(n) Earnings prohibited by Shari'a

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

(o) Employees benefits

(i) Bahraini employees

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

(ii) Expatriate employees

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

(iii) Employee savings scheme

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

(p) Zakah

In accordance with its articles of association, the Bank is not required to pay Zakah. However, the Bank is required to calculate and notify, under a separate report, shareholders of their pro-rata share of the Zakah payable amount. These calculations are approved by the Sharia'a Supervisory Board.

(q) Trade date accounting

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

Notes to the Financial Statements

for the year ended 31 December 2005

BD 000's

3 BALANCES WITH FINANCIAL INSTITUTIONS

	2005	2004
Balances with banks	131	-
Deposit with BMA	545	-
	676	-

4 DUE FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2005	2004
Gross Commodity Murabaha	54,966	30,223
Less: Deferred profits	(273)	-
	54,693	30,223

The average profit rate on Murabaha receivables as of 31 December 2005 was 3.21% per annum (2004: 2.10% per annum).

5 TRADING PROPERTIES

	2005	2004
At 1 January	-	-
Acquisitions during the year	4,629	-
Disposals during the year, at carrying value	(1,364)	-
At 31 December	3,265	-

6 AVAILABLE-FOR-SALE INVESTMENTS

	2005	2004
At 1 January	-	-
Acquisitions during the year	6,683	-
Disposals during the year, at carrying value	(1,508)	-
At 31 December	5,175	-

Available-for-sale investments comprise unquoted investments in projects of the Bank and the parent company. The investments are being carried at cost in the absence of a reliable estimate of fair values.

Notes to the Financial Statements

for the year ended 31 December 2005

BD 000's

7 OTHER INVESTMENTS

2005 2004

Investments in Sukuk	5,745	-
Musharaka	464	-
	6,209	-

The average profit rate on Sukuks as of 31 December 2005 was 6.74% per annum.

8 OTHER ASSETS

2005 2004

Project costs recoverable	114	-
Advisory fees receivable	188	-
Capital advances	213	-
Receivable from sale of trading properties	504	-
Prepayments and other receivables	68	-
	1,087	-

9 INVESTORS' FUNDS

These represent funds received from investors to be invested in entities to be set up or promoted by the Bank. The funds are invested in Murabaha transactions pending the legal formation of companies for these investments.

10 OTHER LIABILITIES

2005 2004

Employee accruals	92	-
Advances received	154	-
Accrued expenses	62	-
	309	-

11 UNRESTRICTED INVESTMENT ACCOUNTS

Unrestricted investment accounts are funds held by the Bank, which it can invest at its own discretion. The bank charges management fee (Mudarib) to unrestricted investment account holders. Unrestricted investment accounts are shown inclusive of a profit equalisation reserve of BD 14 thousand and an investment risks reserve of BD 9 thousand.

12 SHARE CAPITAL

2005 2004

Authorised:		
75,400,000 ordinary shares of BD 1 each (2004: 608,064,516 shares of USD 0.33 each)	75,400	75,400
Issued and fully paid up:		
30,154,000 ordinary shares of BD 1 each (2004: 242,424,242 shares of USD 0.33 each)	30,154	30,154

Pursuant to a shareholders' resolution during the year, the Bank has changed the face value of the shares from USD 33 cents per share to BD 1 per share.

Notes to the Financial Statements

for the year ended 31 December 2005

BD 000's

13 INCOME FROM INVESTMENT ADVISORY SERVICES

Income from investment advisory services includes BD 1,341 thousand (2004: Nil) which has been received by the Bank in kind in exchange for investment advisory services rendered.

14 STAFF COSTS

	2005	2004
Salaries and related expenses	313	12
Social insurance expenses	25	2
Bonus	115	3
	453	17

15 OTHER OPERATING EXPENSES

	2005	2004
Administration and support services *	1,060	-
Premises	47	-
Postage and courier	20	-
Printing and stationery	34	-
Professional fees	16	-
Shari'a Committee expenses	8	-
Board members expenses	35	-
Others	36	-
	1,256	-

* The Bank has entered into a service level agreement with the parent company where by the parent company providing administration and support services for a fees of BD 1,060 thousand for 2005.

16 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES

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

Impairment of available-for-sale investments

The Bank determines that available-for-sale equity securities 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 readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment. In making this judgment, the Bank evaluates among other factors, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

17 FIDUCIARY ACTIVITIES

The Bank provides corporate administration, investment management and advisory services to its project companies, which involve the Bank making decisions on behalf of such entities. Assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date, the Bank had assets under management of BD 40,022 thousand (2004: Nil).

Notes to the Financial Statements

for the year ended 31 December 2005

BD 000's

18 RELATED PARTY TRANSACTIONS

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

A significant portion of the Bank's income from investment advisory services and placement, arrangement and management fees arises from entities over which the Bank or its parent company exercises significant influence.

Although these entities are considered related parties, the Bank administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. Consequently, the true nature of the Bank's transactions with these entities is effectively conducted at commercial terms and conditions. The terms and conditions for these transactions are approved by the Board of Directors of the Bank.

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

	2005	2004
Assets		
Due from financial and non-financial institutions	52,403	30,223
Available for sale investments	5,175	-
Other investments	3,931	-
Other assets	692	-
Liabilities		
Investors' funds	21,511	-
Customers' current accounts	1,204	-
Income		
Income from investment advisory services	3,793	-
Murabaha income	1,222	69
Gain on disposal of properties	689	-
Expenses		
Other operating expenses	1,060	-
Shari'a fees	3	-

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

	2005	2004
Board member fees	35	-
Salaries and other short-term benefits	121	37

Notes to the Financial Statements

for the year ended 31 December 2005

BD 000's

19 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.

20 PROPOSED APPROPRIATIONS

The Board of Directors propose the following appropriation of profits:

	2005	2004
Directors' remuneration	40	-

21 MATURITY PROFILE

2005	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	Total
Assets						
Balances with financial institutions	131	-	-	-	545	676
Due from financial and non-financial institutions	53,047	-	1,646	-	-	54,693
Trading properties	-	3,265	-	-	-	3,265
Available for sale investments	-	-	-	5,175	-	5,175
Other investments	554	-	3,770	-	1,885	6,209
Other assets	779	22	72	214	-	1,087
Total assets	54,511	3,287	5,488	5,389	2,430	71,105
2004	30,223	-	-	-	-	30,223
Liabilities						
Investors' funds	21,511	-	-	-	-	21,511
Customers' current account	1,919	-	-	-	-	1,919
Other liabilities	309	-	-	-	-	309
Total liabilities	23,739	-	-	-	-	23,739
2004	423	-	-	-	-	423
Unrestricted investment accounts	9,066	4,167	226	-	-	13,459
2004	-	-	-	-	-	-
Restricted investment accounts	-	-	-	11,024	-	11,024
2004	-	-	-	-	-	-

Notes to the Financial Statements

for the year ended 31 December 2005

BD 000's

22 CONCENTRATION OF ASSETS, LIABILITIES AND UNRESTRICTED AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

2005	Banks and financial institutions	Real estate	Others	Total
Assets				
Balances with financial institutions	676	-	-	676
Due from financial and non-financial institutions	52,403	1,295	995	54,693
Trading properties	-	3,265	-	3,265
Available for sale investments	-	5,175	-	5,175
Other investments	-	6,209	-	6,209
Other assets	-	654	433	1,087
Total assets	53,079	16,598	1,428	71,105
Liabilities				
Investors' funds	-	21,511	-	21,511
Customers' current accounts	-	1,919	-	1,919
Other liabilities	-	-	309	309
Total liabilities	-	23,430	309	23,739
Unrestricted investment accounts	-	10,191	3,268	13,459
Off-Balance sheet items				
Restricted investment accounts	-	11,024	-	11,024
2004				
	Banks and financial institutions	Real estate	Others	Total
Assets				
Due from financial and non-financial institutions	30,223	-	-	30,223
Total assets	30,223	-	-	30,223
Liabilities				
Due to parent company	421	-	-	421
Accrued expenses	-	-	2	2
Total liabilities	421	-	2	423

Notes to the Financial Statements

for the year ended 31 December 2005

BD 000's

22 CONCENTRATION OF ASSETS, LIABILITIES AND UNRESTRICTED AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic region

2005	GCC countries	Other MENA countries	Europe	USA	Total
Assets					
Balances with financial institutions	626	-	6	44	676
Due from financial and non-financial institutions	54,693	-	-	-	54,693
Trading properties	3,265	-	-	-	3,265
Available for sale investments	3,238	1,937	-	-	5,175
Other investments	6,209	-	-	-	6,209
Other assets	1,087	-	-	-	1,087
Total assets	69,118	1,937	6	44	71,105
Liabilities					
Investors' funds	21,493	-	18	-	21,511
Customers' current accounts	1,919	-	-	-	1,919
Other liabilities	309	-	-	-	309
Total liabilities	23,721	-	18	-	23,739
Unrestricted investment accounts	4,167	9,066	226	-	13,459
Off-Balance sheet items					
Restricted investment accounts	-	-	11,024	-	11,024
2004	GCC countries	Other MENA countries	Europe (excluding UK)	USA	Total
Assets					
Due from financial and non-financial institutions	30,223	-	-	-	30,223
Total assets	30,223	-	-	-	30,223
Liabilities					
Due to parent company	421	-	-	-	421
Accrued expenses	2	-	-	-	2
Total liabilities	423	-	-	-	423

Notes to the Financial Statements

for the year ended 31 December 2005

BD 000's

23 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Bank had the following significant net exposures denominated in foreign currency as of 31 December

	2005 BD Equivalent
US Dollars	5,124
Euros	(12)
Kuwaiti Dinars	1,937
Other GCC Currencies	2

24 FAIR VALUE

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

Other than available-for-sale investments carried at cost of BD 5,175 thousand (2004: Nil), the estimated fair values of the Bank's other financial instruments are not significantly different from their book values.

25 RISK MANAGEMENT

The Bank's exposure to risks and its approach to managing these risks are discussed below.

a) Credit risk

Credit risk is the risk that a counterparty to a financial transaction does not discharge its obligations on due dates and cause the other party to incur a financial loss. The Bank's credit risk arises mainly from the advisory fee and other receivables, due from financial institutions and investments in Sukuk.

The Bank has well defined policies for managing credit risks that ensure that risks are accurately assessed, properly approved and regularly monitored. Formal credit limits are applied at counterparty and single obligor level. Overall exposures are also evaluated to ensure a broad diversification of risk by setting concentration limits by geography and industry.

b) Concentration risk

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

The geographical and industry wise distribution of assets and liabilities are set out in note 22.

c) Liquidity risk

Liquidity risk is defined as the risk that the Bank will not have funds will not be available to meet liabilities as they fall due. The Bank uses a maturity ladder approach for managing and monitoring the liquidity risk. It is the Bank's policy to keep a significant part of its assets in highly liquid assets such as short term Murabahas and Sukuks.

The maturity profile of assets and liabilities is set out in note 21.

d) Profit rate risk

Profit rate risk arises due to different timing of re-pricing of the Bank's assets and liabilities. The Bank's profit rate sensitive assets are mainly "due from financial and non-financial institutions". The Bank's exposure to profit rate risk is limited due the short-term nature of "due from financial and non-financial institutions".

e) Currency risk

The Bank is exposed to currency risks on certain Murabaha receivables and available-for-sale investments. The Bank seeks to manage currency risk by continually monitoring exchange rates.

Notes to the Financial Statements

for the year ended 31 December 2005

BD 000's

26 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year ended 31 December 2005 as follows:

	2005	2004
Profit/ (loss) for the year (BD 000's)	4,107	(354)
Weighted average number of equity shares (Nos. in 000's)	30,154	30,154
Basic earnings per share (in fils)	136	(1)

27 SOCIAL RESPONSIBILITY

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

28 COMMITMENTS

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

	2005	2004
Undrawn commitments to extend finance	970	-

29 COMPARITIVES

The previous year financial statements were prepared for the period from 24 November 2004 to 31 December 2004 and hence the previous year figures are not directly comparable to the current year figures. Certain prior period amounts have been reclassified to conform to current year's presentation. Such reclassification did not affect previously reported profit or equity.