

GULF FINANCE HOUSE BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2005

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

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CHAIRMAN'S REPORT
for the year ended 31 December 2005

Dear Shareholders

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

On behalf of the Board of Directors, it is my privilege to present the annual report of Gulf Finance House (GFH) for the year ended 31 December 2005. This proved to be a most successful and blessed year for your Bank, during which we posted record financial results, made sound strategic progress, achieved outstanding operational success, and further strengthened our institutional and governance capability.

Financial performance

I am pleased to report that GFH enjoyed a truly excellent 2005 fiscal year. Net profits rose by 147 per cent to US$ 140 million, compared to US$ 57 million in 2004. Return on equity was 47 per cent while return on paid up capital was 94 per cent. In view of this exemplary performance, the Board of Directors is recommending a total dividend of US$ 90 million, equivalent to 60 per cent of paid up capital. This record dividend distribution will be paid as 48 per cent in cash and 12 per cent in stock.

In order to support our regional expansion plans, the Board of Directors has recommended a 30 per cent increase in the Bank's capital. This will be submitted for approval by the shareholders in the first quarter of 2006. The full impact of this premium rights issue will be to bring in new equity of US$ 189 million.

I am also delighted to report that in the first full year of trading on the Bahrain and Kuwait stock exchanges, the share price of GFH rose steadily. We plan to list the Bank on other GCC bourses during 2006 to further expand our regional shareholder base, subject to market conditions and regulatory approval.

Strategic progress

Throughout 2005, we successfully pursued our strategy of geographic expansion and involvement in regional economies and international markets. In the six years since our inception, GFH has successfully established a leading position in the Middle East for originating and financing infrastructure and economic development projects that make a direct and visible contribution to the economic well-being of the countries in which we invest, such as Jordan, Qatar, UAE, and Bahrain.

We now intend to position GFH as a leading bank in the provision of other investment banking services. We will continue to expand our geographic reach in key markets of the Middle East, especially in Saudi Arabia, Oman, and North Africa (Libya), in order to diversify the Bank's income stream and asset base. This will enable GFH to take advantage of new opportunities in capital markets, private equity, asset management and infrastructure development.

It also gives me great pleasure to report that our sister commercial institution – Gulf Finance House Commercial Bank – enjoyed a very successful first full year of operations. The Bank achieved excellent financial results and was actively involved in financing several key infrastructure developments in the region, as well as launching three new innovative investment funds.

Operational achievements

The Bank's landmark development projects in Bahrain, Dubai and Jordan remained firmly on track during 2005. Highlights include the topping-out of Bahrain Financial Harbour; the excellent take-up by investors of development parcels in Al Areen Desert Spa and Resort in Bahrain; the start of construction work for Dubailand Legends and Jordan Gate; and the laying of the foundation stone for Royal Village in Jordan. Significant new developments in 2005 include the unveiling of the Royal Resort and Spa in Jordan, and Energy City-Qatar.

In addition, a number of new investment vehicles were successfully introduced. A significant development was the successful launch of the Al Basha'er Equity Fund, the largest of its kind in the GCC, and which represents the first step by GFH towards building a world class asset management business. Other new funds include the Al Hareth French Property Fund, the Eqarat Al-Khaleej Fund, and the Al Marfa'a Al Mali Sukuk. These constitute a major part of the Bank's investment placements during 2005, which amounted to over US$ 1.4 billion.

GFH has consistently maximised returns to shareholders and investors, with high yields from either an income-generating portfolio or capital appreciation at the time of exit. In 2005, GFH successfully completed four exits, generating excellent short-to-medium returns for investors, ranging from 65 to 55 per cent over periods of between two to three years.

These exits include the sale of the Bank's proprietary private equity portfolio, Gulf Coffee House (Costa Coffee) and the reclamation phase of Bahrain Financial Harbour.

Simultaneously, GFH achieved growing international recognition 2005 through a number of prestigious awards.

Organisational developments

During 2005, we continued to build the Bank's institutional capacity and corporate governance framework. Our existing corporate governance practices were benchmarked by international consultants against international best practice, and were further enhanced to ensure full compliance with the new regulatory requirements of the Bahrain Monetary Agency and other regional regulatory bodies.

We also focused on developing our human capital and support functions by recruiting additional qualified professionals for key areas such as real estate development, asset management, private equity, compliance, economic research, human resources and operations. We also strengthened our risk management framework and improved the efficiency of our information and communication technology systems.

Corporate social responsibility

As an Islamic financial institution, GFH takes very seriously its responsibility to support the economic and social well-being of the communities in which we operate. During 2005, the Bank provided financial support and sponsorship for a large number of economic, business and educational initiatives, charitable organisations, and sporting events in the region. These include construction of the Centre for the Gifted in Bahrain and the Centre for Autism in Kuwait.

Looking ahead

The impressive achievements of GFH in 2005 took place against the continued recovery of the global economy, together with robust growth in all GCC economies, which was fuelled by high oil prices and increased liquidity. This boosted public spending in major regional infrastructure and industrial projects, and also increased investment by the private sector – both domestic and foreign – in the equity markets and real estate, tourism and industrial sectors of the GCC. These developments positively impacted GFH's regional and international activities during the year. The promising outlook for the global and regional economies during 2006 will continue to provide GFH with excellent opportunities for successfully pursuing its strategy of geographic expansion and income diversification.

Appreciations

On behalf of the Board of Directors, I would like to express my gratitude to the rulers, governments and regulatory authorities of Bahrain, Kuwait, the UAE, Qatar and Jordan for their wise political and economic leadership, and continued prudential guidance.

I would also like to take this opportunity to thank the Bank's shareholders, clients and business partners for their continued loyalty, and to pay tribute to the management and staff of GFH for their dedication and hard work during 2005.

Together, they have contributed to another outstanding year for Gulf Finance House, and provided us with renewed confidence to face all future challenges.

Yours truly,

Dr Fuad Abdulla Al-Omar
Chairman

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REPORT OF THE AUDITORS TO THE SHAREHOLDERS GULF FINANCE HOUSE BSC

29 January 2006

Manama, Kingdom of Bahrain

We have audited the accompanying consolidated financial statements of Gulf Finance House BSC ("the Bank") and its subsidiaries (together referred to as "the Group") as at, and for the year ended, 31 December 2005 as set out on pages 4 to 36.

Respective responsibilities of directors and auditors
These consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, the results of its operations, the changes in its cash flows, equity, restricted investment accounts and sources and uses of charity and zakah fund 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 consolidated 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
Manama, Kingdom of Bahrain

CONSOLIDATED BALANCE SHEET
as at 31 December 2005

US$ 000's

	Note	2005	2004 (restated)
ASSETS			
Cash and balances with financial institutions	3	13,412	4,295
Due from financial and non-financial institutions	4	701,650	264,339
Investment securities	5	189,235	114,832
Other investments	6	62,605	11,155
Assets held for sale	7	25,327	-
Trading properties		8,660	-
Other assets	8	97,184	26,043
Equipment	9	1,694	2,089
Total assets		**1,099,767**	422,753
LIABILITIES			
Investors' funds	10	477,775	34,219
Customers' current accounts		5,090	-
Due to financial and non-financial institutions	11	176,145	130,157
Other liabilities	12	52,693	7,471
Total liabilities		**711,703**	171,847
Unrestricted investment accounts		**35,700**	-
EQUITY			
Share capital	13	149,771	139,973
Share premium		31,487	31,487
Statutory reserve		24,621	10,576
Investments fair value reserve		227	3,899
Retained earnings		146,258	63,725
Total equity attributable to shareholders of the parent company		**352,364**	249,660
Minority interest		-	1,246
Total equity (page 6)		**352,364**	250,906
Total liabilities, unrestricted investment accounts and equity		**1,099,767**	422,753

Off-balance sheet items			
Restricted investment accounts (page 9)		57,326	14,050

The consolidated financial statements, which consist of pages 4 to 36, were approved by the Board of directors on 29 January 2006 and signed on its behalf by:

Fuad Abdulla Al-Omar
Chairman

Waleed A Rahman Al-Rowaih
Vice-Chairman

Esam Yousif A. Janahi
Director and Chief Executive Officer

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended □

US$ 000's

	Note	**2005**	2004
			(restated)
Income from investment advisory services	14	167,752	81,307
Placement, arrangement and management fees		27,280	2,777
Commission income from sale of land		-	9,472
Income from investment securities	15	16,228	1,662
Income from Murabaha receivables		14,943	4,144
Other income	16	548	166
Total income		**226,751**	99,528
Staff costs	17	40,103	12,981
Investment advisory expenses		29,402	12,995
Net fair value losses on investments	5 (i)	3,825	2,869
Impairment allowances on investments	5 (ii)	-	7,287
Murabaha expense		8,022	2,102
Other expenses	18	4,229	4,014
Depreciation	9	786	544
Total expenses		**86,367**	42,792
PROFIT FOR THE YEAR		**140,384**	56,736

Attributable to:			
Shareholders of the parent company		140,331	56,671
Minority interest		53	65
		140,384	56,736

Earnings per share (US cents)			
Basic	34	30.92	13.00

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2005

US$ 000's

	Attributable to the shareholders of the parent							Minority interest	Total equity
2005	**Share Capital**	**Proposed increase in share capital**	**Share premium**	**Statutory reserve**	**Invest-ments fair value reserve**	**Retained earnings**	**Total**		
Balance at 1 January 2005 (restated – refer note 2 (c))	139,973	-	31,487	10,576	3,899	63,725	249,660	1,246	250,906
Issue of bonus shares	9,798	-	-	-	-	(9,798)	-	-	-
Dividend declared for 2004	-	-	-	-	-	(32,194)	(32,194)	-	(32,194)
Charity contribution declared for 2004	-	-	-	-	-	(600)	(600)	-	(600)
Board remuneration declared for 2004	-	-	-	-	-	(585)	(585)	-	(585)
Zakah contribution declared for 2004	-	-	-	-		(576)	(576)		(576)
Net fair value changes during the year	-	-	-	-	12,520	-	12,520	-	12,520
Net profit for the year	-	-	-	-		140,331	140,331	53	140,384
Transfer to income statement on disposal of AFS investments	-	-	-	-	(16,192)	-	(16,192)	-	(16,192)
Transfer to statutory reserve	-	-	-	14,045	-	(14,045)	-	-	-
De-recognition of minority interest on sale of subsidiary	-	-	-	-	-	-	-	(1,299)	(1,299)
Balance at 31 December 2005	**149,771**	**-**	**31,487**	**24,621**	**227**	**146,258**	**352,364**	**-**	**352,364**

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2005 *(continued)*

US$ 000's

	Attributable to the shareholders of the parent company							Minority interest	Total equity
2004	Share Capital	Proposed increase in share capital	Share premium	Statutory reserve	Invest-ments fair value reserve	Retained earnings	Total		
Balance at 1 January 2004 – as previously reported	65,198	9,802	-	4,792	1,440	24,154	105,386	-	105,386
Effect of adopting revised IFRS's (refer note 2 (c))	-	-	-	-	(180)	744	564	1,181	1,745
Balance at 1 January 2004 (restated)	65,198	9,802	-	4,792	1,260	24,898	105,950	1,181	107,131
Issue of bonus shares	7,275	(7,275)	-	-	-	-	-	-	-
Shares Issued to Management Incentive Programme for 2001 and 2002	2,527	(2,527)	-	-	-	-	-	-	-
Issue of new shares	60,000	-	31,487	-	-	-	91,487	-	91,487
Shares issued to Management Incentive Programme for 2003 and 2004	4,973	-	-	-	-	-	4,973	-	4,973
Dividend declared for 2003	-	-	-	-	-	(11,250)	(11,250)	-	(11,250)
Charity contribution declared for 2003	-	-	-	-	-	(450)	(450)	-	(450)
Board remuneration declared for 2003	-	-	-	-	-	(360)	(360)	-	(360)
Transfer to income statement on disposal of AFS investments	-	-	-	-	(458)	-	(458)	-	(458)
Net fair value changes during the year	-	-	-	-	3,097	-	3,097	-	3,097
Net profit for the year	-	-	-	-	-	56,671	56,671	65	56,736
Transfer to statutory reserve	-	-	-	5,784	-	(5,784)	-	-	-
Balance at 31 December 2004	139,973	-	31,487	10,576	3,899	63,725	249,660	1,246	250,906

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ende

US$ 000's

	Note	**2005**	2004
OPERATING ACTIVITIES			
Cash receipts from investment advisory services	14, 8	101,821	44,112
Net increase in customers' current accounts		5,090	-
Musharaka financing	6	(1,231)	-
Placement, arrangement and management fees received		21,499	2,777
Commissions received		-	9,472
Murabaha profits received		15,546	4,144
Murabaha expense paid		(8,625)	(2,102)
Other income received		182	166
Payments for operating expenses		(32,055)	(20,804)
Cash flows from operating activities		**102,227**	37,765
INVESTING ACTIVITIES			
Purchase of investment securities	5, 14	(130,518)	(30,927)
Proceeds from sale of investment securities	5. 8	42,607	10,673
Purchase of trading property		(12,279)	-
Proceeds from sale of trading and investment property		5,447	4,126
Purchase of sukuks (long term)	6	(15,000)	-
Investors' funds received/ (paid), net	10	443,556	(60,648)
Purchase of equipment	9	(391)	(1,806)
Dividends received	15, 8	2,170	1,313
Cash flows from investing activities		**335,592**	(77,269)

FINANCING ACTIVITIES			
Receipts from financial and non-financial institutions, net	11	47,104	79,306
Short term financing and project costs paid, net	8	(7,393)	(2,652)
Proceeds from issue of ordinary shares	13	-	88,576
Receipts from unrestricted investment account holders		35,700	-
Cash paid to charitable organisations		(1,130)	(104)
Board remuneration paid		(585)	(360)
Dividends paid	12	(29,868)	(11,250)
Cash flows from financing activities		**43,828**	153,516

Net increase in cash and cash equivalents		**481,647**	114,012
Cash and cash equivalents at 1 January		279,789	165,777
Cash and cash equivalents at 31 December		**761,436**	279,789

Cash and balances with banks	3	13,412	4,295
Due from financial and non-financial institutions	4	701,650	264,339
Investments in Sukuk (short-term)	6	46,374	11,155
		761,436	279,789

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED 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			
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's	Total % ownership
Gulf Atlantic Real Estate Company Ltd	500	1.92	959	-	(99)	58	(58)	-	-	500	1.7208	860	1.04
Gulf Atlantic FZ LLC	0.02	135,580	2,712	-	(343)	178	(178)	-	-	0.02	118,440	2,369	2.90
Gulf Development Real Estate Company KSCC	9,784	0.340	3,320	384	14	-	-	-	-		0.341	3,718	7.27
Menajet Holding SAL	200	10	2000	-	-	-	-	-	-	200	10.00	2,000	2.91
Kuwait National Real Estate Investment & Services Co. KSCC	13,550	0.373	5,059	(2,736)	21	2,185	(2,185)	-	-	6,250	0.375	2,344	3.85
Bayan Holding Company KSCC	-	-	-	2,385	-	-	-	-	-	7,000	0.341	2,385	1.00
Gulf North Africa Holding Company KSCC	-	-	-	4,070	-	-	-	-	-	11,650	0.349	4,070	8.00
Pan European Fund	-	-	-	10,304	-	35	-	-	-	9	1,188.65	10,339	90
Al Hareth French Property Fund	-	-	-	29,195	-	1,412	(1,289)	(77)	-	25	1,186.25	29,241	100
			14,050	**43,602**	**(407)**	**3,868**	**(3,710)**	**(77)**	**-**			**57,326**	

Revaluation changes represent exchange gain/ loss on translation at year end rates.

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2005 *(continued)*

31 December 2004	Balance at 1 January 2004			Movements during the year						Balance 31 December 2004			
Company	No of units (000)	Average value per share US$	Total US$ 000's	Invest-ment US$ 000's	Revalua-tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Admini-stration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's	Total % owner-ship
Gulf Atlantic Real Estate Company Ltd	500	1.782	891	-	68	86	(86)	-	-	500	1.92	959	1.04
Gulf Atlantic FZ LLC	-	-	-	2,522	190	178	(178)	-	-	0.02	135,580	2,712	2.90
Gulf Development Real Estate Company KSCC	-	-	-	3,320	-	-	-	-	-	9,784	0.340	3,320	6.52
Menajet Holding SAL	-	-	-	2,000	-	-	-	-	-	200	10.00	2,000	2.91
Kuwait National Real Estate Investment & Services Co. KSCC	-	-	-	5,058	-	-	-	-	-	13,550	0.373	5,059	4.52
			891	12,900	258	264	(264)	-	-			14,050	

Revaluation changes represent exchange gain/ loss on translation at year end rates.

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND

for the year ended

US$ 000's

	2005	2004
Sources of charity and zakah fund		
Contributions by the Bank	1,176	450
Non-Islamic income (note 24)	66	34
Total sources	**1,242**	484
Uses of charity fund and zakah fund		
Contributions to charitable organisations	(1,130)	(104)
Total uses	**(1,130)**	(104)
Excess of sources over uses	112	380
Undistributed charity and zakah fund at 1 January	855	475
Undistributed charity and zakah fund at 31 December (note 12)	**967**	855

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITY

Gulf Finance House BSC ("the Bank") was incorporated in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 as an "Exempt Company". In 2004, the Bank's legal status was changed to a stockholding company and its shares were listed on both the Bahrain and Kuwait Stock Exchanges. The Bank operates as an Islamic Investment Bank under a license granted by the Bahrain Monetary Agency ("BMA").

The consolidated financial statements for the year ended 31 December 2005 comprise the financial statements of the Bank and its subsidiaries (together referred to as "the Group").

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

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

The Bank's principal subsidiary companies are as follows:

Name	Country of incorporation	% holding		Nature of business
		2005	2004	
Gulf Finance House Commercial Bank BSC (c)	Bahrain	100%	100%	A commercial bank specialising in real estate financing.
Hawafiz BSC(c)	Bahrain	100%	100%	A SPV set up to administer the Management Incentive Programme on behalf of the employees (note 19).
Al-Sharq Limited	Cayman Islands	-	84%	A special purpose vehicle (SPV) set up to hold the Bank's investment in the equity of Halcore Group, Inc. a US leading manufacturer of ambulances and other medical transport and emergency.
Menajet Investment Company Limited	Cayman Islands	-	66%	A special purpose vehicle (SPV) set up to hold the Bank's investment in Menajet Holding SAL, Lebanon, an airline and cargo services company operating in the Middle East and North African region.

During the year, the Bank has disposed its investments in Al-Sharq Limited and Menajet Investment Company Limited. For details of sale on disposal of subsidiaries, refer note 16.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year, except for changes resulting from adoption of revised International Financial Reporting Standards which are explained in more detail below in note 2 (c).

(a) Statement of compliance

The consolidated 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 US Dollars, being the principal currency of the Group's operations. They are prepared on the historical cost basis except for the measurement at fair value of available-for-sale investments and investments at fair value through the income statement.

Financial 'assets held for sale' are carried at fair value in accordance with International Accounting Standard ('IAS') 39 'Financial Instruments: Recognition and Measurement'.

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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 20.

(c) Adoption of revised IFRS and changes in accounting policies

The Group has adopted the revised IFRS effective 1 January 2005. The IFRS's which have resulted in changes in accounting policies and have a material impact on the Group's consolidated financial statements are as follows:

IAS 27 on Consolidated and Separate Financial Statements

Up to 31 December 2004, subsidiaries formed or acquired and held exclusively with the view to their subsequent disposal in the near future were not consolidated and instead accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement as "available-for-sale investments" and carried at fair value with fair value changes taken to a separate investments fair value reserve.

Following the adoption of the revised IAS 27 on 1 January 2005, all principal subsidiaries are now consolidated. The standard has been applied retrospectively in accordance with the requirements of IAS 8 on Accounting Policies, Changes in Accounting Estimates and Errors to ensure that they are applied within each period presented. Consequently, the opening balance of retained earnings at 1 January 2004, being the earliest reported period, has been restated.

IAS 28 on Investments in Associates

Up to 31 December 2004, the Bank accounted for investment in associate companies formed or acquired and held exclusively with the view to their subsequent disposal in the near future as "available-for-sale investments" and carried at fair value with fair value changes taken to a separate investments fair value reserve in accordance with IAS 39.

***2 Significant accounting policies** (continued)*

(c) Adoption of new IFRS and changes in accounting policies (continued)

Following the adoption of the revised IAS 28 on 1 January 2005, the Bank avails the exemption in IAS 28 for Venture capital organisations and now accounts for such associate companies as "investments at fair value through the income statement" in accordance with the revised IAS 39. The standard has been applied retrospectively in accordance with the requirements of IAS 8 on Accounting Policies, Changes in Accounting Estimates and Errors to ensure that they are applied within each period presented. Consequently, the opening balance of retained earnings at 1 January 2004, being the earliest reported period, has been restated.

(d) Basis of consolidation

(i) ***Subsidiaries***

Subsidiaries are those enterprises (including special purpose vehicles) controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

(ii) ***Associates***

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. The Bank, being a venture capital organisation, designates its investments in associates as 'investments at fair value through the income statement' in accordance with IAS 39.

(iii) ***Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency transactions

(i) ***Functional and presentation currency***

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

(ii) ***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items classified as available-for-sale financial assets are included in investments fair value reserve.

(iii) ***Group companies***

The other group companies functional currencies are denominated either in US dollars or in Bahraini Dinars, which is effectively pegged to the US Dollar. Hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in exchange differences.

***2 Significant accounting policies** (continued)*

(f) Financial instruments

(i) Classification

Investments at fair value through the income statement are financial assets that are held for trading or which upon initial recognition are designated by the Bank as at fair value through the income statement. These include investment in associates. (refer note 2 (d)).

Available-for-sale investments are financial assets that are not investments at fair value through the income statement or held to maturity. These include investments in quoted and unquoted equity investments .

(ii) Recognition

The Group recognises investments at fair value through the income statement and available-for-sale investments when it becomes entitled to ownership. This is determined based on either payments 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. Held-to-maturity investments are recognised on the day they are transferred to the Bank.

(iii) Measurement

Financial instruments are measured initially 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 investments at fair value through the income statement and available-for-sale assets are re-measured to fair value. Held-to-maturity investments are measured at cost less any impairment allowances.

(iv) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of investments at fair value through the income statement are recognised in the income statement in the period in which they arise. 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.

(v) Fair value measurement principles

Unquoted

I. 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.

II. 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.

Quoted investments

III. Fair value for quoted investments is their market bid price.

***2 Significant accounting policies** (continued)*

(f) Financial instruments (continued)

(vi) Impairment of available-for-sale investments:

The Group 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.

(g) Cash and cash equivalents

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

(h) Impairment

The carrying amount of the Group's assets other than for available-for-sale investment securities (refer note 2 (f)), 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.

(i) Murabaha receivables

Murabaha receivables are stated at cost less impairment allowances.

(j) Investment in Mudaraba

Investment in Mudaraba is stated at cost less impairment allowances.

(k) Investments in Sukuk

Investments in Sukuk are stated at cost less impairment allowances.

(l) Equipment

Equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 3 to 5 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(m) 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.

(n) Dividends and Board remuneration

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

***2 Significant accounting policies** (continued)*

(o) 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.

(p) 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 Group obtains from investors a legally binding and irrevocable commitment to subscribe for shares in an investment promoted by the Group. The Group 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, **management and arrangement fees and commissions** are recognised as income when earned.

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

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 Group'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.

(q) 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 Group 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.

(r) 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.

(s) 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.

***2 Significant accounting policies** (continued)*

(s) Employee benefits (continued)

(iii) Employee savings scheme

The Group 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.

(t) Compensation benefits

Eligible employees are entitled to bonus in accordance with the Management Incentive Programme ("the Programme"). The total amount of the bonus is based on a percentage of the Bank's net profit in excess of a predetermined hurdle rate stated in the Bank's Articles of Association. Under the Programme, employees are entitled to receive bonus in the form of cash and shares in ratios determined by the terms of the Programme. The cash settled portion of the incentive is recognised as an expense and included in staff costs in the income statement. The equity settled portion of the incentive is recognised at the fair values of the equity instruments at the grant date and is recognised as an expense rateably over the vesting period with a corresponding increase in equity.

(u) Zakah

Pursuant to the decision of the shareholders', the Bank is required to pay Zakah on its undistributed profits. The Bank is also required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Bank's Sharia Supervisory Board.

(v) Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on trade date, i.e. the date that the Group 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.

3 CASH AND BALANCES WITH FINANCIAL INSTITUTIONS

	2005	2004
Cash on hand and balances with banks	11,913	4,242
Deposit with BMA	1,499	53
	13,412	4,295

4 DUE FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2005	2004
Gross Commodity Murabaha with financial institutions	658,649	259,753
Gross Commodity Murabaha with non-financial institutions	15,880	-
Less: Deferred profits	(2,879)	(414)
	671,650	259,339
Investments in Mudaraba	30,000	5,000
	701,650	264,339

The average profit rate on Murabaha receivables as of 31 December 2005 was 3.36% per annum (2004: 1.68% per annum).

5 INVESTMENT SECURITIES

Investment securities comprise of:

	2005	2004
Investments at fair value through the income statement	20,910	30,168
Available-for-sale investments	168,325	84,664
	189,235	114,832

(i) INVESTMENTS AT FAIR VALUE THROUGH THE INCOME STATEMENT

	2005	2004
		(restated)
At 1 January	30,168	28,202
Acquisitions during the year	16,718	4,835
Disposals during the year, at carrying value	(4,206)	-
Fair value changes during the year	(3,825)	(2,869)
	38,855	30,168
Less: reclassified as assets-held-for-sale (note 7)	(17,945)	-
At 31 December	**20,910**	30,168

(ii) AVAILABLE-FOR-SALE INVESTMENTS

	2005	2004
		(restated)
At 1 January	84,664	45,750
Acquisitions during the year	152,529	53,886
Disposals during the year, at carrying value	(74,006)	(10,326)
Impairment allowances	-	(7,287)
Fair value changes during the year	12,520	2,641
	175,707	84,664
Less: reclassified as assets-held-for sale (note 7)	(7,382)	-
At 31 December	**168,325**	84,664

6 OTHER INVESTMENTS

	2005	2004
Investments in Sukuk		
- Short-term	46,374	-
- Long-term	15,000	11,155
Musharaka	1,231	-
	62,605	11,155

The average profit rate on Sukuks as of 31 December 2005 was 3.86% per annum (2004: 2.2%).

7 ASSETS HELD-FOR-SALE

The bank intends to sell certain of its investment securities and is actively seeking a buyer. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', such investments have been reclassified as assets held for sale. Assets held for sale include:

	2005	2004
Investments at fair value through income statement	17,945	-
Available-for-sale investments	7,382	-
	25,327	-

8 OTHER ASSETS

	2005	2004
Project costs recoverable	1,920	850
Advisory fees receivable	46,846	19,644
Short-term financing	8,975	2,861
Employee receivables	82	117
Dividends and placement fee receivable	5,781	733
Receivable from sale of investment securities	31,442	-
Prepayments and other receivables	2,138	1,838
	97,184	26,043

Short term financing represents amounts advanced to the projects of the Bank recoverable within six months.

Subsequent to the year end, the Bank has received US$ 29,765 thousand of advisory fees receivable and US$ 31,442 thousand of receivable from sale of investment securities.

9 EQUIPMENT

	Furniture	**Fixtures and equipment**	**Computers**	**Vehicles**	**2005 Total**	2004 Total
Cost						
At 1 January	1,104	1,001	1,408	64	3,577	1,771
Additions	39	125	243	-	407	1,806
Disposal	-	-	-	(64)	(64)	-
At 31 December	1,143	1,126	1,651	-	3,920	3,577
Depreciation						
At 1 January	322	529	598	39	1,488	944
Disposal	-	-	-	(48)	(48)	-
Charge for year	211	189	377	9	786	544
At 31 December	533	718	975	-	2,226	1,488
Net book value At 31 December	**610**	**408**	**676**	**-**	**1,694**	2,089

10 INVESTORS' FUNDS

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

11 DUE TO FINANCIAL AND NON-FINANCIAL INSTITUTIONS

These comprise Murabaha payable to financial and non-financial institutions.

12 OTHER LIABILITIES

	2005	2004
Management Incentive Programme (note 19)	32,247	2,051
Unclaimed dividends	2,326	-
Employee accruals	11,355	650
Provision for employees' leaving indemnities	187	45
Charity and zakah fund (refer page 11)	967	855
Accounts payable	3,425	2,961
Accrued expenses	2,186	909
	52,693	7,471

13 SHARE CAPITAL

	2005	2004
Authorised: 909,090,909 ordinary shares of US$ 0.33 each	**300,000**	300,000
Issued and fully paid up: 453,850,263 (2004: 424,159,124) shares of US$ 0.33 each	**149,771**	139,973

During 2005, the paid up capital of the Bank increased from US$ 139,973 thousand to US$ 149,771 thousand due to issue of bonus shares amounting to US$ 9,798 thousand. The bonus shares were approved by the shareholders in the annual general meeting held on 22 February 2005.

Additional information on shareholding pattern

(i) Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5% or more of outstanding shares.

	Nationality	**No. of shares**	**% holding**
Kuwait Finance and Investment Company	Kuwait	36,072,156	7.95
Abdul Latif Al Shaya & Abdul Aziz Al Shaya	Kuwait	24,721,120	5.45
Bahrain Islamic Bank	Kuwait	23,917,909	5.27

(ii) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.

13 Share Capital (continued)

(iii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	Number of Shares	Number of shareholders	% of total outstanding shares
Less than 1%	202,164,117	310	44.54
1% up to less than 5%	190,892,870	18	42.06
5% up to less than 10%	60,793,276	2	13.40
	453,850,263	330	100

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

14 INCOME FROM INVESTMENT ADVISORY SERVICES

Income from investment advisory services includes US$ 38,729 thousand (2004: US$ 27,795 thousand) which has been received by the Group in kind in exchange for investment advisory services rendered.

15 INCOME FROM INVESTMENT SECURITIES

	2005	2004
Dividend income and income from managed funds	1,437	1,313
Gain on disposal of investment securities	14,791	349
	16,228	1,662

16 OTHER INCOME

	2005	2004
Gain on disposal of trading properties	1,828	-
Loss on sale of subsidiaries	(1,462)	-
Miscellaneous income	182	166
	548	166

During the year, the Bank disposed of investments in subsidiaries, Al-Sharq Limited and Menajet Investment Company Limited. The subsidiaries did not contribute significant income for 2005.

17 STAFF COSTS

	2005	2004
Salaries and related expenses	9,753	6,188
Social insurance expenses	672	380
Management Incentive Programme (note 19)	26,922	5,426
Other staff expenses	2,756	987
	40,103	12,981

18 OTHER EXPENSES

	2005	2004
Premises	938	994
Telecommunication	313	143
Postage and courier	584	148
Printing and stationery	609	455
Professional fees	465	822
Shari'a Committee expenses	151	137
Board member fees	405	606
Others	764	709
	4,229	4,014

19 MANAGEMENT INCENTIVE PROGRAMME

In accordance with its Articles of Association, the Bank has established a Management Incentive Programme ("the Programme"), which has been approved by the Bahrain Monetary Agency.

The annual amount of the bonus is based on a percentage of the Bank's net profit in excess of a predetermined hurdle rate as set out in the Bank's Articles of Association. As per the terms of the Programme, employees are entitled to receive bonus in the form of cash and shares in ratios determined by the terms of the Programme and as approved by the Board of Directors. Under the programme, maximum shares of US$ 11,500 thousand are to be issued and vested to the employees at stages in accordance with a pre-determined formula specified in the Programme.

The Group has incorporated a company, Hawafiz BSC (c) to hold the shares for the beneficial interest of the Programme until they vest. All shares under the scheme approved by the Shareholders' were issued and vested in favour of eligible employees in settlement of the incentive upto 31 December 2004.

20 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES

The Group 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.

(i) Fair value of investments

The fair value of investments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

20 ***Critical accounting estimates and judgements in applying accounting estimates (continued)***

(ii) **Impairment on available-for-sale investments**

The Group 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 Group 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.

21 **FIDUCIARY ACTIVITIES**

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group 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 Group had assets under management of US$ 2,001,959 thousand (2004: 602,212 thousand).

22 **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 entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group.

A significant portions of the Group's income from investment advisory services and placement and arrangement and management fees from entities over which the Group exercises significant influence.

Although these entities are considered related parties, the Group 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 Group'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 Group.

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

	2005	2004
Assets		
Cash and balances with financial institutions	2,683	2,037
Due from financial and non-financial institutions	15,750	8,436
Investment securities	183,305	112,225
Assets held for sale	25,327	-
Other investments	11,231	-
Other assets	100,403	24,517
Liabilities		
Investors' funds	477,775	35,925
Customers' current account	3,194	-
Due to financial and non-financial institutions	130,975	23,285
Other liabilities	45,759	4,568

***22 Related party transactions** (continued)*

	2005	2004
Income		
Income from investment advisory services	167,752	81,307
Placement and arrangement fees	11,320	-
Commission on sale of land	-	9,472
Income from investment securities	16,228	1,274
Murabaha income	450	172
Other income	439	-
Expenses		
Investment related expenses	8,664	2,598
Net fair value losses on investments	3,825	2,869
Impairment allowances on available-for-sale investments	-	7,287
Murabaha expenses	6,684	1,480
Other operating expenses	636	912

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

Categories*	Number of Shares	Number of Directors
Less than 1%	3,173,524	3
1% up to less than 5%	18,343,869	2

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

Details of material contracts involving directors' include:

	2005	2004
Directors' participation in investments promoted by the Group	6,700	421

Key management personnel of the Group 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 remuneration	585	360
Board member fees	405	606
Salaries and other short-term benefits	19,661	1,919
Post employment benefits	57	47
Share based payment	-	4,800

23 ZAKAH

The shareholders' in their annual general meeting held on 22 February 2005 approved the payment of Zakah on undistributed profits as at 31 December 2004. Accordingly, based on the computation approved by the Shari'a Board, the Bank has appropriated US$ 576 thousand from retained earnings towards payment of Zakah which is included in other liabilities.

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders in respect of the proposed distributable profits (refer note 26) for the year ended 31 December 2005 is US cents 0.41 (2004: US cents 0.20) for every share held.

24 EARNINGS PROHIBITED BY SHARI'A

The Group 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 Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds.

The Group receives interest from deposits placed with the Bahrain Monetary Agency and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amounts to US$ 66 thousand (2004: US$ 34 thousand).

25 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of three Islamic scholars who review the Group'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 Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

26 PROPOSED APPROPRIATIONS

The Board of Directors of the Bank propose a dividend of 60% (2004: 30%) of the paid-up capital and other appropriations, subject to the approval of the shareholders' at the annual general meeting, as follows:

	2005	2004
Proposed dividend *	89,862	32,194
Charity contribution	1,000	600
Directors' remuneration	1,050	585
Share premium **	4,000	-

* Proposed dividend include bonus shares recommended by the Board of Directors at the rate of twelve share for every hundred shares held (2004: fifteen share for every hundred shares held). This is subject to approval by shareholders at the annual general meeting.

** In 2003, the shareholders' approved the utilisation of the share premium account for issue of shares towards the management incentive programme amounting to USD $ 4,000 thousand. It is now proposed to restate share premium account by transferring an equivalent amount from retained earnings.

27 MATURITY PROFILE

2005	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and balances with financial institutions	11,913	-	-	-	1,499	13,412
Due from financial and non-financial institutions	697,285	-	4,365	-	-	701,650
Investment securities	-	-	55,374	123,677	10,184	189,235
Other investments	46,374	804	10,427	-	5,000	62,605
Assets held for sale	7,382	-	17,945	-	-	25,327
Trading properties	-	8,660	-	-	-	8,660
Other assets	95,220	1,645	319	-	-	97,184
Equipment	-	-	-	-	1,694	1,694
Total assets	**858,174**	**11,109**	**88,430**	**123,677**	**18,377**	**1,099,767**
2004	306,886	1,798	22,337	55,490	36,242	422,753
Liabilities						
Investors' funds	477,775	-	-	-	-	477,775
Customers' current account	5,090	-	-	-	-	5,090
Due to financial and non-financial institutions	47,454	128,691	-	-	-	176,145
Other liabilities	50,701	391	-	1,414	187	52,693
Total liabilities	**581,020**	**129,082**	**-**	**1,414**	**187**	**711,703**
2004	53,156	46,346	71,944	401	-	171,847
Unrestricted investment accounts	**24,048**	**11,053**	**599**	**-**	**-**	**35,700**
2004	-	-	-	-	-	**-**
Restricted investment accounts	860	2,343	-	54,123	-	**57,326**
2004	-	-	5,058	8,992	-	14,050

28 CONCENTRATION OF ASSETS, LIABILITIES, UNRESTRCITED AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

2005	Trading and manufacturing	Banks and financial institutions	Real estate	Technology	Others	Total
Assets						
Cash and balances with financial institutions	-	13,412	-	-	-	13,412
Due from financial and non-financial institutions	-	685,770	13,240	-	2,640	701,650
Investment securities	-	1,928	157,858	12,500	16,949	189,235
Other investments	-	46,136	16,469	-	-	62,605
Assets held for sale	15,695	2,250	7,382	-	-	25,327
Trading properties	-	-	8,660	-	-	8,660
Other assets	35	87	62,227	19	34,816	97,184
Equipment	-	-	-	-	1,694	1,694
Total assets	**15,730**	**749,583**	**265,836**	**12,519**	**56,099**	**1,099,767**
Liabilities						
Investors' funds	84	32	477,557	-	102	477,775
Customers' current accounts	-	-	-	-	5,090	5,090
Due to financial and non-financial institutions	-	12,058	126,960	-	37,128	176,145
Other liabilities	-	62	-	-	52,631	52,693
Total liabilities	**84**	**12,152**	**604,517**	**-**	**94,951**	**711,703**
Unrestricted investment accounts	**11,053**	**24,048**	**599**	**-**	**-**	**35,700**
Off-Balance sheet items						
Restricted investment accounts	-	-	55,326	-	2,000	**57,326**

***28 Concentration of assets, liabilities, unrestricted and restricted investment accounts** (continued)*

***(a) Industry sector** (continued)*

2004	Trading and manufacturing	Banks and financial institutions	Real estate	Technology	Others	Total
Assets						
Cash and balances with financial institutions	-	4,295	-	-	-	4,295
Due from financial and non-financial institutions	-	264,339	-	-	-	264,339
Investment securities	19,902	15,281	65,280	8,823	4,439	114,832
Other investments	-	11,155	-	-	-	11,155
Other assets	1,266	1,479	21,935	77	1,286	26,043
Equipment	-	-	-	-	2,089	2,089
Total assets	21,168	296,549	87,215	8,900	7,814	422,753
Liabilities						
Investors' funds	115	199	33,098	-	807	34,219
Due to financial and non-financial institutions	-	23,359	75,880	-	30,918	130,157
Other liabilities	1,428	348	-	-	5,695	7,471
Total liabilities	1,543	23,906	108,978	-	37,420	171,847
Off-Balance sheet items						
Restricted investment accounts	-	-	12,050	-	2,000	14,050

***28 Concentration of assets, liabilities, unrestricted and restricted investment accounts** (continued)*

(b) Geographic region

2005	GCC countries	Other MENA countries	UK	Europe (excluding UK)	USA	Total
Assets						
Cash and balances with financial institutions	12,329	584	255	-	244	13,412
Due from financial and non-financial institutions	440,557	-	106,053	155,040	-	701,650
Investment securities	159,494	20,530	-	9,100	111	189,235
Other investments	62,605	-	-	-	-	62,605
Assets held for sale	17,945	-	7,382	-	-	25,327
Trading properties	8,660	-	-	-	-	8,660
Other assets	65,810	31,364	-	10	-	97,184
Equipment	1,694	-	-	-	-	1,694
Total assets	**769,094**	**52,478**	**113,690**	**164,150**	**355**	**1,099,767**
Liabilities						
Investors' funds	380,216	3	79,308	18,248	-	477,775
Customers' current accounts	5,090	-	-	-	-	5,090
Due to financial and non-financial institutions	57,852	118,293	-	-	-	176,145
Other liabilities	52,693	-	-	-	-	52,693
Total liabilities	**495,851**	**118,296**	**79,308**	**18,248**	**-**	**711,703**
Unrestricted investment accounts	**24,048**	**11,053**	**599**	**-**	**-**	**35,700**
Off-Balance sheet items						
Restricted investment accounts	6,060	8,455	860	41,951	-	57,326

***28 Concentration of assets, liabilities, unrestricted and restricted investment accounts** (continued)*

***(b) Geographic region** (continued)*

2004	GCC countries	Other MENA countries	UK	Europe (excluding UK)	USA	Total
Assets						
Cash and balances with financial institutions	3,345	-	179	185	586	4,295
Due from financial institutions	206,911	-	-	26,705	30,723	264,339
Investment securities	82,914	9,000	8,230	3,915	10,773	114,832
Other investments	11,155	-	-	-	-	11,155
Other assets	19,026	1,293	2,114	2,410	1,200	26,043
Equipment	2,089	-	-	-	-	2,089
Total assets	325,440	10,293	10,523	33,215	43,282	422,753
Liabilities						
Investors' funds	31,312	551	-	2,356	-	34,219
Due to financial institutions	126,152	4,005	-	-	-	130,157
Other liabilities	7,471	-	-	-	-	7,471
Total liabilities	164,935	4,556	-	2,356	-	171,847
Off-Balance sheet items						
Restricted investment accounts	8,378	2,000	960	2,712	-	14,050

29 CURRENCY RISK

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

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

	2005	2004
	US$	US$
	Equivalent	Equivalent
Sterling Pounds	10,875	10,078
Euros	8,211	4,928
Lebanese Pounds	-	9,000
Jordanian Dinar	584	
Kuwaiti Dinars	53,990	13,362
Other GCC Currencies (*)	110,928	70,739

(*) These currencies are pegged to the US Dollar.

30 LARGE EXPOSURES

Exposures to Banks and non-Banks which exceed 15% of the Bank's capital and reserves are as follows:

Bank exposures	% of Tier I capital	**2005**	% of Tier I capital	2004
Gulf International Bank BSC	-	-	16	40,618
HSBC	30	106,703	-	-
BNP Paribas	34	120,261	-	-
Citibank N.A.	15	53,911	-	-

The above exposures are in relation to commodity Murabahas placed with these banks.

31 COMMITMENTS AND CONTINGENCIES

The Group has secured exit for one of its investment project at the year end and has issued a corporate guarantee securing the buyer against any general indemnity, tax claim or liability that might arise under the terms of the agreement. In the opinion of the management, the possibility of the guarantee being invoked is negligible.

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

	2005	2004
Commitments to invest	507	3,125
Undrawn commitments to extend finance	2,573	-

The Group has issued a guarantee to a financial institution to secure credit facility arrangement of US$ 9,200 thousand for a project promoted by the Group.

32 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 certain available-for-sale investments carried at cost of US$ 93,173 thousand (2003: US$ US$ 47,389 thousand), the estimated fair values of the Group's other financial instruments are not significantly different from their book values.

33 RISK MANAGEMENT

The Group'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 Group's credit risk arises mainly from the advisory fee and other receivables, due from financial institutions and investments in Sukuk.

The Group 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 group 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 28.

c) Liquidity risk

Liquidity risk is defined as the risk that the Group will not have funds will not be available to meet liabilities as they fall due. The Group uses a maturity ladder approach for managing and monitoring the liquidity risk. It is the Group'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 27.

d) Profit rate risk

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

e) Currency risk

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

34 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 for the year (US$ 000's)	140,330	56,671
Weighted average number of equity shares (Nos. in 000's)	453,852	435,876
Basic earnings per share (in US cents)	**30.92**	13.00

35 SOCIAL RESPONSIBILITY

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

36 COMPARATIVES

Except for restatement of financial statements as stated in note 2 (c), certain prior year amounts have been reclassified to conform to the presentation in the current year. Such reclassifications do not affect previously reported net profit or equity.

37 SEPARATE SUMMARISED FINANCIAL STATEMENTS OF GULF FINANCE HOUSE BSC, THE PARENT COMPANY

(i) Balance sheet

	2005	2004
ASSETS		
Cash and balances with banks	11,616	4,287
Due from financial and non-financial institutions	695,559	264,339
Investment securities	175,508	103,800
Other investments	46,136	11,155
Assets held for sale	25,327	-
Investments in subsidiaries, at cost	80,003	89,928
Other assets	94,302	25,956
Equipment	1,694	2,089
Total assets	**1,130,145**	501,554
LIABILITIES		
Investors' funds	420,717	34,219
Due to financial and non-financial institutions	315,145	210,339
Other liabilities	51,874	7,459
Total liabilities	**787,736**	252,017
SHAREHOLDERS' EQUITY		
Share capital	149,771	139,973
Share premium	31,487	31,487
Statutory reserve	23,626	10,576
Investments fair value reserve	227	3,347
Retained earnings	137,298	64,154
Total shareholders' equity	**342,409**	249,537
Total liabilities and shareholders' equity	**1,130,145**	501,554
OFF-BALANCE SHEET ITEMS		
Restricted investment accounts	**28,085**	14,049

***37 Separate summarised financial statements of Gulf Finance House BSC, the parent company** (continued)*

(ii) Income statement

	2005	2004
Income from investment advisory services	157,691	81,307
Placement, management and arrangement fees	25,590	2,777
Commission income from sale of land	-	9,472
Income from Murabaha receivables	13,834	3,577
Income from investment securities	16,228	1,662
Other income	2,994	271
Total income	**216,337**	99,066
Staff costs	38,950	12,853
Investment advisory expenses	28,647	12,215
Net fair value losses on investments	3,825	2,869
Impairment allowances on available-for-sale investments	-	7,287
Murabaha expense	9,926	2,283
Other operating expenses	3,704	3,902
Depreciation	786	545
Total expenses	**85,838**	41,954
PROFIT FOR THE YEAR	**130,499**	57,112

Earnings per share (US cents)		
Basic	**28.75**	13.10