

BALANCE SHEET

AS AT 31 DECEMBER 2006

	Note	31 December 2006	BD 000's 31 December 2005
ASSETS			
Cash and bank balances	3	3,284	676
Due from a financial institution	4	32,838	52,403
Trading properties	5	1,116	3,265
Islamic financing assets	6	15,655	2,754
Available-for-sale investments	7	14,262	5,175
Investment in sukuks	8	14,515	5,655
Other assets	9	13,720	1,177
Equipment	10	860	-
Total assets		96,250	71,105
LIABILITIES			
Investors' funds	11	5,217	21,511
Due to financial and non-financial institutions		22,251	-
Customers' current accounts		2,751	1,919
Other liabilities	12	1,245	309
Total liabilities		31,464	23,739
Unrestricted investment accounts	13	22,213	13,459
EQUITY			
Share capital	14	30,154	30,154
Statutory reserve		1,174	375
Retained earnings		10,565	3,378
Share grants	17	680	-
Total equity (page 24)		42,573	33,907
Total liabilities, unrestricted investment accounts and equity		96,250	71,105
Off-balance sheet items			
Restricted investment accounts (page 26)		12,177	11,024

The financial statements, which consist of pages 21 to 44, were approved by the Board of directors on 28 January 2007 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 31 form an integral part of these financial statements.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006	BD 000's 2005
Income from advisory services		8,844	4,031
Placement, management and arrangement fees		312	399
Income from short-term Murabaha		1,560	1,264
Gain on disposal of trading properties		1,575	689
Income from Islamic financing assets		483	55
Income from investment in sukuks		653	149
Other income		222	-
Total income		13,649	6,587
Staff costs	15	2,330	453
Murabaha expense		785	298
Profit allocated to unrestricted investment accounts	13	628	207
Investments related expenses		670	266
Other expenses	16	1,250	1,256
Total expenses		5,663	2,480
PROFIT FOR THE YEAR		7,986	4,107
Basic and diluted earnings per share (fils)	21	265	136

The accompanying notes 1 to 31 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

					BD 000's
2006	Share capital	Statutory reserve	Retained earnings	Share grants	Total
Balance at 1 January 2006	30,154	375	3,378	-	33,907
Profit for the year	-	-	7,986	-	7,986
Transfer to statutory reserve	-	799	(799)	-	-
Fair value of share grants issued (note 17)	-	-	-	775	775
Unvested share grants	-	-	-	(95)	(95)
Balance as at 31 December 2006	30,154	1,174	10,565	680	42,573
	Share capital	Statutory reserve	Retained earnings	Share grants	Total
2005					
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

The accompanying notes 1 to 31 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006	BD 000's 2005
OPERATING ACTIVITIES			
Cash receipts from investment advisory services		7,996	3,843
Islamic financing assets, net	6	(4,282)	(2,754)
Placement, management and arrangement fees received		204	397
Income from short-term murabaha received		1,921	1,319
Investors' funds (paid)/ received, net		(16,384)	21,511
Profits allocated to investors' funds and unrestricted investment accounts paid	13	(1,413)	(505)
Payments for expenses		(2,084)	(2,423)
Cash flows from operating activities		(14,042)	21,388
INVESTING ACTIVITIES			
Purchase of available-for-sale investments	7	(10,236)	(6,683)
Proceeds from sale of available-for-sale securities	7	1,149	1,508
Purchase of trading properties		(7,702)	(4,630)
Proceeds from sale of trading properties		-	1,550
Purchase of sukuks	8	(8,770)	(5,655)
Sukuk profits received		364	59
Capital advances paid	9	-	(213)
Purchase of equipment	10	(758)	-
Advances received from customers		-	154
Cash flows from investing activities		(25,953)	(13,910)
FINANCING ACTIVITIES			
Receipts from financial and non-financial institutions, net		13,752	-
Murabaha expenses		(300)	-
Net increase in customers' current accounts		832	1,919
Receipts from unrestricted investment account holders, net	13	8,754	13,459
Cash flows from financing activities		23,038	15,378
Net increase in cash and cash equivalents		(16,957)	22,856
Cash and cash equivalents at 1 January		53,079	30,223
Cash and cash equivalents at 31 December		36,122	53,079
Cash and cash equivalent comprise of:			
Cash and bank balances	3	3,284	676
Due from a financial institution	4	32,838	52,403
		36,122	53,079

The accompanying notes 1 to 31 form an integral part of these financial statements.

STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

31 December 2006	Balance at 1 January 2006			Movements during the year						Balance 31 December 2006			
	No of units (000)	Average value per share BD	Total BD 000's	Investment BD 000's	Revalua- tion BD 000's	Gross income BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Administ- ration expenses BD 000's	No of units (000)	Average value per share BD	Total BD 000's	Total % ownership
Al Hareth French Property Fund	24.65	447.22	11,024	-	1,200	1,222	(1,222)	(46)	-	24.65	494.02	12,177	100
			11,024	-	1,200	1,222	(1,222)	(46)	-			12,177	
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	Revalua- tion BD 000's	Gross income BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Administ- ration 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)	-	24.65	447.22	11,024	100
			-	11,007	-	532	(486)	(29)	-			11,024	

The accompanying notes 1 to 31 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

1 INCORPORATION AND PRINCIPAL ACTIVITY

Khaleeji 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 Central Bank of Bahrain ("CBB") on 20 October 2003.

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

During the year the bank has changed its name from Gulf Finance House Commercial Bank BSC (c) to Khaleeji Commercial Bank BSC (c) after obtaining approval from regulatory authorities.

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 ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards ('IFRS').

(b) Basis of preparation

The financial statements are presented in Bahraini Dinars, being the principal currency of the Bank's operations. They are prepared on the historical cost basis.

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 18.

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

2 Significant accounting policies (continued)

(d) Available-for-sale investments (continued)

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. In the absence of a reliable measure of fair value, available-for-sale investments are carried at cost less impairment allowances.

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.

(e) Islamic financing assets

Islamic financing assets comprise shari'a compliant commercial financing provided by the Bank. These include Murabaha, Mudaraba and Musharaka financing which are stated at amortised cost less impairment allowances.

(f) Investments in sukuk

Investments in sukuk are categorised as held-to-maturity financial assets and are stated at amortised cost less impairment allowances.

(g) Impairment of financial assets

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. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in income statement and reflected in an allowance account against Islamic financial assets and investment in sukuks. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

(h) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with banks including Central Bank and Murabahas (due from a financial institution) with maturities of three months or less when acquired.

(i) Trading property

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

(j) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

2 Significant accounting policies (continued)

(k) Impairment of other assets

The carrying amount of the Bank's assets other than for financial assets (refer note 2 (g)), 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.

(l) 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.

(m) 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 has performed all significant acts in relation to the deal and it is highly probable that the economic benefits from the transaction will flow to the Bank.

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.

Income from Mudaraba financing contracts that continue for more than one financial period are recognised to the extent such profits are declared.

Income 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.

(n) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

2 Significant accounting policies (continued)

(o) Unrestricted investment accounts

Unrestricted investment accounts are funds held by the Bank, which it can invest at its own discretion. The unrestricted investment account holder authorises the Bank to invest the account holders' funds in a manner which the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Bank charges management fee (Mudarib fees) to unrestricted investment account holders. Of the total income from unrestricted investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions and deducting the Bank's share of income. The allocation of income is determined by the management of the Bank within the allowed profit sharing limits as per the terms and conditions of the unrestricted investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Bank and are not charged separately to investment accounts.

(p) 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.

(q) 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) Share-based employee compensation scheme

The Bank operates an equity-settled, share-based compensation scheme for its employees (the "Scheme") whereby employees are granted the Bank's shares as compensation.

The fair value of shares granted to employees at the grant date is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the shares. The amount recognised as an expense is adjusted to reflect the actual number of share grants that vest.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

2 Significant accounting policies (continued)

(r) 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.

(s) 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.

3 CASH AND BANK BALANCES

	2006	BD 000's 2005
Cash	112	-
Balances with banks	440	131
Current account with Central Bank	2,182	35
Reserve deposit with Central Bank	550	510
	3,284	676

4 DUE FROM A FINANCIAL INSTITUTION

These represent short-term commodity murabaha with the parent company.

	2006	BD 000's 2005
Gross Commodity Murabaha	32,877	52,522
Less: Deferred profits	(39)	(119)
	32,838	52,403

The average profit rate on Murabaha receivables as of 31 December 2006 was 4.65% per annum (2005: 3.21% per annum).

5 TRADING PROPERTIES

	2006	BD 000's 2005
At 1 January	3,265	-
Acquisitions during the year	9,529	4,630
Disposals during the year, at carrying value	(11,678)	(1,365)
At 31 December	1,116	3,265

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

6 ISLAMIC FINANCING ASSETS

	2006	BD 000's 2005
Murabaha	9,373	875
Mudaraba	1,933	1,415
Musharaka	4,349	464
At 31 December	15,655	2,754

Murabaha financing receivables are net of deferred profits of BD 957 thousand (2005: BD 13 thousand).

7 AVAILABLE-FOR-SALE INVESTMENTS

	2006	BD 000's 2005
At 1 January	5,175	-
Acquisitions during the year	10,236	6,683
Disposals during the year, at carrying value	(1,149)	(1,508)
At 31 December	14,262	5,175

Available-for-sale investments mainly 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 value.

8 INVESTMENT IN SUKUKS

	2006	BD 000's 2005
At 1 January	5,745	-
Acquisitions during the year	8,770	5,655
	14,515	5,655

The average profit rate on sukuk was 7.15% per annum (2005: 6.73%).

9 OTHER ASSETS

	2006	BD 000's 2005
Project costs recoverable	49	114
Advisory fees receivable	968	188
Capital advances	-	213
Receivable from sale of trading properties	12,312	504
Accrued profits on sukuk	289	90
Prepayments and other receivables	102	68
	13,720	1,177

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

10 EQUIPMENT

	Furniture and fixtures	Equipment	Computers	BD 000's 2006 Total
Cost				
Additions	376	21	574	971
At 31 December	376	21	574	971
Depreciation				
Charge for year	71	3	37	111
At 31 December	71	3	37	111
Net book value				
At 31 December	305	18	537	860

11 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.

12 OTHER LIABILITIES

	2006	BD 000's 2005
Management incentive programme (note 17)	600	-
Employee accruals	263	92
Advances received	90	154
Accounts payable	153	-
Accrued expenses	139	63
	1,245	309

13 UNRESTRICTED INVESTMENT ACCOUNTS

The average gross rate of return in respect of unrestricted investment accounts was 7.53% for 2006 (2005: 4.95%). Approximately 4.73% (2005: 4.25%) was distributed to investors and the balance was either set aside for provisions and/or retained by the Bank as a Mudarib fee.

Unrestricted investment accounts include profit equalisation reserve of BD 60 thousand (2005: BD 14 thousand) and investment risks reserve of BD 44 thousand (2005: BD 9 thousand).

The funds received from unrestricted investment account holders have been commingled and jointly invested with the Bank in the following assets:

	2006	BD 000's 2005
Due from financial institutions	-	52,403
Investment in sukuks	14,515	5,655
Islamic financing assets	15,655	2,754

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

14 SHARE CAPITAL

	2006	BD 000's 2005
Authorised:		
75,386,355 ordinary shares of BD 1 each (2005: 75,386,355 shares of BD 1 each)	75,386	75,386
Issued and fully paid up:		
30,154,000 ordinary shares of BD 1 each (2005: 30,154,000 shares of BD 1 each)	30,154	30,154

15 STAFF COSTS

	2006	BD 000's 2005
Salaries and related expenses	837	313
Social insurance expenses	63	25
Incentives (note 17)	1,430	115
	2,330	453

16 OTHER EXPENSES

	2006	BD 000's 2005
Administration and support services *	842	1,060
Premises	86	47
Postage and courier	39	20
Printing and stationery	65	34
Professional fees	15	16
Shari'a Committee expenses	12	8
Board expenses	-	35
Depreciation	111	-
Others	80	36
	1,250	1,256

* The Bank has entered into a service level agreement with the parent company whereby the parent company provides various administration and support services for an agreed fee.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

17 SHARE-BASED EMPLOYEE COMPENSATION SCHEME

The Bank operates an equity-settled, share-based compensation scheme for its employees (the "Scheme") whereby employees are granted the Bank's shares as compensation.

The shares will vest to the employees in a staggered manner over a 5 year vesting period (service condition). The vested shares will be settled by physical delivery on completion of vesting conditions. In case the employee leaves before satisfying the vesting conditions, he would be entitled for a cash payment for the unvested shares in accordance with the terms of the scheme. Such unvested shares will be retained by a special purpose entity which will be set up for this purpose and may be offered to other employees in the scheme.

The maximum number of shares to be issued to the scheme is 4,560,000 ordinary shares at BD 1.2 each to be issued in different stages in accordance with a pre-determined criterion set out in the Scheme document. Shares will be issued to the special purpose entity and will vest to the employees in accordance with the terms of the scheme. The employees will be issued units (share grants) in the special purpose entity equivalent to the number of shares allotted to them. During the year, as per the terms of the scheme, the Bank has issued 500,000 share grants to employees of which 100,000 shares grants have vested during the year.

The share grants have been recognised at their fair values at the grant date, determined by an independent firm of accountants, using a discounted cash flow based valuation model. The fair value of the equity settled share-based payment component amounted to BD 175,000, of which BD 79,917 has been charged to the income statement during the year and included in staff costs.

18 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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.

19 ASSETS UNDER MANAGEMENT

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 such capacity are not included in these financial statements. At the balance sheet date, the Bank had assets under management of BD 88.82 million (2005: BD 40.02 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

20 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.

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

	2006	BD 000's 2005
Assets		
Due from a financial institution	32,838	52,403
Available-for-sale investments	7,092	5,175
Islamic financing assets	3,866	3,931
Other assets	13,360	692
Liabilities		
Investors' funds	5,217	21,511
Due to financial and non-financial institutions	7,578	-
Customers' current accounts	2,062	1,204
Unrestricted investment accounts	3,993	261
	2006	BD 000's 2005
Income		
Income from investment advisory services	8,826	3,793
Income from short-term Murabaha	1,560	1,222
Gain on disposal of properties	715	689
Income from Islamic financing assets	165	55
Expenses		
Murabaha expense	486	298
Profit allocated unrestricted investments	485	7
Other expenses	842	1,060
Shari'a fees	12	3

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

20 Related party transactions (continued)

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:

	2006	BD 000's 2005
Board member fees	-	35
Salaries and other short-term benefits	425	121
Equity settled-share based payments	258	-

21 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 2006. The Bank has dilutive equity instruments in the form of share grants issued during the year. However, as the effect of weighted average number of share grants issued during the year is insignificant, there is no additional dilution to the computation of basic earnings per share.

	2006	BD 000's 2005
Profit for the year (BD 000's)	7,986	4,107
Weighted average number of equity shares (Nos. in 000's)	30,154	30,154
Basic and diluted earnings per share (in fils)	265	136

22 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.

23 SOCIAL RESPONSIBILITY

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

24 COMMITMENTS

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

	2006	BD 000's 2005
Undrawn commitments to extend finance	3,035	970
Investment commitments	8,722	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

25 PROPOSED APPROPRIATIONS

The Board of Directors propose the following appropriation of profits:

	2006	BD 000's 2005
Directors' remuneration	66	-

26 MATURITY PROFILE

	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	BD 000's Total
Assets						
Cash and bank balances	3,284	-	-	-	-	3,284
Due from a financial institution	32,838	-	-	-	-	32,838
Trading properties	-	-	1,116	-	-	1,116
Islamic financing assets	1,521	935	4,556	2,613	6,030	15,655
Available-for-sale investments	-	-	-	14,262	-	14,262
Investment in sukuku	-	-	-	7,540	6,975	14,515
Other assets	13,720	-	-	-	-	13,720
Equipment	-	-	-	-	860	860
Total assets	51,363	935	5,672	24,415	13,865	96,250
2005	54,511	3,287	5,488	5,389	2,430	71,105
Liabilities						
Investors' funds	5,217	-	-	-	-	5,217
Due to financial institution	20,045	870	-	-	-	20,915
Due to non financial institution	1,336	-	-	-	-	1,336
Customers' current account	2,751	-	-	-	-	2,751
Other liabilities	1,245	-	-	-	-	1,245
Total liabilities	30,594	870	-	-	-	31,464
2005	23,739	-	-	-	-	23,739
Unrestricted investment accounts	14,987	-	7,226	-	-	22,213
2005	9,066	4,167	226	-	-	13,459
Restricted investment accounts	-	-	-	12,177	-	12,177
2005	-	-	-	11,024	-	11,024

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

27 CONCENTRATION OF ASSETS, LIABILITIES AND UNRESTRICTED AND RESTRICTED INVESTMENT ACCOUNTS (a) Industry sector

BD 000's

2006	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	3,284	-	-	3,284
Due from a financial institution	32,838	-	-	32,838
Trading properties	-	1,116	-	1,116
Islamic financing assets	2,140	10,826	2,689	15,655
Available-for-sale investments	-	14,262	-	14,262
Investment in sukuks	-	13,573	942	14,515
Other assets	754	12,966	-	13,720
Equipment	860	-	-	860
Total assets	39,876	52,743	3,631	96,250
Liabilities				
Investors' funds	-	5,217	-	5,217
Due to financial and non-financial institutions	20,922	-	1,329	22,251
Customers' current accounts	-	2,751	-	2,751
Other liabilities	-	-	1,245	1,245
Total liabilities	20,922	7,968	2,574	31,464
Unrestricted investment accounts	5,003	3,164	14,046	22,213
Off-Balance sheet items				
Restricted investment accounts	-	12,177	-	12,177

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

27 Concentration of assets, liabilities and unrestricted and restricted investment accounts (continued) (a) Industry sector (continued)

BD 000's

2005	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	676	-	-	676
Due from a financial institution	52,403	-	-	52,403
Trading properties	-	3,265	-	3,265
Islamic financing assets	-	1,759	995	2,754
Available for sale investments	-	5,175	-	5,175
Investment in sukuks	-	5,655	-	5,655
Other assets	-	654	523	1,177
Total assets	53,079	16,508	1,518	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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

27 Concentration of assets, liabilities and unrestricted and restricted investment accounts (continued) (b) Geographic region

BD 000's

2006	GCC countries	Other MENA countries	Europe	USA	Total
Assets					
Cash and bank balances	2,927	-	59	298	3,284
Due from a financial institution	32,838	-	-	-	32,838
Trading properties	1,116	-	-	-	1,116
Islamic financing assets	15,655	-	-	-	15,655
Available-for-sale investments	9,259	-	5,003	-	14,262
Investment in sukuks	14,515	-	-	-	14,515
Other assets	13,720	-	-	-	13,720
Equipment	860	-	-	-	860
Total assets	90,890	-	5,062	298	96,250
Liabilities					
Investors' funds	5,217	-	-	-	5,217
Due to financial and non-financial institutions	22,251	-	-	-	22,251
Customers' current accounts	2,751	-	-	-	2,751
Other liabilities	1,245	-	-	-	1,245
Total liabilities	31,464	-	-	-	31,464
Unrestricted investment accounts	22,213	-	-	-	22,213
Restricted investment accounts	-	-	12,177	-	12,177

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

27 Concentration of assets, liabilities and unrestricted and restricted investment accounts (continued) (b) Geographic region (continued)

BD 000's

2005	GCC countries	Other MENA countries	Europe	USA	Total
Assets					
Cash and bank balances	626	-	6	44	676
Due from a financial institution	52,403	-	-	-	52,403
Trading properties	3,265	-	-	-	3,265
Islamic financing assets	2,754	-	-	-	2,754
Available-for-sale investments	3,238	1,937	-	-	5,175
Other investments	5,655	-	-	-	5,655
Other assets	1,177	-	-	-	1,177
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
Restricted investment accounts	-	-	11,024	-	11,024

28 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 of BD 14,262 thousand (2005: BD 5,175 thousand), investment in sukuks of BD 14,515 thousand (2005: 5,655 thousand) and trading properties of BD 1,116 thousand (2005: BD 3,265 thousand), that are carried at cost, the estimated fair values of the Bank's other financial instruments are not significantly different from their book values.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

29 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 Islamic financing assets, due from financial institutions, advisory fee and other receivables 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) 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 is exposed to currency risks on certain Due from financial institutions and available-for-sale investments. The Bank seeks to manage currency risk by continually monitoring exchange rates.

The Bank had the following significant net exposures denominated in foreign currency as of 31 December 2006:

	2006 BD Equivalent	BD 000's 2005 BD Equivalent
US Dollars	12,750	5,124
British Pounds	3	-
Euros	4,940	(12)
Kuwaiti Dinars	2,917	1,937
Other GCC Currencies	1,200	2

c) Liquidity risk

Liquidity risk is defined as the risk that the Bank will not have funds 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 Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The maturity profile of assets and liabilities is set out in note 26.

d) Profit rate risk

Profit rate risk arises due to different timing of re-pricing of the Bank's assets and liabilities. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

29 Risk management (continued)

e) 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 27.

30 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

- IFRS 7 Financial instruments: Disclosures
- IAS 1 Presentation of Financial Statements (amended)
- IFRIC 8 Scope of IFRS 2 Share-based Payment
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

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

31 COMPARATIVES

Certain prior period amounts have been reclassified to conform to current year's presentation. Such reclassification did not affect previously reported profit or equity.