

## INVESTORS BANK B.S.C. (c)

### FINANCIAL STATEMENTS 31 DECEMBER 2006

Commercial registration	:	39646 (registered with Central Bank of Bahrain as a wholesale Islamic investment bank).
Registered Office	:	Al Salam Building Diplomatic Area PO Box 11818 Manama, Kingdom of Bahrain
Directors	:	Mr. Sami Al Bader, <i>Chairman</i> Mr. Abdul Mohsen Mohamed Al Othman, <i>Vice Chairman</i> Mr. Ghassan Fahad Al-Sultan Sheikh Salman Dawood Al-Salman Al-Sabah (until 15 May 2006) Mr. Bader Sulaiman Al Jarrallah Mr. Ahmed Shabeeb Al Dhaheri Sheikh Bander Bin Fahad Al Fehaid
Auditors	:	KPMG

# INVESTORS BANK B.S.C.(c)

## FINANCIAL STATEMENTS for the year ended 31 December 2006

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**CHAIRMAN'S REPORT**  
**for the year ended 31 December 2006**

US\$

In accordance with the Bahrain Commercial Companies Law 2001, I have pleasure in presenting the audited financial statements of Investors Bank BSC (c ) (pages 3 to 21) for the year ended 31 December 2006.

<b>Financial highlights</b>	<b>2006</b>	2005
Total assets	<b>148,024,233</b>	138,322,699
Total equity	<b>140,576,834</b>	131,027,202
Profit for the year	<b>11,338,288</b>	52,921,960

**Appropriations**

The board of directors propose the following appropriations for the approval of the shareholders at the Annual General Meeting:

Sami Al Bader

*Chairman**11 April 2007*

**REPORT OF THE AUDITORS TO THE SHAREHOLDERS  
INVESTORS BANK B.S.C.(c)**

Manama, Kingdom of Bahrain

11 April 2007

We have audited the accompanying financial statements of Investors Bank B.S.C. (c) ("the Bank") as at, and for the year ended, 31 December 2006 as set out on pages 3 to 21.

**Respective responsibilities of directors and auditors**

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

**Basis of opinion**

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2006, the results of its operations, the changes in its cash flows, shareholders' equity, restricted investment accounts and sources and uses of charity fund for the year then ended, in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

**Other regulatory matters**

In addition, in our opinion, the Bank has maintained proper accounting records and the financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the terms of the Bank's license or its memorandum and articles of association having occurred during the year, which might have had a material effect on the business of the Bank or on its financial position as at 31 December 2006. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

**BALANCE SHEET**  
**as at 31 December 2006**  
 US\$

	Note	31 December 2006	31 December 2005
<b>ASSETS</b>			
Cash and cash equivalents		383,182	356,644
Trading investments	3	39,293,867	70,354,102
Available-for-sale investments	4	21,586,476	22,797,020
Murabaha receivables	17	4,925,048	-
Mudaraba investment	17	21,931,034	18,567,639
Receivables from sale of investments	17	30,268,197	-
Deferred payment sale receivables	22	3,680,203	6,392,773
Investment property	7	18,331,295	17,957,881
Other assets	5	7,541,592	1,764,200
Fixed assets	6	83,339	132,440
<b>Total assets</b>		<b>148,024,233</b>	<b>138,322,699</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to a financial institution	22	3,670,202	3,670,202
Due to related parties	17	3,527,079	3,279,920
Other liabilities		250,118	345,375
<b>Total liabilities</b>		<b>7,447,399</b>	<b>7,295,497</b>
<b>Equity</b>			
Share capital	8	80,000,000	50,000,000
Share premium		-	13,746,334
Statutory reserve		7,409,515	6,275,686
General reserve		-	479,382
Available-for-sale investments fair value reserve		10,714,722	11,813,378
Retained earnings		42,452,597	48,712,422
<b>Total equity (page 5)</b>		<b>140,576,834</b>	<b>131,027,202</b>
<b>Total liabilities and equity</b>		<b>148,024,233</b>	<b>138,322,699</b>
<b>OFF-BALANCE SHEET ITEMS</b>			
Restricted investment accounts (page 8)		<b>16,157,031</b>	<b>16,764,225</b>

The financial statements, which consist of pages 3 to 21, were approved by the Board of directors on 11 April 2007 and signed on its behalf by:

\_\_\_\_\_  
 Sami Al Bader  
 Chairman

\_\_\_\_\_  
 Ghassan Fahad Al-Sultan  
 Director

The accompanying notes 1 to 22 form an integral part of these financial statements.

**INCOME STATEMENT**

for the year ended 31 December 2006

US\$

	Note	2006	2005
Income from trading investments	9,17	8,044,351	13,350,023
Income from available-for-sale investments	11,17	4,553,698	1,265,058
Unrealised re-measurement (loss)/gains on trading investments	3	(6,473,546)	43,727,621
Unrealised re-measurement (loss)/gains on available-for-sale investments		(20,409)	23,032
Placement fees	17	2,000,000	-
Underwriting fees	10,17	3,631,208	-
Income from Mudaraba investment	17	3,363,395	-
Other income		343,557	198,301
<b>Total income</b>		<b>15,442,254</b>	<b>58,564,035</b>
Staff cost	12	2,304,929	1,264,031
Administrative and general expenses	13	1,745,356	2,920,979
Impairment allowances on available-for-sale investments	4	-	732,100
Murabaha expenses		-	628,649
Depreciation		53,681	96,316
<b>Total expenses</b>		<b>4,103,966</b>	<b>5,642,075</b>
<b>Profit for the year</b>		<b>11,338,288</b>	<b>52,921,960</b>

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Sami Al Bader  
Chairman

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Ghassan Fahad Al-Sultan  
Director

The accompanying notes 1 to 22 form an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2006**

US\$

	Share Capital	Share premium	Statutory reserve	Investments fair value reserve	General reserve	Retained earnings	Total
<b>2006</b>							
Balance at 1 January 2006	50,000,000	13,746,334	6,275,686	11,813,378	479,382	48,712,422	131,027,202
Unrealised re-measurement gains during the year	-	-	-	3,116,399	-	-	3,116,399
Transfer to income statement on disposal of AFS investments	-	-	-	(4,215,055)	-	-	(4,215,055)
Net income recognised directly in equity	-	-	-	(1,098,656)	-	-	(1,098,656)
Profit for the year	-	-	-	-	-	11,338,288	11,338,288
<b>Total recognised income and expenses</b>	-	-	-	<b>(1,098,656)</b>	-	<b>11,338,288</b>	<b>10,239,632</b>
Issue of bonus shares	30,000,000	(13,746,334)	-	-	(479,382)	(15,774,284)	-
Charity contribution declared (2005)	-	-	-	-	-	(200,000)	(200,000)
Board remuneration declared (2005)	-	-	-	-	-	(490,000)	(490,000)
Transfer to statutory reserve	-	-	1,133,829	-	-	(1,133,829)	-
<b>At 31 December 2006</b>	<b>80,000,000</b>	-	<b>7,409,515</b>	<b>10,714,722</b>	-	<b>42,452,597</b>	<b>140,576,834</b>

The accompanying notes 1 to 22 form an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2006**

US\$

2005	Share Capital	Share premium	Statutory reserve	Investments fair value reserve	General reserve	Retained earnings	Total
Balance at 1 January 2005	32,913,333	77,000	983,490	6,885,368	479,382	1,082,658	42,421,231
Unrealised re-measurement gains during the year on available-for-sale investments	-	-	-	7,408,896	-	-	7,408,896
Transfer to income statement on disposal of AFS investments	-	-	-	(2,480,886)	-	-	(2,480,886)
Net income recognised directly in equity	-	-	-	4,928,010	-	-	4,928,010
Profit for the year	-	-	-	-	-	52,921,960	52,921,960
Total recognised income and expenses	-	-	-	4,928,010	-	52,921,960	57,849,970
Issue of ordinary shares during the year	17,086,667	13,669,334	-	-	-	-	30,756,001
Transfer to statutory reserve	-	-	5,292,196	-	-	(5,292,196)	-
At 31 December 2005	50,000,000	13,746,334	6,275,686	11,813,378	479,382	48,712,422	131,027,202

The accompanying notes 1 to 22 form an integral part of these financial statements.



**STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2006**

US\$

	<b>2006</b>	2005
<b>OPERATING ACTIVITIES</b>		
Management and advisory fees received	1,759	234,540
Dividends received	270,592	736,254
Advances for purchase of available-for-sale investments	(1,167,134)	-
Income from Murabaha contracts received	26,926	-
Purchase of available-for-sale investments	(33,491)	(81,764)
Purchase of trading investments	-	(15,802,165)
Proceeds from sale of available-for-sale investments	57,842	4,059,516
Proceeds from sale of trading investments	9,861,671	32,670,862
Arrangement fee paid on sale of trading investments	(406,667)	-
Receipts from deferred payment sale	500,000	-
Payments for operating expenses	(2,771,659)	(3,856,158)
Payments to the Managing Director (note 12)	(1,000,000)	-
Board remuneration paid	(490,000)	-
Payments for purchase of investment property	-	(17,957,881)
Employee Qard Hasan and advances, net	(33,636)	-
Others	(50,857)	1,779
<b>Cash flows from operating activities</b>	<b>4,765,346</b>	<b>4,983</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(4,780)	(31,706)
Proceeds from disposal of fixed assets	998	-
<b>Cash flows from investing activities</b>	<b>(3,782)</b>	<b>(31,706)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from increase in ordinary share capital	-	30,756,001
Murabaha financing	(4,650,000)	-
Investment in Mudaraba with a related party	-	(18,567,639)
Payments to financial institutions, net	-	(11,500,000)
Murabaha expenses paid	-	(620,924)
Cash paid to charitable organisations, net (page 10)	(85,026)	(90)
<b>Cash flows from financing activities</b>	<b>(4,735,026)</b>	<b>67,348</b>
<b>Net increase in cash and cash equivalents</b>	<b>26,538</b>	<b>40,625</b>
Cash and cash equivalents at beginning of the year	356,644	316,019
<b>Cash and cash equivalents at end of the year</b>	<b>383,182</b>	<b>356,644</b>

The accompanying notes 1 to 22 form an integral part of these financial statements.

**STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS**  
**for the year ended 31 December 2006**

US\$

31 December 2006	Balance at 1 January 2006			Movements during the year					Balance at 31 December 2006		
	No of units (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	Revaluations US\$	Investment profit/ (loss) US\$	Bank's fees as an agent US\$	Administra- tion expenses US\$	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd	-	-	317,689	-	-	-	-	-	-	-	317,689
Shares in Bahrain Family Leisure Company BSC	2,385	0.30	708,530	(631,640)	(107,544)	31,631	(977)	-	-	-	-
Investments in International Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	-	-	-	-	-	12,887	0.44	5,670,202
Portfolio managed by the Bank	2,940	3.42	10,067,804	-	101,336	-	-	-	2,940	3.46	10,169,140
			<b>16,764,225</b>	<b>(631,640)</b>	<b>(6,208)</b>	<b>31,631</b>	<b>(977)</b>	<b>-</b>			<b>16,157,031</b>

- 1 Restricted investment accounts represent amounts received from and transactions entered on behalf of related parties. The restricted investment accounts at 31 December 2006 are carried net of a provision for impairment amounting to US\$ 282,311 (2005: US\$ 282,311).
- 2 On the instructions of a restricted investment account holder, a related party, the Bank has entered into a deferred payment purchase agreement with a financial institution to acquire shares of International Investment Group K.S.C.C ('IIG'). The Bank then entered into a deferred payment sale agreement with the restricted investment account holder for sale of the these shares. However, due to a legal dispute with the financial institution, the Bank could not effect the transfer of the IIG shares to the restricted investment account holder (note 22).

The accompanying notes 1 to 22 form an integral part of these financial statements.

**STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS**  
**for the year ended 31 December 2006**

US\$

2005	Balance at 1 January 2005			Movements during the year					Balance at 31 December 2005		
	No of units (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	revaluations US\$	Investment profit/ (loss) US\$	Bank's fees as an agent US\$	Administra- tion expenses US\$	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd	-	-	317,689	-	-	-	-	-	-	-	317,689
Shares in Bahrain Family Leisure Company BSC	2,385	0.24	563,029	3,827	145,501	-	(3,827)	-	2,385	0.30	708,530
Investments in International Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	-	-	-	-	-	12,887	0.44	5,670,202
Portfolio managed by the bank	2,940	3.39	9,974,555	-	93,249	-	-	-	2,940	3.42	10,067,804
			16,525,475	3,827	238,750	-	(3,827)	-			16,764,225

- 1 Restricted investment accounts represent amounts received from and transactions entered on behalf of related parties. The restricted investment accounts at 31 December 2005 are carried net of a provision for impairment amounting to US\$ 282,311 (2004: US\$ 282,311).
- 2 On the instructions of a restricted investment account holder, a related party, the Bank has entered into a deferred payment purchase agreement with a financial institution to acquire shares of International Investment Group K.S.C.C ('IIG'). The Bank then entered into a deferred payment sale agreement with the restricted investment account holder for sale of the these shares. However, due to a legal dispute with the financial institution, the Bank could not effect the transfer of the IIG shares to the restricted investment account holder (note 22).

The accompanying notes 1 to 22 form an integral part of these financial statements.

**STATEMENT OF SOURCES AND USES OF CHARITY FUND**  
**for the year ended 31 December 2006**

US\$

	<b>2006</b>	2005
<b>Sources of charity fund</b>		
Contributions by the Bank	200,000	-
Non-Islamic income	235	90
<b>Total sources</b>	<b>200,235</b>	90
<b>Uses of charity fund</b>		
Contributions to charitable organisations	85,026	90
<b>Total uses</b>	<b>85,026</b>	90
<b>Excess of uses over sources</b>	115,209	-
Undistributed charity fund at 1 January	-	-
<b>Undistributed charity fund at 31 December</b>	<b>115,209</b>	-

The accompanying notes 1 to 21 form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2006**

US\$

**1 INCORPORATION AND ACTIVITIES**

Investors Bank B.S.C. (C) (the "Bank") was established in the Kingdom of Bahrain as an exempt company on 26 October 1997 and operates under an investment banking license granted by the Central Bank of Bahrain (the "CBB"). The Bank commenced commercial operations on 15 June 1998. The legal status of the Bank was changed to a closed Bahraini joint stock company on 3 July 2005.

The Bank's activities are regulated by the CBB 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 banking and financial activities, investment transactions, participating in equity investments in projects in conformity with the Islamic Shari'a. The Bank may, in particular, carry on the following business activities:

- (a) Providing investment account facilities;
- (b) Accepting restricted or unrestricted investment funds commingling the same with those of the Bank and investing them in accordance with the Shari'a;
- (c) Managing the investment of third party funds as an agent for a fixed fee or as a Mudarib and any other banking activities not contravening the provisions of the Shari'a;
- (d) Industrial, commercial and agricultural business activities, either directly or through companies which the Bank may establish, or in which the Bank may acquire shares; and
- (e) Purchasing, leasing and constructing buildings, and the renting thereof.

**2 SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

The financial statements have been prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

**(b) Basis of preparation**

The financial statements are presented in US Dollars, being the principal currency of the Bank's operations. They are prepared on the historical cost basis modified by measurement at fair value of trading investments and creation available-for-sale investments.

The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year.

The preparation of financial statements in conformity with FAS 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 high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements as set out in note 21.

**(c) Revenue recognition**

**Income from investment advisory services** is recognised when the Bank has performed all significant acts relating to the advisory service being rendered and it is highly probable that economic benefits from the transaction will flow to the Bank.

**Underwriting fees** is recognised as income when earned.

**Placement fees** are recognised as income when earned.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2006**

US\$

2 *Significant accounting policies (continued)*(c) *Revenue recognition (continued)*

Income from **deferred payment sale contracts** are recognised on a time-apportioned basis over the period of the contract.

Income from **Mudaraba contracts** are recognised when the Mudarib declares profits.

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

(d) **Mudaraba investments**

Mudaraba investments are stated at cost less provision for impairment.

(e) **Financial assets****(i) Classification**

Held-for-trading investments are financial assets which are held principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin or where a pattern of short-term profit taking exists or is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking. These comprise investments in quoted shares.

Available-for-sale investments are financial assets that are not held-for-trading purposes, or held-to-maturity. These include investments in quoted and unquoted shares and managed funds.

**(ii) Recognition**

Held-for-trading and available-for-sale investments are recognised/derecognised by the Bank on Trade i.e. the date the bank commits to purchase/sell the investments.

**(iii) Measurement**

Held-for-trading investments are measured initially at cost. Transaction costs are charged as expense. Subsequent to initial recognition, Held-for trading investments are re-measured to fair value and the resulting unrealised gains or losses are recognised in the income statement in the year in which they arise.

Available-for-sale investments are measured initially at cost including transaction costs. Subsequent to initial recognition available-for-sale investments are re-measured to fair value and the resulting unrealised gains or losses are recognised in an "investment fair value reserve" as a separate component in the equity provided that unrealised losses are recognised in equity to the extent of the available balance. In case losses exceed the available balance, the unrealised losses are recognised in the income statement under "Unrealised re-measurement gains or losses on investments". In case there are unrealised losses that have been previously recognised in the income statement, then the unrealised gains for the year are recognised to the extent of previously recognised losses in the income statement. Any excess of such gains over previously recognised losses is taken to the "Investments fair value reserve".

**(iv) Fair value measurement principles****(a) Quoted investments**

- i) Fair value for quoted investments is their market bid price in an active market.

**(b) Unquoted investments**

- i) Fair value for certain unquoted investments has been determined by reference to the price of the most recent transactions in the shares.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2006**

US\$

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

ii) Other investments for which there is no quoted market price or other appropriate methods from which to derive fair values, are stated at cost less impairment allowances, if any.

(iii) Fair value for unquoted managed funds is the fund's net assets value as determined by the fund manager.

**(f) Deferred payment sale receivables**

Receivables arising from deferred payment sale are recognised at the time of contracting and stated at their cost less impairment allowances.

**(g) Fixed assets**

Fixed assets are 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.

**(h) Investment property**

Investment property is stated at cost less impairment.

**(i) Impairment**

The carrying amount of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. 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.

**(j) 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. Movements in non-Islamic funds are shown in the statement of sources and uses of charity fund.

**(k) Restricted investment accounts**

Restricted investment accounts represents assets held in trust or in a fiduciary capacity by the Bank for the benefit of the investment accounts holders. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders.

Restricted investments in quoted securities are valued at their market bid price. Restricted investments in securities for which there are no quoted market price or other appropriate methods from which to derive fair values, are stated at cost less impairment allowances, if any.



**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2006**

US\$

2 *Significant accounting policies (continued)*

**(l) Transactions and balances in foreign currencies**

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date, are translated at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the exchange rates ruling at the dates that the values are determined.

**(m) Cash and cash equivalents**

Cash and cash equivalents comprise cash and balances with financial institutions.

**3 TRADING INVESTMENTS**

In June 2005, following a change in the Bank's intention to trade certain investments, the Bank's entire investment in Gulf Petroleum Investment Company K.S.C.C. was transferred from available-for-sale category to held-for-trading category. The transfer was at fair value on the day of the transfer.

	<b>2006 US\$</b>	<b>2005 US\$</b>
At 1 January	70,354,102	28,234,982
Transferred from available for-sale category, at fair value	-	4,280,677
Purchases during the year	4,200,000	15,802,165
Sales during the year, at carrying value	(28,786,689)	(21,691,343)
Unrealised re-measurement gains during the year	(6,473,546)	43,727,621
<b>At 31 December</b>	<b>39,293,867</b>	<b>70,354,102</b>

At 31 December 2006, investments with a carrying value of US\$ 39,293,867 (2005: US\$ 70,354,102) were held in the name of related parties as portfolio managers for the Bank.

**4 AVAILABLE-FOR-SALE INVESTMENTS**

	<b>2006 US\$</b>	<b>2005 US\$</b>
At 1 January	22,797,020	24,359,483
Transferred to trading category, at fair value	-	(4,280,677)
Purchases during the year	748,925	81,764
Sales during the year, at carrying value	(5,055,455)	(4,060,649)
Fair value changes during the year	3,095,986	7,429,199
Impairment allowances	-	(732,100)
<b>At 31 December</b>	<b>21,586,476</b>	<b>22,797,020</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2006

US\$

4 *AVAILABLE-FOR-SALE INVESTMENTS (continued)*

Available-for -sale investments comprise:

**Investment in shares**

i) At fair value – Quoted

ii) At cost – unquoted

**Investments in managed funds**

Less: provision for impairment

	<b>2006 US\$</b>	2005 US\$
	20,263,384	17,181,791
	1,447,658	813,776
	607,534	5,533,553
	<b>22,318,576</b>	23,529,120
	(732,100)	(732,100)
	<b>21,586,476</b>	22,797,020

Material available-for-sale investments as at current year end are as follows:

	Country of incorporation	% ownership	Nature of main activities
<b>Quoted shares at fair value</b>			
Bahrain Islamic Bank BSC	Bahrain	2.74	Commercial banking in accordance with Islamic Shari'a.
Takaful International BSC	Bahrain	18.03	Takaful - insurance according to the Islamic Shari'a.

At 31 December 2006, investments with carrying value of US\$ 12,348,738 (2005: US\$ 9,592,323) were held in the name of a financial institution and pledged as collateral against amounts due to the financial institution (note 22). Also, investments with carrying value of US\$ 6,435,709 (2005: US\$ 6,013,695) were pledged as collateral against amounts due to a related party.

5 **OTHER ASSETS**

	<b>2006 US\$</b>	2005 US\$
Statutory deposit with CBB	13,263	13,263
Underwriting fee receivable	3,631,836	-
Placement fee receivable	2,000,000	-
Management and advisory fees receivable	93,300	93,300
Prepaid expenses	157,190	91,078
Current account with related parties	2,256	488,593
Qard Hassan	140,419	106,528
Advance towards purchase of investment	451,772	41,924
Others	1,451,556	1,329,514
	<b>7,941,592</b>	2,164,200
Less: impairment allowances	(400,000)	(400,000)
	<b>7,541,592</b>	1,764,200

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**6 FIXED ASSETS**

Fixed assets comprising furniture and equipment at 31 December were as follows:

	<b>2006 US\$</b>	2005 US\$
Cost	584,529	604,273
Accumulated depreciation	(501,190)	(471,833)
Net book value	<b>83,339</b>	132,440

**7 INVESTMENT PROPERTY**

Investment property represents the Bank's share in building in Sharjah jointly owned with a related party. The building is registered in the name of a related party.

**8 EQUITY**

	<b>2006</b>	2005
Authorised: 303,030,303 ordinary shares of US\$ 0.33 each	<b>100,000,000</b>	100,000,000
Issued and fully paid up: 242,424,242 (2005: 151,515,152) shares of US\$ 0.33 each	<b>80,000,000</b>	50,000,000

During the year, the paid up capital of the Bank increased from US\$ 50,000,000 to US\$ 80,000,000 due to issue of bonus shares amounting to US\$ 30,000,000.

**Share premium**

Share premium represents the net amount received in excess of the par value of share capital and this amount is not distributable to shareholders, except in the circumstances stipulated by the law.

**Statutory reserve**

In accordance with the requirements of the Bahrain Commercial Companies Law 2001, 10% of the net profit for the year is transferred to a statutory reserve until such time as the reserve represents 50% of the paid up capital. This reserve is not available for distribution.

**General reserve**

General reserve represents appropriations from the Bank's net profit as approved by the shareholders and can only be distributed with the approval of the shareholders.

**Investments fair value reserve**

This represents fair value changes arising on re-measurement of available-for-sale investments. It also included cumulative fair value changes on certain available-for-sale investments, which were reclassified to trading investments, upto the date on which these investments were reclassified as trading investments (refer note 4). Such cumulative fair value changes were transferred to the income statement during the year upon sale of these investments.

**9 INCOME FROM TRADING INVESTMENTS**

	<b>2006 US\$</b>	2005 US\$
Dividend income	1,412,454	957,118
Income from sale of investments	6,631,897	12,392,905
	<b>8,044,351</b>	13,350,023

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**10 UNDERWRITING FEES**

This represents fees arising from underwriting the sale of shares of a related party. The underwriting exposure amounted to US\$ 72.6 million. The Share were placed with investors before the year end.

**11 INCOME FROM AVAILABLE-FOR-SALE INVESTMENTS**

	<b>2006 US\$</b>	2005 US\$
Dividend income	548,532	201,421
Income from sale of investments	4,005,166	1,063,637
	<b>4,553,698</b>	1,265,058

**12 STAFF COST**

Staff cost include US\$ 1,000,000 paid to the Managing Director during the year as consideration for his services in earlier periods.

**13 ADMINISTRATIVE AND GENERAL EXPENSES**

	<b>2006 US\$</b>	2005 US\$
Consultancy and legal expenses	584,781	307,662
Rent	91,432	91,432
Advertising and promotion	113,986	251,124
Professional fees	40,318	34,748
License and registration	61,288	55,286
Communication	34,298	35,183
Business development	96,532	180,270
Brokerage fee	407,075	1,344,101
Others	315,646	621,173
	<b>1,745,356</b>	2,920,979

**14 ZAKAH**

Zakah is directly borne by the shareholders and, accordingly, no provision is made by the Bank for Zakah. The Bank computes the Zakah payable by the shareholder on the net invested funds method. The basis of computation is approved by the Shari'a Board and the amounts payable are notified to the shareholders.

**15 MATURITY PROFILE**

The maturity profile of the Bank's assets and liabilities is as follows:

	<b>2006</b>			
	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>	<b>Restricted investment accounts</b>
Up to 1 month	9,084,974	6,428	9,078,546	-
From 1 month to 3 months	57,930,531	338,936	57,591,595	-
From 3 months to 1 year	58,398,879	7,040,620	51,358,259	-
From 1 year to 3 years	22,513,248	61,415	22,451,833	16,157,031
Over 3 years	96,601	-	96,601	-
	<b>148,024,233</b>	<b>7,447,399</b>	<b>140,576,834</b>	<b>16,157,031</b>

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15 MATURITY PROFILE (continued)

	2005			Restricted investment accounts
	Assets	Liabilities	Net	
Up to 1 month	17,321,753	196,183	17,125,570	-
From 1 month to 3 months	17,620	118,908	(101,288)	-
From 3 months to 1 year	120,255,670	6,932,240	113,323,430	-
From 1 year to 3 years	581,953	48,167	533,786	16,764,225
Over 3 years	145,703	-	145,703	-
	138,322,699	7,295,498	131,027,201	16,764,225

16 CONCENTRATION OF ASSETS AND LIABILITIES

The Bank's assets and liabilities are distributed over the following industry sectors and geographical areas:

	2006		
Industry sectors	Assets	Liabilities	Restricted investment accounts
Banks and financial institutions	69,712,613	6,899,265	5,670,202
Investment companies	13,562,592	-	10,169,140
Oil and Gas	-	-	-
Others	64,749,028	548,134	317,689
	<b>148,024,233</b>	<b>7,447,399</b>	<b>16,157,031</b>

	2005		
Industry sectors	Assets	Liabilities	Restricted investment accounts
Banks and financial institutions	45,954,230	6,950,122	5,670,202
Investment companies	12,286,601	-	10,067,804
Oil and Gas	14,725,019	-	-
Others	65,356,849	345,375	1,026,219
	138,322,699	7,295,497	16,764,225

**Geographical concentration**

All assets and liabilities of the Bank as at 31 December 2006 and 31 December 2005 are concentrated in the Middle East region.

**NOTES TO THE FINANCIAL STATEMENTS**

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**17 RELATED PARTY TRANSACTIONS AND BALANCES**

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 also include directors and shareholders of the Bank and companies in which they have an ownership interest.

A significant portion of the Bank's income arises from transactions with related parties. Transactions with related parties are undertaken on terms agreed between the parties.

Significant balances with related parties at 31 December comprise:

	<b>2006 US\$</b>	<b>2005 US\$</b>
<b>Assets</b>		
Deferred payment sale receivables	3,680,203	6,392,773
Trading investments	39,293,867	60,492,432
Available-for-sale investments	8,270,151	7,160,237
Murabaha receivables	4,925,048	-
Mudaraba investments	21,931,034	18,567,639
Receivables from sale of investments	30,268,197	-
Advance towards purchase of available-for-sale investments	451,772	41,924
Other assets	5,827,371	803,712
<b>Liabilities</b>		
Due to a related party	3,527,079	3,279,920
Other liabilities	-	16,910

Certain of the Bank's investments are managed by a related party.

The Bank has investments in companies of certain shareholders. The carrying amounts of such investments at 31 December 2006 were US\$ 55,759 (2005: US\$ 59,914).

Significant transactions with related parties include:

	<b>2006 US\$</b>	<b>2005 US\$</b>
<b>Income</b>		
Income from available-for-sale investments	4,206,958	-
Income from trading investments	2,577,974	-
Placement fees	2,000,000	-
Underwriting fees	3,631,208	-
Management and advisory fees	-	18,690
Profit on deferred payment sale of investments	-	105,070
Unrealised remeasurement (loss)/gains on trading investments	(6,473,546)	40,409,592
Net unrealised remeasurement gains on available-for-sale investments	-	1,475
Income from Mudaraba investment	3,363,395	-
Income from Murabaha receivables	257,048	-
Other income	977	-
<b>Expenses</b>		
Remuneration to the Managing Director	1,000,000	-
Murabaha expenses	-	111,913
Arrangement expenses	203,333	671,432

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2006

US\$

**17 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

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

	<b>2006 US\$</b>	<b>2005 US\$</b>
Salaries and other short-term benefits	226,549	276,820
Post employment benefits	9,450	19,496
Directors' remuneration	490,000	-
Payment to the Managing Director	1,000,000	-

**18 Proposed appropriations**

The Board of Directors propose the following appropriations for the approval of the shareholders at the annual general meeting:

	<b>2006 US\$</b>	<b>2005 US\$</b>
Bonus share*	-	30,000,000
Directors' remuneration	150,000	490,000
Charity	-	200,000

\* bonus shares are at the rate of 6 shares for every 10 shares held.

**19 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 cash and balances with banks, deferred payment sale receivables and other assets.

Cash is placed with Islamic financial institution after careful of credit evaluation. Deferred payment sale receivable is due from a related party. Majority of other assets represents current accounts with related parties.

**b) Liquidity risk**

Liquidity risk is defined as the risk that funds will not be available to meet liabilities as they fall due.

It is the Bank's policy to keep a significant part of its assets in liquid assets such as trading and available-for-sale investments.

**c) Profit rate risk**

Profit rate risk arises from the possibility that changes in the profit rate will affect the value of financial instruments. The Bank's exposure to profit rate risk is limited due size of assets and liabilities that are sensitive to movement in profit rate.

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**19 RISK MANAGEMENT (continued)****d) 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 transactions are either in US Dollars or Bahraini Dinars. The Bahraini Dinar is effectively pegged to the US Dollar and hence the Bank's exposure to currency risk is limited.

**20 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. Differences can therefore arise between the book values under the historical cost method and fair value estimates.

Other than certain available-for-sale investments carried at cost of US\$ NIL (2005: US\$ 81,676), the estimated fair values of the Bank's other financial instruments are not significantly different from their book values.

**21 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 investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. Where fair values are not 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.

**22 LITIGATION AND CLAIMS**

In 2004, the bank entered into a sale and purchase agreement with a local financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution was US\$ 3,670,202. In accordance with the terms of the agreement, the bank pledged certain of its investments with a carrying value of US\$ 12,348,738 as at 31 December 2006. Subsequently, the agreement was terminated by the financial institution due to disputes with the bank and as a result, the pledged investments have been retained by the financial institution. In the opinion of the bank's lawyers and management, the agreement was wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the Bahrain courts against the financial institution for wrongful possession of investments. As a result, the court has taken custody of the shares under dispute. The related party on whose behalf the transactions was entered has provided a manager's cheque for an equal amount which has been deposited with the court. This amount is included under Deferred payment sale receivables.

The related party on whose behalf the transaction was entered into has also agreed to reimburse the bank for legal expenses and any losses arising on final settlement with the financial institution. Accordingly, in the opinion of the directors, no provision is required to be made in the financial statements against the investments pledged with the financial institution or for contingent claims that might arise on final settlement.