

ITHMAAR BANK B.S.C. (Closed)

**Consolidated Financial Statements
for the year ended 31 December 2005**

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

The Directors have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2005.

Consolidated financial statements

The consolidated financial statements have been prepared incorporating the financial statements of Ithmaar Bank B.S.C. (Closed) (the "Bank") and its subsidiaries (collectively the "Group").

Principal activity

The Bank carries on the business of investment banking in accordance with the terms of its investment banking licence issued by the Bahrain Monetary Agency. The principal activities of the Group are a wide range of financial services.

Private placement and initial public offering

In December 2005, the Bank offered 50,000,000 new shares through a fully underwritten issue to existing unit holders and certain employees of Dar Al-Maal Al-Islami Trust through a private placement. This offer was subsequently increased to 60,000,000 shares. These shares were offered at \$1.00 per share and will on allotment be subject to the same rights and obligations as are applicable to other shares in the Bank apart from the entitlement to dividends in respect of the year ended 31 December 2005. It is anticipated that the shares offered through the private placement will be allotted on the closing of an initial public offering during March 2006 when the Bank will receive the proceeds.

It is further anticipated that the Bank will offer 150,000,000 new shares through an initial public offering scheduled for February/March 2006 at a price of \$2.25 per share. Following the successful completion of this private placement and the initial public offering, the Bank's issued and paid up capital will be increased to \$360 million and the Bank will be reconstituted as a Bahraini Public Shareholding Company according to the provisions of the Commercial Companies Law (Decree No. 21 of 2001) with Commercial Registration No. 15210 and be renamed Ithmaar Bank B.S.C.

Financial position

The results for the year ended 31 December 2005 and the financial position of the Group as at that date are set out in the accompanying financial statements.

Dividend

The Directors propose to recommend at the Annual General Meeting a payment of dividend of US\$20 million for the year ended 31 December 2005 (2004: \$10 million).

Litigation

A subsidiary of the Bank, DMI Administrative Services S.A., along with a large number of other parties, including the Bank's parent, Dar Al-Maal Al-Islami Trust, has been named as defendant in various lawsuits arising out of the events that occurred in the United States of America on 11 September 2001.

Few developments took place during 2005, but Dar Al-Maal Al-Islami Trust, on behalf of the Group, together with the U.S. and other legal counsel continued to be very active throughout the year in order to represent and defend the Group's interests. Motions to dismiss the claims against all the Group entities involved were submitted to the U.S. court during 2005. The Directors assert that the allegations are wholly without merit and every appropriate action is being taken to defend the Group's position and reputation.

Directors



The following Directors served during the year ended 31 December 2005 and to the date of this report:

Mr. Khalid Abdulla-Janahi (Chairman)
Mr. Ziad Rawashdeh (Vice Chairman)
Mr. Mohammed Bucheerei
Mr. Graham Walker (appointed on 22 March 2005)

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and a resolution proposing their reappointment will be placed before the Annual General Meeting.

By order of the Board of Directors


Khalid Abdulla-Janahi
Chairman
Ziad Rawashdeh
Vice Chairman

17 February 2006

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDER OF ITHMAAR BANK B.S.C. (CLOSED)**

We have audited the accompanying consolidated balance sheet of Ithmaar Bank B.S.C. (Closed) (the "Bank") and its subsidiaries (collectively the "Group") as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements set out on pages 5 to 45 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.

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Further, in accordance with the requirements of the Bahrain Commercial Companies Law and the Bahrain Monetary Agency Law, we report that we have obtained all the information that we considered necessary for the purpose of our audit; the Bank has maintained proper books of account and the consolidated financial statements and the financial information contained in the Directors' report are in agreement therewith; and, nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the Bahrain Commercial Companies Law, the Bahrain Monetary Agency Law or of any of the terms of its banking licence or its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2005.



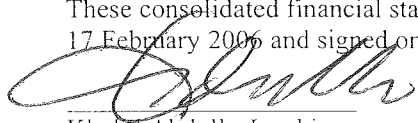
Manama, Kingdom of Bahrain
17 February 2006

Consolidated Balance Sheet as at 31 December

(Thousands of US dollars)

	Notes	2005	2004
Assets			
Cash		25,536	30,862
Due from financial institutions		139	347
Trading securities	6	211	730
Investments in financings	7	99,795	100,201
Investment securities	8	35,553	38,654
Investment property	9	43,769	49,985
Accounts receivable	10	77,029	53,022
Investments in associates	11	157,451	157,583
Property, plant and equipment	12	2,334	3,227
Intangible assets	13	531	-
Total assets		442,348	434,611
Liabilities			
Customer investment accounts		5,062	13,048
Due to banks		6,005	7,090
Investments from off balance sheet funds	14	119,295	126,537
Accounts payable	15	56,122	64,804
Deferred tax liability	16	3,087	3,869
Total liabilities		189,571	215,348
Equity			
Capital and reserves attributable to the Bank's equity holders			
Share capital	26	150,000	150,000
Reserves		97,359	64,533
		247,359	214,533
Minority interests	25	5,418	4,730
Total equity		252,777	219,263
Total equity and liabilities		442,348	434,611

These consolidated financial statements were approved for issue by the Board of Directors on 17 February 2006 and signed on their behalf by:



Khalid Abdulla-Janahi
Chairman



Ziad Rawashdeh
Vice Chairman

The notes on pages 9 to 45 form an integral part of these consolidated financial statements.

Consolidated Statement of Income for the year ended 31 December

(Thousands of US dollars)

	Notes	2005	2004
Income			
Fund management and services	27	24,775	14,273
Income from investments		1,471	457
Net trading income	17	-	88
Income from investments in financings	18	2,073	2,112
Gains less losses from investment securities	8	268	(71)
Fee and commission income	19	9,174	15,823
Dividend income	20	-	44
Other income	21	8,304	15,689
		46,065	48,415
Distribution to investment account holders		(3,011)	(3,318)
Operating income		43,054	45,097
Expenses			
Staff costs	22	20,611	24,939
General and administrative expenses		8,311	9,839
Depreciation and amortisation	12,13	677	910
Exchange (gain)/loss		(39)	564
Total expenses		29,560	36,252
Operating profit		13,494	8,845
Income from associated companies	11	20,487	14,323
Gain on sale of associated company	31	4,597	-
Profit before taxes		38,578	23,168
Taxes	24	(1,002)	(1,052)
Profit after taxes		37,576	22,116
Attributable to:			
Equity holders of the Bank		36,533	22,133
Minority interests	25	1,043	(17)
		37,576	22,116

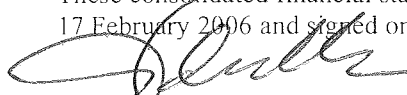
Basic/diluted earnings per share

30

US cts 24

US cts 18

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Khalid Abdulla-Janahi
Chairman



Ziad Rawashdeh
Vice Chairman

The notes on pages 9 to 45 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December

(Thousands of US dollars)

	Notes	-----Attributable to the Bank's equity holders-----				Total reserves	Minority interests	Total equity
		Share capital	Statutory reserve	General reserve	Fair value reserve	Currency translation	Retained earnings	
At 1 January 2004		30,000	2,911	14,327	4,173	(4,346)	15,360	67,031
New issue of ordinary shares	26	120,000						120,000
Net profit for the year							22,133	22,116
Change of ownership interest in subsidiaries								41
Movement in fair value of available-for-sale investments					(193)		(200)	(293)
Movement in fair value of associated companies					7,412			7,412
Available-for-sale investments sold					460		382	842
Impairment of available-for-sale investments					(406)			(406)
Foreign currency translation adjustment						2,520		2,520
Transfer to statutory reserve			2,213				(2,213)	
At 31 December 2004		150,000	5,124	14,327	11,446	(1,826)	35,462	219,263
Net profit for the year							36,533	37,576
Dividend declared							(10,000)	(10,750)
Movement in fair value of available-for-sale investments					1,504			2,001
Movement in fair value of associated companies					12,048		(185)	11,863
Available-for-sale investments sold				(826)	(320)			(426)
Share issue costs	32						(826)	(826)
Foreign currency translation adjustment			3,654	2		(5,930)	(3,654)	(5,924)
Transfer to statutory reserve								
At 31 December 2005		150,000	8,778	13,503	24,678	(7,756)	58,156	252,777

The notes on pages 9 to 45 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year ended 31 December

(Thousands of US dollars)

	Notes	2005	2004
Cash flows from operating activities			
Profit before taxes and minority interests		38,578	23,168
Adjustments for:			
Depreciation and amortisation	12,13	677	910
Change in fair value of investment properties	9	1,002	(431)
Income from associated companies	11	(25,084)	(14,323)
Operating profit before changes in operating assets and liabilities		15,173	9,324
Decrease in due from financial institutions		209	1,604
Net decrease/(increase) of trading securities		518	(198)
Decrease in investments in financings		406	3,027
Decrease/(increase) of investment securities		4,454	(653)
Decrease/(increase) in accounts receivable		5,110	(14,993)
(Decrease) in accounts payable, excluding taxes		(9,484)	(9,304)
(Decrease)/increase in due to banks		(1,085)	2,847
(Decrease) in investment accounts		(15,228)	(14)
Taxes paid		(1,210)	(1,137)
Net cash (used) by operating activities		(1,137)	(9,497)
Cash flows from investing activities			
Dividends from associated companies	11	6,864	6,579
Net purchase of investment property	9	(1,364)	(3,111)
Acquisition of property, plant and equipment and intangibles net of disposals	12	(376)	(1,259)
Net cash provided by investing activities		5,124	2,209
Cash flows from financing activities			
Dividends paid	23	(10,000)	-
Dividends paid to minority shareholders of subsidiaries		(750)	-
Proceeds from issuance of shares in subsidiaries		-	41
Net cash (used in)/provided by financing activities		(10,750)	41
Foreign currency translation adjustments		1,437	(297)
Net (decrease) in cash and cash equivalents		(5,326)	(7,544)
Cash and cash equivalents at beginning of year		30,862	38,406
Cash and cash equivalents at end of year		25,536	30,862

For significant non-cash transaction see notes 26 and 31.

The notes on pages 9 to 45 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Formation and activities

Ithmaar Bank B.S.C. (Closed) (the “Bank”) was incorporated in the Kingdom of Bahrain on 13 August 1984 and holds an investment banking licence issued by the Bahrain Monetary Agency. The Bank was formerly called Faysal Investment Bank of Bahrain E.C. and changed its name on 4 November 2003. The Bank has its registered office at Seef Tower, 14th floor, Al Seef District, Manama, Kingdom of Bahrain.

The principal activities of the Bank and its subsidiaries (collectively the “Group”) are a wide range of financial services, including the management of Islamic modarabas which are similar to investment funds. The modarabas are not consolidated in the accompanying financial statements because they represent funds invested by clients without recourse to the Group. Accordingly, they are included in off-balance sheet accounts as disclosed in note 27.

Dar Al-Maal Al-Islami Trust, formed by indenture under the laws of the Commonwealth of the Bahamas, holds 100% of the issued share capital of the Bank.

2. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

Basis of preparation

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Interpretations Committee (IFRIC) interpretations. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and investment property.

The preparation of financial statements in conformity with 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 4.

Impact of New Accounting Pronouncements: International Financial Reporting Standards

In December 2003, as a part of the International Accounting Standards Board’s (IASB) project to improve International Financial Reporting Standards, the IASB released a series of new Standards as well as revisions to certain standards including: IAS 1, “Presentation of Financial Statements”; IAS 24, “Related Party Disclosures”; IAS 33, “Earnings per Share”; and IAS 39 “Financial Instruments: Recognition and Measurement”. The revised standards apply to annual periods beginning on or after 1 January 2005 and have been adopted in accordance with the respective transition provisions. The main impact on the Group’s consolidated financial statements is:

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

a) Presentation of minority interests

IAS 1 (revised) requires disclosure on the face of the entity's statement of income for the period and the allocation of that amount between "income or loss attributable to minority interests" and "income or loss attributable to equity holders of the company". Earnings per share continue to be calculated on the basis of net income attributable solely to the equity holders of the entity. Also, for periods beginning on or after 1 January 2004 minority interests are included within equity in the consolidated balance sheet and are no longer shown as a separate category in the liabilities section of the consolidated balance sheet. This change resulted in an increase of US \$ 4.7 million in the Group's reported equity at 1 January 2005.

b) Critical accounting estimates and judgements in applying accounting policies

IAS 1 (revised) requires the disclosures of judgements, apart from those involving estimations, which management has made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed as well.

c) Financial instruments: recognition and measurement

In accordance with the transition provisions of IAS 39 (revised), the Group designated financial assets previously recognised as "trading" as "financial assets carried at fair value through profit or loss". In previous periods, gains and losses arising from a change in the fair value of trading assets were recognised in the consolidated statement of income. As a result, the designation of those assets as financial instruments at fair value through profit or loss does not require restatement of financial results in the comparative information.

d) Related party disclosures

IAS 24 provides additional guidance and expands the definitions and the disclosures for related parties, the objective being to clarify that the entity's financial statements should contain the disclosures necessary to draw attention to the possibility that the financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with them. The Group's transactions and balances with related parties are disclosed in Note 29 to the consolidated financial statements.

There was no impact on opening retained earnings as at 1 January 2004 from the adoption of the above-mentioned standards.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

e) Goodwill amortisation

The application of IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004) resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- amortised on a straight line basis over a period ranging from 10 years to 20 years, and
- assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of IFRS 3:

- the Group ceased amortisation of goodwill from 1 January 2005;
- from the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

f) New accounting standards and IFRIC interpretations that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Group will apply this amendment from annual periods beginning 1 January 2006.

IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.

IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January 2006.

IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it will have no material impact for the Group.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). These amendments are not relevant to the Group's operations as the Group is not a first-time adopter of IFRS and does not carry out exploration for and evaluation of mineral resources.

IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)¹. IFRS 6 is not relevant to the Group's operations.

IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). IFRIC 5 is not relevant to the Group's operations.

IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic – IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005). IFRIC 6 is not relevant to the Group's operations.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Costs associated with the restructuring of a subsidiary as a part of the acquisition or subsequent to the acquisition are included in the consolidated statement of income upon the date of commitment.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounts for associated companies have been restated to conform with Group accounting policies, if necessary, except as otherwise disclosed.

Where a subsidiary or an associated company is acquired and held exclusively with a view to its disposal within the next twelve months or where it can be clearly demonstrated control of a subsidiary or significant influence over an associated company does not exist, the subsidiary or associated company is classified as an investment security available-for-sale in the Group's consolidated financial statements.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries 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 United States dollars, which is the Group's functional and presentation currency.

(b) 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 statement of income. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the year end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income, except where hedge accounting is applied.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of their fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) and all resulting exchange differences are recognised as a separate component of equity (cumulative translation adjustment).

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the consolidated statement of income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Income from investments and investments in financings

Income from investments and investments in financings, which is both contractually determined and quantifiable at the commencement of the transaction, is accrued on the effective return method basis over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised. Income recognition is suspended when financings become doubtful of collection and recognised only when received.

Fees and commission income

Fees and commissions are generally recognised as income when earned. Origination fees on financings which are probable of being drawn down, are deferred and recognised over the term of the financing as an adjustment to the effective yield. Structuring fees, commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party, are recognised on completion of the underlying transaction.

Asset management fees related to investment funds are recognised rateably over the period the service is provided and are recorded in fund management and services income.

Management advisory and technical service fees are recognised based on applicable service contracts usually on a time-apportionate basis and are recorded in other income.

Distribution to investment account holders

The expense charged to the consolidated statement of income as a distribution to investment account holders represents the share of the Group's income from all sources which is due to customers of the Group under contractual arrangements in force.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Financial Assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. The classification of investments is determined at initial recognition. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership.

(a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading, including trading securities, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless qualifying for hedge accounting.

Financial assets at fair value through profit and loss are initially recognised at fair value (which includes transaction costs) and subsequently carried at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income in the period in which they arise. Dividends declared are included in dividend income.

All purchases and sales of financial assets held for trading and at fair value through profit and loss that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the entity commits to purchase or sell the asset.

(b) Loans and receivables

Loans and receivables, which include investments in financings, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are carried at amortised cost using the effective yield method. All loans are recognised when cash is advanced to the customer.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and there is the intent and the ability to hold them to maturity. If more than an insignificant amount of held-to-maturity assets is sold, the entire category will be considered tainted and reclassified as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

(d) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in exchange rates, equity prices or other market rates. All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the entity commits to purchase or sell the asset.

Available-for-sale investments are initially recognised at fair value (which excludes transaction costs) and subsequently carried at fair value. The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active or the asset is an unlisted security, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the consolidated statement of income as gains or losses from investment securities. Dividends declared are included in dividend income.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(a) Assets carried at amortised cost

A financial asset or a group of financial assets is impaired if and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the asset that can be reliably estimated. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective rate of return, including any amounts recoverable from guarantees and collateral, and recognised in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed through the consolidated statement of income.

In the case of Islamic financings to customers in countries where there is an increased risk of difficulties in servicing external debt, an assessment of the political and economic situation is made and additional country risk provisions may be established.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

(b) Assets carried at fair value

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below their 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, is removed from equity and recognised in the consolidated statement of income. If in subsequent periods the fair value of equity instruments increases, impairment losses previously recognised in the consolidated statement of income are not reversed but are recognised in equity as adjustments to fair value.

Due from financial institutions

Due from financial institutions comprises mainly short term deposits in the form of parallel purchase and sale of currencies and commodities (PPSC), which are spot purchases of internationally traded currencies and commodities and a corresponding forward sale of the same. For the purpose of accounting, these are treated as term deposits and the return is recorded as income from investments in the statement of income.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their useful lives.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Investment property

Investment property principally comprises office buildings which are held to earn rental income or for long-term capital appreciation or both. Investment property is treated as a long-term investment and is carried at fair value, representing open market value determined annually by reference either to external valuers or to other independent valuation sources. Changes in fair values are recorded in the consolidated statement of income as part of other income. The Group does not classify operating leases as investment property.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Land is not depreciated. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated statement of income during the financial period in which they are incurred.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amounts.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Leases

Total payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the date of the consolidated balance sheet.

Taxation

Taxes are provided and charged in the consolidated statement of income on the basis of the estimated tax expense payable currently and in future years, arising in respect of the results of current operations.

Deferred income taxes

Deferred income tax is provided, using the comprehensive liability method, for all temporary differences arising between the tax bases of assets and liabilities and their respective carrying values for financial reporting purposes. The amount of deferred taxes on these differences is determined using the provisions of local tax laws, including rates, and is adjusted upon enactment of changes in these laws. Provision is made for potential taxes which could arise on the remittance of retained overseas earnings where there is a current intention to remit such earnings.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised.

Deferred tax related to fair value re-measurement of investments available-for-sale which is charged or credited directly to the fair value reserve, is also credited or charged directly to the fair value reserve and is subsequently recognised in the consolidated statement of income together with the deferred gain or loss.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Retirement benefit plans

The Group operates a number of defined benefit and defined contribution pension plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking into account the recommendations of independent qualified actuaries.

For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated statement of income so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a valuation of the plans every year. The pension obligation is measured as the present value of the estimated future cash outflows using standard financial cost rates which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the employees' expected average remaining working lives.

The Group's contributions to defined contribution pension plans are charged in the consolidated statement of income in the year to which they relate.

Share capital

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on share capital are recognised as an appropriation in equity in the period in which they are declared. Dividends for the year which are declared after the date of the statement of financial position are dealt with in the subsequent events note.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, loans and advances to banks and amounts due from other banks.

3. Financial risk management

a. Strategy in using financial instruments

By its nature, the Group's activities are principally related to the use of financial instruments. The Group accepts investments from customers at varying rates of return and for various periods and seeks to earn above average profits by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and investing for longer periods at higher return potential whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its profit margins by obtaining above average margins, net of provisions, through transactions with commercial and retail customers. Such exposures involve not just on-balance sheet Islamic financings but the Group also enters into Islamically acceptable guarantees and other commitments such as letters of credit and performance and other bonds.

b. Financing risk

The Group takes on exposure to financing risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of financing risk it undertakes by placing limits on the amount of risk accepted in relation to one customer, or groups of customers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of financing risk by product, industry sector and by country are approved by the boards of subsidiary companies.

The Group's exposure to any one customer including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to financing risk is managed through regular analysis of the ability of customers and potential customers to meet capital and profit repayment obligations and by changing these lending limits where appropriate. Exposure to financing risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Notes to the Consolidated Financial Statements

3. Financial risk management (continued)

c. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in currency, equity and other market rate products, all of which are exposed to general and specific market movements. The Group estimates the market risk of positions held and the maximum losses expected based upon a number of assumptions for various changes in market conditions. The boards of directors of subsidiary companies set limits on the value of risk that may be accepted by the respective subsidiary.

d. Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The boards of directors of the Bank and its subsidiary companies set limits on the level of exposure by currency and in total for both overnight and intra-day positions.

e. Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight investment funds, current accounts, maturing investments, financing draw downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The boards of directors of subsidiary companies set limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other financing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Group operates in a number of regulated jurisdictions and consequently some Group assets are subject to regulatory restrictions with respect to liquidity.

f. Fiduciary activities

Income arising from fund management and advisory services comprises the revenues earned from the management of the funds in the modarabas accrued on the basis of the terms and conditions of the related management agreements. Funds under management represent amounts invested by clients and placed with funds managed by the Group.

g. Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. The exposure to any one borrower including banks and brokers is restricted by sub-limits covering on and off balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of investments in financings

The Group reviews its investments in financings to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, judgements are made as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of a borrower, or national or local economic conditions that correlate with defaults on assets. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value and impairment of available-for-sale equity investments

The Group may from time to time hold investments in financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by Group management.

Available-for-sale equity investments are deemed to be impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

On occasion the Group may hold investments whose fair value cannot be reliably measured. In those instances, full disclosure with a description of the investment, the carrying value and an explanation of why fair value cannot be measured reliably are included in the notes to the financial statements.

Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPE's that it does not control. In determining whether the Group does control an SPE judgements are made about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question.

Income taxes

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and judgements in applying accounting policies (continued)

Use of estimates for equity accounting the results of the associates

On the basis that the financial statements of the underlying associates of the Group may not be available at the time of publication of the financial statements of the Group, Management may from time to time be required to use estimates in its equity accounting of the results of these entities. These estimates are generally based on the results of the latest financial statements or management accounts.

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

5. Segments

a) Business segments

The Group and its associates are organised on a worldwide basis into the following business segments:

- (i) retail banking incorporating private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
- (ii) insurance includes life assurance, general insurance and reinsurance activities;
- (iii) asset management encompasses managing clients' assets on either a fiduciary or trustee basis, carrying out securities trading operations, distribute mutual funds, grant documentary credit and other financings and hold deposits on behalf of clients.
- (iv) corporate management comprises those activities of a supporting nature to the Group such as legal, financial control, audit and risk management, and to promote investment financing activities.

Transactions between the business segments are on normal commercial terms and conditions.

At 31 December 2005

	Retail Banking	Insurance	Asset Mgmt	Corporate Mgmt	Elimination	Group
External income			31,009	12,045		43,054
Income from other segments			471	38,288	(38,759)	
Total income			31,480	50,333	(38,759)	43,054
Operating expense			(15,121)	(14,478)		(29,599)
Foreign exchange			729	(690)		39
Operating profit			17,088	35,165	(38,759)	13,494
Share of profits/(losses) in associates	22,747	75	1,115	1,147		25,084
Profit before tax	22,747	75	18,203	36,312	(38,759)	38,578
Tax expense			(59)	(943)		(1,002)
Profit for the year	22,747	75	18,144	35,369	(38,759)	37,576
Minority interests			(1,043)			(1,043)
Profit after minority interests	22,747	75	17,101	35,369	(38,759)	36,533

At 31 December 2005

Segment assets			115,833	169,064		284,897
Investments in associates	85,438	40,318	23,227	8,468		157,451
Segment liabilities			61,793	127,778		189,571

Notes to the Consolidated Financial Information

(Thousands of United States dollars)

5. Segments (continued)

At 31 December 2004

	Retail Banking	Insurance	Asset Mgmt	Corporate Mgmt	Elimination	Group
External income			25,499	19,598		45,097
Income from other segments			134	5,284	(5,418)	
Total income			25,633	24,882	(5,418)	45,097
Operating expense			(14,370)	(21,318)		(35,688)
Foreign exchange			(529)	(35)		(564)
Operating profit			10,734	3,529	(5,418)	8,845
Share of profits/(losses) in associates	10,584	382	2,567	790		14,323
Profit before tax	10,584	382	13,301	4,319	(5,418)	23,168
Tax expense			26	(1,078)		(1,052)
Profit for the year	10,584	382	13,327	3,241	(5,418)	22,116
Minority interests			17			17
Profit after minority interests	10,584	382	13,344	3,241	(5,418)	22,133

At 31 December 2004

Segment assets			134,953	142,075		277,028
Investments in associates	87,516	40,239	22,111	7,717		157,583
Segment liabilities			69,976	145,372		215,348

b) Geographical segments

A geographical segment is engaged in providing products and services within a particular economic environment, that are subject to risks and returns, that are different from those of segments operating in other economic environments. The Group is organised in four geographical segments which are Bahrain, other Middle East, Pakistan and Europe.

Notes to the Consolidated Financial Information

(Thousands of United States dollars)

5. Segments (continued)

The analysis below is based on legal vehicles.

At 31 December 2005

	Bahrain	Other Middle East	Pakistan	Europe	Group
Segment income	2,998	24,687		15,369	43,054
Share of profits/(losses) in associates	75	9,430	14,463	1,116	25,084
Profit before tax	(4)	20,708	14,430	3,444	38,578
Tax expense	(398)			(604)	(1,002)
Profit for the year	(402)	20,708	14,430	2,840	37,576
Minority interests				(1,043)	(1,043)
Profit after minority interests	(402)	20,708	14,430	1,797	36,533
At 31 December 2005					
Segment assets	142,485	41,005		101,407	284,897
Investments associates	40,318	27,031	66,876	23,226	157,451
Segment liabilities	107,812	28,970		52,789	189,571

At 31 December 2004

	Bahrain	Other Middle East	Pakistan	Europe	Group
Segment income	5,040	23,961		16,096	45,097
Share of profits/(losses) in associates	382	2,650	8,724	2,567	14,323
Profit before tax	(647)	14,471	8,735	609	23,168
Tax expense	(375)			(677)	(1,052)
Profit for the year	(1,022)	14,471	8,735	(68)	22,116
Minority interests				17	17
Profit after minority interests	(1,022)	14,471	8,735	(51)	22,133
At 31 December 2004					
Segment assets	97,769	58,652		120,607	277,028
Investments in associates	40,239	46,804	48,429	22,111	157,583
Segment liabilities	120,349	7,567		87,432	215,348

Notes to the Consolidated Financial Information

(Thousands of United States dollars)

6. Trading securities

	2005	2004
Trading securities – at fair value		
- Listed	-	382
- Unlisted	211	348
	211	730

7. Investments in financings

	2005	2004
Investments in financings (Note 14)	99,795	100,960
Provision for impairment	-	(759)
	99,795	100,201

8. Investment securities

	2005	2004
Investment securities available-for-sale		
Investment securities – at fair value		
- Listed	8,352	4,654
- Unlisted	27,201	34,000
	35,553	38,654

Gains less losses from investment securities

	2005	2004
Derecognition of available-for-sale assets	420	(842)
Other	(152)	771
	268	(71)

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

8. Investment securities (continued)

The movement in investment securities may be summarized as follows:

	2005	2004
At 1 January	38,654	37,771
Additions	3,600	2,878
Disposals	(8,444)	(1,585)
Net gains/(losses) from changes in fair value	1,987	(257)
Exchange differences	(23)	51
Provision for impairment	(221)	(204)
At 31 December	35,553	38,654

Investments with a carrying value of \$1.1 million (2004: \$2.1 million) are stated at cost as there is no basis for determining fair value. Such investments are managed by an external investment manager who has not provided an estimate of fair value nor sufficient information for a fair value to be determined, but who has indicated that there has been no impairment. Each investment is in a special purpose company established by the investment manager for the purposes of pooling funds with other investors to invest in specific underlying securities. Both the special purpose companies and the underlying securities are unlisted and unmarketable until such time as they are liquidated by the investment manager and the proceeds distributed to investors.

9. Investment property

	2005	2004
At 1 January	49,985	42,581
Additions	3,647	3,111
Disposals	(2,282)	-
Fair value (losses)/gains during the year	(1,003)	431
Net exchange differences	(6,578)	3,862
At 31 December	43,769	49,985

Rental income from investment property amounting to \$1.5 million (2004: \$1.5 million) has been included in the consolidated statement of income under other income. Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income amounted to \$0.6 million (2004: \$0.5 million). Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income amounted to \$Nil (2004: \$Nil). Such expenses have been included in the consolidated statement of income under general and administrative expenses.

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

9. Investment property (continued)

Investment property under operating leases

The Group leases out part of its investment property under operating leases. The leases are for terms of one to five years. There were no contingent rents in 2005 (2004: \$Nil).

The future aggregate minimum rentals receivable under non cancellable operating leases are as follows:

	2005	2004
Not later than one year	1,097	1,434
Later than one year and not later than five years	2,509	3,856
	<u>3,606</u>	<u>5,290</u>

10. Accounts receivable

	2005	2004
Accounts receivable	12,141	17,716
Provision for impairment	(1,110)	(1,954)
Funds under management	9,744	6,267
Receivables from parent company (Note 29)	810	-
Receivables from affiliated companies (Note 29)	54,654	30,993
Receivables from associated companies (Note 29)	790	-
	<u>77,029</u>	<u>53,022</u>

Included in accounts receivable are prepayments in the amount of \$3.2 million (2004: \$0.8 million) and loans to employees and directors of \$3.5 million (2004: \$4.2 million). The remaining balance relates primarily to project management fees and dividends receivable.

11. Investments in associates

	2005	2004
At 1 January	157,583	143,157
Share of results before tax	25,484	18,259
Share of tax	(4,997)	(2,811)
Amortisation of goodwill	-	(1,125)
Dividends paid	(6,864)	(6,579)
Share of fair value gains	12,048	7,412
Disposals (Note 31)	(24,505)	-
Exchange differences	(1,298)	(730)
At 31 December	<u>157,451</u>	<u>157,583</u>
Income from associated companies comprises:		
Net share of earnings	20,487	15,448
Amortisation of goodwill	-	(1,125)
	<u>20,487</u>	<u>14,323</u>

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

11. Investments in associates (continued)

The summarised financial information of the Group's principal associates is as follows:

Name and Country of incorporation	Assets	Liabilities	Income	Profit/ (loss)	Published price quotation	Group holding %
2005						
Listed:						
Faysal Bank Limited (Pakistan)	1,851,466	1,614,568	91,026	51,236	74.10 PKR	28
Faisal Islamic Bank of Egypt (Egypt)	2,857,845	2,738,347	128,355	17,260	68.01 USD	10
Unlisted:						
Faisal Finance (Switzerland) S.A.	72,213	24,843	13,646	2,275	-	49
Solidarity Company BSC (c) (Bahrain)	138,942	34,830	10,328	347	-	40
*Islamic Company for Production, Printing and Packing Materials "Icopack" (Egypt)	14,264	4,734	11,001	1,334	-	23
*Misr Company for Packing Materials "Egywrap" (Egypt)	27,832	12,095	18,449	3,408	-	23

* For some of the associates, published information is not available for 31 December 2005 and therefore the income and profit and loss have been arrived at by using the 2004 audited financial statements. The assets and liabilities for these associates, however, represent the amounts as reported at 31 December 2004.

PKR Pakistan Rupee
USD United States Dollar

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

11. Investments in associates (continued)

Name and Country of incorporation	Assets	Liabilities	Income	Profit/ (loss)	Published price quotation	Group holding %
2004						
Listed:						
Faysal Bank Limited (Pakistan)	1,345,352	1,173,799	60,841	30,905	43.50 PKR	28
Faisal Islamic Bank of Egypt (Egypt)	2,572,462	2,470,174	87,605	11,740	70.00 USD	23
Unlisted:						
Faisal Finance (Switzerland) S.A.	51,151	6,026	10,922	5,238		49
Solidarity Company BSC (c) (Bahrain)	128,895	27,998	8,257	959		40
Islamic Company for Production, Printing and Packing Materials "Icopack" (Egypt)	14,264	4,734	11,001	1,334		23
Misr Company for Packing Materials "Egywrap" (Egypt)	27,832	12,095	18,449	3,408		23
PKR: Pakistan Rupee USD: United States Dollar						

Included in investment in associates at 31 December 2005 is \$17.5 million of unamortised goodwill. The movement is as follows:

	2005	2004
At 1 January	17,548	18,673
Additions		
Amortisation of goodwill	-	(1,125)
At 31 December	17,548	17,548

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

12. Property, plant and equipment

	Land and buildings	Leasehold property, furniture, equipment and motor vehicles	Total
Cost			
At 1 January 2005	1,620	5,547	7,167
Additions	-	331	331
Disposals	-	(211)	(211)
Transfer to intangibles	-	(471)	(471)
Currency effect	-	(355)	(355)
At 31 December 2005	1,620	4,841	6,461
Depreciation			
At 1 January 2005	352	3,588	3,940
Charge for the year	35	642	677
Disposals	-	(194)	(194)
Transfer to intangibles	-	(2)	(2)
Currency effect		(294)	(294)
At 31 December 2005	387	3,740	4,127
Net book value			
At 31 December 2005	1,233	1,101	2,334

Cost			
At 1 January 2004	1,620	5,479	7,099
Additions	-	1,342	1,342
Disposals	-	(1,502)	(1,502)
Currency effect	-	228	228
At 31 December 2004	1,620	5,547	7,167
Depreciation			
At 1 January 2004	270	3,963	4,233
Charge for the year	79	831	910
Disposals	-	(1,419)	(1,419)
Currency effect	3	213	216
At 31 December 2004	352	3,588	3,940
Net book value			
At 31 December 2004	1,268	1,959	3,227

Leasehold property at 31 December 2005 aggregated \$1.1 million (2004 : \$1.1 million), less accumulated depreciation of \$0.7 million (2004 : \$0.6 million).

13. Intangible assets

Intangible assets at 31 December 2005 \$0.5 million (2004: Nil) comprised computer software related to core banking systems, which is being amortised over five years.

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

14. Investments from off balance sheet funds

Included in investments from off balance sheet funds at 31 December 2005 is an amount of \$92.5 million (2004: \$90.7 million), which relates to investments received from off balance sheet funds and which was subsequently reinvested in investments in financings outside of the Group. The remaining amount represents off balance sheet funds invested with the Group's subsidiaries.

15. Accounts payable

	2005	2004
Accounts payable and other provisions	2,204	2,348
Accruals	10,161	14,525
Funds under management	5,176	-
Due to the parent company (Note 29)	28,169	30,683
Payables to affiliated companies (Note 29)	5,555	9,842
Payables to associated companies (Note 29)	4,637	7,162
Current taxes	220	244
	56,122	64,804

16. Deferred tax liability

Deferred tax liability relates to the revaluation of investment property at fair value.

17. Net trading income

	2005	2004
Gains on trading securities	-	88

18. Income from investments in financings

	2005	2004
Income from investments in financings	2,166	2,646
Provision for impairment	(93)	(534)
	2,073	2,112

19. Fee and commission income

	2005	2004
Structuring fees and commissions	2,697	7,662
Fees from affiliated companies	2,166	4,600
Other fees	4,311	3,561
	9,174	15,823

The fees from affiliated companies represents principally fees paid by Shamil Bank of Bahrain B.S.C. due under an agreement with a subsidiary company which provided services to it in the Kingdom of Saudi Arabia.

20. Dividend income

	2005	2004
Investment securities available-for-sale	-	44

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

21. Other income

	2005	2004
Fees from parent company (Note 29)	7,818	11,400
Fees from affiliated companies (Note 29)	-	1,750
Fees from associated companies (Note 29)	1,138	-
(Loss)/gain from fair value changes in investment property	(2,272)	1,014
Other income	1,620	1,525
	8,304	15,689

The management fees received from the parent company represented the recovery from Dar Al-Maal Al-Islami Trust of certain costs incurred on its behalf by a subsidiary company.

22. Staff costs

	2005	2004
Salaries	13,825	18,125
Social security and other statutory costs	1,491	1,384
Post retirement benefits	1,577	1,122
Other benefits	3,718	4,308
	20,611	24,939

The number of persons employed by the Group at 31 December 2005 was 248 (2004: 263).

Other benefits include housing allowance, home leave, relocation expense, medical and health expense, training, severance costs and end of service benefit costs.

23. Proposed dividend

A dividend for 2004 amounting to \$10.0 million was approved and paid in 2005. The Directors propose to recommend at the Annual General Meeting a payment of dividend of \$20.0 million for the year ended 31 December 2005.

24. Taxes

	2005	2004
Current taxes	1,246	1,068
Deferred taxes	(244)	(16)
	1,002	1,052

The expected income tax expense for the Group is an aggregate of individual amounts representing the mix of profits and losses and the applicable tax rates in each jurisdiction. Consequently, the effective tax rate on consolidated income may vary from year to year, according to the source of earnings. Most affiliates of the Group operate in tax free jurisdictions.

A reconciliation between the reported income tax and the amount computed, using the weighted average of applicable domestic corporate tax rates, is as follows:

	2005	2004
Weighted average applicable domestic corporate tax	1,002	1,052
Effect of revenue taxed at a different rate than domestic corporate tax rate	-	-
Effective tax	1,002	1,052

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

25. Minority interests

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarizes the minority shareholders' interests in the equity of consolidated subsidiaries.

	2005		2004	
	Minority %		Minority %	
Faisal Finance (Jersey) Limited	25	5,418	25	4,730
		5,418		4,730

Minority interests in the consolidated statement of income of \$1.0 million (2004: \$ Nil) represent the minority shareholders' share of the earnings of this subsidiary for the respective years.

26. Share capital and reserves

	2005	2004
Authorised		
300 million ordinary shares of US\$1 each	300,000	300,000
Issued as fully paid		
150 million ordinary shares of US\$1 each	150,000	150,000

On 31 March 2004 the issued and fully paid share capital of the Bank was increased to \$150 million. The outstanding purchase consideration of \$120 million due to Dar Al Maal Al-Islami Trust was exchanged for fully paid up equity shares of the same amount. (For the purpose of the consolidated statement of cash flows, this represented the principal non cash transaction).

In accordance with the requirements of the Bahrain Commercial Companies Law, an amount of at least 10% of the Bank's net income for the year is transferred to a statutory reserve until such time as that reserve represents 50% of the paid up share capital of the Bank. The reserve can be utilised for payment of dividends up to 5% of the issued and fully paid up share capital.

27. Funds under management

Funds under management aggregated \$1.5 billion (2004: \$1.1 billion) and represented amounts invested by clients and placed with funds managed by the Group. These funds are invested without recourse to the Group. The Group earned fees of approximately \$24.8 million associated with such funds in 2005 (2004: \$14.3 million).

At 31 December 2005, the Group had amounts due to funds under management of \$119.3 million (2004: \$139.6 million) and due from funds under management of \$20.8 million (2004: \$36.1 million). Included in amounts due to funds under management at 31 December 2005 is an amount of \$92.5 million (2004: \$90.7 million), which relates to investments received from off balance sheet funds and which was subsequently reinvested in investments in financings outside of the Group. The remaining amount represents off balance sheet funds invested with the Group's subsidiaries.

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

28. Retirement benefit plans

Substantially all employees of the Group's European incorporated subsidiaries are covered either by insured or state pension plans. In accordance with local practice, no pension plans exist in certain countries in which the Group operates.

The Group's principal retirement benefit plans are in Switzerland and are defined benefit plans. The assets of the funded plans are held in separate trustee administered funds. These plans are valued by independent actuaries every year using the projected unit credit method.

The assumptions used in the actuarial valuations for 2005 and 2004 are the best estimates of the main parameters influencing the pension liability and are detailed as follows:

	2005	2004
	%	%
Standard financial cost rate	3.10	3.50
Expected long-term rates of return on plan assets	3.40	4.00
Rate of increase in compensation	2.00	1.50
Rate of increase in pension	0.00	0.00
The funded status of the Group's pension plans is as follows:		
Projected benefits obligations	(29,397)	(31,627)
Plan assets at fair values	27,323	29,165
Funded status	(2,074)	(2,462)
Unrecognised actuarial losses	1,134	1,317
Liability in the balance sheet	(940)	(1,145)
Net periodic pension cost consists of the following:		
Service costs	1,877	1,518
Financial costs	942	977
Expected return on assets	(927)	(1,034)
Total cost	1,892	1,461
Employee contributions	(315)	(339)
Net periodic pension cost	1,577	1,122
Movement in the liability recognised in the balance sheet:		
At 1 January	1,145	918
Exchange differences	(156)	97
Net periodic pension cost	1,577	1,122
Employer contributions	(1,626)	(992)
At 31 December	940	1,145

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

29. Related party transactions

A number of transactions are entered into with related parties in the normal course of business. These include loans, current and investment accounts. Transactions and balances disclosed as with associated companies are those with companies in which the Bank owns 20% to 50% of the voting rights and over which it exerts significant influence, but does not have control. Transactions with other related parties, who consist of the parent company and its subsidiaries other than the Bank, are disclosed as affiliated companies. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows.

a) Loans to key management personnel

	2005	2004
Loans		
Loans outstanding at 1 January	2,037	1,102
Loans issued during the year	572	1,321
Loan repayments during the year	(466)	(421)
Foreign exchange	(162)	35
Loans outstanding at 31 December	<u>1,981</u>	<u>2,037</u>

No provisions have been recognised in respect of loans given to related parties (2004: Nil).

The loans advanced to key management personnel bear no return, are unsecured and are repayable over varying periods up to 2011.

b) Loans to employees

All employees of the Group are entitled to receive employee loans on favourable terms not equivalent to those of transactions made on an arm's length basis. Included in accounts receivable are amounts due from employees at 31 December 2005 of \$3.5 million (2004: \$4.2 million).

c) Current and investments accounts

Period ended	Associated companies		Affiliated companies	
	2005	2004	2005	2004
<u>Amounts payable to:</u>				
Solidarity Company B.S.C. (c)		1,373		
Faisal Finance (Switzerland) S.A.	916	1,404		
Faysal Bank Limited	3,721	3,503		
Faisal Islamic Bank of Egypt	4,898	4,898		
Shamil Bank Bahrain B.S.C.			5,555	139
Dar Al-Maal Al-Islami Trust			28,169	30,683
Plumeria N.V.				9,703
<u>Amounts receivable from:</u>				
Faisal Finance (Switzerland) S.A.	789	1,037		
Faysal Bank Limited	1	66		
Shamil Bank Bahrain B.S.C.			33,498	10,651
Plumeria N.V.			21,156	17,727
Dar Al-Maal Al-Islami Trust			810	1,511

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

29. Related party transactions (continued)

For the period ended	Associated companies		Affiliated companies	
	2005	2004	2005	2004
<u>Expense on current and investment accounts</u>				
Faisal Finance (Switzerland) S.A.	200	1,128		
Faysal Bank Limited	39	17		
Shamil Bank Bahrain B.S.C.				86
Dar Al-Maal Al-Islami Trust			278	
d) Other revenue				
Faysal Bank Limited	1,138			
Faisal Finance (Switzerland) S.A.	75			
Dar Al-Maal Al-Islami Trust			7,818	11,400
Plumeria N.V.			534	219
Shamil Bank Bahrain B.S.C.			2,888	6,588

The fees paid by Dar Al-Maal Al-Islami Trust represented the recovery of certain costs incurred on its behalf by a subsidiary company. The fees paid by Shamil Bank of Bahrain B.S.C. were due under an agreement with a subsidiary company which provided services to it in the Kingdom of Saudi Arabia.

As disclosed in Note 31, the Bank disposed of part of its investment in Faisal Islamic Bank of Egypt during the year to Dar Al-Maal Al-Islami Trust and Shamil Bank of Bahrain B.S.C. for an aggregate consideration of \$29.1 million.

	2005	2004
e) Key management compensation		
Salaries and other short-term benefits	8,652	8,287
Post-employment benefits	<u>1,144</u>	<u>1,034</u>
	9,796	9,321

f) Director's remuneration

In 2005 there was no remuneration to the Board of Directors (2004: Nil).

g) Indemnity

Dar Al-Maal Al-Islami Trust has provided an indemnity up to \$2.5 million in respect of any shortfall on the carrying value which may be realised on an investment held by a subsidiary.

30. Basic/diluted earnings per share

Basic/diluted earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the period.

	2005	2004
Net income attributable to shareholders	<u>36,533</u>	<u>22,133</u>
Weighted average number of issued and fully paid up ordinary shares ('000)	<u>150,000</u>	<u>120,000</u>
Basic/diluted earnings per share	<u>US cts 24</u>	<u>US cts 18</u>

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

31. Acquisitions and disposals

In December 2005, the Bank disposed of 7.7% of its investment in Faisal Islamic Bank of Egypt to Dar Al-Maal Al-Islami Trust for a consideration of \$17.0 million and disposed of 5.5% to Shamil Bank of Bahrain B.S.C. for a consideration of \$12.1 million. The consideration for both transactions was determined by an agreed fair value for deferred settlement in 2006. The gain on disposal amounting to \$4.6 million, representing the difference between the aggregate consideration of \$29.1 million and the carrying value of \$24.5 million, has been recognised in the consolidated statement of profit and loss. Following these transactions, the Group's interest in FIBE has been reduced to 9.9%, but it continues to be treated as an associate in the consolidated financial statements due to the Bank's relationship with Dar Al-Maal Al-Islami Trust.

32. Private placement and initial public offering

In December 2005, the Bank offered 50,000,000 new shares through a fully underwritten issue to existing unit holders and certain employees of Dar Al-Maal Al-Islami Trust through a private placement. This offer was subsequently increased to 60,000,000 shares. These shares were offered at \$1.00 per share and will on allotment be subject to the same rights and obligations as are applicable to other shares in the Bank apart from the entitlement to dividends in respect of the year ended 31 December 2005. It is anticipated that the shares offered through the private placement will be allotted on the closing of an initial public offering during March 2006 when the Bank will receive the proceeds.

It is further anticipated that the Bank will offer 150,000,000 new shares through an initial public offering scheduled for February/March 2006 at a price of \$2.25 per share. Following the successful completion of this private placement and the initial public offering, the Bank's issued and paid up capital will be increased to \$360 million.

Expenses amounting to \$0.9 million had been incurred in connection with the private placement and the initial public offering at 31 December 2005. Of this amount, \$0.1 million has been recognised in the consolidated statement of profit and loss and \$0.8 million has been charged directly to equity.

33. Memorandum items

Contingent liabilities	2005	2004
Guarantees and irrevocable letters of credit	18,626	20,197
Expenses in connection with the initial public offering	2,531	-

The Bank operates in certain countries which have tax regimes, but for which no provision for income tax has been recorded in these financial statements. It is believed that the Bank's potential tax liability arising in respect of its operations in those countries is remote at the present time.

DMI Administrative Services SA has at 31 December 2005 a potential contingent liability not exceeding \$0.9 million in respect of its retirement benefit plan in the event that the plan assets attributable to individual members ultimately fall below their contractual entitlements.

Faysal Bank Limited carried at 31 December 2005 contingent liabilities of \$450.1 million (2004: \$371.3 million), of which the Group's share was \$126.0 million (2004: \$104.0 million). These relate to guarantees and letters of credit issued as part of their normal banking operations and customer claims.

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

33. Memorandum items (continued)

Contingent liabilities (continued)

Faisal Islamic Bank of Egypt carried at 31 December 2005 contingent liabilities of \$34.8 million (December 2004: \$37.3 million), of which the Group's share was \$3.5 million (December 2004: \$8.6 million). These related to guarantees and letters of credit issued as part of their normal banking operations.

Solidarity Company BSC (c) has obtained a letter of guarantee for \$37.5 million, of which the Group's share is \$15.0 million, from the National Commercial Bank of Saudi Arabia for the proposed incorporation of a subsidiary in the Kingdom of Saudi Arabia.

Commitments

Operating lease commitments

Commitments for operating leases include IT hardware, cars and office equipment.

The future minimum lease payments under non cancellable operating leases are as follows:

	2005	2004
Not later than one year	165	163
Later than one year and not later than five years	239	250
	<u>404</u>	<u>413</u>

34. Litigation

Two of the Bank's wholly-owned subsidiaries were named in various lawsuits arising out of the events which occurred in the United States of America on 11 September 2001. Agreements regarding service of process have been reached in respect of each of the named companies in most of the cases. One subsidiary has been voluntarily dismissed from all but one of the actions and the other subsidiary has been voluntarily dismissed in another action. Motions to dismiss all the remaining cases against these subsidiaries have been submitted to the U.S. Court, but no trial dates have been set.

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

35 Concentration of assets and liabilities

Assets and liabilities of the Group are located in the following geographical regions and industry sectors:

	2005			2004		
Geographical regions	Assets	Liabilities	Contingent liabilities and commitments	Assets	Liabilities	Contingent liabilities and commitments
Asia	66,877	3,796	-	49,541	3,561	-
Middle East	117,390	31,025	17,724	122,977	18,556	20,197
Europe	219,941	105,108	1,306	212,745	111,099	-
North America	37,552	49,642	-	48,982	82,132	-
Other	588	-	-	366	-	-
	442,348	189,571	19,030	434,611	215,348	20,197

	2005			2004		
Industry sectors	Assets	Liabilities	Contingent liabilities and commitments	Assets	Liabilities	Contingent liabilities and commitments
Banks and finance institutions	344,234	161,045	17,069	308,688	171,766	13,400
Trading and manufacturing	23,136	9,403	274	16,206	166	1,041
Property and construction	48,238	3,087	404	60,143	3,868	-
Private individuals	3,337	936	-	5,081	1,242	-
Services	8,805	3,824	1,283	3,112	5,892	5,756
Chemical	325	-	-	325	-	-
IT & telecommunications	5,861	5,833	-	31,890	31,689	-
Oil & gas production	3,761	3,761	-	-	-	-
Utilities	698	1,207	-	44	501	-
Other	3,953	475	-	9,122	224	-
	442,348	189,571	19,030	434,611	215,348	20,197

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

36. Maturities of assets and liabilities

The maturity profiles of assets and liabilities of the Group are as follows:

2005	Assets	Liabilities	Net liquidity gap
Up to 1 month	83,343	31,577	51,766
From 1 to 3 months	18,581	30,560	(11,979)
From 3 months to 1 year	35,628	20,052	15,576
From 1 to 5 years	203,654	80,209	123,445
From 5 years and over	101,142	27,173	73,969
	442,348	189,571	252,777
2004	Assets	Liabilities	Net liquidity gap
Up to 1 month	40,181	13,632	26,549
From 1 to 3 months	53,312	57,451	(4,139)
From 3 months to 1 year	31,111	37,557	(6,446)
From 1 to 5 years	106,148	80,303	25,845
From 5 years and over	203,859	26,405	177,454
	434,611	215,348	219,263

37. Currency exposure

2005	Assets	Liabilities	Net on balance sheet position	Contingent liabilities and commitments
United States Dollar	306,839	173,096	133,743	7,507
Pakistan Rupee	66,877	-	66,877	-
Swiss Franc	37,714	5,723	31,991	1,306
Saudi Rial	2,059	517	1,542	10,217
Bahrain Dinar	419	-	419	-
Egyptian Pound	11,117	460	10,657	-
United Kingdom Pound	12,480	6,140	6,340	-
Euro	4,310	3,635	675	-
Other currencies	533	-	533	-
	442,348	189,571	252,777	19,030
2004	Assets	Liabilities	Net on balance sheet position	Contingent liabilities and commitments
United States Dollar	317,344	200,121	117,223	5,915
Pakistan Rupee	48,496	-	48,496	-
Swiss Franc	43,333	7,194	36,139	-
Saudi Rial	1,808	395	1,413	13,756
Bahrain Dinar	79	-	79	-
Egyptian Pound	10,276	326	9,950	-
United Kingdom Pound	12,816	7,252	5,564	-
Euro	28	60	(32)	526
Other currencies	431	-	431	-
	434,611	215,348	219,263	20,197

Notes to the Consolidated Financial Statements

(Thousands of US dollars)

38. Subsidiaries

A listing of the Group's principal subsidiaries is as follows:

	% owned	Country of Incorporation
Islamic Investment Company of the Gulf (Bahamas) Limited	100	Bahamas
Faisal Finance (Jersey) Limited	75	Jersey
Cantara (Switzerland) S.A.	100	Switzerland
DMI Administrative Services S.A.	100	Switzerland
DMI (Jersey) Limited	100	Jersey
MFAI (Jersey) Limited	100	Jersey
Faisal Finance (Luxembourg) S.A.	100	Luxembourg
Faisal Finance (Netherlands Antilles) NV	100	Netherlands Antilles
Rayten Holdings Limited	100	Jersey

39. Comparatives

At 31 December 2004, \$23.5 million deposits maturing in less than three months was restated from due from financial institutions to cash to conform to the current year's presentation.