



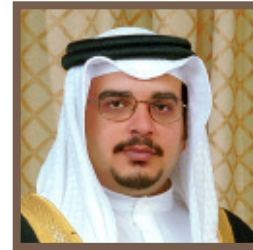
His Highness Shaikh Khalifa  
bin Salman Al Khalifa

The Prime Minister



His Majesty King Hamad  
bin Isa Al Khalifa

The King of Bahrain



His Highness Shaikh Salman  
bin Hamad Al Khalifa

The Crown Prince &  
Commander-in-Chief of the  
Bahrain Defence Force

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

IN THE NAME OF ALLAH,  
MOST GRACIOUS, MOST MERCIFUL

## PROFILE

### VISION & MISSION

#### Profile

Established in the Kingdom of Bahrain as the first Islamic commercial bank, Bahrain Islamic Bank has grown, steadily since 1979 to become a leading Islamic institution with shareholders' funds of approximately BD75 million and total assets in excess of BD436 million at year-end 2006.

The Bank has established leadership in the application of Islamic modes of investment and financing and excelled in the provision of a diversified range of products and services for retail customers, commercial businesses and financial institutions.

Publicly listed on the Bahrain Stock Exchange, the Bank is owned largely by prominent local and regional financial institutions and is regulated by the Central Bank of Bahrain.

With a strong and growing network of branches, currently numbered at 12, the Bank is well positioned to meet the strong and growing demand in the market for banking, financing and investment opportunities on behalf of individuals and institutions with the highest ethical standards and an unwavering commitment to the principles of Islamic Shari'a.

#### Vision

To be a leading and diversified domestic and regional Islamic financial institution that drives innovation in the industry and effectively meets the fast-evolving needs of the markets we serve.

#### Mission

To provide value and superior returns to shareholders, investors and customers through the continuous development of our assets and resources including the introduction of value-added retail, investments and corporate banking products and the achievement of the highest levels of service and customer satisfaction.

## FINANCIAL SUMMARY

### Net Income Summary

(in BD millions)

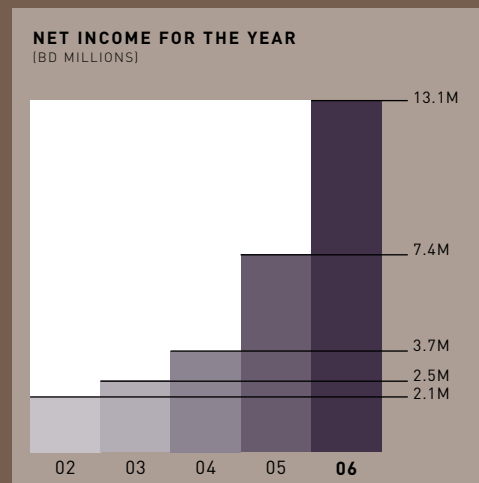
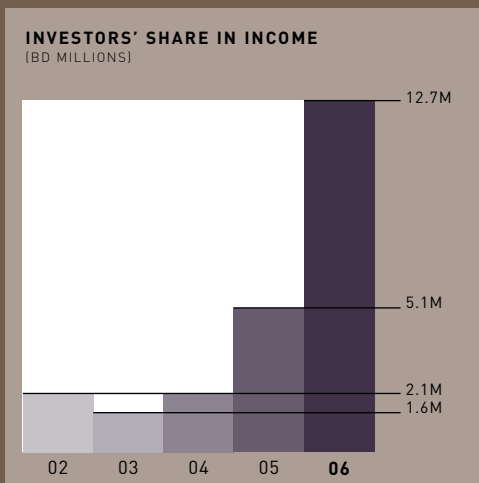
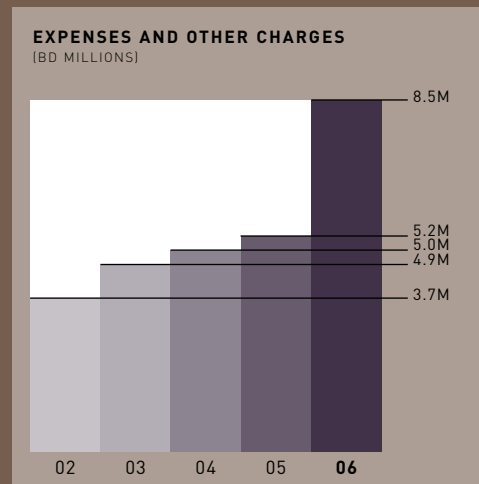
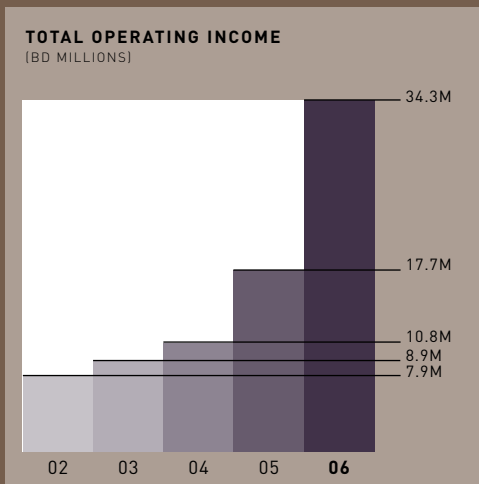
	2006	2005	2004	2003	2002
Total operating income	34.3	17.7	10.8	8.9	7.9
Investors' share in income	12.7	5.1	2.1	1.6	2.1
Bank's share in income	21.6	12.6	8.7	7.3	5.8
Expenses and other charges	8.5	5.2	5.0	4.9	3.7
Net income for the year	13.1	7.4	3.7	2.5	2.1

### Balance Sheet Summary

(in BD millions)

	2006	2005	2004	2003	2002
Short term murabaha	179	105	111	97	104
Murabaha receivables	101	75	52	51	36
Investments	77	85	43	39	43
Sukuk and other assets	79	57	48	45	27
Total Assets	436	321	255	231	210
Current accounts	51	47	30	29	21
Investment by non banks	153	142	129	122	122
Banks and other liabilities	157	60	43	41	29
Total liabilities	361	249	202	191	172
Shareholders' equity	75	72	53	40	38
Total liabilities and equity	436	321	255	231	210

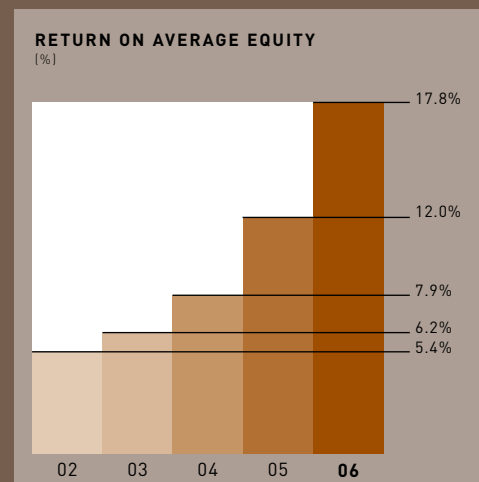
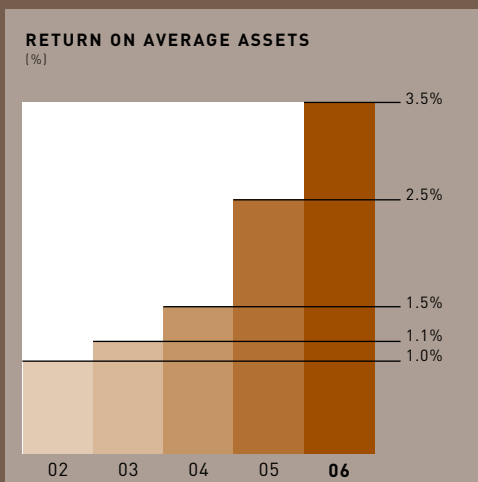
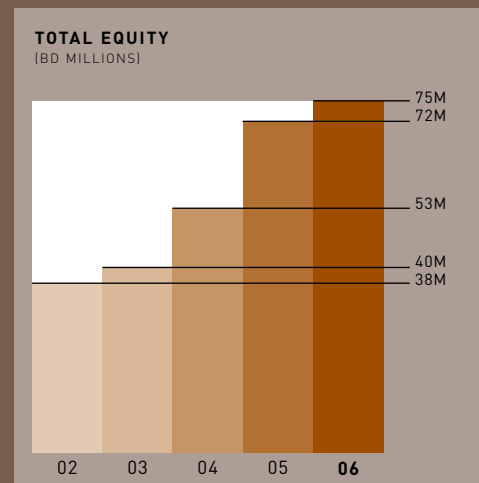
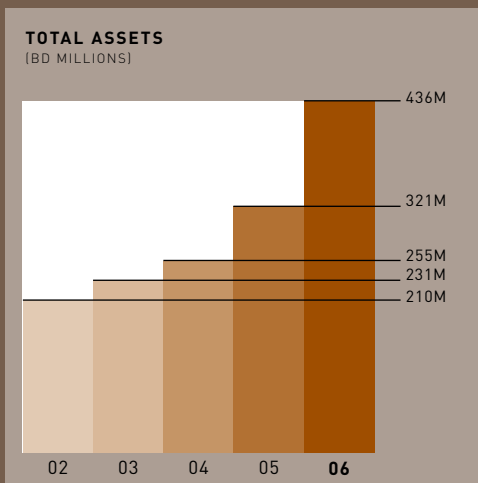
COMPOSITION OF NET INCOME



## FINANCIAL HIGHLIGHTS

	2006	2005	2004	2003	2002
Net Income (BD millions)	13.1	7.4	3.7	2.5	2.1
Total Assets (BD millions)	436	321	255	231	210
Total Equity (BD millions)	75	72	53	40	38
Return on average equity	17.8%	12.0%	7.9%	6.2%	5.4%
Return on average assets	3.5%	2.5%	1.5%	1.1%	1.0%
Book value per share (Fils)	235	284	229	174	166
Earnings per share (Fils)	47	30	15	11	9
Share price (Fils)	655	522	354	270	175
Distribution - cash dividend	20%	15%	12%	10%	10%
bonus shares	12.5%	12%	10%	-	-

## COMPOSITION OF ASSETS



## THE BOARD OF DIRECTORS



**Khalid Abdulla Al Bassam**  
Chairman

Chairman of the Board of Directors, Bahrain Real Estate Company - Bahrain

Chairman of the Board of Directors, Capital Management House - Bahrain

Chairman of the Board of Directors, Al Bassam Investment Company - Bahrain

Deputy Chairman, European-Islamic Investment Bank - London, UK

Board member, Gulf Investment Corporation - Kuwait

Board member, Liquidity Management Center - Bahrain



**Sh. Hisham Bin A. Rahman Al Khalifa**  
Vice Chairman & Head of Audit Committee

Chairman of the Board of Directors, Abaad Real Estate Company - Bahrain

Chairman of the Board of Directors, Oqyana Properties - Kuwait

Chairman of the Board of Directors, International Trading & Investment Company - Bahrain

Vice Chairman, Rasmal Holding Company - Kuwait



**Nabil Ahmed Mohamed Amin**  
Board Member and Managing Director

Board Member and Managing Director

Chairman of the Board of Directors and Managing Director, Almadar Finance and Investment Company - Kuwait

Vice Chairman, Al-Wathaeq Takaful Insurance Company - Kuwait

Board Member, Boubyan Bank - Kuwait



**Khalid Mohamed Najibi**  
Board Member and Chairman of the Executive Committee

Founding Member and Executive Director, Najibi Investment Company - Bahrain

Director and Chairman of Executive Committee, Crown Industries - Bahrain

Board Member, Gulf Finance House - Bahrain

Founding and Board Member, Capital Management House - Bahrain

Board Member & Chairman of the Executive Committee, Abaad Real Estate Company - Bahrain



**Aref Ahmed Al Kooheji**  
Board Member and Member of the Executive Committee

Chairman, Liquidity Management Center - Bahrain

Chairman of the Consultative Commission, Dubai International Financial Center - Dubai, UAE

Board Member, Abaad Real Estate Company - Bahrain

Board Member, Khartoum Bank - Sudan

Board Member, Dubai Islamic Bank Pakistan - Pakistan

Board Member, Emirates & Sudan Bank - Sudan

Board Member, Bosnia Bank International - Bosnia





**Adnan A. Qader  
Al Musalam**  
Board Member and Member  
of the Executive Committee

Chairman and Managing  
Director, Investment  
Dar Company - Kuwait

Chairman of the Board of  
Directors, Al-Sham Islamic  
Bank - Syria

Vice Chairman,  
Almadar Finance and  
Investment Company -  
Kuwait

Board Member, Al Dar  
Assets Management  
Company - Kuwait



**Razam Mohammed Yousif  
Al Roumi**  
Board Member and Member  
of the Executive Committee

Chairman, Adeem  
Investment Company -  
Kuwait

Vice Chairman and  
Managing Director, Efad  
Holding - Kuwait

Vice Chairman, Refad Hotels  
and Resort - USA

Board Member, Investment  
Dar Company - Kuwait

Board Member, Aston Martin  
Lagonda Group Limited - UK



**Yousif Mohammed  
Al Awadhi**  
Board Member and Member  
of the Executive Committee

Member of the Board of  
Trustees, Islamic-  
American College -  
Chicago, USA



**Mohammed Al Zarooq  
Rajab**  
Board Member and Member  
of the Audit Committee

Board Member, Islamic  
Development Bank - KSA



**Ali Mohamed Al Olimi**  
Board Member and Member  
of the Audit Committee

Vice Chairman,  
Abaad Real Estate  
Company - Bahrain

Board Member,  
Kuwait Finance  
House - Kuwait

Board Member,  
Adam Company - Kuwait

Board Member,  
Capinvest - Bahrain

## CHAIRMAN'S STATEMENT

IN THE NAME OF ALLAH, MOST GRACIOUS,  
MOST MERCIFUL, PEACE AND BLESSINGS BE  
UPON HIS MESSENGER.

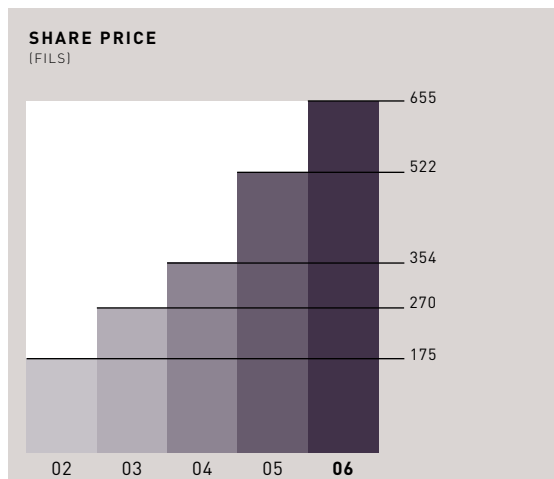
### Dear valued shareholders,

On behalf of the Board of Directors, it is my privilege to present the annual report of Bahrain Islamic Bank (B.S.C.) for the year ended 31 December 2006. This proved to be an excellent year for the Bank, with significantly improved performance across all areas of operations, and outstandingly enhanced value for our shareholders. It gives me great pleasure to report that the record achievements during 2006, well outperformed our expectations, and that we were able to deliver even more than we expected for our shareholders last year.

Bahrain Islamic Bank achieved yet again another year of strong financial results during 2006, with net profits increasing by 76.6 percent to a record of BD13.1 million compared to BD7.4 million the previous year. Accompanying this record growth, the Bank's total assets rose during 2006 to BD436 million, an increase of 36 percent over 2005. This was primarily due to the continuous growth in Islamic finance transactions and various investment activities, in addition to realizing attractive returns on the Bank's investments in equity holdings and real estate assets.

There was a significant growth in the profitability per share, which rose from 30 fils at the end of 2005 to 47 fils at the end of 2006, an increase of 57 percent. This high level of profitability contributed to the increase in return on equity to 18 percent, which represents a 50 percent increase over the previous year's figures. Significantly, this is one of the highest performance ratios of commercial banks operating in the Kingdom of Bahrain.

In view of these excellent results, the Board of Directors has recommended to the Shareholders' Annual General Meeting the payment of a total dividend at the rate of 32.5 percent of the paid up capital, compared to the dividends distribution of 27 percent in 2005. The 2006 distributable profits are represented by a cash dividend of 20 percent in addition to the distribution of bonus shares of 12.5 percent or one share for each 8 shares held. In 2005, the profit distribution comprised the payment of 15 percent in cash dividends and 12 percent bonus shares.



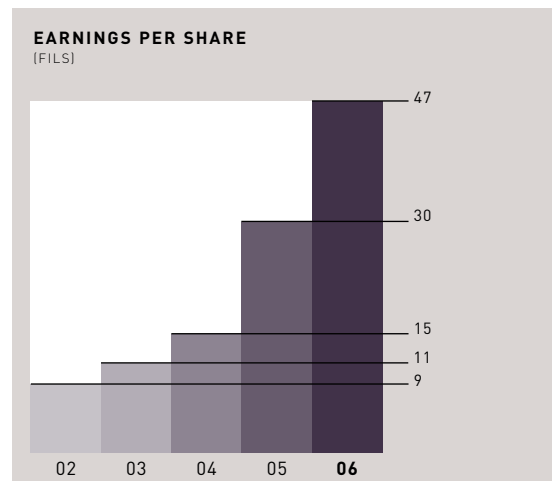
“NET PROFITS INCREASED BY 76.6 PERCENT TO A RECORD BD13.1 MILLION COMPARED TO BD7.4 MILLION THE PREVIOUS YEAR.”

A further change to the Bank’s shareholding structure took place during the year, which involved Almadar Finance & Investment Company of Kuwait increasing its stake in the Bank to 40 percent. This followed the sale of an initial 26 percent stake in the Bank by a strategic investor to Almadar Finance & Investment Company in 2005. In this respect, I would like to take this opportunity to welcome the new incoming Board members, and have the confidence that they will serve the Bank with all due diligence and distinction.

A key achievement during the year was the upgrade in the Bank’s credit rating to “BBB” by Capital Intelligence, a leading rating agency in the emerging markets specializing in analyzing credit risks of financial institutions. Capital Intelligence noted a number of key factors behind the rating increase, such as the Bank’s strong liquidity position, high quality assets, solid capitalization, and the significant continued improvement in profitability.

Once again, the year 2006 was marked by intensified levels of competition, with the entry of further new players, and more intense financing and marketing activities by the existing players. In addition, there were new challenges posed by the revised international Basel II requirements.

Throughout 2006, Bahrain Islamic Bank continued to strengthen its organizational, technological and service capability, in order to support its strategic objectives and enhance its competitive edge. This included recruiting additional qualified professionals for key areas, and enhancing the skills of existing staff through specialised training programmes. It also involved investing in a technology upgrade of around BD2 million to implement a new core banking system, realising the full potential of e-banking, and offer customers an enhanced banking experience. At the same time, we continued to strengthen the Bank’s corporate governance and risk management framework.



## CHAIRMAN'S STATEMENT CONT.

“THE BANK PROPOSES TO INCREASE ITS CAPITAL BY 100 PERCENT TO ENABLE IT TO BETTER FACE GROWING MARKET CHALLENGES.”

As reported last year, our three-year strategic plan for 2006 to 2008 involves the Bank playing a more active role in the growing regional real estate sector. Accordingly, in 2006, we launched a new subsidiary - Abaad - with an authorised and paid-up capital of BD10 million, designed to meet the growing demand for real estate related services. This follows our restructuring and re-branding of Al Emar Real Estate Company, which was incorporated in 2003 with a paid-up capital of BD1 million, but had not commenced operations since its establishment. With an increased capital base, a new name, and the appointment of a general manager, Abaad became fully operational towards the end of 2006.

As part of our future growth strategy, the Bank proposes to increase its capital by 100 percent to enable it to better face growing market challenges, and to provide customers with a wider and more comprehensive range of services. This capital increase will enable the Bank to invest in newer technologies like e-banking, embark on regional expansion, and pave the way for a planned listing on other regional stock exchanges during 2007. These proposals are, of course, subject to regulatory approvals.

In this year, the Bank will also embark upon the launch of a new corporate identity in line with modern branding trends, and in harmony with our heritage as the first Islamic bank to be established in Bahrain. The planning process is already underway and we hope to be able to unveil the new face of Bahrain Islamic Bank in the next few months.

As part of its corporate social responsibility, Bahrain Islamic Bank continues to contribute to the wellbeing of the local community through a wide range of welfare activities. I am pleased to report that over the last five years, the Bank has contributed more than BD1 million in the form of donations, zakah, sponsorships and contributions to the community - a true reflection of our dedication to the people of Bahrain.

In conclusion, I would like to express my appreciation on behalf of the Board of Directors, to the leadership and ministries of the Kingdom of Bahrain, and to the Central Bank of Bahrain, for their continued support for the Bank, as well as to the cooperation and support of the Islamic banking sector in Bahrain.

I also would like to thank the members of our Shari'a Supervisory Board for their contributions and guidance; our shareholders, investors and customers for their loyalty and support; and our management and staff for their hard work and dedication. Together, they have contributed to the most successful year in the history of Bahrain Islamic Bank, and continue to inspire us with renewed strength to develop the Bank further in the future.

Allah the Almighty is the Purveyor of all Success.

**Khalid Abdulla Al Bassam**  
Chairman

EXECUTIVE  
MANAGEMENT



Yousif Saleh Khalaf

**Yousif Saleh Khalaf**  
Chief Executive Officer

**Dr. Salahudin Saeed**  
Executive Director  
Credit & Risk Management

**Nader Mohammed  
Ebrahim**  
Executive Director  
Corporate and Institutional  
Banking Group

**Ashraf Saad  
Eldeen Shokry**  
Director  
Technology Division

**Khalid Mohammed  
Al Dossari**  
Director  
Financial Control

**Khalid Mahmood  
Abdulla**  
Director  
Internal Audit

**Rashid Hassan Alotaiwi**  
Director  
Retail Banking

**A. Hameed Yousif  
Alhammadi**  
Senior Manager  
Human Resources  
and Services

**A. Razaq A. Khalik  
Abdulla**  
Senior Manager  
Central Operations

**Mohammed Elgioshy  
Mohammed**  
Senior Manager  
Treasury

**A. Nasser Omar  
Al-Mahmood**  
First Manager  
Internal Shari'a Supervision

**Ramadhan Ali  
Ramadhan**  
Manager  
Secretary to the Board

## EXECUTIVE MANAGEMENT REPORT

IN THE NAME OF ALLAH, MOST GRACIOUS,  
MOST MERCIFUL, PEACE AND BLESSINGS BE  
UPON HIS MESSENGER.

### Business Overview

The year 2006 has been our most successful year as we continued to strengthen the foundations for further development and robust growth. We believe we are well on our way to fulfilling our promise of delivering more value to our customers and our shareholders alike.

The Bank embarked on a number of key initiatives and future strategies to fully realise the potential of Bahrain Islamic Bank. We have focused on upgrading our human resources, our most important asset, as well as enabling our staff with newer technologies to enhance skills, resulting in improved and enhanced service throughout the organization and its products.

This year, the Bank was upgraded to BBB by Capital Intelligence Ratings Agency as a result of strong performance, higher liquidity and positive future outlook. The Bank also floated a wholly owned real estate subsidiary, Abaad, to reap the benefits of the boom in the kingdom of Bahrain and the region. With record profits in the year, Bahrain Islamic Bank continues to strengthen its financial position and confidently moves forward in delivering sustained and ever-stronger performance.

### Financial Performance

During 2006, Bahrain Islamic Bank announced yet again another year of excellent financial results reflecting the positive and remarkable change in the Bank's management and policies. The Bank achieved BD13.1 million in net profits in 2006, an increase of 76.6 percent over BD7.4 million profits achieved in 2005.

This performance is due to the significant growth in the Bank's finance and investment transactions, which contributed to registering a large increase in the gross income from all the Bank's activities, and therefore a substantial increase in the return on capital and shareholders' equity.

The Bank's operating income rose to BD34.2 million, an increase of 85 percent compared to BD18.5 million in 2005. Such rise is due to the continuous growth in the Islamic finance transactions and the various investment activities in addition to realizing attractive returns on the Bank's investments in equity holdings and real estate assets.

“THE BANK WAS UPGRADED TO BBB BY CAPITAL INTELLIGENCE RATINGS AGENCY AS A RESULT OF STRONG PERFORMANCE, HIGHER LIQUIDITY AND POSITIVE FUTURE OUTLOOK.”

The increase in the total income contributed to the rise in returns on investment accounts to BD12.7 million, an increase of 150 percent compared with BD5.1 million in the previous year. Thus, the Bank's management continues its policy of distributing the best returns to its investors enabling it to get a bigger share of the local market that witnessed strong and continuous competition.

The Bank's total assets rose during 2006 to BD436 million, an increase of 36 percent over 2005 figures with such increase focusing primarily on Murabaha transactions and the continuous growth in the Bank's investments in Sukuks, Musharaka and Ijara ended with ownership transactions.

#### Technology Focus

As part of our long-term objective, Bahrain Islamic Bank continues to strengthen the Bank's organizational, technological and service capability in order to support our strategic objectives and enhance our competitive edge.

As conventional and Islamic banks race for providing latest technologies to ensure a higher market share, better banking performance and realtime services, technology holds the key to customer satisfaction. Add to it, the tremendous increase in the number of the Internet users and the possible access to accounts and other banking services from anywhere in the world, it has become imperative for banks to introduce the internet banking service.

The Bank entered into a contract with International Turnkey Solutions (ITS), a reputed high tech company with long experience in providing banking systems, to provide state-of-the-art technologies and solutions that will enable the bank to meet the growing challenges of competition in the regional financial markets.

The solutions covered by the contract include a series of key banking services and solutions, mainly Core Banking which includes all internal and external relations of the bank and all technical matters relevant to customer services, such as credit cards, ATMs and other individual banking services, Branch Automation, Islamic Finance System, Internet Banking, as well as technical services associated with human resources, treasury and Shari'a-compliant investment management.

The services also include corporate services such as Islamic trade and finance, opening letters of credit, staff salary transmissions, account-to-account transfers and online management facilities between the head office and the branches.

#### Human Resources Development

Bahrain Islamic Bank is dedicated to developing its human resources for the benefit of all. It has added more focus on training and upgrading the skills of existing staff, recruiting additional qualified professionals for key areas, and implementing state-of-the-art banking technologies.

“THE BANK’S TOTAL ASSETS ROSE DURING 2006 TO BD436 MILLION, AN INCREASE OF 36 PERCENT OVER THE 2005 FIGURES.”

During the academic year 2006/07, a total of 19 candidates were nominated by the Bank to attend the Islamic Banking Diploma Course offered by the Bahrain Institute for Banking & Finance Studies (BIBF), hence they represent the biggest number of trainees from various Bahrain-based banking and financial institutions. The course includes studies in economics, operations, investment, accounting, Islamic Shari’a and other subjects.

Bahrain Islamic Bank gives top priority to its human resources and prides itself in relation to the high level of Bahrainisation which exceeds 98 percent of the total number of staff and is certainly the highest level in banking institutions in Bahrain. The Bank is also the first Gulf banking institution that has signed an agreement with Bridge Institute to train the Bank’s staff members and to qualify them for the International Computer Driving Licence (ICDL) Programme.

To reward the tremendous effort made by the staff over the past year, which resulted in the Bank achieving successes in various areas, the Bank rewarded all its employees with a package that included, life takaful assurance, Qard Hassan and a health club membership.

The Bahrain Islamic Bank is the only bank in Bahrain providing these benefits as a single package to all staff. The Bank will continue to launch such incentive schemes, including the Smart Idea by which employees can make constructive suggestions for improving Bank processes, and the Banker of the Month through which winners will be rewarded for distinction and diligence.

#### Community Initiatives

As part of its significant contributions to the local community, Bahrain Islamic Bank continues to support the people and community through a range of welfare activities. During 2006 various forms of sponsorships were designed and implemented to offer assistance and support for various social events, with special focus on children. The Bank was instrumental in opening a special children play therapy Centre and sponsored a wide range of workshops aimed at enhancing awareness of child abuse and other humanitarian and social activities of concern to the community.

**Yousif Saleh Khalaf**  
Chief Executive Officer



SHARI'A  
SUPERVISORY BOARD



Dr. Shaikh A. Latif Mahmood Al Mahmood

**Dr. Shaikh A. Latif Mahmood Al Mahmood**  
Chairman

Head of Arabic & Islamic Studies,  
University of Bahrain - Bahrain

Member, Shari'a Supervisory Board,  
Takaful International - Bahrain

Member, Shari'a Supervisory Board,  
ABC Islamic Bank - Bahrain

Member, Joint Shari'a Supervisory Board,  
AlBaraka Group - Bahrain

**Shaikh Mohammed Jaffar Al Juffairi**  
Vice Chairman

Formerly Judge, High Shari'a Court of Appeal  
and Designated President of the High Shari'a  
Court Ministry of Justice - Bahrain

Formerly Member, Zakah Committee  
Ministry of Islamic Affairs - Bahrain

**Shaikh Adnan Abdullah Al Qattan**  
Member

Puisne Justice, High Shari'a Court,  
Ministry of Justice - Bahrain

Chairman, Al Sanabel Orphans Care - Bahrain

Chairman, Orphans and Widows Welfare - Bahrain

President, Kingdom of Bahrain Hajj Mission -  
Bahrain

**Shaikh Nedham Mohammed Saleh Yacoubi**  
Member

Member, Shari'a Supervisory Board,  
Abu Dhabi Islamic Bank - UAE

Member, Shari'a Supervisory Board,  
National Islamic Bank of Sharjah - UAE

Member, Shari'a Supervisory Board,  
Shamil Bank - Bahrain

Member, Shari'a Supervisory Board,  
Arcapita - Bahrain

Member, Shari'a Supervisory Board,  
Gulf Finance House - Bahrain

Member, Shari'a Supervisory Board,  
ABC Islamic Bank - Bahrain

Member, Shari'a Supervisory Board,  
Accounting and Auditing Organisation  
for Islamic Financial Institutions - Bahrain

# SHARI'A SUPERVISORY BOARD'S REPORT

To the shareholders of  
**Bahrain Islamic Bank B.S.C.**

In The Name of Allah, most Gracious, most Merciful  
Peace and Blessings Be Upon His Messenger

**Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh**

Pursuant to the powers entitled to the Shari'a Supervisory Board to supervise over the Bank's activities and investments, we hereby submit the following report:

The Shari'a Supervisory Board monitored the operations and transactions and contracts related to transactions carried out by the Bank throughout the year ended 31 December 2006, to express opinion on the Bank's commitment to the provisions and principles of Islamic Shari'a in its activities and investments in accordance to the guidelines and decisions issued by the Supervisory Board. The Shari'a Supervisory Board believes that ensuring the conformity of the Bank's activities and investments with provisions of Islamic Shari'a is the sole responsibility of the Bank's Management, while the Shari'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report thereabout.

The Shari'a Supervisory Board's monitoring functions included the checking of the Bank's documents and procedures to scrutinize each single operation carried out by the Bank, whether directly or through Shari'a Internal Audit. We planned with Shari'a Internal Audit Department to carry out monitoring functions through the acquisition of all information and clarifications that are deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Shari'a. The Shari'a Internal Audit Department carried out its functions of auditing the Bank's transactions and submitting a report to the Shari'a Supervisory Board, which indicated the Bank's commitment and conformity to the Shari'a Supervisory Board's opinions.

The Shari'a Supervisory Board obtained data and clarifications that it deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Shari'a. The Shari'a Supervisory Board held several meetings throughout the year ended 31 December 2006 and replied to inquiries, in addition to approving a number of new products presented by the Management. The Shari'a Supervisory Board discussed with the Bank's officials all transactions and applications carried out by the Management throughout the year ending 31

December 2006, and reviewed the Bank's conformity with the provisions and principles of Islamic Shari'a, as well as the resolutions and guidelines of the Shari'a Supervisory Board.

**The Shari'a Supervisory Board believes that:**

- 1 - Contracts, operations, and transactions conducted by the Bank throughout the year, ending 31 December 2006 were made in accordance to the standard contracts pre-approved by the Supervisory Board.
- 2 - Distribution of profits and losses on investment accounts was in line with the basis approved by the Supervisory Board in accordance with the principles pre-approved by the Supervisory Board.
- 3 - No gains resulted from sources or by means prohibited by the provisions and principles of Islamic Shari'a.
- 4 - Zakat was calculated according to the provisions and principles of Islamic Shari'a. The Bank distributed Zakah on the statutory reserve, general reserve and retained earnings. The Shareholder should pay his proportion of Zakah on his/her shares as stated in the financial report.
- 5 - The Bank was committed to the Shari'a standards issued by the Accounting & Auditing Organisation for Islamic Financial Institutions.

**We pray that Allah may Grant all of us Further Success and Prosperity.**

**Shari'a Supervisory Board Members:**

**Dr. Shaikh A. Latif Mahmood Al Mahmood**  
Chairman of Shari'a Supervisory Board

**Shaikh Mohammed Jaffar Al Jiffari**  
Vice Chairman of Shari'a Supervisory Board

**Shaikh Adnan Abdullah Al Qattan**  
Member of Shari'a Supervisory Board

**Shaikh Nedham M. Saleh Yacoubi**  
Member of Shari'a Supervisory Board

# FINANCIAL

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## AUDITOR'S REPORT

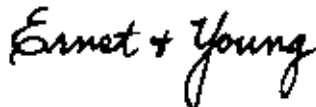
To the shareholders of  
**Bahrain Islamic Bank B.S.C.**

We have audited the accompanying consolidated balance sheet of Bahrain Islamic Bank B.S.C. ("the Bank") and its subsidiary ("the Group") as of 31 December 2006, and the related consolidated statements of income, cash flows, changes in equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended. These consolidated financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the Bank's board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, the results of its operations, its cash flows, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2006 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking licence. We obtained all the information and explanations which we required for the purpose of our audit.



**Ernst & Young**  
16 January 2007  
Manama, Kingdom of Bahrain

# CONSOLIDATED BALANCE SHEET


31 December 2006

	Note	2006 BD'000	2005 BD'000
<b>ASSETS</b>			
Cash and balances with the Central Bank of Bahrain and other banks	3	15,469	10,448
Murabaha receivables	4	241,710	156,421
Mudaraba investments	5	22,180	29,459
Musharaka investments	6	13,954	9,889
Non-trading investments	7	97,418	80,748
Investments in associates	8	6,652	3,382
Investments in Ijarah assets	9	4,998	5,174
Ijarah Muntahia Bittamleek	10	15,486	11,876
Investments in properties	11	9,985	10,341
Ijarah rental receivables		2,315	938
Other assets	12	6,309	2,020
<b>TOTAL ASSETS</b>		<b>436,476</b>	<b>320,696</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>			
<b>LIABILITIES</b>			
Customers' current accounts		51,393	47,345
Other liabilities	13	6,041	3,562
<b>TOTAL LIABILITIES</b>		<b>57,434</b>	<b>50,907</b>
<b>UNRESTRICTED INVESTMENT ACCOUNTS</b>	14	<b>304,118</b>	<b>197,881</b>
<b>EQUITY</b>			
Share capital	15	28,336	25,300
Reserves	15	36,999	39,444
Proposed appropriations	23	9,589	7,164
<b>TOTAL EQUITY</b>		<b>74,924</b>	<b>71,908</b>
<b>TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>		<b>436,476</b>	<b>320,696</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>	24	<b>9,432</b>	<b>7,379</b>

These consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 16 January 2007.



Khalid Abdulla Al Bassam  
Chairman



Yousif Saleh Khalaf  
Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements


# CONSOLIDATED STATEMENT OF INCOME

Year Ended 31 December 2006

	Note	2006 BD'000	2005 BD'000
<b>INCOME</b>			
Income from Islamic finances	16	24,705	13,224
Return on unrestricted investment accounts before Bank's share as a Mudarib		20,049	5,627
Bank's share as a Mudarib		(7,389)	(571)
Return on unrestricted investment accounts		12,660	5,056
Bank's share of income from unrestricted investment accounts (as a Mudarib and Rabalmaal)		12,045	8,168
Income from investments	17	5,518	2,238
Gain on fair value adjustment for investments in properties		2,098	1,991
Share of profit of associates	8	609	454
Other income	18	1,288	626
<b>TOTAL INCOME</b>		<b>21,558</b>	<b>13,477</b>
<b>EXPENSES</b>			
Staff costs		3,855	3,248
Depreciation of equipment and Ijarah assets		539	502
Depreciation of Ijarah Muntahia Bittamleek		2,315	938
Other expenses	19	1,646	1,399
<b>TOTAL EXPENSES</b>		<b>8,355</b>	<b>6,087</b>
<b>NET INCOME BEFORE PROVISIONS</b>		<b>13,203</b>	<b>7,390</b>
Provisions	20	(150)	-
<b>NET INCOME FOR THE YEAR</b>		<b>13,053</b>	<b>7,390</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (fils)</b>	22	<b>47.33</b>	<b>29.89</b>



Khalid Abdulla Al Bassam  
Chairman



Yousif Saleh Khalaf  
Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements

**CONSOLIDATED**  
STATEMENT OF  
CASH FLOWS

Year Ended 31 December 2006

	Note	2006 BD'000	2005 BD'000
<b>OPERATING ACTIVITIES</b>			
Net income for the year		13,053	7,390
Adjustments for non-cash items:			
Depreciation		2,854	1,440
Provisions	20	150	-
Share of profit of associates	8	(609)	(454)
Gain on sale of investments in properties		(948)	(473)
Gain on fair value adjustment for investments in properties		(2,098)	(1,991)
Operating profit before changes in operating assets and liabilities		12,402	5,912
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		(1,550)	173
Murabaha receivables		(85,439)	(945)
Mudaraba investments		7,279	(17,640)
Musharaka investments		(4,065)	(7,168)
Ijarah Muntahia Bittamleek		(5,049)	(7,698)
Ijarah rental receivables		(1,377)	(876)
Other assets		(5,529)	(63)
Customers' current accounts		4,048	16,977
Other liabilities		2,479	1,019
Directors' remuneration		(120)	(100)
Charitable contributions		(75)	(45)
Net cash used in operating activities		(76,996)	(10,454)
<b>INVESTING ACTIVITIES</b>			
Proceeds (Purchase) of investments in properties		3,402	(3,668)
Purchase of investments in Ijarah assets		-	(391)
Purchase of non-trading investments		(22,527)	(10,475)
Purchase of associates		(2,712)	50
Net cash used in investing activities		(21,837)	(14,484)
<b>FINANCING ACTIVITIES</b>			
Increase in unrestricted investment accounts		106,237	29,052
Dividends paid		(3,795)	(2,754)
Zakah		(138)	(146)
Net cash from financing activities		102,304	26,152
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at 1 January		4,483	3,269
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	3	<b>7,954</b>	<b>4,483</b>

The attached notes 1 to 36 form part of these consolidated financial statements



**CONSOLIDATED**  
STATEMENT OF  
CHANGES IN EQUITY

Year Ended 31 December 2006

	Reserves							Retained earnings BD'000	Proposed appropriations BD'000	Total equity BD'000
	Share capital BD'000	Share premium BD'000	Statutory reserve BD'000	General reserve BD'000	Investments fair value reserve BD'000	Cumulative changes in fair value BD'000				
Balance at 1 January 2006	25,300	2,726	4,229	1,000	2,360	27,769	1,360	7,164	71,908	
Bonus shares issued (note 23)	3,036	-	-	-	-	-	-	(3,036)	-	
Dividends paid	-	-	-	-	-	-	-	(3,795)	(3,795)	
Directors' remuneration paid	-	-	-	-	-	-	-	(120)	(120)	
Zakah paid	-	-	-	-	-	-	-	(138)	(138)	
Charitable contributions paid	-	-	-	-	-	-	-	(75)	(75)	
Net income for the year	-	-	-	-	-	-	13,053	-	13,053	
Transfer to statutory reserve	-	-	1,305	-	-	-	(1,305)	-	-	
Unrealized gain on investments in properties	-	-	-	-	2,709	-	(2,709)	-	-	
Realized gain on investment in properties	-	-	-	-	(1,814)	-	1,814	-	-	
Net movement in cumulative changes in fair values	-	-	-	-	-	(5,909)	-	-	(5,909)	
Appropriations (note 23)	-	(2,726)	-	-	-	-	(6,863)	9,589	-	
<b>Balance at 31 December 2006</b>	<b>28,336</b>	<b>-</b>	<b>5,534</b>	<b>1,000</b>	<b>3,255</b>	<b>21,860</b>	<b>5,350</b>	<b>9,589</b>	<b>74,924</b>	
Balance at 1 January 2005	23,000	5,762	3,490	1,000	369	13,241	828	5,060	52,750	
Bonus shares issued (note 23)	2,300	-	-	-	-	-	-	(2,300)	-	
Dividends paid	-	-	-	-	-	-	-	(2,760)	(2,760)	
Net income for the year	-	-	-	-	-	-	7,390	-	7,390	
Transfer to statutory reserve	-	-	739	-	-	-	(739)	-	-	
Unrealized gain on investments in properties	-	-	-	-	1,991	-	(1,991)	-	-	
Net movement in cumulative changes in fair values	-	-	-	-	-	14,528	-	-	14,528	
Appropriations (note 23)	-	(3,036)	-	-	-	-	(4,128)	7,164	-	
<b>Balance at 31 December 2005</b>	<b>25,300</b>	<b>2,726</b>	<b>4,229</b>	<b>1,000</b>	<b>2,360</b>	<b>27,769</b>	<b>1,360</b>	<b>7,164</b>	<b>71,908</b>	

The attached notes 1 to 36 form part of these consolidated financial statements

**CONSOLIDATED**  
**STATEMENT OF SOURCES**  
**AND USES OF GOOD FAITH**  
**QARD FUND**

Year Ended 31 December 2006

	2006 BD'000	2005 BD'000
<b>OPENING BALANCES</b>		
Qard hasan receivables	5	19
Funds available for qard hasan	123	109
<b>SOURCES OF QARD FUND</b>		
Contribution by the Bank (note 4)	125	125
Donations	3	3
Total of sources during the year	128	128
<b>USES OF QARD FUND</b>		
Marriage	6	-
Refurbishment	12	-
Medical treatment	11	-
Others	10	-
Total uses during the year	39	-
<b>END OF YEAR BALANCE</b>		
Qard hasan receivables	35	5
Funds available for qard hasan	93	123
	128	128

The attached notes 1 to 36 form part of these consolidated financial statements

**CONSOLIDATED**  
STATEMENT OF SOURCES  
AND USES OF ZAKAH AND  
CHARITY FUND

Year Ended 31 December 2006

	2006 BD'000	2005 BD'000
<b>SOURCES OF ZAKAH AND CHARITY FUNDS</b>		
Undistributed zakah and charity funds at the beginning of the year	139	147
Zakah due from the Bank for the year (note 21)	170	138
Non-islamic income	150	-
Donations	91	-
<b>Total sources of funds during the year</b>	<b>550</b>	<b>285</b>
<b>USES OF ZAKAH AND CHARITY FUNDS</b>		
University and school students	-	10
Philanthropic societies	97	119
Aid to needy families	88	17
<b>TOTAL USES OF FUNDS DURING THE YEAR</b>	<b>185</b>	<b>146</b>
<b>UNDISTRIBUTED ZAKAH AND CHARITY FUNDS AT END OF YEAR (NOTE 21)</b>	<b>365</b>	<b>139</b>

The attached notes 1 to 36 form part of these consolidated financial statements

# NOTES

## TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended 31 December 2006

### 1. INCORPORATION AND ACTIVITIES

Bahrain Islamic Bank B.S.C. ('the Bank') was incorporated in the Kingdom of Bahrain by Amiri Decree No.2 of 1979, under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under a retail banking licence issued by the Central Bank of Bahrain (CBB) (formerly Bahrain Monetary Agency). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities.

The Bank participated in 100% of the share capital in Abaa'd Real-Estate Company B.S.C. ('subsidiary'). Abaa'd was incorporated on 8 April 2003 in Bahrain and has an authorized and paid-up share capital of BD 10,000,000. The subsidiary will start operations in 2007.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has twelve branches (2005: twelve), all operating in the Kingdom of Bahrain.

### 2. SIGNIFICANT ACCOUNTING POLICIES

Following is a summary of the significant accounting policies adopted in preparing the consolidated financial statements. These accounting policies are consistent with those used in the previous year.

#### **Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for investment in properties and certain non-trading investments "available for sale" that have been measured at fair value.

The consolidated financial statements have been presented in Bahraini Dinars, being the principal currency of the Group's operations.

The consolidated financial statements of the Bank and its subsidiary have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Bahrain Commercial Companies Law. In accordance with the requirement of AAOIFI, for matters for which no AAOIFI standards exist, the Bank uses the relevant International Financial Reporting Standard.

#### **IASB Standards issued but not adopted**

The following IASB Standard has been issued but are not yet mandatory, and has not yet been adopted by the Bank:

IFRS 7 Financial Instruments: Disclosures

IAS 1 Amendment - Presentation of Financial Statements

The application of IFRS 7 and IAS 1, which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to financial instruments and associated risks.

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary. A subsidiary is an entity over which the Bank has power to control which is other than fiduciary in nature. The subsidiary has been consolidated from the date it was incorporated. All intercompany balances and income have been eliminated on consolidation.

# NOTES

## TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended 31 December 2006

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Financial contracts**

Financial contracts consist of Murabaha receivables, Mudaraba investments and Musharaka investments. Balances relating to these contracts are stated net of deferred profit and of provisions for impairment.

#### **Non-trading investments**

These are classified as either held-to-maturity or available-for-sale.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. Premiums and discounts are amortised on a systematic basis to maturity.

#### *Held-to-maturity*

Investments that have fixed or determinable payments, which are intended to be held-to-maturity, are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium and acquisition charges on acquisition. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired.

#### *Available-for-sale*

After initial recognition, investments that are classified as 'available-for-sale' are re-measured at fair value. The fair value changes of investments available for sale are reported in equity until such time as the investments are sold, realised or deemed to be impaired, at which time the realised gain or loss is reported in the consolidated statement of income.

#### **Investments in associates**

The Group's investments in associates are accounted for under the equity method of accounting. These are entities over which the Group exercises significant influence but not control and which are neither subsidiaries nor joint ventures. Under the equity method, the investments in associates are carried in the balance sheet at cost, plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Group's share of the results of its associates. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognises the amount in the consolidated income statement.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate.

#### **Ijarah assets, Ijarah Muntahia Bittamleek**

These are initially recorded at cost. Ijarah assets and Ijarah Muntahia Bittamleek comprise of land and buildings.

Depreciation is provided on a straight-line basis on all Ijarah Muntahia Bittamleek other than land (which is deemed to have indefinite life), at rates calculated to write off the cost of each asset over the period of lease.

For Ijarah assets the depreciation is provided on a straight-line basis, at rates calculated to write off the cost of the assets over its expected useful life. The estimated useful life lives of the assets for calculation of depreciation ranges between 10 to 35 years.

# NOTES

## TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended 31 December 2006

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Investments in properties**

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in properties. Investments in properties are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in properties are measured at fair value and changes in fair value are recognised in the consolidated statement of income.

In accordance with AAQIFI, such gains or losses are appropriated to an investment fair value reserve at year end. Upon realization of these gains/losses, these are transferred to retained earnings from investment fair value reserve.

#### **Unrestricted investment account holders**

All unrestricted investment accounts are carried at cost plus profit less amounts repaid.

Unrestricted investment account holders share of income is calculated based on the income generated from investment accounts after deducting mudarib share. Operating expenses are charged to shareholders funds and not included in the calculation.

The basis applied by the Group in arriving at the unrestricted investment account holders' share of income is (total investment income less shareholders' " Bank" income). Portion of the income generated from unrestricted investment account holders will be distributed to profit equalization reserve, mudarib share and investment risk reserve and the remaining will be distributed to the unrestricted investment account holders.

#### **Profit equalisation reserve**

This is the amount appropriated by the Bank out of the mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investment for investment account holders and increase owners' equity.

#### **Investment risk reserve**

This is the amount appropriated by the Bank out of the income of investment account holders, after allocating the mudarib share, in order to cater against future losses for investment account holders.

#### **Zakah**

Zakah is calculated on the Zakah base of the Group in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions using the net invested funds method. Zakah is paid by the Group based on statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on unrestricted investment and other accounts is the responsibility of investment account holders.

#### **Fair value**

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on an assessment of the value of future cash flows.

# NOTES

## TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended 31 December 2006

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

#### **Derecognition of financial assets and liabilities**

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the right to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
- the Group retains the right to receive cash flows from the asset.

##### *Financial liabilities*

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expire.

#### **Offsetting**

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### **Revenue recognition**

##### *Murabaha receivables*

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable, it is recognised when realised. Income that is 90 days or more overdue is excluded from income.

##### *Musharaka investments*

Income is recognised on the due dates of the installments or when received in case of sale Musharaka. Income that is 90 days or more overdue is excluded from income.

##### *Mudaraba investments*

Income is recognised when it is quantifiable or on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

##### *Dividends*

Dividends revenue is recognised when the right to receive the dividend is established.

##### *Ijarah and Ijarah Muntahia Bittamleek*

Ijarah income and income from Ijarah Muntahia Bittamleek are recognised on a time-apportioned basis over the lease term.

# NOTES

## TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended 31 December 2006

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue recognition (Continued)

##### *Group's share as a Mudarib*

The Group's share as a Mudarib for managing unrestricted investment accounts is accrued based on the terms and conditions of the related management agreements.

##### *Fee and commission income*

Fee and commission income is recognised when earned.

##### *Income allocation*

Income is allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year.

#### Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment on securities available-for-sale.

#### Cash and cash equivalents

For the purpose of Statement of Cash Flows, "cash and cash equivalents" consist of cash in hand, bank balances, balances with the Central Bank of Bahrain and other banks with original maturities of 90 days or less.

#### Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

For available for sale equity investments reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:



**NOTES**  
TO THE CONSOLIDATED  
FINANCIAL STATEMENTS

Year Ended 31 December 2006

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Classification of investments*

Management decides on acquisition of an investment whether it should be classified as held to maturity or available for sale.

For those deemed to be held to maturity management ensures that the requirements of FAS 17 and IAS 39 are met and in particular the Group has the intention and ability to hold these to maturity.

All other investments are classified as available for sale.

**Estimation uncertainty**

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is in relation to impairment of financial assets discussed below:

The Group reviews its doubtful financial contracts and investments on a quarterly basis to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

**3. CASH AND BALANCES WITH THE CBB AND OTHER BANKS**

	2006 BD'000	2005 BD'000
Cash and balances with the CBB, excluding mandatory reserve deposits	2,962	2,125
Balances with other banks	4,992	2,358
Cash and cash equivalents	7,954	4,483
Mandatory reserve with the CBB	7,515	5,965
	<b>15,469</b>	<b>10,448</b>

The mandatory reserve with the CBB is not available for use in the day-to-day operations.

# NOTES

## TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended 31 December 2006

### 4. MURABAHA RECEIVABLES

	2006 BD'000	2005 BD'000
Murabaha with banks:		
International commodities	179,463	105,287
Other Murabaha:		
Commodities murabaha with non-banks	10,092	7,940
Land	14,418	10,230
Buildings	4,720	5,859
Letters of credit	23,343	18,053
Motor vehicles	4,792	4,950
Building materials	7,068	11,740
Furniture	217	350
Tasheel	6,228	-
Others	1,436	1,670
	72,314	60,792
Qard fund	125	125
Gross receivables	72,439	60,917
	251,902	166,204
Deferred profits	(8,277)	(7,997)
Provisions (note 20)	(1,915)	(1,786)
<b>Net receivables</b>	<b>241,710</b>	<b>156,421</b>

Non-performing Murabaha receivables outstanding as of 31 December 2006 amounted to BD 2,744 thousand (2005: BD 2,275 thousand). The Group considers the promise made in the Murabaha to the purchase order as obligatory.

The composition of the Murabaha receivables portfolio geographically and by sector is as follows:

	Europe BD'000	Arab World BD'000	2006 Total BD'000	2005 Total BD'000
Commercial	-	23,343	23,343	18,053
Financial institutions	8,720	170,743	179,463	105,287
Secured by real estate	-	17,633	17,633	27,829
Others	-	31,463	31,463	15,035
<b>At 31 December 2006</b>	<b>8,720</b>	<b>243,182</b>	<b>251,902</b>	
At 31 December 2005	4,537	161,667		166,204

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**5. MUDARABA INVESTMENTS**

	2006 BD'000	2005 BD'000
Mudaraba investments	22,180	29,459

The Group's Mudaraba investments transactions consist of investment in funds operated by other banks and financial institutions and participation in the financing transactions through other banks and financial institutions.

There are no non-performing Mudaraba investments as of 31 December 2006 (2005: Nil)

**6. MUSHARAKA INVESTMENTS**

	2006 BD'000	2005 BD'000
Real estate financing	14,004	9,939
Provisions (note 20)	(50)	(50)
	13,954	9,889

Non-performing Musharaka investments outstanding as of 31 December 2006 amounted to BD 263 thousand (2005:BD 50 thousand).

**7. NON-TRADING INVESTMENTS**

	Available-for-sale BD'000	Held-to-maturity BD'000	2006 Total BD'000	2005 Total BD'000
<b>Quoted investments</b>				
Equity shares	32,070	-	32,070	34,053
<b>Unquoted investments</b>				
Sukuk *	-	60,866	60,866	44,112
Equity shares	4,797	-	4,797	2,911
	4,797	60,866	65,663	47,023
<b>Total</b>	<b>36,867</b>	<b>60,866</b>	<b>97,733</b>	<b>81,076</b>
Provisions (note 20)	(315)	-	(315)	(328)
<b>At 31 December 2006</b>	<b>36,552</b>	<b>60,866</b>	<b>97,418</b>	
At 31 December 2005	36,636	44,112		80,748

\* The above mentioned sukuk were issued by the following issuers as follows:

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#### 7. NON-TRADING INVESTMENTS (Continued)

Sukuk	The Issuer	Face Value BD'000	Carrying value BD'000
Sukuk Al Ijarah	Central Bank of Bahrain	13,583	17,664
Qatar Real Estate Investment Company	Gulf International Bank	1,320	1,327
Lagoon city sukuk	Liquidity Management Center	7,540	7,540
Sukuk for leasing	Liquidity Management Center	7,577	7,559
Bahrain Financial Harbor	Liquidity Management Center	3,770	3,824
Durrat Al Bahrain	Liquidity Management Center	5,655	5,725
Emirates Airlines sukuk	HSBC UAE	1,131	1,134
Amlak sukuk	HSBC UAE	1,131	1,166
Dubai Port sukuk	HSBC UAE	4,524	4,953
Qater sukuk	HSBC UAE	1,508	1,531
Arcapita sukuk	Arcapita	1,885	1,913
Investment Dar No. 1 and 2	Wast LB London	4,524	4,605
A'ayan leasing sukuk	Wast LB London	1,885	1,925
<b>Total</b>		<b>56,032</b>	<b>60,866</b>

The Above Sukuk maturities range from one month revolving to 9 years.

#### 8. INVESTMENTS IN ASSOCIATES

The Bank has the following investments in associates:

	Country of incorporation	Ownership 2006	Ownership 2005
Takaful International Company B.S.C.	Kingdom of Bahrain	22.75%	22.75%
Liquidity Management Centre B.S.C. (c)	Kingdom of Bahrain	25.00%	25.00%

Takaful International Company B.S.C. (incorporated in 1989) carries out takaful and retakaful activities in accordance with the teachings of Islamic Shari'a.

Liquidity Management Centre B.S.C. (c) was set up in 2002 to facilitate the creation of an Islamic inter-bank market that will allow Islamic financial services institutions to effectively manage their assets and liabilities.

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**8. INVESTMENTS IN ASSOCIATES (Continued)**

The following tables illustrate summarised financial information relating to the Group's associates:

	2006 BD'000	2005 BD'000
Carrying amount of investments in associates		
At 1 January	3,382	2,953
Capital increase	2,827	-
Share of results	609	454
Dividends paid	(113)	-
Cumulative change in fair value	(53)	(25)
At 31 December	6,652	3,382

**9. INVESTMENTS IN IJARAH ASSETS**

	Land BD'000	Buildings BD'000	2006 BD'000	2005 BD'000
Cost:				
At 1 January	1,380	5,640	7,020	6,629
Additions	-	-	-	391
At 31 December	1,380	5,640	7,020	7,020
Depreciation:				
At 1 January	-	1,846	1,846	1,670
Provided during the year	-	176	176	176
At 31 December	-	2,022	2,022	1,846
Net book value:				
As at 31 December	1,380	3,618	4,998	5,174

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#### 10. IJARAH MUNTAHIA BITTAMLEEK

	Land BD'000	Buildings BD'000	2006 BD'000	2005 BD'000
<b>Cost:</b>				
At 1 January	3,967	9,021	12,988	5,290
Additions	8,824	2,687	11,511	9,198
Disposals	(1,623)	(4)	(1,627)	(1,500)
Repayments	(1,435)	(3,400)	(4,835)	-
At 31 December	9,733	8,304	18,037	12,988
<b>Depreciation:</b>				
At 1 January	-	236	236	174
Provided during the year	-	2,319	2,319	1,087
Relating to disposed assets	-	(4)	(4)	(149)
At 31 December	-	2,551	2,551	1,112
<b>Net book value:</b>				
As at 31 December	9,733	5,753	15,486	11,876

Non-performing Ijarah Muntahia Bittamleek as of 31 December 2006 amounted to BD 3,082 thousand (2005: Nil). The non-performing Ijarah Muntahia Bittamleek is fully collateralised and in management opinion no provision is required.

#### 11. INVESTMENTS IN PROPERTIES

	2006 BD'000	2005 BD'000
<b>Cost:</b>		
At 1 January	8,035	3,729
Additions	984	5,023
Disposals	(2,289)	(717)
Cost at 31 December	6,730	8,035
Cumulative fair value adjustment	3,255	2,306
Fair value at 31 December	9,985	10,341

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#### 12. OTHER ASSETS

	2006 BD'000	2005 BD'000
Equipment	1,737	1,147
Receivables under letter of credit	1,656	448
Receivables from sales of non-trading investments	1,696	-
Staff advances	344	17
Others	876	425
	<b>6,309</b>	<b>2,020</b>

#### 13. OTHER LIABILITIES

	2006 BD'000	2005 BD'000
Margin on letters of credit	810	418
Managers' cheques	814	920
Accrued expenses	829	596
Murabaha bills payable	465	711
Dividends payable	307	142
Clearance cheques	657	209
Amounts due to musharaka partner	670	-
Amount due for credit card usage	289	1
Advance payment for Murabaha	208	43
Provision for employees' end of service benefits and leave	131	84
Amount due for ATM usage	227	154
Others	634	284
	<b>6,041</b>	<b>3,562</b>

#### 14. UNRESTRICTED INVESTMENT ACCOUNTS

	2006 BD'000	2005 BD'000
Investment accounts:		
Customers	152,740	140,917
Banks and other financial institutions	148,887	54,323
Profit equalisation reserve *	2,491	2,641
	<b>304,118</b>	<b>197,881</b>

\* Non-islamic income of BD 150 thousand has been charged against profit equalisation reserve after obtaining Shari'a Supervisory Board approval.

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### 14. UNRESTRICTED INVESTMENT ACCOUNTS (Continued)

The Group's share, as Mudarib, in the profits of unrestricted investment accounts is up to a maximum of 65% (2005: between 15% to 45%).

The following table represents the distribution of profit to unrestricted investment account holders.

	2006		2005		2004	
	Percentage of funds invested	Percentage distribution	Percentage of funds invested	Percentage distribution	Percentage of funds invested	Percentage distribution
Defined deposits	85	4.41	85	3.70	75	1.80
Specific investment deposits	100	4.8 - 5.05	100	3.5-3.9	100	1.6-1.9
Continuous deposits *	80	-	80	3.90	80	2.05
Investment certificates	90	4.76	90	4.20	90	2.15
Savings accounts	50	0.80	50	0.80	50	0.75
Education and shifa	90	4.38	90	4.20	90	2.15

\* In 2005 the Bank ceased offering continuous deposits to customers.

### 15. EQUITY

	2006 BD'000	2005 BD'000
(i) Share capital		
a) Authorised 500,000,000 shares of BD 0.100 each	50,000	50,000
b) Issued and fully paid up 283,360,000 shares (2005: 253,000,000 shares) of BD 0.100 each	28,336	25,300

#### (ii) Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated by the Bahrain Commercial Companies Law.

#### (iii) Reserves

##### Statutory reserve

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the annual net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.



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**15. EQUITY (Continued)**

**(iii) Reserves (Continued)**

*General reserve*

The general reserve is established in accordance with the articles of association of the Bank and is distributable following a resolution of shareholders at a general meeting and the approval of the Central Bank of Bahrain.

*Investments fair value reserve*

This represents cumulative unrealised revaluation gains on investments in properties. This reserve is transferred to the consolidated statement of income upon sale of the investment properties.

*Cumulative changes in fair value*

This represents the net unrealised gains on available-for-sale investments relating to shareholders.

**16. INCOME FROM ISLAMIC FINANCES**

	2006 BD'000	2005 BD'000
Income from Murabaha receivables	15,779	8,401
Income from Mudaraba financing	1,126	727
Income from Musharaka investments	974	481
Income from investments in Sukuk	3,058	1,736
Ijarah Muntahia Bittamleek income	3,768	1,879
	<b>24,705</b>	<b>13,224</b>

**17. INCOME FROM INVESTMENTS**

	2006 BD'000	2005 BD'000
Income from investment in equities	4,033	1,224
Income from Ijarah assets	537	541
Gain on sales of investment in properties	948	473
	<b>5,518</b>	<b>2,238</b>

**18. OTHER INCOME**

	2006 BD'000	2005 BD'000
Commission income	545	275
Gains from foreign currency transactions	522	126
Fees and others	221	225
	<b>1,288</b>	<b>626</b>

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### 19. OTHER EXPENSES

	2006 BD'000	2005 BD'000
Expenses on Ijarah assets	221	189
Expenses on premises and equipment	313	315
Computer maintenance	203	193
Communication expenses	162	167
Advertisements and subscriptions	194	129
Registration fees	66	64
Stationery expenses	70	66
Professional fees	67	66
Shari'a committee remuneration	30	22
Board expenses	54	40
Insurance expenses	37	47
Consultancy fees	47	28
Miscellaneous	182	73
	<b>1,646</b>	<b>1,399</b>

### 20. PROVISIONS

	Murabaha receivables 2006 BD'000	Musharaka investments 2006 BD'000	Non-trading investments 2006 BD'000	Total 2006 BD'000	Total 2005 BD'000
Provision at beginning of the year	1,786	50	328	2,164	2,345
Written off during the year	(21)	-	(13)	(34)	(181)
	1,765	50	315	2,130	2,164
Provided during the year	150	-	-	150	-
Provision at end of the year	1,915	50	315	2,280	2,164
	Note 4	Note 6	Note 7		

### 21. ZAKAH

Zakah payable amounted to BD 962 thousand for the year ended 31 December 2006 (2005: BD 878 thousand). The amount that will be paid by the Group is BD 170 thousand (2005: BD 138 thousand) which represents the Zakah on the statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah balance amounting to BD 792 thousand (2005: BD 740 thousand) is due and payable by the shareholders at 2.8 fils per share (2005: 2.9 fils per share).

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### 21. ZAKAH (Continued)

The Bank has changed the treatment of Zakah from the year 2005. Instead of charging it to the statement of income as an expense, it is now treated as a payment on behalf of shareholders and therefore as an appropriation from the retained earnings.

### 22. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net income for the year by the weighted average number of shares during the year as follows:

	2006	2005
Net income for the year (BD '000)	13,053	7,390
Weighted average number of shares	275,770	247,250
Basic and diluted earnings per share (fils)	47.33	29.89

There have been no transactions during the year which caused dilution of the earning per share.

### 23. APPROPRIATIONS

	2006 BD'000	2005 BD'000
Proposed dividend	5,667	3,795
Bonus shares	3,542	3,036
Directors' remuneration	210	120
Zakah (note 21)	170	138
Charitable contributions	-	75
	<b>9,589</b>	<b>7,164</b>

The directors have proposed a cash dividend of 20 fils per share (2005: 15 fils per share). This will be submitted for formal approval at the Annual General Meeting.

In addition, in the Board of Directors' meeting held on 16 January 2007, it was decided to issue bonus shares at one bonus share for each eight shares held. This is subject to relevant approval from the Ministry of Industry and Commerce, the Central Bank of Bahrain and shareholders' meeting.

The dividend of BD 3,795 thousand proposed for the year 2005 was approved at Annual General Meeting in 8 March 2006 and was paid in 2006 following that approval.

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### 23. APPROPRIATIONS (Continued)

The Bank issued bonus shares at one bonus share for each twelve shares held following shareholders' approval and the Board of Directors' resolution in its meeting held on 18 January 2006. This was also approved by the Ministry of Industry and Commerce and the Central Bank of Bahrain.

### 24. COMMITMENTS AND CONTINGENT LIABILITIES

#### Credit related commitments

These include commitments to enter into financing contracts which are designed to meet the requirements of the Bank's customers.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	2006 BD'000	2005 BD'000
Letters of credit	8,565	5,494
Guarantees	613	1,596
Operating lease commitments *	254	289
	<b>9,432</b>	<b>7,379</b>

\* The Group has entered into commercial leases for certain branches. These leases have an average life of between 5 and 10 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2006 BD'000	2005 BD'000
Within one year	107	93
After one year but not more than five years	136	177
More than five years	11	19
	<b>254</b>	<b>289</b>

#### Credit lines commitments

The Group has provided credit line to its associate Liquidity Management Center B.S.C. (c ) of BD 3,770 thousand for liquidity purposes.

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### 25. RELATED PARTY TRANSACTIONS

Related parties represents associated companies , major shareholder, directors and key management personnel of the Group.

The balances and values of major transactions with the related parties are as follows:

Name of related party	Transaction	Income (expense)		Balance at 31 December	
		2006 BD'000	2005 BD'000	2006 BD'000	2005 BD'000
Shareholders	Sukuk	176	-	6,634	-
Associate	Ijarah Muntahia Bittamleek	-	-	2,048	-
Board of Directors	Ijarah Muntahia Bittamleek	5	-	641	-
Board of Directors	Musharaka	73	119	891	1,889
Board of Directors	Tawaroq	1	-	1,516	-

Compensation of the key management personnel is as follows:

	2006 BD'000	2005 BD'000
Short term employee benefits	133	75
Other long term benefits	3	4
	136	79

### 26. CREDIT RISK

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss.

#### Type of credit risk

Financing contracts mainly comprise sales receivables and mudaraba financing.

#### Cash and balances with banks

Cash and balances with banks include balances with banks and financial institutions invested on a short term basis. The Group manages the exposure by setting limits approved by the Board of Directors of the Bank.

#### Murabaha receivables

The Group finances these transactions through buying the commodity which represents the object of the murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in installments by the murabaha over the agreed period. The transactions are secured at times by the object of the murabaha (in case of real estate finance) and other times by a total collateral package securing the facilities given to the client.

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#### 26. CREDIT RISK (Continued)

##### *Ijarah Muntahia Biltamleek*

The legal title of the assets under Ijarah Muntahia Biltamleek only passes to the lessee at the end of the Ijarah term, through gift, consideration or gradual sale, provided that all Ijara instalments are settled.

##### *Mudaraba investments*

The Bank enters into mudaraba contracts by investing in funds operated by other banks and financial institutions for a definite period of time.

##### *Musharaka investments*

Musharaka is a form of partnership between the Bank and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, whereby each of the parties becomes an owner of the capital on a permanent or declining basis. Profits are shared in an agreed ratio, but losses are shared in proportion to the amount of capital contributed.

##### *Risk management*

The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty and in certain cases a mortgage of the object.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

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**27. CONCENTRATIONS OF ASSETS, LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND COMMITMENTS AND CONTINGENT LIABILITIES**

The distribution by geographic region and industry sector was as follows:

	Assets BD '000		Liabilities and unrestricted investment accounts BD '000		Commitments and contingent liabilities BD '000	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
<b>Geographical region</b>						
North America	6,487	3,446	-	-	29	450
Europe	18,470	8,546	-	-	1,742	755
Middle East	411,488	308,599	361,552	248,788	5,434	3,789
Asia	31	105	-	-	2,227	2,385
	<b>436,476</b>	<b>320,696</b>	<b>361,552</b>	<b>248,788</b>	<b>9,432</b>	<b>7,379</b>
<b>Industry sector</b>						
Trading and manufacturing	34,586	23,205	51,445	90,246	9,178	7,090
Banks and financial institutions	317,763	227,147	167,225	101,709	-	-
Others	84,127	70,344	142,882	56,833	254	289
	<b>436,476</b>	<b>320,696</b>	<b>361,552</b>	<b>248,788</b>	<b>9,432</b>	<b>7,379</b>

As at 31 December 2006, the Group had significant exposure to a non-trading investment amounting to 40% of total equity.

**28. CURRENCY RISK**

The Group had no significant foreign currency exposures.

**29. PROFIT SHARE RISK**

The Group is not exposed to interest rate risk on its financial assets as no interest is charged.

However, the fair value of financial assets may be affected by current market forces including interest rates. The Group recognises income on certain of its financial assets on a time-apportioned basis. The following table indicates the profit rates on these at the balance sheet date based on the annualised income to be recognised, expressed as a percentage of the principal outstanding.

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#### 29. PROFIT SHARE RISK (Continued)

	2006 %	2005 %
Murabaha with banks	5.2	3.3
Other Murabaha	9.4	9.3
Mudaraba investments	5.4	5.4
Musharaka investments	9.1	9.1
Ijara Muntahia Bittamleek	8.5 - 9.5	8.5 - 9.5

#### 30. LIQUIDITY RISK

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, international commodity Murabaha, credit lines and quoted investments.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history.



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**30. LIQUIDITY RISK (Continued)**

The maturity profile of assets, liabilities, unrestricted investment accounts and equity at 31 December 2006 was as follows:

	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
<b>ASSETS</b>							
Cash and balances with the CBB and other banks	7,954	-	-	-	-	7,515	15,469
Murabaha receivables	102,022	73,115	10,487	5,827	21,516	28,743	241,710
Mudaraba investments	641	2,329	4,087	979	1,077	13,067	22,180
Musharaka investments	212	709	559	1,552	6,065	4,857	13,954
Non-trading investments	11,060	32,479	780	1,819	29,902	21,378	97,418
Investments in associates	-	-	-	-	-	6,652	6,652
Investments in Ijarah assets	-	-	-	-	-	4,998	4,998
Ijarah Muntahia Bittamleek	1,176	597	147	269	4,093	9,204	15,486
Investments in properties	-	-	-	-	-	9,985	9,985
Ijarah rental receivables	-	-	-	-	-	2,315	2,315
Other assets	-	4,857	-	-	-	1,452	6,309
<b>Total assets</b>	<b>123,065</b>	<b>114,086</b>	<b>16,060</b>	<b>10,446</b>	<b>62,653</b>	<b>110,166</b>	<b>436,476</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>							
Customers' current accounts	51,393	-	-	-	-	-	51,393
Other liabilities	6,041	-	-	-	-	-	6,041
Unrestricted investment accounts	170,234	97,062	13,509	17,901	2,921	2,491	304,118
Equity	-	-	-	-	-	74,924	74,924
<b>Total liabilities, unrestricted investment accounts and equity</b>	<b>227,668</b>	<b>97,062</b>	<b>13,509</b>	<b>17,901</b>	<b>2,921</b>	<b>77,415</b>	<b>436,476</b>
<b>Liquidity gap</b>	<b>(104,603)</b>	<b>17,024</b>	<b>2,551</b>	<b>(7,455)</b>	<b>59,732</b>	<b>32,751</b>	<b>-</b>
<b>Cumulative liquidity gap</b>	<b>(104,603)</b>	<b>(87,579)</b>	<b>(85,028)</b>	<b>(92,483)</b>	<b>(32,751)</b>	<b>-</b>	<b>-</b>

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### 30. LIQUIDITY RISK (Continued)

The maturity profile of assets, liabilities, unrestricted investment accounts and equity at 31 December 2005 was as follows:

	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
<b>ASSETS</b>							
Cash and balances with the							
CBB and other banks	4,483	-	-	-	-	5,965	10,448
Murabaha receivables	79,705	35,316	10,194	13,102	5,316	12,788	156,421
Mudaraba investments	20,062	4,007	4,931	-	-	459	29,459
Musharaka investments	138	1,824	1,281	3,631	1,510	1,505	9,889
Non-trading investments	-	34,053	-	-	2,583	44,112	80,748
Investments in associates	-	-	-	-	-	3,382	3,382
Investments in Ijarah assets	-	-	-	-	-	5,174	5,174
Ijarah Muntahia Bittamleek	972	273	4,351	3,406	2,136	738	11,876
Investments in properties	-	-	-	-	-	10,341	10,341
Ijarah rental receivables	-	-	-	-	-	938	938
Other assets	-	-	-	-	-	2,020	2,020
<b>Total assets</b>	<b>105,360</b>	<b>75,473</b>	<b>20,757</b>	<b>20,139</b>	<b>11,545</b>	<b>87,422</b>	<b>320,696</b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>							
Customers' current accounts	47,345	-	-	-	-	-	47,345
Other liabilities	3,562	-	-	-	-	-	3,562
Unrestricted investment accounts	159,996	3,613	2,460	25,014	4,157	2,641	197,881
Equity	-	-	-	-	-	71,908	71,908
<b>Total liabilities, unrestricted investment accounts and equity</b>	<b>210,903</b>	<b>3,613</b>	<b>2,460</b>	<b>25,014</b>	<b>4,157</b>	<b>74,549</b>	<b>320,696</b>
<b>Liquidity gap</b>	<b>(105,543)</b>	<b>71,860</b>	<b>18,297</b>	<b>(4,875)</b>	<b>7,388</b>	<b>12,873</b>	<b>-</b>
<b>Cumulative liquidity gap</b>	<b>(105,543)</b>	<b>(33,683)</b>	<b>(15,386)</b>	<b>(20,261)</b>	<b>(12,873)</b>	<b>-</b>	<b>-</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended 31 December 2006

### 31. SEGMENTAL INFORMATION

The activities of the Group are performed on an integrated basis. Therefore, any segmentation of operating income, expenses, assets and liabilities is not relevant. As such, operating income, expenses, assets and liabilities are not segmented.

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

### 32. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Group's financial instruments are not significantly different from their book values as at the consolidated balance sheet other than unquoted equity shares as reported in note 7.

### 33. EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group did not receive income or incur any expense prohibited by the Shari'a.

### 34. SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board consists of three Islamic scholars who review the Bank's compliance with general Shari'ah principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Bank to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

### 35. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through zakah and charity fund's expenditures and donations to good faith qard fund for marriage, refurbishment, medical treatments, etc.

### 36. COMPARATIVES

Corresponding figures for 2005 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported net income, equity and cash flows.

## CONTACTS AND INFORMATION

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Riffa	+973 1777 8362	+973 1777 7510
Jidhafs	+973 1755 3983	+973 1755 3139
Isa Town	+973 1768 0044	+973 1768 2289
Sitra	+973 1745 8008	+973 1773 7610
Hidd	+973 1735 8555	+973 1746 7030
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