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In the name of Allah, the Beneficent, the Merciful.

Time has clear and valid implications in everything that an individual or an organisation does. Time is the value proposition that when effectively understood, harnessed and utilised becomes the catalyst for change and the way forward for pioneers to explore and achieve.

Through this concept, Gulf Finance House looks back in time at its achievements and looks forward in time as true innovators and entrepreneurs.





Vision

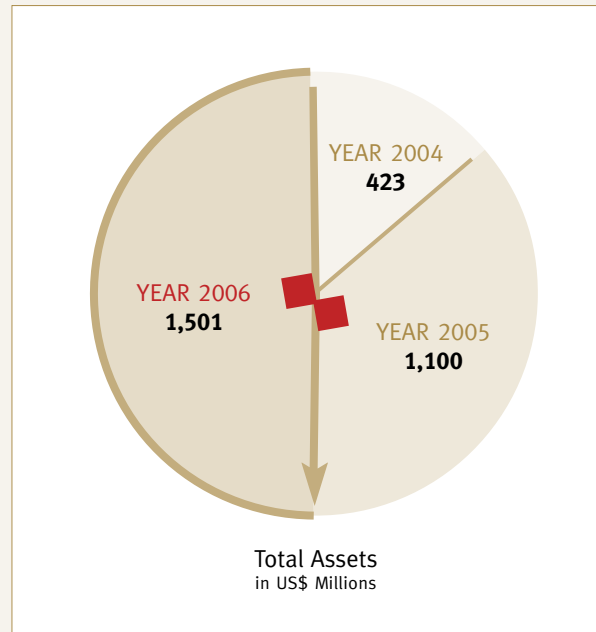
Our vision is to be a leader in Islamic banking and to participate in the economic infrastructure and social development programmes of GCC and MENA countries.

We aim to maximise shareholders' value and clients' wealth in accordance with the principles of Islamic Sharia'a and to contribute to the global growth of Islamic banking.

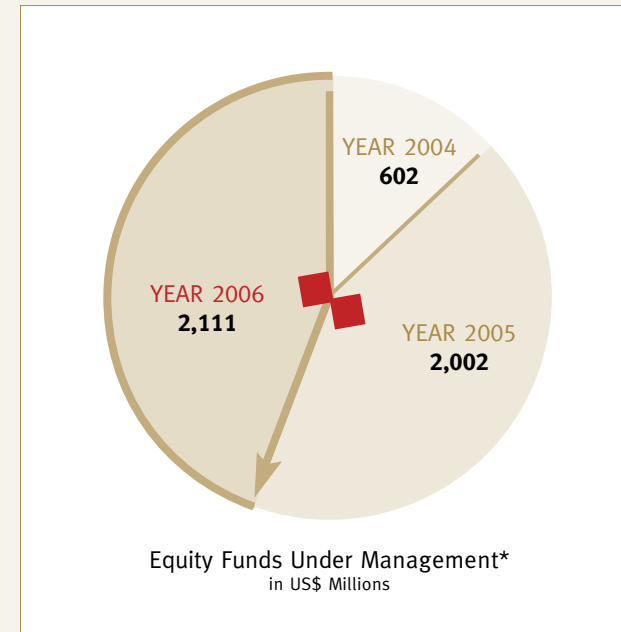
Mission

Our mission is to originate a diverse range of innovative investment products; to provide high quality advisory services to our clients; to build industry-leading fundraising capability; to forge enduring strategic partnerships to underpin our business; and to build institutional capacity while providing a challenging environment for our employees in which they can realise their full potential.

Financial Highlights

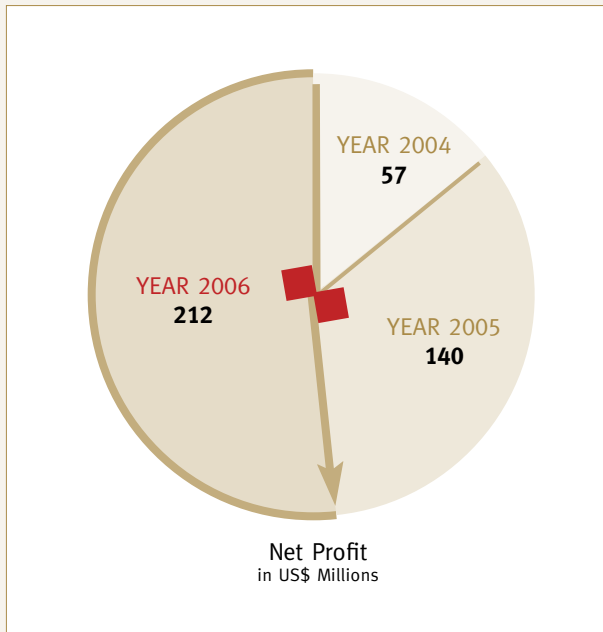


From 2005 to 2006
37%
growth

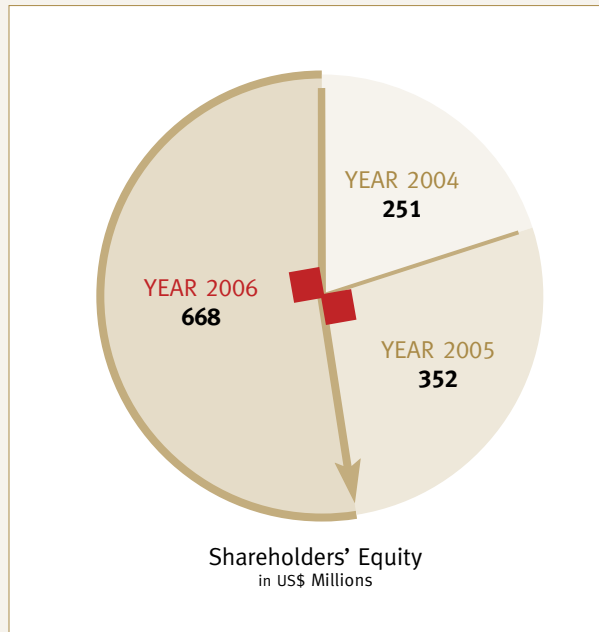


From 2005 to 2006
5%
growth

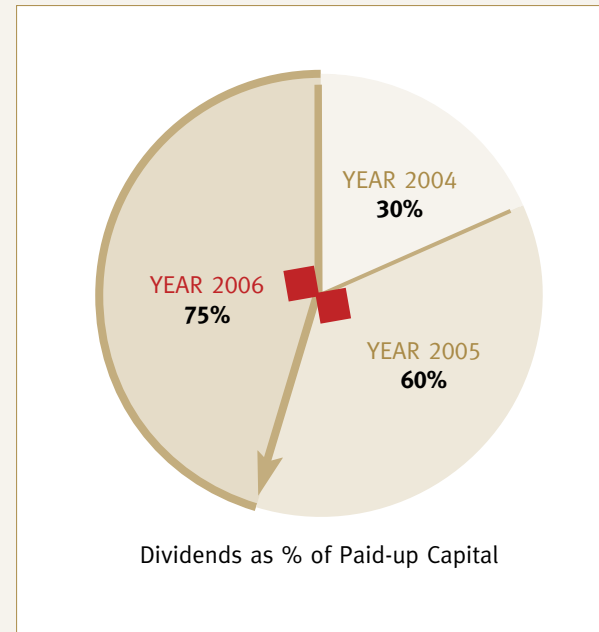
* Excludes equity raised where clients are direct investors



From 2005 to 2006
51%
 growth



From 2005 to 2006
90%
 growth



From 2005 to 2006
25%
 growth

Book value per share
 (US cents)

2004	59
2005	78
2006	104

Earnings per share
 (US cents)

2004	13
2005	25
2006	34

Board of Directors



Dr. Fuad Abdulla Al-Omar
Chairman



Hamad A. Aziz Al-Shaya
Vice Chairman



Abdul Latif Abdulla Al Meer
Director



Adel Dawood Al Ohali
Director



Samir Yaqoob Al-Nafisi
Director



Yousif A. Latif Al-Serkal
Director



Khalid Mohammed Najibi
Director



Buti Khalifa Al-Flasi
Director



Esam Yousif Janahi
Director



Yousif Mohammed Khayat
Director



Abdul Rahman Ali Al Saeed
Director



Waleed A. Rahman Al-Rowaih
Director



A source of inspiration

Sharia'a
Supervisory Board

The Sharia'a Supervisory Board reviews the Bank's activities to ensure that all products and investment transactions comply fully with the rules and principles of Islamic Sharia'a.

Gulf Finance House is guided by a Sharia'a Supervisory Board consisting of four distinguished scholars.

Shaikh Abdulla bin Sulaiman Al-Manie
Chairman

Dr. Fareed Mohammed Hadi
Executive Member and General Secretary

Shaikh Nizam bin Mohammed Saleh Yaqooby
Executive Member

Dr. Abdulaziz Khalifa Al-Qassar
Member

Shaikh Abdulla bin Sulaiman Al-Manie
Chairman

Member of Grand Scholars Panel, Kingdom of Saudi Arabia; Expert of the Islamic Fiqh Academy; Retired Judge, Supreme Court, Makkah Al-Mukarramah, Kingdom of Saudi Arabia; Member of Sharia'a Supervisory Boards of a number of Islamic banks and financial institutions.

Dr. Fareed Mohammed Hadi
Executive Member and General Secretary

Assistant Professor at the College of Arts, Department of Arabic and Islamic Studies, University of Bahrain; PhD in Ibn Hazm's Methodology of Jahala, Edinburgh University, UK; PhD in Al-Bukhari's Methodology, University of Mohammed V, Morocco; Member of Sharia'a Supervisory Boards of a number of Islamic banks.

Shaikh Nizam Mohammed Saleh Yaquby
Executive Member

Executive member of Sharia'a Supervisory Board, Abu Dhabi Islamic Bank; Member of Sharia'a Supervisory Board, Bahrain Islamic Bank; Member of Sharia'a Supervisory Board, Shamil Bank; Board member of Dow Jones Islamic Index; Member of Sharia'a Supervisory Boards of a number of Islamic banks.

Dr. Abdulaziz Khalifa Al-Qassar
Member

Professor at the College of Fiqh and Department of Sharia'a and Islamic Studies, University of Kuwait; PhD in Law and Sharia'a from Al-Azhar University, Cairo; Member of Fatwa and Sharia'a Supervisory Boards of a number of institutions in Kuwait.

Board's Message



Dr. Fuad Abdulla Al-Omar
Chairman



The time to explore

The great explorers of the past sailed across the oceans looking for the new world.

Today the same spirit of adventure is very much alive and manifests itself in modern day corporate entities, in their drive to explore new avenues for enterprise.



Dear Shareholders,

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

We stand on the threshold of a new and dynamic way forward. Our achievements of the past built on strategic investments in key markets around the world have enabled us to truly position ourselves as a global entity. New emerging markets now challenge our vision and offer us immense opportunities. It's time for us to: Define the Future.

On behalf of the Board of Directors, it is my privilege to present the annual report of Gulf Finance House (GFH)

for the year ended 31 December 2006. GFH is once again riding a wave of success and 2006 has proved to be a most successful and blessed year for our Bank. Innovative measures and a strong value based approach have helped us consolidate and further build on our investment portfolio. The record financial results are a testimony to our sound strategic progress, outstanding operational success and our strengthened institutional and governance capability.

Financial performance

I am pleased to report that GFH enjoyed a truly excellent 2006 fiscal year. Net profits rose by 51 % to US\$212

million, compared to US\$140 million in 2005. Average return on equity was 41% while return on paid up capital was almost 100%. In view of this exemplary performance, the Bank's shareholders have proposed a total dividend of 75% of paid up capital; 63% in cash and 12% in shares.

This was approved at the Annual General Meeting on 18 February 2007. GFH shares in the second full year of trading have had a mixed performance reflecting the general volatility of the stock markets in Bahrain and Kuwait during 2006. Without any direct exposure to the region's equity capital markets, I am pleased to report that GFH's financial performance was not adversely affected.

In May 2006, we took another step forward by listing our shares on the Dubai Financial Market and we are now strategically positioned to list the Bank on an international bourse during 2007 to further expand our shareholder base internationally, subject to market conditions and regulatory approval.



Bahrain Financial Harbour



Energy City Qatar

Strategic progress

A strong investment initiative has enabled us to leverage on our strengths and expand our geographic reach within regional economies and international markets.

GFH today enjoys strong credibility as a 'partner for progress', originating, financing and developing infrastructure and economic development projects that make a direct and visible contribution to the economic well-being of the countries in which we invest, such as Morocco, Egypt, Saudi Arabia, India, Jordan, Qatar, UAE and Bahrain. The way forward now is to reinforce our existing position as the leading Islamic investment bank

in the region, offering broad-based investment banking services. Strategic focus will be on emphasizing our presence especially in Saudi Arabia, South East Asia and North Africa, with the objective of further diversifying into investment areas in private equity, asset management as well as infrastructure development. I am also happy to report that Khaleeji Commercial Bank, formerly known as Gulf Finance House Commercial Bank, has enjoyed a very successful second full year of operations. The Bank today has a new identity and new headquarters and is moving dynamically forward with its participation in several key infrastructure developments in the region.

Operational achievements

GFH is poised on the threshold of marking the completion of its flagship project in Bahrain – the Bahrain Financial Harbour, scheduled to open in May 2007.

The Bank's landmark development projects in Qatar and Jordan remain firmly on track with the opening of the Head Office and Sales Centre for Royal Village in Jordan; and the increase of investment in Energy City Qatar. Significant new developments in 2006 also include obtaining approval in principle and raising share capital for Qatar's first Islamic investment bank in the Qatar Financial Centre; the signing of an agreement with the



Royal Resort Cap Malabata

Government of the Arab Republic of Egypt to develop the country's transportation infrastructure; and participation in the US\$8 billion Prince Abdul Aziz bin Mousaed Economic City in the Kingdom of Saudi Arabia.

In addition, a number of new investment vehicles were successfully introduced. A significant development was the successful launch of the Gateway to Morocco project, a US\$1.4 billion mixed-use development made up of two distinctive but complementary components – Royal Resort Cap Malabata in Tangiers and Royal Ranches Marrakech in the city of Marrakech. Other new developments include the US\$2 billion Energy City India, the second in a

network of international energy-focused business centres. Prudent planning and strong fiscal measures have helped us offer our investors maximised returns with high yields from either an income-generating portfolio or capital appreciation at the time of exit.

In 2006, GFH successfully completed several exits, generating excellent short to medium term returns for investors, ranging from 20% to 146% over periods of between one to over four years. These exits include the Gulf Atlantic FZ LLC GAF (France) a French income-driven real estate a fund established and managed by GFH, the exit of the UK income-producing real estate

fund, Gulf Atlantic Real Estate GARE (UK) by the sale of its entire holdings to Deutsche Bank and exits from Al Areen Development in Bahrain and Legends in Dubai, UAE. Simultaneously, GFH achieved growing international recognition in 2006 through a number of prestigious awards as well as Standard & Poor's assignment of an investment credit grade rating of BBB-.

Organisational developments

Under the guidance of the Board of Directors, the Bank's promising performance in 2006 is a reflection of our strong corporate governance practices and proactive measures employed to further enhance the Bank's institutional capacity. We continued to set exacting standards in

corporate best practices, exceeding benchmarks set by international consultants and ensuring full compliance with the regulatory requirements of the Central Bank of Bahrain. Focusing on key operational areas such as investment, private equity, infrastructure and real estate development, asset management and compliance, the Bank successfully met its target in further developing its operational capacity by bringing in professionals for placement in strategic operational areas with a strong emphasis on consolidation and team building.



Corporate Social Responsibility

At GFH, Corporate Social Responsibility is a key factor – a strategic element of our Islamic values and aimed at positioning GFH as an organisation that understands its social responsibilities and is committed to play a responsible role in contributing to the social well-being of the communities in which we operate.

Today the Bank continues to provide financial support and sponsorship for educational, economic and business initiatives, charitable organisations and sporting events in the region. These include its partnership with Young Arab Leaders and its substantial contributions to the Royal

University for Women and the Gifted Students Centre in Bahrain. The centre's aim is to serve the Bahraini society by embracing special abilities and is designed to develop and enhance the various talents of these students for a brighter and promising future.

Looking ahead

I would like to reiterate that our consolidated financial performance in 2006 shows great promise. The results were achieved against a background of an economic boom in the GCC that was in its fourth year and despite some adverse developments in local equity capital markets. The real estate market continues to remain buoyant,

boosted by both public spending on infrastructure development projects and private investment projects initiated by domestic and foreign investors. Taking advantage of this scenario, GFH can look forward to positively enhancing its current status within the region as well as seizing opportunities in new emerging markets by actively monitoring market changes and leveraging on opportunities for growth.

Appreciations

As we continue on our way forward in defining new principles of growth and strategic measures to attain desired objectives, on behalf of the Board of Directors,



Legends Dubailand



Royal Ranches Marrakech

I would like to express my gratitude to the rulers and respective governments of the Kingdom of Bahrain, the State of Kuwait, the Kingdom of Saudi Arabia, the United Arab Emirates, the State of Qatar, the Kingdom of Jordan, the Arab Republic of Egypt, the Kingdom of Morocco and the Republic of India for their sagacity and strong economic policies in furthering our investment initiatives.

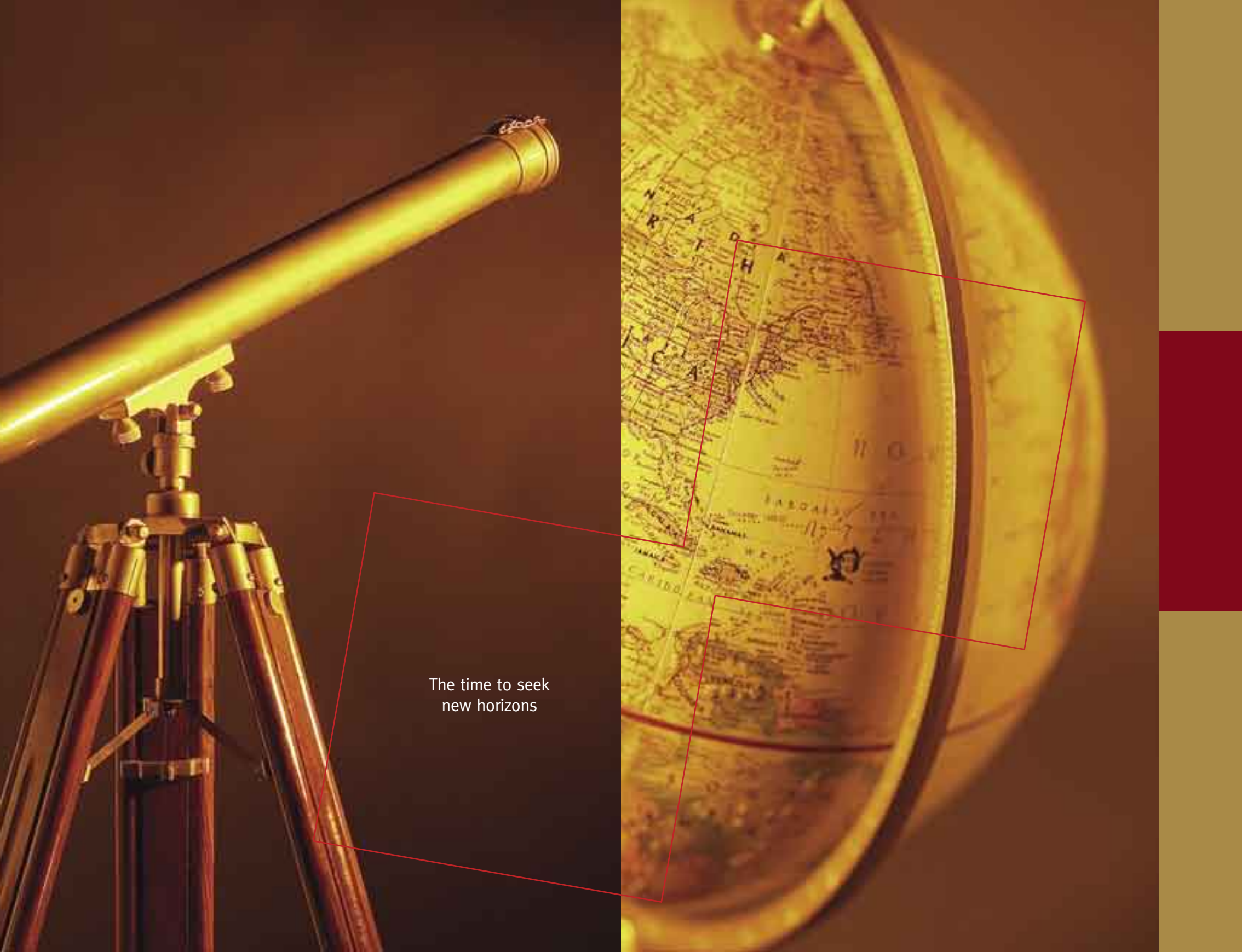
I take this opportunity to thank all regulatory bodies of the countries in which we are involved, particularly the Central Bank of Bahrain, for their continued support and prudential guidance. I would also like to thank the Bank's shareholders, clients and strategic business partners for

their continued loyalty and trust in us. Let me also pay tribute to the management and staff of GFH for their dedication and hard work during 2006. Together, they have contributed to another outstanding year for GFH and provided us with renewed confidence to face all future challenges.

Yours truly

Dr. Fuad Abdulla Al-Omar
Chairman





The time to seek
new horizons

Executive Overview



Esam Y. Janahi (Chief Executive Officer and Member of the Board)

Mr. Janahi is one of the main founding members of Gulf Finance House. He holds numerous directorships including Chairman of Bahrain Financial Harbour, Gulf Energy and Energy City Qatar; Chairman and Board Member of Bayan Holding Company, Jordan Gate and Royal Village Investment Companies; Vice Chairman of Al Areen Holding; and is a Board Member of Gulf Holding Company and Legends Development Company. He is also a member of the Shura Council of the Kingdom of

Bahrain. Prior to founding GFH, Mr. Janahi held senior positions at First Islamic Investment Bank (now Arcapita), Islamic Investment Company of the Gulf, TAIB Bank and TAIB Securities, and Merrill Lynch International. He holds a BSc (Honours) in Industrial Management from the University of Petroleum and Minerals, Saudi Arabia, and an MBA from Hull University, UK. His numerous international awards include 'Islamic Banker of the Year' and 'Young Global Leader'.

Leading the way



Abdul Rahman Al Jasmi (Deputy Chief Executive Officer and Chief Placement Officer)

Mr. Al Jasmi is a Senior Partner of Gulf Finance House. He has over 20 years' experience in both commercial and merchant banking. He holds numerous directorships, including Chairman of Bahrain Aluminium Extrusion Company and Gulf Holding Company; Managing Director of Bahrain Financial Harbour; Vice Chairman of Royal Resort Cap Malabata and Royal Ranches Marrakech and is a Board Member of Al Areen Holding Company, Al Andalus House, Legends Investment Company and Jordan Gate

and Royal Village Investment Companies. Prior to joining GFH, Mr. Al Jasmi held a senior management position with Bank of Bahrain and Kuwait, where he was instrumental in structuring several bond and equity issues. He holds a BA (Honours) in Business Administration and an Advanced Diploma in Banking Studies from the University of Bahrain, and has attended advanced management courses at Cranfield Management School, UK.



Peter Panayiotou - (Deputy Chief Executive Officer and Chief Investment Officer)

Mr. Panayiotou is a Senior Partner of Gulf Finance House and recently assumed the role of Chief Investment Officer. He holds numerous directorships, including Chairman of Injazat Technology Fund; Vice Chairman of Bahrain Aluminium Extrusion Company; Director of Bahrain Financial Harbour; Chairman of Jordan Gate; and Chairman of Royal Village Company. Whilst working with PricewaterhouseCoopers (PWC) London, Mr. Panayiotou

accumulated a wealth of financial services transaction experience both in the UK and Europe. Mr. Panayiotou also led the PWC practice in Oman, following a spell as a senior manager in the firm's Bahrain office. A Fellow of the Institute of Chartered Accountants in England and Wales, he also holds a degree in Jurisprudence from the University of Oxford.

Overview from the Chief Executive Officer

2006 was a landmark year for Gulf Finance House. Faced with difficult primary equity markets in the GCC countries, the geographic location of the Bank's private clients, we seized the opportunity to provide our clients with a mix of strategic and high quality investment opportunities.

These allowed the Bank to maintain the investment flows from its clients and to generate a strong stream of earnings from our unique origination business. Our record financial results for 2006 are a clear demonstration of the success of this strategy and gives you broad confidence in the future.



New avenues for growth

Financial Review

Total consolidated revenue for 2006 rose by 55% to US\$346 million (2005: US\$223 million) while net profit increased by 51% to US\$212 million (2005: US\$140 million). Total assets at the end of 2006 stood at US\$1,501 million (2005: US\$1,100 million), an increase of 37%; total equity funds under management was US\$2,111 million (2005: US\$2,002 million) and shareholders' equity rose by 90% to US\$668 million (2005: US\$352 million).

Return on paid-up capital in 2006 was 99% (2005: 94%), return on assets was 14% (2005: 13%) and average return on equity was 41% (2005: 47%). Earnings per share were

34 US cents compared with 25 US cents in 2005 (after allowing for the share split). Book value per share in 2006 was 104 US cents against 78 US cents (after allowing for the share split). The approved dividend distribution is 75% of the paid-up capital (2005: 60%).

2006's results represent the seventh consecutive year of growth for GFH; a tremendous achievement when set against the background of the market uncertainty. Our shares were actively traded on the Bahrain, Kuwait and Dubai stock exchanges during 2006.

As we grow our presence overseas, the Bank is also actively looking at listing its shares on a foreign bourse.



This will give overseas investors the opportunity to invest in GFH and also reduce volatility in our share price by expanding the Bank's overall shareholder base. We are looking at the international debt and capital markets to expand its sources of funding and finance our future growth in the longer term.

Projects Review

GFH identified the State of Qatar as a dynamic energy based economy that would experience significant growth in the next five years and we moved quickly to establish a presence in this market for our clients.

Our origination of the 'Energy City' concept and brand in Qatar, the US\$2.6 billion Energy City Qatar, quickly captured the imagination of the Bank's clients allowing us to raise private equity of more than US\$500 million in a short period of time.

GFH's track record in both starting and building on financial institutions positioned us to take advantage of the economic renewal in the GCC and seek to establish the Islamic Investment Bank of Qatar (formerly Qatar Finance House), an Islamic Investment Bank capitalised of US\$500 million and to be registered within the GCC.

Given political developments in certain parts of the MENA

region and Asia, we reacted swiftly in targeting both the Kingdom of Morocco and the Republic of India to offer our clients opportunities to invest further afield.

In the autumn of 2006, we succeeded in securing a leisure resort project in Tangiers and an equestrian themed project in Marrakech, the first phase of the US\$1.4 billion Gateway to Morocco project. This was followed swiftly by the second Energy City at Navi Mumbai in India, a US\$2 billion project, secured with the support of the Government of the State of Maharashtra, thus marking the Bank's entry into one of the world's fastest growing economies.

GFH has positioned itself to profit in the future from the

momentum building in Saudi Arabia to create new economic zones by taking a direct equity stake in the second economic city at Hail, the US\$8 billion Prince Abdul Aziz Bin Mousaed Economic City.

This has been supplemented by securing an exclusivity agreement with the government of the Arab Republic of Egypt to have first right of refusal over projects to develop Egypt's transport infrastructure.

Investment Review

In 2006, we successfully raised approximately US\$1 billion of new private client equity funding; US\$192 million of new share capital; and arranged US\$390 million of revolving facilities from international debt markets.

These funds are already at work for our clients and the returns generated will benefit from the emerging structure within the Bank whereby its success in project origination will be enhanced by more focus on the key areas of private equity, infrastructure and real estate development, real estate fund management, wealth management and asset management.

The Bank's performance in 2006 was enhanced by a number of successful exits, generating excellent short to medium term returns for investors which ranged from 20% for income producing investments to 146% for investments geared towards capital growth.

These exits were achieved by a combination of strategic sales and equity re-financings. We are particularly proud of our track record of generating consistently positive returns for the Bank's clients throughout our history.

More detailed information about all the exits, in addition to the new investment instruments, are included within the Investment Review section of this annual report.

Commercial Banking Review

2006 was a watershed year for the Khaleeji Commercial Bank (KHCB), a 100% owned subsidiary, with the opening of its first branch and head office. KHCB reported strong earnings growth in 2006 with net profits increasing by 94% to US\$21 million.

Regulatory approval for the increase in the paid-up capital of KHCB has been obtained and based on this increase, it has been proposed that part of the share capital be sold down to other investors.

A more detailed report of the KHCB's achievements during the year is included separately within this annual report.



Overview from the CEO

Organisational Review

During the year, GFH took steps to recruit senior experienced professionals from the international real estate and infrastructure industries to strengthen its Real Estate/Infrastructure Group. In addition, we have recruited high caliber professionals to manage our emerging European Private Equity, Property Fund Management and Asset Management business lines. Finally, we have recruited a quality individual to reinforce our wealth management operations in the GCC.

This is the second year of our human resources strategy – the GFH way. I am pleased to report that our staff survey has highlighted good progress with this project and I look forward to reporting more achievements in 2007.

Future Preview

GFH projects have delivered excellent returns for clients since the Bank's inception in 1999. Moreover, our projects have made a visible and tangible impact on the local economies wherever they are located.

We believe strongly that this success can be replicated in overseas markets. We will therefore continue to source opportunities in our region but, going forward, we will also focus on expanding our reach into developed and mature global markets, with particular emphasis on Asia

and Europe. We believe these are territories that are rich with opportunity and where our expertise in origination and fund raising can deliver excellent returns for clients and shareholders alike.

The announcement of the Energy City development in India in 2006 marked our entry into the Asian market. We are looking at further opportunities in the region and hope to make further progress in 2007.

We are expanding our geographic reach to include Europe and Asia, specialising in project origination backed by our excellent capability in raising new equity funding for our investment products and projects from our strong base of private clients. GFH is confident that this geographic expansion will give further impetus to our growth, generating further value for clients and shareholders alike.



Esam Janahi

Board Member and Chief Executive Officer



Investment Review



The time to invest

During 2006, GFH continued to provide its clients with a range of attractive investment opportunities, both regionally and internationally. Together with its subsidiary, Khaleeji Commercial Bank, GFH introduced several new investment opportunities. In addition, GFH continued to provide positive returns for investors through a number of successful exits during the year.

Since its inception seven years ago, the Bank has successfully launched investments and projects with an aggregate final value exceeding US\$12 billion and has provided its clients with an average return on investment of over 20%.



Villamar at the Harbour



Royal Village

New Investment Vehicles in 2006

The Islamic Investment Bank of Qatar (IIBQ)

Having obtained approval in principle for IIBQ, this new bank will be the first Islamic bank dedicated to investment banking in Qatar, and the first of its type to apply for a banking licence at the Qatar Financial Centre. The bank is being set up to play a vital role in the development of Qatar's economic infrastructure. It will be launched with an authorised capital of US\$1 billion and paid up capital of US\$500 million, with QIB and GFH each owning 15 per cent of the new bank. The remaining 70 per cent of the equity has been offered to a group of strategic and other investors. Listing of the bank is planned for the near future in accordance with stock exchange regulations and market conditions.

Gulf German Residences Company

Earlier in 2006, Khaleeji Commercial Bank and Abu Dhabi Investment House jointly acquired a residential real estate portfolio consisting of 100 properties in various parts of Germany worth €660 million.

The 100 properties comprise of 15,386 residential units spanning mainly Berlin, Düsseldorf, Leipzig and Halle.

The investment vehicle was structured to bring investors an annual revenue stream while benefiting from the upside potential of the investment.

Amlak II Company

This is an investment vehicle with an expected size of US\$39 million designed to invest in development land within Bahrain and has a duration of two years.

Surooh Company

Surooh Company is an investment vehicle with an expected size of over BD14 million which plans to invest in the Oryx Hills and Bahrain Investment Wharf projects.

This product offers investors diversification between residential and industrial development sectors.

New Infrastructure Projects in 2006

Gateway to Morocco, Marrakech and Tangiers, Kingdom of Morocco

Gulf Finance House's first investment in the Kingdom of Morocco, Gateway to Morocco, was launched in July 2006 by the signing of Memorandums of Understanding (MoUs) between GFH and the Walis of Marrakech and Tangiers, in the presence of His Majesty King Mohammed VI. With a total project value estimated at US\$1.4 billion, the first phase of 'Gateway to Morocco' will comprise two distinctive but complementary elements – Royal Ranches Marrakech in the city of Marrakech and Royal Resort Cap Malabata in the city of Tangiers.

The project supports the vision of His Majesty King Mohammed VI to strengthen and diversify Morocco's rapidly growing economy, and the Government's efforts to attract foreign investment into the Kingdom.

The project will also have a positive impact on the social and economic framework of Morocco. While Royal Ranches Marrakech, spread over a total area of above 370 hectares, will be a mixed-use sporting, leisure and residential complex, with a key focus on equestrian and related activities, the Royal Resort Cap Malabata, covering a total area of 127 hectares in Tangiers, has been designed as a unique mixed-use tourism, commercial and residential destination on the Mediterranean coast.

Prince Abdul Aziz Bin Mousaed Economic City, Kingdom of Saudi Arabia

Officially unveiled at Hail in June 2006 by The Custodian of the Two Holy Mosques, King Abdullah bin Abdul Aziz Al-Saud, the Prince Abdul Aziz Bin Mousaed Economic City (PABMEC) is being developed as the largest transportation and logistics hub in the Middle East.

Led by RAKISA, the initial core group of investors includes Gulf Finance House, Abu Dhabi Investment House, Kuwait Finance and Investment Company, Tanmiyat Group, Kanoo Group, PWC Logistics and a number of large regional and international trading and contracting groups.

Second in a new series of economic cities being planned by the Saudi Arabian General Investment Authority (SAGIA), it will be developed with over US\$8 billion in private sector investments over the next ten years.

A key element in the Kingdom's recent initiative to develop its economy, PABMEC is aimed at generating regional growth, enhancing Foreign Direct Investment (FDI) and creating employment opportunities for the youth.

It will do so by exploiting the region's core strengths of location, agriculture, mineral deposits, moderate climate and wild beauty. Covering an area of over 150 million square meters, PABMEC will incorporate a cluster-based development comprising: transportation, logistics and



Prince Abdul Aziz Bin Mousaed Economic City



Royal Ranches Marrakech

supply chain centers; educational services; agricultural and food processing services; mining and commercial services; housing and infrastructure.

Development of the Transportation Infrastructure of the Arab Republic of Egypt

In August 2006, GFH, along with UAE-based National Holding Company, Abu Dhabi Investment House and Global Developments and Investments, signed a pioneering public-private sector partnership with the Government of Egypt (Ministry of Transportation Authorities – General Authority for Roads, Bridges and Land Transportation; Egyptian National Railway Authority; and Port Said

Port Authority) to develop and commercialise the Arab Republic's commercial transportation infrastructure.

In the first of its kind partnership between the public and private sector in Egypt, these seven institutions signed an agreement to establish a holding company, with an authorised capital of US\$1 billion, to spearhead investments in the development of Egypt's transportation infrastructure.

Projects comprising the initial phase include those on a Build-Own-Operate-Transfer (BOOT) basis and have an initial estimated total value of US\$30 billion.

The agreement covers a wide portfolio of infrastructure projects that are expected to include a maritime passenger line between Egyptian and Saudi Arabian ports, and a tourist rail line linking Hurghada, Safaga, Kena and Luxor.

Existing Investment Vehicles

Gulf Energy Holding Company

Gulf Energy Holding Company was established to undertake the development of the US\$2.6 billion Energy City Qatar project.

Over US\$500 million was raised rapidly from a private placement in the first half of the year. Through this vehicle, investors will participate in the development of Energy City Qatar. Details of the Energy City Qatar project are included in the Existing Infrastructure Projects section of this review.

Gulf Holding Company

Gulf Holding Company was jointly sponsored during late 2005 by GFH and Bayan Investment Company, with the purpose of investing in real estate properties in Bahrain.

A private placement of circa US\$236 million was successfully closed in February 2006, with GFH clients investing in this vehicle alongside the Bank.

The first investments of Gulf Holding Company will be in the residential components of Bahrain Financial Harbour and Al Areen Development projects namely Villamar at the Harbour and Downtown Al Areen, details of which will be found in the Infrastructure Projects section of this review.

Al Basha'er GCC Equity Fund

Managed jointly by GFH and Kuwait Finance & Investment Company, this fund offers investors a significant opportunity to participate in the surging growth of the region's capital markets.

The positive and overwhelming response to its launch in November 2005 resulted in this fund being oversubscribed by US\$140 million, and attracting a total of US\$540 million from regional investors. The largest of its kind in the Gulf region, this fund represents the first step by GFH to build a world-class asset management business.

Bayan Holding Company

The US\$409 million Bayan Holding Company private placement was successfully closed in 2005. This Kuwaiti-based company will act as a vehicle to enable investors to invest in real estate and infrastructure developments in the Hashemite Kingdom of Jordan, mainly the Royal Metropolis project. Details of Royal Metropolis are included in the Infrastructure Projects section of this review.

Al Hareth French Property Fund

Launched by Khaleeji Commercial Bank in 2005, this €25 million income driven fund is focused on commercial and industrial real estate in the Isle de France, Paris and other regions of France.

Eqarat Al Khaleej

Eqarat Al-Khaleej is a real estate income-producing a fund established by Khaleeji Commercial Bank in 2005 which invested approximately US\$115 million (inclusive of leverage) in a balanced portfolio of eleven properties across the GCC.



Existing Infrastructure Projects

Energy City Qatar

Launched in March 2006, this regionally strategic US\$2.6 billion project is being developed as the Middle East's first integrated energy business centre for the global oil and gas industry.

The proposed clusters in the first phase of the project will include specialist centres for oil and gas producers and downstream operators, shipping and trading companies, service industries, technology companies and information and media businesses. Earlier this year, the latest energy trading platform in the Middle East, the 'International Mercantile Exchange' (IMEX) confirmed its location at Energy City Qatar.

Other recent developments in 2006 include the signing of agreements with two leading networking companies. The first being with Microsoft to develop and implement a new generation of advanced enterprise-level solutions and the other with Cisco Systems, a networking company headquartered in San Jose, California, to develop a master plan for advanced technology solutions.

Both aim at forming the necessary technology infrastructure required for the groundbreaking project.

Covering an area of over 1.2 square kilometers, Energy City Qatar will include state of the art communications,

high tech data storage, support infrastructure such as specialised storage and maintenance, and high quality commercial and recreational facilities.

The Royal Metropolis in Jordan

Excellent progress has been achieved so far on the Royal Metropolis project. Unveiled in 2005, Royal Metropolis is GFH's first project in the Hashemite Kingdom of Jordan with a total investment value exceeding US\$1.3 billion.

The project constitutes of two main developments, which include Jordan Gate in the heart of the capital Amman and Royal Village in the outskirts of Amman.

Jordan Gate

Jordan Gate is one of the main projects of Royal Metropolis creating a futuristic and iconic development on a prime site in Amman, comprising two high-rise twin towers and a quality retail shopping mall.

Jordan Gate will provide prime office space for local, regional and international companies operating in Jordan and the surrounding region. It will also incorporate a five star hotel operated by Hilton International.

Jordan Gate is located on the 6th Circle junction, one of the highest points in the city and will form the new landmark for the Jordanian capital Amman. The project



Jordan Gate



Royal Village

is being undertaken in partnership with the Municipality of Greater Amman and Kuwait Finance and Investment Company under Bayan Holding Company, and is scheduled for completion in May 2008.

Royal Village

Located on the main highway to the Dead Sea, Royal Village is a mixed use development spreading over an area of approximately 470,000 square meters, comprising a gated residential community with more than 300 villas of different types and 1000 apartments, and a state of the art shopping and commercial centre offering high-class living with modern amenities. The Royal Village project

foundation stone was laid by His Majesty King Abdullah II in November 2005, and in September 2006 Royal Village launched its Head Office and Sales Centre on the project site. The project is jointly promoted and developed in conjunction with Kuwait Finance and Investment Company via Bayan Holding Company.

Bahrain Financial Harbour

A world-class, fully integrated, master-planned waterfront development, the US\$1.5 billion Bahrain Financial Harbour (BFH), is aimed at creating a complete financial city, a self contained community that reinforces Bahrain's position as the financial capital of the Middle East.

A first of its kind development in the region, BFH is a highly focused, committed and advanced financial environment spread over 380,000 square meters of prime seafront property in the centre of Manama, Kingdom of Bahrain. Furthermore, it comprises of ten projects that uniquely combine the business, leisure and residential components of the development.

Phase I of the project is 'The Financial Centre' which includes the Harbour Towers – Bahrain's tallest towers, the Harbour Mall and the Harbour House. The Financial Centre is scheduled to formally open for business in May 2007. The BFH Client Relations Centre is located on-site

at the 'Gateway to Bahrain' on the King Faisal Highway in Manama.

Al Areen

Al Areen is being built over two million square meters in the Kingdom of Bahrain's southern region close to a world-renowned wildlife sanctuary. This mixed-use health, residential and family tourism development nestles in an elevated desert setting and will embrace a world-class spa resort, a state of the art water park and a range of residential, commercial, recreational and entertainment facilities that costs over US\$1 billion.

Al Areen Holding Company was formed in July 2004 as a joint stock company owned by the Government of Bahrain, GFH and strategic regional investors.

A team of leading professionals has been brought together to bring the dream of Al Areen to reality. Without the cooperation and support of Bahrain's wise leadership and astute government, the progress that has been made so far would not have been possible.

This prestigious development will bring visitors from all over the world to the Kingdom and is already attracting significant foreign investment to the country. Al Areen's master plan has been carefully crafted to reflect and preserve the site's environment, its natural beauty and wildlife. In doing so, the developers are creating an

authentic desert experience incorporating a world-class spa resort, a group of luxurious residential and commercial communities, five-star hotels and a distinctive water park. All this is situated to give close access for residents and visitors to the much celebrated Al Areen Wildlife Sanctuary. Al Areen is destined to grow into a resort town to cater to all tastes: formality and grandeur in parts but with quiet, hidden-away village centres and private homes.

Investors, residents and visitors will all benefit from the location of Al Areen, 20 kilometers to the south of the capital Manama. It is a tranquil landmark site for relaxation and recreation, but close to the world-famous Formula One Bahrain International Circuit and Bahrain University.

The Kingdom of Saudi Arabia is 15 minutes away from Al Areen through the King Fahad Causeway and the international airport of Bahrain is only 35 minutes away. A buffer zone has been created along the boundary between Al Areen Wildlife Sanctuary and the Al Areen Development. This zone, the Linear Park, will be landscaped and visitors can watch the wildlife from there, while enjoying a leisurely stroll along a strategically laid pathway.

The momentum behind Al Areen is growing as investors are attracted to the exciting project's diverse nature and commercial potential. In just a few years, the Al Areen Development will become the jewel in the crown of the



Legends Dubailand



Al Areen

Kingdom's real estate and leisure development.

Al Areen's components include the Banyan Tree Desert Spa & Resort, the "Lost Paradise of Dilmun" Water Park, Downtown Al Areen, Sarab Al Areen, Al Waha Resort, Al Areen Hotel & Resort, Oryx Hills and Sunset Hills.

Legends Dubailand

A major milestone was reached in September 2005 with the sale of a substantial portion of the residential and commercial components of Legends to a leading Saudi-based developer, who has also been contracted to develop the overall site infrastructure. Legends is a unique mixed use leisure, entertainment, residential and

commercial real estate concept, strategically located within the Dubailand project, just a 30-minute drive from Dubai International Airport. Estimated to cost US\$3.8 billion, Legends comprises six components.

At the core of the project are three world-class theme parks, which are inspired respectively by the magic of mythology, natural wonders, and sensational places on this planet.

The development will have three luxurious themed hotels, apartment hotels as well as residential and commercial towers offering an oasis of opulence and luxury. In addition there will be an elegant Golf Hotel, which will be

located within a nine-hole golf course.

The residential component will offer Arabian-style villas located amidst lush greenery, artificial lakes and shaded pathways. Legends will also offer prime commercial properties with investment potential. These include retail, associated dining and leisure centres and offices. Dubailand is a multi-billion dollar project vigorously pursued by the Government of Dubai, which is envisaged to become the Middle East's single largest destination for family-oriented tourism.

Continuous dialogue, Ongoing responses

2006 represented another significant milestone in the Bank's placement activities, where through its reputation and its market leading position, the placement team at GFH were able to transact over a billion dollars worth of activity. This feat was achieved in light of very difficult trading conditions that have prevailed in the market since the beginning of the year.

During the year, GFH extended its services from provision of investment products to include asset allocation advice and ongoing wealth management services to its clients. It has been able to do so by the selective recruitment of key individuals from across the international investment banking world.

By enhancing its capabilities within wealth management, GFH has been able to differentiate itself from other providers in the market. Specifically, it has developed a core competence in the understanding of its clients' risk profile and return criteria.

This is based on GFH's existing strong client relationships and the establishment of clear lines of communication between itself and the client base. The development of this integrated wealth management function should be completed by the second half of 2007.

GFH expects direct benefits from this move through an increased share of captive client assets and a larger stream of revenues which are neither product nor cycle dependent.

The strength of GFH's client relationships does not end with the roll out of the Wealth Management activity next year but rather with the breadth and depth of the product offerings that are planned in 2007. These will include transactions that fill the spectrum of risk versus return and offer a winning combination of viability and profitability for the Bank's shareholders.

For a detailed look and what lies ahead from a product point of view please refer to the section entitled Investment Products.

Human Resources

Succeeding Through Our People

At GFH, People Matter. The Bank firmly believes that its success is dependant on the methods it uses to attract, recruit and retain its best assets – people. It is only through their banking experience and detailed financial and business knowledge that the Bank is able to achieve such phenomenal success. In the past 12 months GFH has continued to make excellent progress towards adopting best in class Human Resource practices in line with its vision to become the best Islamic Bank regionally and internationally. It is dedicated to recruiting the best people, helping them develop their skills and competencies and enabling them to realize their full potential. People who join the organisation are expected to adopt our shared values - The GFH Way.



Introducing the GFH Way

As part of its commitment to being the best, the Bank has developed The GFH Way as a means of communicating to staff its expectations of them. This was communicated to all staff through briefing sessions. The GFH Way is a philosophy that dictates the Bank's values. It states that at GFH the focus is on:

- **Performance:** Members are committed to delivering results. “Do it once, do it right - no excuses.”
- **Innovation:** Members are constantly developing new ways to improve service levels. “If it is not working, we will fix it and continue to find ways to excel even when it is fixed.”

- **Client Service:** Members place their client considerations at the centre of its activities. “Do what is needed to get the job done - however long it takes.”
- **Teamwork:** Members will work collaboratively by working together to achieve success. “We are all part of the GFH team - we compete in the marketplace and not with one another.”
- **Integrity:** Members will behave respectfully, ethically, loyally and honestly. “We behave with integrity, both at work and in our personal lives.”

Focusing on excellence

GFH is committed to developing a culture of performance excellence. To make this happen, this year the Bank introduced an enhanced performance evaluation process.

The new system is based on in-depth research on best practice performance management in Bahrain, regionally and internationally and includes a leading edge electronic 360 degree feedback system. To ensure all staff are aware of their role in delivering excellence to GFH's customers and clients, staff attended training sessions so that they were fully aware of what is expected of them – now and in the future.

Recruitment, retention and selection

Having quality people means attracting and retaining the best talent—in other words, being the employer of choice. People come to GFH because of our reputation for innovation, varied careers and our commitment to continued development.

It has improved our efforts to ensure that GFH recruits the brightest and best by implementing robust and objective recruitment and selection techniques. GFH has implemented competency based interviews and further enhanced the objectivity of its process with the use of assessment centres and psychometric testing.

To support GFH's commitment to meeting the Central Bank of Bahrain's requirements, it has also strengthened its background checks on potential staff to ensure they "fit and prosper" to deliver services of the Bank. To promote the GFH presence in cyberspace, the Bank it has launched the enhanced GFH careers website to further promote the Bank as the premier employer in the region.

Listening to our people

GFH understands the importance of listening to the people throughout its organization. In 2006, the Bank conducted its second annual staff survey. This survey shows overwhelmingly that GFH people feel proud to

be working for the Bank and would recommend GFH as an employer to their friends and family. As part of our response to other feedback from the survey, GFH has incorporated a number of projects into its HR strategy including leadership development and graduate trainee development. To build on the level of engagement with staff, GFH also produced seven issues of "People Matters", our internal employee newsletter.

Helping people develop and grow

The results from the survey underline the importance to staff of the development and training opportunities GFH offers. Recognising how much development matters to GFH people, the Bank reviews its training and coaching programmes continually, looking for ways to improve them. In 2006, it produced training and development guides for each of the grades in the Bank. GFH is currently realigning all these development programmes to tie them into the new GFH competency framework.

In the last year, GFH has ensured that all categories of staff have opportunities to attend development activities in Bahrain, the region and internationally. The training does not stop in the classroom.

GFH strives to sustain a work environment in which people are challenged intellectually and in which they develop professionally. To support this and the Bank's succession

plan, it has introduced a mentoring programme to help develop the leaders of tomorrow.

Developing talent

As GFH develops its talented young people to create the next generation of leaders, it recognizes that they need to be ready to take on the complex challenges of tomorrow. In GFH's view, leadership encompasses more than business and commercial skills. It also requires broader social and emotional awareness. In 2006, GFH searched globally to identify young Bahrainis with great potential and sought to develop them under the Young Innovators Programme – GFH Ibda'a.

In addition to new graduates, the most effective way to prepare for the future is to identify potential leaders and provide them with the tools they will need to take GFH forward. The Bank has developed a comprehensive development programme for its graduates and senior managers of tomorrow.

GFH is committed to developing its junior, middle and senior managers through tailored development programmes so they are equipped to achieve the GFH vision of being the regional leader in Islamic Banking.

Corporate Governance



Committed to values

The Corporate Governance Framework – the way the Board and management is organized and how it operates in practice – ultimately aims at leading GFH towards successfully meeting the Bank's strategic objectives.

The Board of Directors is accountable to shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. To achieve this, the Board approves and monitors the Bank's strategy and financial performance, within a framework of sound corporate governance and effective risk management.

For 2007 the Board of Directors will consist of 12 members including the CEO. The Chairman is responsible for leading

the Board, ensuring its effectiveness, monitoring the performance of the CEO and maintaining a dialogue with the Bank's stakeholders. The Internal Audit function reports directly to the Chairman, who also has direct access to the Head of Compliance and Risk Management.

During 2006, the Board of Directors held seven meetings, the Nomination and Remuneration Committee held four meetings, the Executive Investment Committee held seven meetings, and the Audit Committee held four meetings. The Board and the Committees receive regular presentations on various aspects of the Bank's business from senior management, as well as from the Internal Audit, Compliance, Risk Management, Operations and Finance functions.

The Board has appointed three Board Committees with specific delegated authorities:



The Board delegates the authority for management of the business to the CEO, who is responsible for long term creation of value for shareholders through financial and non-financial performance.

The CEO recommends and executes the Bank's strategy and budget, and uses a highly consultative approach through several general and specific cross functional committees:

Executive Management Committee	Management Committee	Risk Management Committee	Asset Liability Management Committee	Management Investment and Credit Committee
Committee Chairman	CEO	CEO	CEO	CEO
Members	Senior Management	Deputy CEOs, COO, Heads of Investment, Placement, Operations, Finance and Risk Management	Deputy CEOs, COO, Heads of Investment, Placement, Operations, Finance, Risk Management and Liquidity Management	Deputy CEOs, COO, Heads of Investment, Placement, Operations, Finance and Risk Management
Responsibility	Strategy, Performance Review, Budget, Human Resources, Administration	Risk Management Policies, Risk Review, Provisions and Impairment	Balance Sheet Management, Funding, Liquidity, Banking Relationships	Review of Investment, Exit and Credit proposals, Monitoring of Investments

Corporate Governance Review during 2006

GFH is committed to continuously reviewing and developing its corporate governance standards to ensure compliance with the requirements of the revised corporate governance framework being implemented by the Central Bank of Bahrain (CBB), and also to keep abreast with

international best practice. In late 2005 GFH engaged international consultants to review the Bank's corporate governance practices, and recommend measures for adoption that would achieve this objective.

The consultants have submitted their initial report, the recommendations of which are currently being evaluated

for implementation in accordance with best practice, Basel II and CBB requirements. The final report on what is recommended to improve the Bank's process in Corporate Governance is expected by the end of the first quarter of 2007.

Risk Management



The time to measure

The Board of Directors of the Bank has overall responsibility for establishing the Bank's risk culture and ensuring that an effective risk management framework is in place. The Board approves and periodically reviews the risk management policies and strategies of the Bank.

The Risk Management Committee (RMC) consisting of the CEO, COO and Heads of Investment, Placement, Operations, Financial Control and Risk Management, is responsible for implementing risk management policies, guidelines and limits, and for ensuring that monitoring processes are in place. The Risk Management department, together with the Internal Audit and Compliance departments, provides

independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board.

Risk policies

The Bank's risk policies identify approval authorities, reporting requirements, and the procedures for referring risk related issues to executive management, RMC and the Board, as appropriate.

Policies are in place to address the categories of reputational, liquidity, investment and credit, currency, operational, legal and regulatory risk, together with capital adequacy requirements.

Reputational risk

The Management Committee and the RMC examine issues that could affect the Bank's reputation and lead to a decline in the investor base or result in costly litigation, which could adversely affect the liquidity or capital of GFH.

Liquidity risk

The Asset and Liability Management Committee, which is chaired by the CEO and comprises senior executives of the Bank, has overall responsibility for managing the balance sheet and liquidity of GFH. The day-to-day management of liquidity is the responsibility of Treasury.

The Bank's three primary measures of liquidity are stock of liquid assets, surplus cash capital and net funding requirements. It is the policy of GFH to keep a large part of its assets in highly liquid short-term instruments.

Investment and credit risk

The Bank's policies for managing investment and credit risk cover delegated approval authority limits, concentration limits (by geography and sector), maximum exposure limits and counterparty limits.

The Bank aims to limit its proprietary positions and does not normally underwrite clients' positions. The Risk Management department works alongside the

Investment department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction.

A fair evaluation of investments takes place every quarter with inputs from the Investment and Risk Management departments, followed by a review by the external auditors. Quarterly updates of investments are reviewed by the Board of Directors.

Capital adequacy

The Bank's capital adequacy ratio is calculated in accordance with guidelines published by the CBB. At 31 December 2006 there was significant capital adequacy headroom, giving the Bank the ability to considerably expand both its asset base and its leverage.

Currency risk

The Bank's currency risk is managed on the basis of limits on net open position set by the Board of Directors and a continuous assessment of current and expected exchange rate movements.

The Bank does not engage in foreign exchange trading and, where necessary, matches currency exposures inherent in certain assets with liabilities in the same or correlated currency.

Operational risk

The Bank seeks to minimise this risk through a framework of policies, procedures and internal controls, to identify, control and manage such risk.

During 2006 GFH engaged international consultants to advise on possible enhancements to the Bank's operational risk framework in light of Basel II requirements (including a review of the activities of the RMC). The consultants have submitted their initial report and where appropriate the recommendations will be implemented during 2007.

Legal and regulatory risk

The Bank manages legal risk through the effective use of internal and external legal advisers. The Compliance department monitors regulatory compliance and is also responsible for the Bank's anti-money laundering procedures.





The time to reach
greater heights

Investment Exits

Precision planning is the integral element that takes into consideration all aspects of the dynamics of investment. Mobilising resources and nurturing them into opportunities requires a strong understanding and measure of the economics of time. The time to make strategic decisions on ground and ensure a perfect landing. GFH has consistently maximised returns to clients either through high-yield income-producing investments and / or capital appreciation at the time of exit. In 2006, GFH successfully completed six such deals, generating excellent short to medium term returns for its investors, ranging from 20% to 146% over periods of between one and over four years.

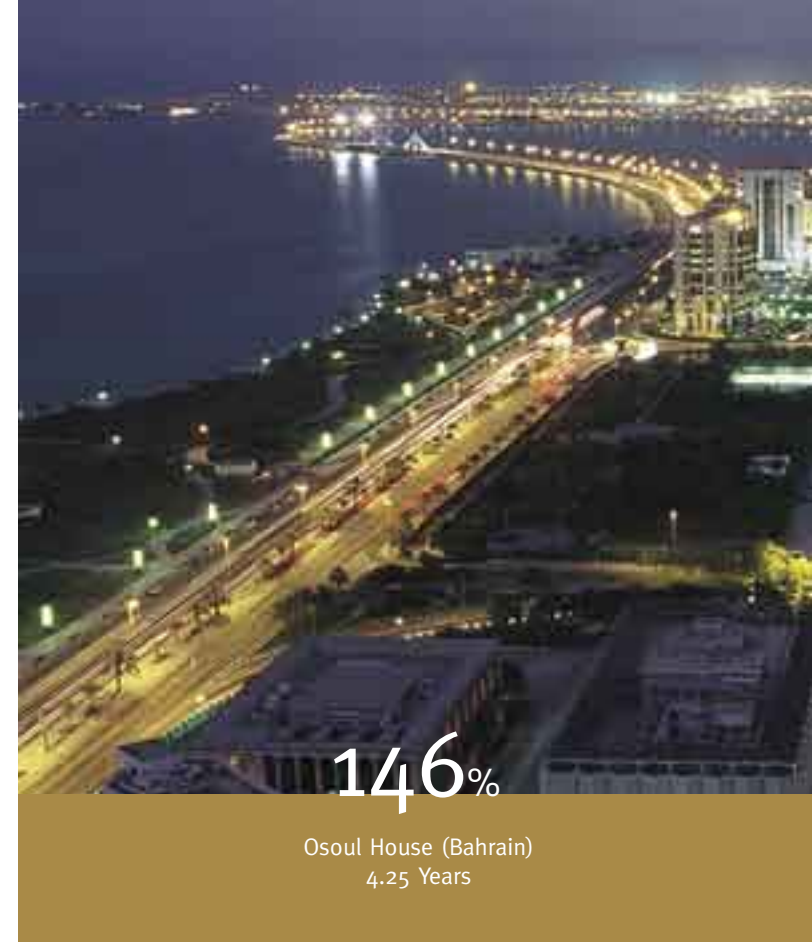
Gulf Atlantic Real Estate GARE (UK)

GFH's exits in 2006 included the successful sale of the UK commercial real estate portfolio Gulf Atlantic Real Estate GARE (UK) to Deutsche Bank for US\$315 million with an average return to clients of 37% over a period of just under three years. The profitable sale of this income-producing commercial property portfolio to Deutsche Bank is a testimony to the skill and experience of our real estate investment team. Once again the team has delivered substantial market-leading returns for clients from this particular type of real estate asset and investment opportunity.

In addition, during the life of the product the six properties in the fund produced 9% per annum cash dividend for investors.

Gulf Atlantic FZ LLC - GAF (France)

The exit from GARE was followed by Gulf Atlantic FZ LLC - GAF (France), a fund established and managed by GFH, which was acquired by Qatar Islamic Bank and yielding a return averaging 47.5% over three years. The exit was timed to meet the investment term set out in the private placement memorandum. Launched in 2003, GAF's investment objective was to provide GFH investors with an opportunity to earn a consistent quarterly cash dividend. Since inception, GAF successfully paid out a



consistent 10% cash dividend. The fund acquired its first property in Saint-Ouen in May 2003 and the three remaining properties in Velizy, Gentilly and Ivry between June and December 2003.

Osoul House (Bahrain)

Highlighting the success of GFH's private equity investment strategy, a financial institution early this year offered to purchase investors' shares in Osoul House. The offer provided Osoul House investors with a return on investment of 146% over a holding period of four years and three months. Recognising the growth potential of Islamic finance in the country, GFH and its group of investors established Osoul House for the specific purpose



40%

Al Areen (Bahrain)
2 Years



20%

Legends Dubailand (UAE)
1 Year



37%

Gulf Atlantic Real Estate - GARE (UK)
3.5 Years



47.5%

Gulf Atlantic FZ LLC - GAF (France)
3 Years

of acquiring equity in Khaleej Finance & Investment (KFI). KFI is registered as a joint stock closed company and operates under a license granted by the Central Bank of Bahrain. It has engaged in the provision of consumer finance in accordance with Islamic Sharia'a. Since completion of its restructuring exercise, it is now actively pursuing a diversification strategy.

Al Areen (Bahrain)

GFH also made a strategic exit from Al Areen in Bahrain offering investors a return on investment of 40% over a two year period. Al Areen is a mixed-use health, residential and family tourism development that costs over US\$1

billion and is being built over two million square meters in the Kingdom of Bahrain's southern region.

Legends Dubailand (UAE)

Legends Dubailand was another strategic exit made by GFH providing a return on investment of 20% over a one year period. Legends, US\$3.8 billion project, is a unique mixed use leisure, entertainment, residential and commercial real estate concept, strategically located within the Dubailand project and just a 30-minute drive from Dubai International Airport.

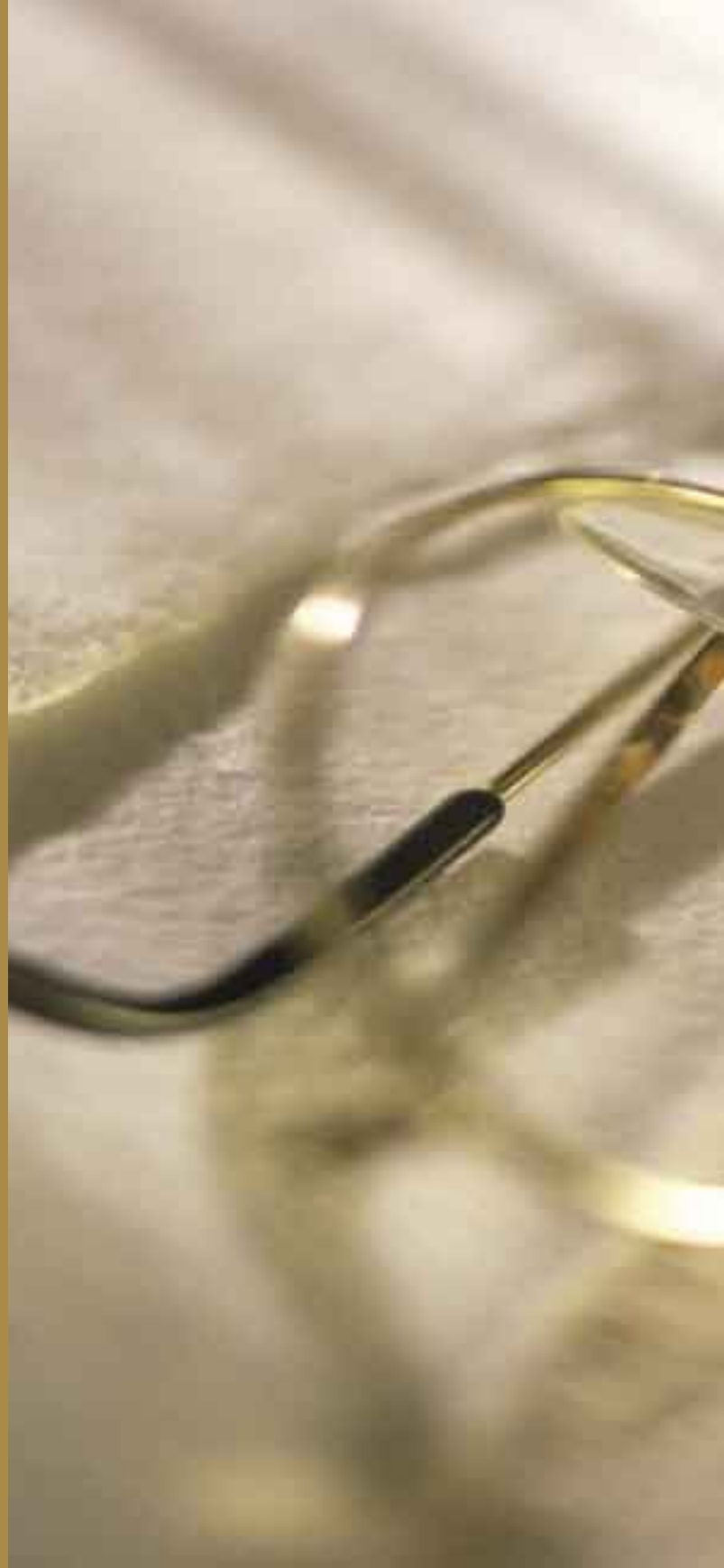
Amlak Real Estate Company (Bahrain)

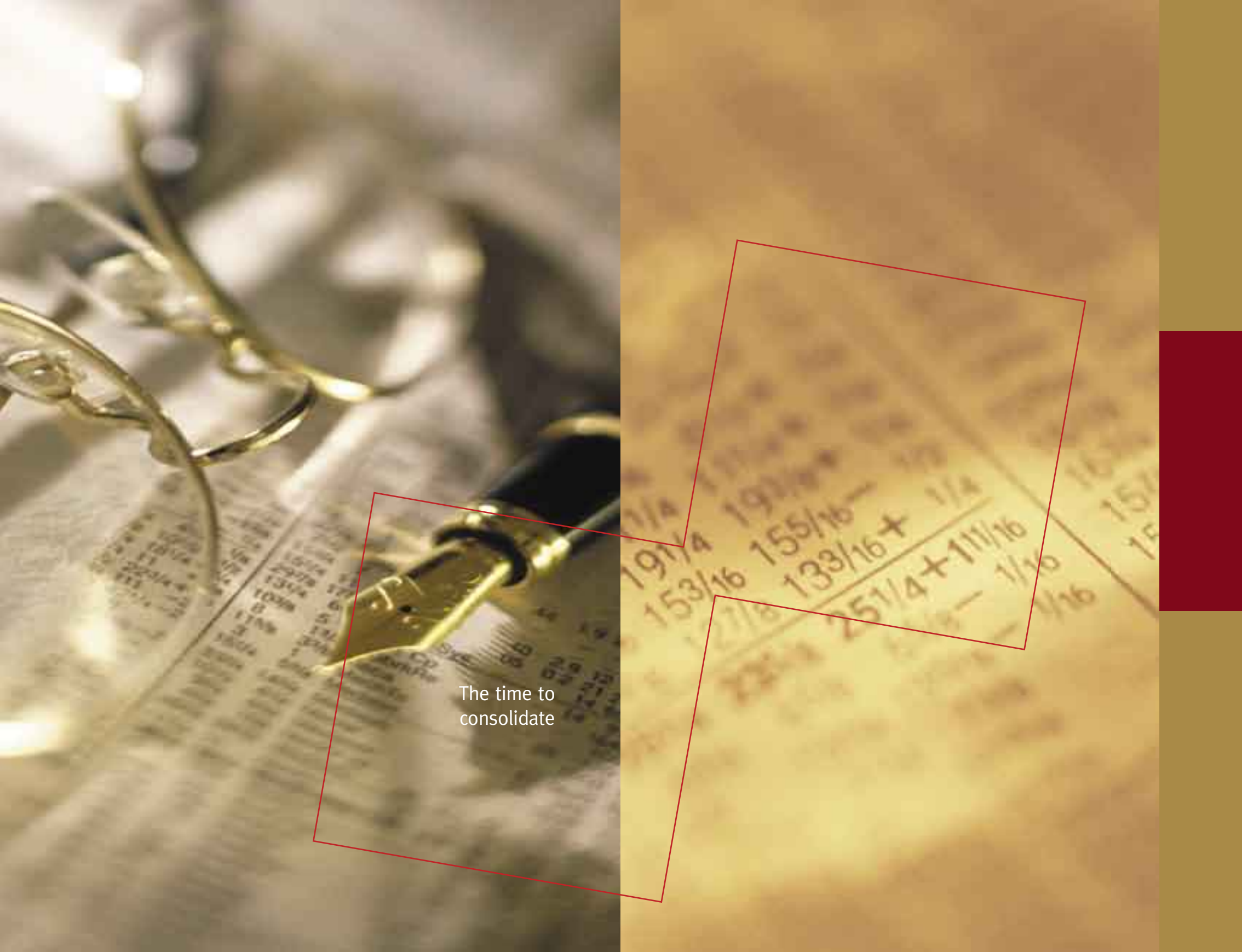
At the end of 2006, Khaleeji Commercial Bank successfully

exited the Amlak Real Estate Company with an ROI of 20% over an 18 month investment period. This company launched by Khaleeji Commercial Bank offers investors an opportunity to invest in Bahrain's real estate market.

Amlak focuses on commercial plots, exercising the secondary option of investing in residential plots to diversify risk.

In the way forward this year and as part of the Bank's business strategy, GFH will continue to originate and invest in infrastructure and real estate as well as private equity opportunities within Europe with the objective of achieving attractive risk-adjusted returns for its clients.





The time to
consolidate

$191/4$	$191/4$	$191/4$	$191/4$
$153/16$	$155/16$	$133/16 + 1/4$	$153/16$
$221/8$	$251/4 + 111/16$	$1/16$	$153/16$
			$153/16$

Khaleeji Commercial Bank



Khaleeji
Commercial Bank

Established in November 2004 as Gulf Finance House Commercial Bank with a paid-up capital of BD30 million, Khaleeji Commercial Bank is a niche Islamic private bank, headquartered in the Kingdom of Bahrain and operating under a commercial banking licence granted by the Central Bank of Bahrain.

As a wholly owned subsidiary of GFH, Khaleeji Commercial Bank has the objective of widening the activities and enhancing the customer and shareholder value of the Group. The implications of this are a strategic positioning which takes advantage of market opportunities and is complementary to the GFH business model, building on the performance of the overall Group.

Khaleeji Commercial Bank offers its services to high net worth individuals, corporates and financial institutions in Bahrain, which includes project financing and working capital financing for our corporate customers. We looked aggressively at enhancing our support for an increased



number of new businesses ranging from small to large corporates. In addition, we provide financing opportunities for property developers, landowners and property investors across the Middle East.

The Bank has and continues to develop alliances with other Islamic banks, large property developers and real estate agents in the region to source investment and financing opportunities.

In 2006, the Bank reported total income of US\$36.2 million, more than double the previous year's US\$17.5 million. Net income rose by 94.5% to US\$21 million from US\$10.8 million in 2005. Key ratios also improved, with

return on average assets at 9.5% (2005: 8.1%), return on paid-up capital at 26.5% (2005: 13.6%) and return on average equity at 20.9% (2005: 13%).

2006 was a year of significant change for the Bank. The introduction of the new brand and identity has been well received whilst the move to new premises in the Al Zamil building in Bahrain has been completed successfully. During the year, the Bank launched a number of retail products including saving and current accounts, restricted and unrestricted investment accounts and actively participated in a number of sukuk and syndicated financing transactions.



The Bank also successfully launched three new investment vehicles. The Gulf German Residences Company is an investment vehicle with a size of €144 million designed to invest in and benefit from a range of residential income generating properties spread around Germany.

The Amlak II Company is an investment vehicle with an expected size of US\$39 million designed to invest in development land within Bahrain and has an expected duration of two years.

Surooh Company is an investment vehicle with an expected size of over BD14 million which plans to invest in the Oryx Hills and Bahrain Investment Wharf projects. This product

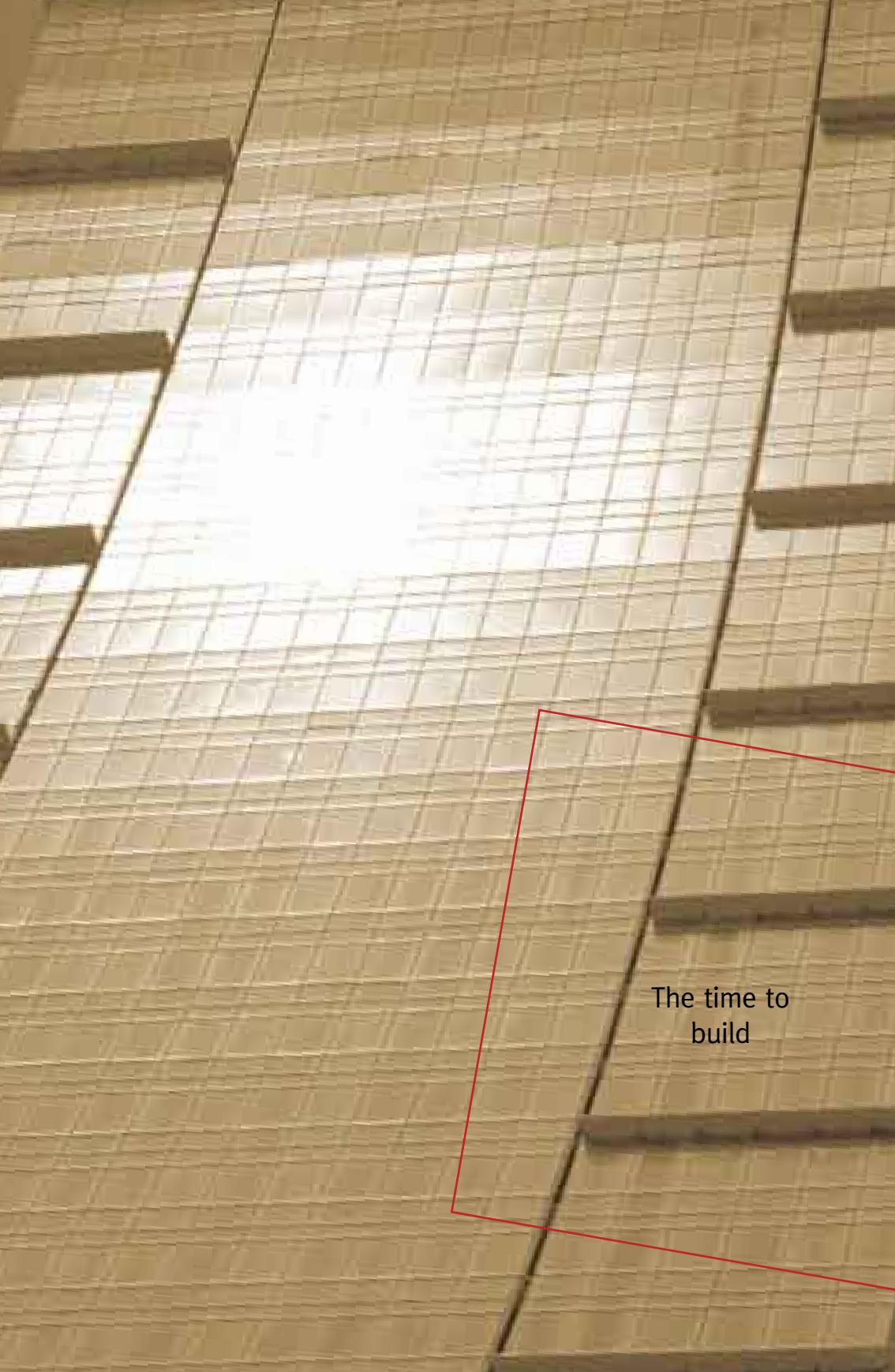
offers investors diversification between residential and industrial development sectors.

In November 2005 the Bank also successfully exited the Amlak Real Estate Company which was launched in 2005 and provided returns of 20% to investors over an 18 month investment period.

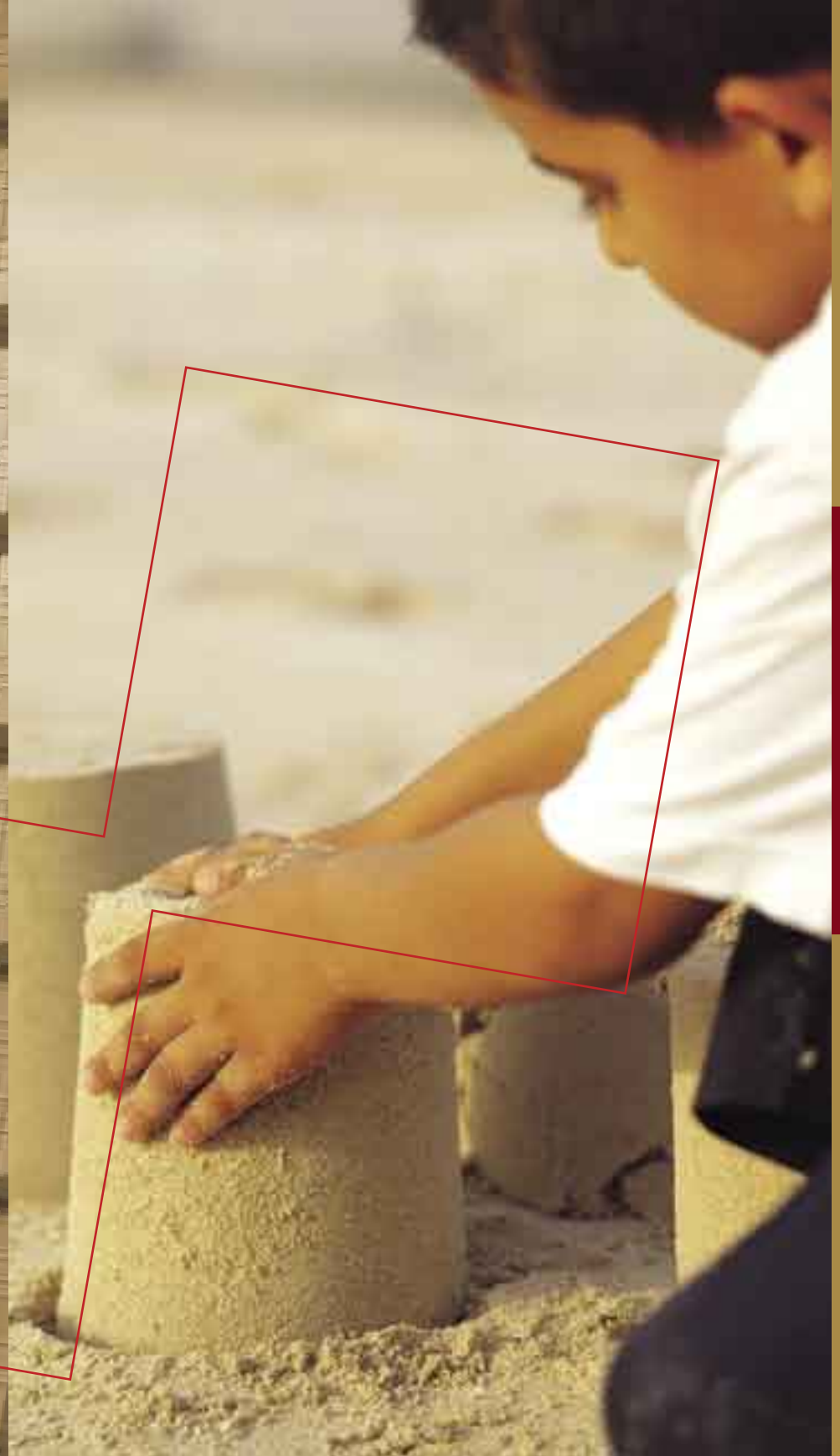
In 2007, the Bank will continue to expand its products and services for the benefit of its customers. It will increase its breadth of product offerings, its branch network and improve the range of retail services such as ATMs, SMS and e-banking provision.

There will also be a continuing focus on supplying the Bank's customers with relationship management tailored to their needs. It is likely that these services will be available to customers during the first half of 2007.





The time to
build



A Review of Economic Developments in the GCC in 2006



International Focus ... Global Reach

Overview

Looking back at the highlights of the macroeconomic and financial developments of 2006, it is clear that the GCC economies experienced a fourth consecutive year of macroeconomic boom. By almost all economic measures, the GCC economies continued to make solid progress towards entrenching sustainable rapid economic growth, private sector development, rising living standards, market liberalisation, global integration, fiscal resilience to negative oil price shocks, enhanced external liquidity, greater financial sector intermediation and efficiency and capital market deepening.

Despite all these significant achievements, 2006 will probably be remembered for a single negative event, namely, the correction in the equity markets which was severe in some GCC countries.

Although this event led to serious financial losses by many small investors, the evidence so far suggests that its negative impact on the rest of the economy had been far less than many had feared. For example, there was no recession or even a marked slowdown in economic growth, financial crises, crash in the real estate market, bank failures or social unrest. In the medium term, the equity market correction may even prove to have been a mixed blessing if it expedites the development of efficient, transparent and well regulated capital markets in the GCC.



Macroeconomic Developments

The price of Brent crude oil rose further in 2006 and reached a record level of almost US\$79 per barrel on 7 August of 2006 for a combination of market and geopolitical risk factors. Although it declined somewhat in the fourth quarter, the average price for the year as a whole was US\$66 per barrel (Chart 1) which was slightly below our forecast of US\$69 per barrel that we published in November 2005 in our Economic Research Brief.

Government budgets in all of the GCC states were based on conservatively low oil price forecasts (that correspond to an average of US\$35 per barrel) and significant

growth in expenditures compared to 2005 and earlier years. In light of the higher than budgeted price of oil, the governments were able to achieve both a marked acceleration of economic development and a further sizeable accumulation of financial reserves (Chart 2).

After four consecutive years of rapid economic growth, the aggregate economy of the GCC states doubled in size from about US\$350 billion in 2002 to over US\$700 billion in 2006 (Chart 3).

The big jump in economic activity in 2006 could also be seen in all other macroeconomic statistics, such as imports and monetary indicators (Charts 4 and 5).

The economic boom has thrust the GCC region into the limelight on the international stage in terms of the substantial current account surpluses and the large accumulation of foreign assets by the central banks and the rest of the banking systems.

Most important of all, the four-year economic boom has not been fuelled by consumption alone. Investment, by both the government and private sector (including foreign investors), has already transformed the region and is expected to continue for several years.

As we reported in the September 2006 issue of the Economic Research Brief, the total value of new projects

in the GCC at various stages of preparation and in various sectors had reached the US\$1 trillion mark, with the UAE accounting for 34% and Saudi Arabia accounting for 26% of the total (Chart 6).

This represents a solid foundation that will ensure the sustainability of rapid growth and prosperity for many years to come. For financial institutions, this continuing investment boom presents great business opportunities and the financing needs are so great that all segments of the financial and capital markets, including Islamic finance, will benefit (Chart 7).

Equity Market Developments

The rapid pace of macroeconomic and financial sector developments over the past few years far outstripped the pace of regulatory and institutional developments in the GCC equity markets.

As a result, what started out as a justified and well-supported rise in the market values of most listed companies, quickly developed into a speculative bubble in some of the large equity markets fuelled by bank credit that was often diverted from its intended applications. After three years of steep rises, the equity markets reached unsustainable valuations bearing the hallmarks of speculative bubbles (Chart 8).

The smaller equity markets were less affected by the large swings in the other markets. The steep price declines in the main equity markets in the GCC in 2006 yielded valuable lessons that have led to improved market regulation and better institutions. Moreover, their negative impact on economic activity has turned out to be far less than initially feared.

The GFH Way

Against this background, GFH yet again demonstrated the soundness of its business model of channeling financial savings into productive development projects in the GCC region and beyond using sophisticated Sharia'a-compliant structures. The long-term economic gains generated through this process are likely to be sustainable and create a virtuous circle that should lead to a prosperous future.

Chart 1: Price of Brent Crude Oil (US\$/b)

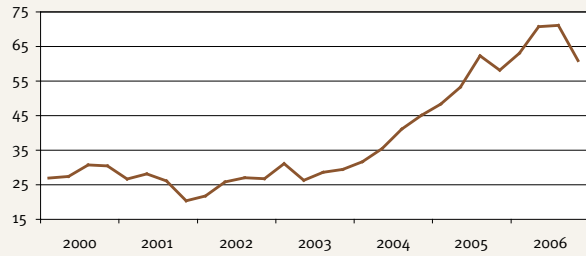


Chart 2: GCC Government Expenditure (US\$bn)

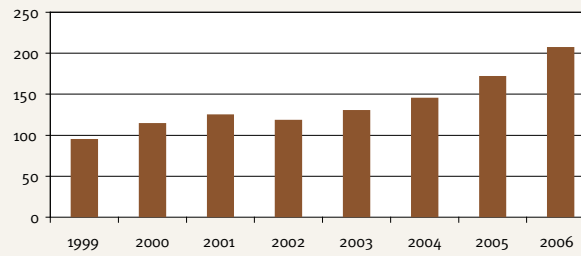


Chart 3: GCC Nominal GDP (US\$bn)

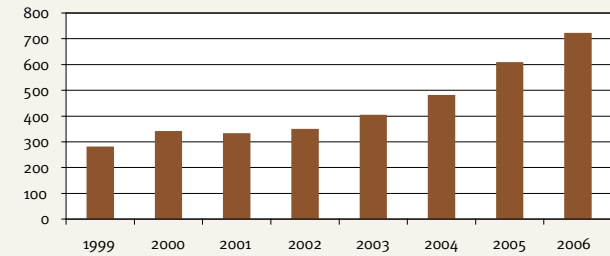


Chart 4: GCC Merchandise Imports (US\$bn)

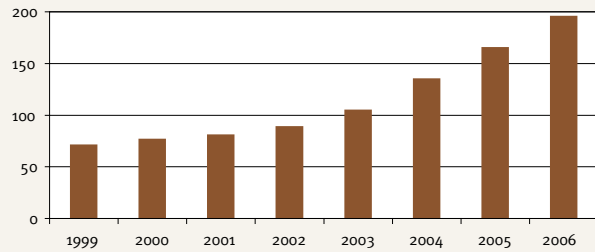


Chart 5: GCC Broad Money and Credit (US\$bn)

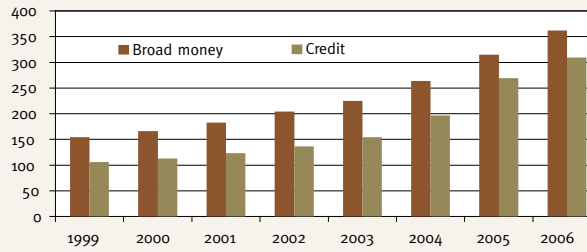


Chart 6: Projects By Country

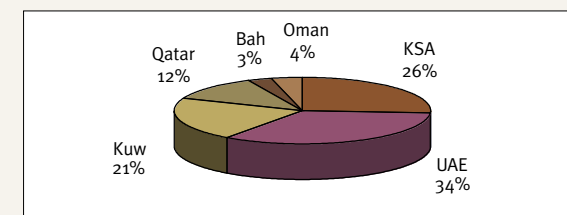


Chart 7: Financing Requirements (US\$ bn)

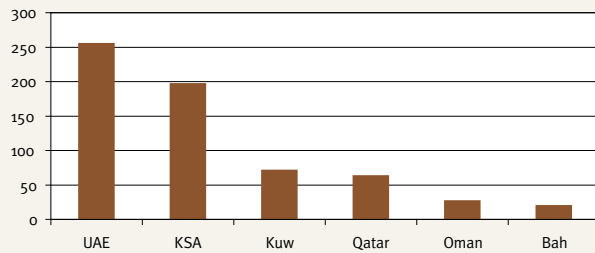
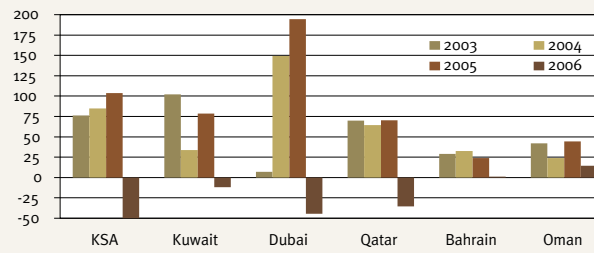


Chart 8: GCC Equity Markets (Annual Change %)



Sources: IMF, IIF & GFH

Corporate Social Responsibility

As an Islamic institution, GFH takes its responsibility to support the well being of the communities in which it operates seriously.

GFH believes in the social responsibility of business towards overall human welfare. Accordingly, GFH endeavours to make a significant difference to the well-being of the world around it wherever the Bank is present. To handle such a role, it is GFH's belief that this task can be done by integrating social values into corporate activities – a principle that is woven into the day-to-day functioning of the Bank.



The time to empower

During 2006 the Bank responded to the needs of the societies in which it has activities, in a number of different ways, as part of its proactive efforts to assist under privileged sections of the community. The Bank's corporate social responsibility programme for 2006 continued to focus on helping the under privileged, while enhancing the quality of life for everyone through supporting education activities, health programmes and sports events. The following are just some examples of the financial support provided by GFH in 2006:

- Establishment of the Gifted Students Centre in Bahrain, which is now complete: The centre's aim is to serve the Bahraini society by embracing special abilities and is designed to develop and enhance the various talents of these students for a brighter and promising future;
- Participation in the Crown Prince International Scholarship Program (Bahrain);
- Participation and financing of various social activities;
- Participation in 'Waqf' to promote Islamic finance activities.

2006 Awards

Best Investment Bank 2006

Banker Middle East

Bank of the Year 2006

Arabian Business Magazine

Islamic Bank of the Year 2006

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

Best Developer in Bahrain 2006

International Real Estate & Finance Middle East

(IREF ME) 2006 Conference – Awards Ceremony

Best Commercial Development in Bahrain 2006

International Real Estate & Finance Middle East

(IREF ME) 2006 Conference – Awards Ceremony

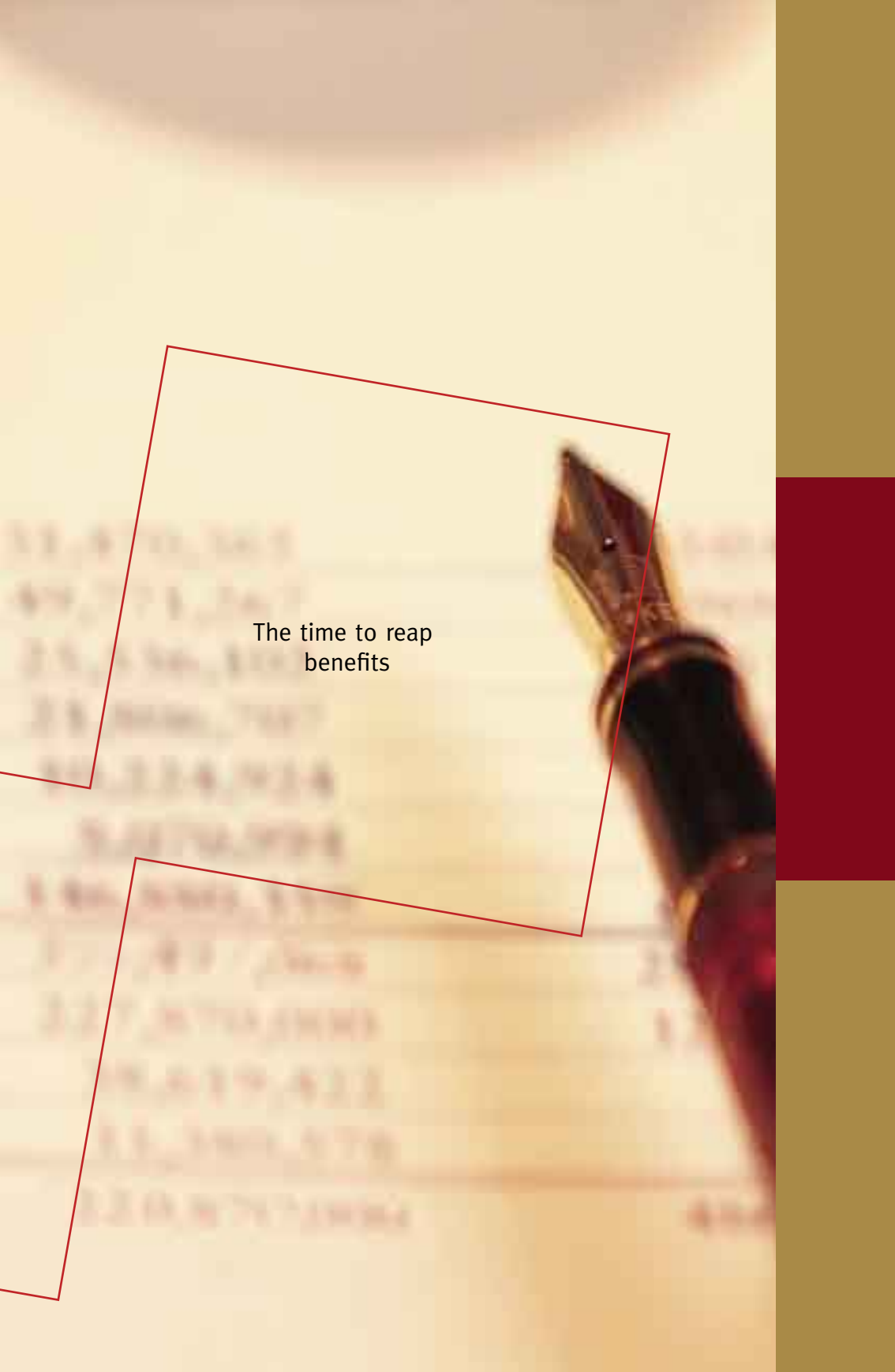
Global Contribution in Islamic Private Equity/Venture Capital 2006

Sheikh Mohammad Bin Rashid Al Maktoum Award



Creating Value
for our
Shareholders





The time to reap
benefits

Seven-Year Highlights

Seven-Year Highlights

YEAR 2006

- Oversubscription of Rights Issue to increase Bank's capital
- Listed GFH shares on Dubai Financial Market
- Received Standard & Poor's investment credit grade rating of BBB-
- Signed a one-year renewable US\$90 million syndicated Murabaha facility with a group of nine banks from Europe, Asia and the Middle East
- Participation in Prince Abdul Aziz bin Mousaed Economic City in Hail, KSA
- Launched Gateway to Morocco
- Launched Royal Village Head Office & Sales Centre
- Obtained approval in principle for establishment of Qatar's first Islamic investment bank
- Launched Energy City Qatar Phase II
- Oversubscription of US\$300 Million Murbaha Facility by RZB & West LB
- Bahrain Financial Harbour Phase I completed
- Khaleeji Commercial Bank (KHCB) launched new corporate identity and headquarters
- KHCB launched three new products including Gulf German Residences Company, Amlak II Company and Surooh Company
- Exits:
 - Gulf Atlantic Real Estate - GARE (UK) with ROI 37%
 - Gulf Atlantic FZ LLC - GAF (France) with average ROI 47.5%
 - Osoul House (Bahrain) with ROI 146%
 - Al Areen (Bahrain) with ROI 40%
 - Legends Dubailand (UAE) with ROI 20%
 - KHCB's exit from Amlak Real Estate (Bahrain) with ROI 20%

2006 NET PROFIT US\$211,583,000

YEAR 2005

- Launched Energy City Qatar
- Launched Al Basha'er GCC Equity Fund
- GFH Commercial Bank launched Eqarat Al-Khaleej Investment Product
- Co-sponsored the increase of the capital of Gulf Holding Company - Kuwait
- Launched Royal Metropolis and enabled investors to invest through Bayan Holding Company - Kuwait, in its components (Jordan Gate and Royal Village)
- Launched Pan European Real Estate
- GFH Commercial Bank launched Amlak Real Estate Fund
- GFH Commercial Bank launched Al-Hareth French Property Fund
- Exits:
 - Gulf Coffee House with ROI 65%
 - Bahrain Financial Harbour - Phase I (BFH) ROI 50%
- Listed Al-Khaleej Development Company (KDC) in Bahrain and Kuwait Stock Exchanges

2005 NET PROFIT US\$140,384,000

YEAR 2004

- Established a wholly-owned onshore banking subsidiary GFH Commercial Bank - Bahrain
- Co-founded First Leasing Bank - Bahrain
- Co-founded Saudi Real Estate Company - KSA
- Launched the Legends Development - UAE
- Founded MenaJet - Lebanon
- Acquired several components of two development projects in the Costa Del Sol region in Spain through Al Andalus House
- Launched Al Areen Development, Bahrain
- Exits: International Franchise Capital Limited (IFC) with ROI 50%

2004 NET PROFIT US\$56,736,000

YEAR 2003

- Acquired six properties in Bahrain through Aqar Management Company
- Acquired four properties in France through Gulf Atlantic FZ-LLC - GAF
- Established Financial Centre Investment Company
- Founded Gulf Development Real Estate Company

2003 NET PROFIT US\$17,074,000

YEAR 2002

- Launched Bahrain Financial Harbour Development - Bahrain
- Advised on the incorporation of Solidarity - Bahrain
- Acquired seven properties in the UK through Gulf Atlantic Real Estate GARE
- Acquired a majority stake in Halcore Group - USA
- Co-founded Arab Finance House - Lebanon
- Co-founded Royal University for Women - Bahrain

2002 NET PROFIT US\$13,310,000

YEAR 2001

- Established International Franchise Capital (IFC)
- Established Gulf Coffee House to invest in Costa Coffee
- Established Injazat Technology Fund
- Co-founded Al-Khaleej Development Company - Bahrain

2001 NET PROFIT US\$9,940,000

YEAR 2000

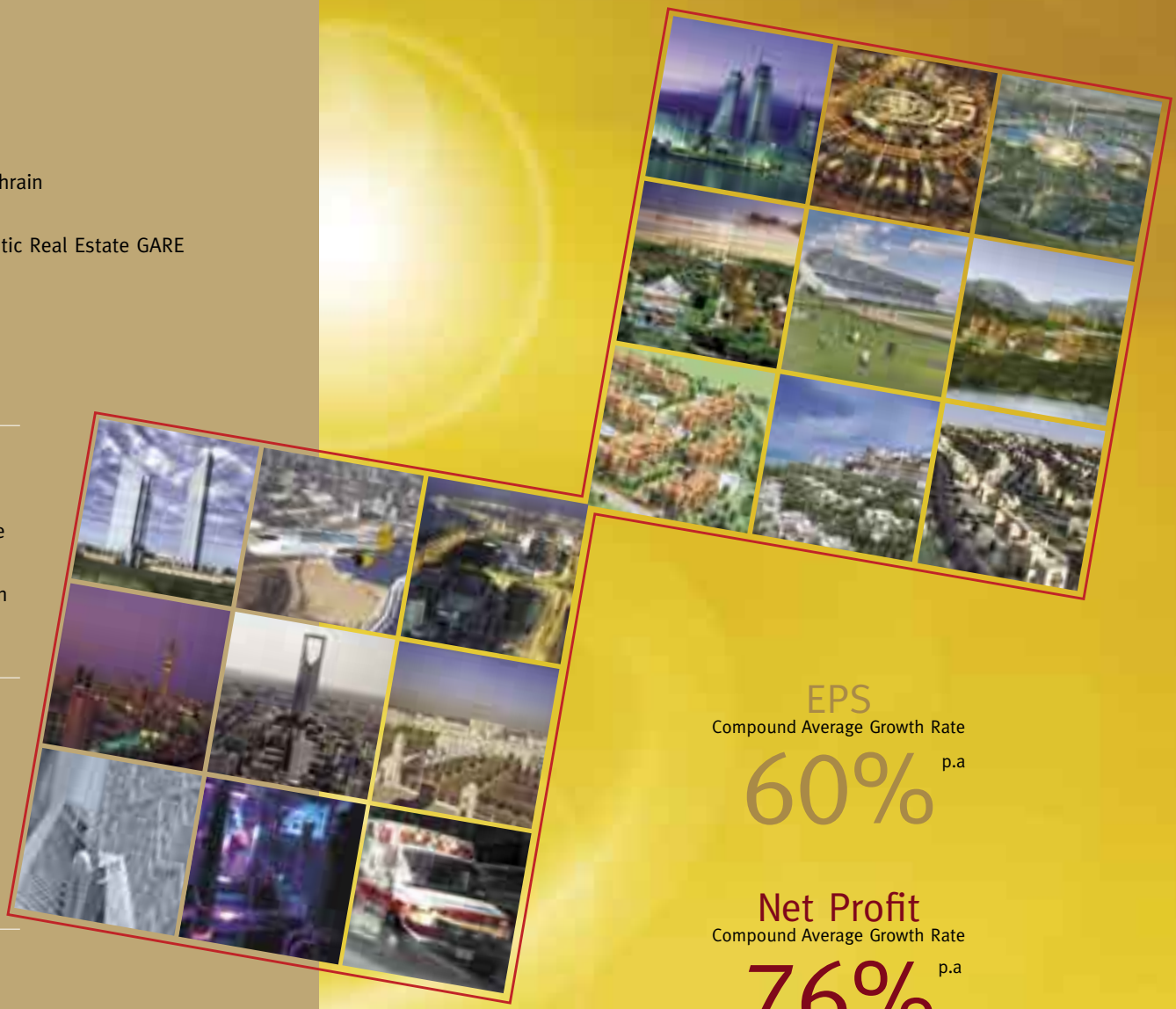
- Acquired a majority stake in Khaleej Finance & Investment Company - Bahrain
- Acquired a majority stake in Bahrain Aluminium Extrusion Company (Balexco) - Bahrain

2000 NET PROFIT US\$7,136,000

YEAR 1999

- Incorporated in October 1999

1999 NET PROFIT US\$822,000



EPS
Compound Average Growth Rate
p.a

60%

Net Profit
Compound Average Growth Rate
p.a

76%

The background features a close-up, slightly blurred view of an open book. The pages are filled with dense, small text arranged in columns and rows, characteristic of a financial statement or a detailed report. Two red, irregularly shaped callout boxes are overlaid on the image. One box is positioned on the left side, partially overlapping the book's pages, and contains the text 'Consolidated Financial Statements'. The other box is on the right side, also overlapping the pages. The overall color palette is warm, with shades of beige, brown, and a dark red vertical bar on the right edge.

Consolidated
Financial
Statements



In the years to come, when economists and historians look back on the economic landscape of the Kingdom of Bahrain and its steady though not phenomenal rise as the financial hub of the Middle East, one name will instantly come to mind as the catalyst for change in the Kingdom of Bahrain and one edifice will loom large on the horizon as the beacon of hope for a new generation of entrepreneurs and an inspiring and motivating landmark for the future.

The one name is: Gulf Finance House. The one edifice is: Bahrain Financial Harbour. Together they challenged the economics of the time to present the concept of manageable risks for maximum revenue generation.

GFH is thus poised to capitalize and leverage on its successes and chart a new way forward in time beyond regional frontiers with an international vision and a global reach.

The time to be



www.gfhouse.com