

GULF FINANCE HOUSE BSC
CONDENSED INTERIM CONSOLIDATED
FINANCIAL INFORMATION
31 March 2006

Commercial registration	:	44136 (registered with Bahrain Monetary Agency as an offshore Islamic investment bank).
Office	:	Al Salam Building Diplomatic Area PO Box 10006, Manama, Kingdom of Bahrain
Directors	:	Fuad Abdulla Al-Omar, <i>Chairman</i> Hamad A Aziz Al-Shaya, <i>Vice Chairman</i> Abdul Latif Abdullah Al-Meer Abdul Rahman Ali Al-Saeed Adel Dawood Al-Ohali Buti Khalifa Al-Flasi Esam Yousif A. Janahi Kahlid Mohammed Najibi Osama Ebrahim Al-Saleh Samir Yaqoob Al-Nafisi Yousif A Latif Al-Serkal Yousif Mohammed Khayat
Chief Executive Officer	:	Esam Yousif A. Janahi
Company secretary	:	Dr Haider Majali
Auditors	:	KPMG

GULF FINANCE HOUSE BSC

CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION for the three months ended 31 March 2006

CONTENTS	Page
Accountants' review report	1
Condensed interim consolidated financial information	
Consolidated balance sheet	2
Consolidated income statement	3
Consolidated statement of changes in equity	4-5
Consolidated statement of cash flows	6
Consolidated statement of changes in restricted investment accounts	7-8
Notes	9-10

ACCOUNTANTS' REVIEW REPORT

on the 31 March 2006 condensed interim consolidated financial information

To

The Directors
Gulf Finance House BSC
Manama
Kingdom of Bahrain

1 May 2006

We have reviewed the accompanying consolidated balance sheet of Gulf Finance House BSC (the 'Bank') and its subsidiaries (together, the 'Group') as of 31 March 2006, and the related consolidated statements of income, changes in equity, cash flows and changes in restricted investment accounts for the three month period then ended (the condensed interim consolidated financial information). This condensed interim consolidated financial information set out in pages 2 to 10 are the responsibility of the directors of the Bank. Our responsibility is to issue a report on this condensed interim consolidated financial information based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. A review is limited primarily to enquiries of the Bank's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

CONSOLIDATED BALANCE SHEET
as at 31 March 2006

US\$ 000's

	Note	31 March 2006 (reviewed)	31 December 2005 (audited)	31 March 2005 (reviewed)
ASSETS				
Cash and balances with banks		44,704	13,412	10,561
Due from financial and non-financial institutions		818,924	701,650	354,897
Investment securities	6	262,013	189,235	137,260
Other Investments		49,306	62,605	19,901
Assets held for sale		26,333	25,327	-
Trading Properties		8,890	8,660	7,199
Other assets		74,729	97,184	21,644
Equipment		2,395	1,694	2,024
Total assets		1,287,294	1,099,767	553,486
LIABILITIES				
Investors' funds		219,940	477,775	171,922
Customers' current accounts		1,896	5,090	-
Due to financial and non-financial institutions		480,439	176,145	111,471
Other liabilities		31,093	52,693	19,502
Total liabilities		733,368	711,703	302,895
Unrestricted investment accounts		30,350	35,700	851
EQUITY				
Share capital	4	212,674	149,771	149,771
Share premium	5	178,322	31,487	31,487
Statutory reserve		24,621	24,621	10,576
Available-for-sale investments fair value reserve		528	227	3,494
Retained earnings		107,431	146,258	53,150
Total equity attributable to shareholders of the parent company		523,576	352,364	248,478
Minority interest		-	-	1,262
Total equity (pages 4 and 5)		523,576	352,364	249,740
Total liabilities, unrestricted investment accounts and equity		1,287,294	1,099,767	553,486
Off-balance sheet items				
Restricted investment accounts (pages 7 and 8)		93,683	57,326	29,625

Fuad Abdulla Al-Omar
Chairman

Esam Yousif A. Janahi
Director and Chief Executive Officer

The Directors approved the condensed interim consolidated financial information consisting of pages 2 to 10 on 1 May 2006.

CONSOLIDATED INCOME STATEMENT
for the three months ended 31 March 2006

US\$ 000's

	31 March 2006 (reviewed)	31 March 2005 (reviewed)
Income from investment advisory services	61,724	39,287
Placement, management and arrangement fees	6,118	2,385
Income from investment securities	3,455	1,625
Income from murabaha receivables	8,256	2,310
Other income	369	119
Total income	79,922	45,726
Staff costs	(12,212)	(6,870)
Investment advisory expenses	(4,619)	(3,920)
Murabaha expenses	(3,994)	(1,113)
Other expenses	(1,787)	(1,017)
Depreciation	(225)	(188)
NET PROFIT FOR THE PERIOD	57,085	32,618
Attributable to:		
Shareholders of the parent company	57,085	32,602
Minority interest	-	16
	57,085	32,618
Earnings per share attributable to shareholders of the parent		
Basic earnings per share (US cents)	9.74	5.58

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the 3 months ended 31 March 2006

US\$ 000's

31 March 2006 (reviewed)	Share Capital	Share premium	Statutory reserve	Investments fair value reserve	Retained earnings	Total	Minority interest	Total Equity
Balance at 1 January 2006	149,771	31,487	24,621	227	146,258	352,364	-	352,364
Issue of bonus shares	17,972	-	-	-	(17,972)	-	-	-
Dividend declared (2005)	-	-	-	-	(71,890)	(71,890)	-	(71,890)
Charity contribution declared (2005)	-	-	-	-	(1,000)	(1,000)	-	(1,000)
Board remuneration paid (2005)	-	-	-	-	(1,050)	(1,050)	-	(1,050)
Increase in Share Capital (note 4)	44,931	142,963	-	-	-	187,894	-	187,894
Share issue expenses	-	(128)	-	-	-	(128)	-	(128)
Transfer from retained earnings to share premium (note 5)	-	4,000	-	-	(4,000)	-	-	-
Net fair value changes during the period	-	-	-	301	-	301	-	301
Net profit for the period	-	-	-	-	57,085	57,085	-	57,085
Balance at 31 March 2006	212,674	178,322	24,621	528	107,431	523,576	-	523,576

The condensed interim consolidated financial information consists of pages 2 to 10.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the 3 months ended 31 March 2006 *(continued)*

US\$ 000's

31 March 2005 (reviewed)	Share Capital	Proposed increase in share capital	Share premium	Statutory reserve	Investments fair value reserve	Retained earnings	Total	Minority interest	Total Equity
Balance at 1 January 2005	139,973	-	31,487	10,576	3,899	63,725	249,660	1,246	250,906
Issue of bonus shares	9,798	-	-	-	-	(9,798)	-	-	-
Dividend declared (2004)	-	-	-	-	-	(32,194)	(32,194)	-	(32,194)
Charity contribution declared (2004)	-	-	-	-	-	(600)	(600)	-	(600)
Board remuneration paid (2004)	-	-	-	-	-	(585)	(585)	-	(585)
Net fair value changes during the period	-	-	-	-	(405)	-	(405)	-	(405)
Net profit for the period	-	-	-	-	-	32,602	32,602	16	32,618
Balance at 31 March 2005	149,771	-	31,487	10,576	3,494	53,150	248,478	1,262	249,740

The condensed interim consolidated financial information consists of pages 2 to 10.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2006

US\$ 000's

	31 March 2006 (reviewed)	31 March 2005 (reviewed)
OPERATING ACTIVITIES		
Cash receipts from investment advisory services	49,629	36,964
Fees and commissions received	6,916	2,385
Murabaha profits received	7,773	2,310
Murabaha expense paid	(3,592)	(1,089)
Other income received	411	879
Net repayment to customer deposits	(3,194)	-
Payments for operating expenses	(49,344)	(11,025)
Cash flows from operating activities	8,599	30,424
INVESTING ACTIVITIES		
Purchase of investment securities	(31,897)	(7,531)
Proceeds from sale of investment securities	751	2,254
Purchase of investment property	(230)	(7,199)
Investors' funds received/(paid), net	(257,712)	137,703
Purchase of equipment	(320)	(123)
Advance paid for purchase of land	-	(5,000)
Net (payment) / receipts from unrestricted investments	(5,350)	851
Cash flows from investing activities	(294,758)	120,955
FINANCING ACTIVITIES		
Receipts from/(Repayment) to financial institutions	45,308	(9,514)
Receipts from/(Repayment) to non financial institutions	236,598	(8,056)
Short term financing to related party	(4,700)	(4,249)
Proceeds from increase in share capital	187,894	-
Cash paid to charitable organisations	-	(579)
Board remuneration paid	(1,050)	(585)
Dividends paid	(65,369)	(22,826)
Cash flows from financing activities	398,681	(45,809)
INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at 1 January	112,522	105,570
	761,436	279,789
CASH AND CASH EQUIVALENTS AT 31 March	873,958	385,359
Cash and cash equivalents comprise:		
Cash and balances with banks	44,704	10,561
Due from financial institutions	818,924	354,897
Investments in Sukuk (other investments)	10,330	19,901
	873,958	385,359

The condensed interim consolidated financial information consists of pages 2 to 10.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the three months ended 31 March 2006

31 March 2006	Balance at 1 January 2006			Movements during the period						Balance 31 March 2006			
	No of units (000)	Average value per share US\$	Total US\$ 000's	Investment US\$ 000's	Revaluation US\$ 000's	Gross income US\$ 000's	Dividends paid US\$ 000's	Bank's fees as an agent US\$ 000's	Administration expenses US\$ 000's	No of units (000)	Average value per share US\$	Total US\$ 000's	Total % ownership
Gulf Atlantic Real Estate Company Ltd	500	1.7208	860	(860)	-	62	(62)	-	-	-	-	-	-
Gulf Atlantic FZ LLC	0.02	118,440	2,369	-	55	61	(61)	-	-	0.020	121,190	2,424	2.90
Gulf Development Real Estate Company KSCC	10,910	0.341	3,718	-	18	-	-	-	-	10,910	0.342	3,736	7.27
Menajet Holding SAL	200	10.00	2,000	-	-	-	-	-	-	200	10.00	2,000	2.91
Kuwait National Real Estate Investment & Services Co. KSCC	6,250	0.375	2,344	-	11	-	-	-	-	6,250	0.377	2,355	3.85
Bayan Holding Company KSCC	7,000	0.341	2,385	-	11	-	-	-	-	7,000	0.342	2,396	1
Gulf North Africa Holding Company KSCC	11,650	0.349	4,070	19	-	-	-	-	-	11,650	0.351	4,089	8
Pan European Fund	9	1,188.65	10,339	36,137	240	68	-	-	(20)	39	1,213.142	46,764	90
Al Hareth French Property Fund	25	1,186.25	29,241	-	678	744	(744)	-	-	25	1,196.760	29,919	100
			57,326	35,296	1,013	935	(867)	-	(20)			93,683	

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the three months ended 31 March 2006 (continued)

31 March 2005	Balance at 1 January 2005			Movements during the period						Balance 31 March 2005			
	No of units (000)	Average value per share US\$	Total US\$ 000's	Investment/ (withdrawal) US\$ 000's	Revaluation US\$ 000's	Gross income US\$ 000's	Dividends paid US\$ 000's	Bank's fees as an agent US\$ 000's	Administra- tion expenses US\$ 000's	No of units (000)	Average value per share US\$	Total US\$ 000's	Total % ownership
Company													
Gulf Atlantic Real Estate Company Ltd	500	1.92	959	-	(37)	21	(21)	-	-	500	1.84	922	1.04
Gulf Atlantic FZ LLC	0.02	135,580	2,712	-	(164)	2	(2)	-	-	0.020	127,405	2,548	2.90
Gulf Development Real Estate Company KSC(C)	9,784	0.34	3,320	386	57	-	-	-	-	10,910	0.345	3,763	7.27
Menajet Holding SAL	200	10.00	2,000	-	-	-	-	-	-	200	10.00	2,000	2.91
Kuwait National Real Estate Investment and Services Company	13,550	0.3733	5,058	(753)	88	-	-	-	-	11,550	0.38	4,393	3.85
Al Hareeth French Property Fund	-	-	-	15,999	-	-	-	-	-	12	1,295.5	15,999	100
			14,049	15,632	(56)	23	(23)	-	-			29,625	

The condensed interim consolidated financial information consists of pages 2 to 10.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION
for the three months ended 31 March 2006

US\$ 000's

- 1 The condensed interim consolidated financial information has been prepared in summarised form in accordance with International Accounting Standard 34, *Interim Financial Reporting*.
- 2 The condensed interim consolidated financial information is not audited but has been reviewed by KPMG. The corresponding figures for the balance sheet have been extracted from the audited consolidated financial statements for the year ended 31 December 2005 and the reviewed interim condensed interim consolidated financial information for the three months ended 31 March 2005.
- 3 The accounting policies used in the preparation of the condensed interim consolidated financial information are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2005.
- 4 During the period, the paid up capital of the bank increased from US\$ 149,771 to US\$ 212,674 as follows:
- issue of bonus shares (12 shares for every hundred shares held) for 2005 amounting to US\$ 17,972; and
 - rights issue of US\$ 44,931 at a premium of US\$ 142,963.
- 5 In 2003, the shareholders approved the utilisation of the share premium account for issue of shares towards the management incentive programme amounting to US\$ 4,000. The shareholders in their annual general meeting held on 19 February 2006 resolved to restate the share premium account by transferring an equivalent amount from retained earnings.
- 6 Investment securities comprises of:

	31 March 2005	31 December 2005	31 March 2004
Investments carried at fair value through income statement	21,410	20,910	33,844
Available-for-sale investments	240,603	168,325	103,416
	262,013	189,235	137,260

Fair value changes taken to the income statement on 'investments carried at fair value through the income statement' for the three months ended 31 March 2006 amounted to US\$ 3,445 (31 March 2005: US\$ 552).

- 7 Due to the nature of the Bank's business, the quarterly results reported in these condensed interim consolidated financial information may not represent a proportionate share of the overall annual results.
- 8 The Group's commitments to invest in projects as at 31 March 2006 amounted to US\$ 85,610 (31 March 2005: US\$ 2,500).

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION
for the three months ended 31 March 2006**

US\$ 000's

- 9 During the course of the bank's investment and advisory activities, a significant portion of the income arises from transactions with entities over which the bank exercises influence as well as with other related parties such as major shareholders, directors and executive management of the Bank. The terms and conditions for these transactions are approved by the Board of Directors of the Bank.

For the three months ended 31 March 2006, the bank has recognised income from investment advisory services of US\$ 61,724 (31 March 2005: US\$ 39,287) arising from transactions with related parties.

- 10 Appropriations of net profit are made only at the year end.