



TAIB BANK B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

TAIB Bank B.S.C. (c)

Consolidated financial statements for the year ended 31 December 2006

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TAIB Bank B.S.C. (c)
Directors' report for the year ended 31 December 2006

The Directors are pleased to submit their report together with the audited consolidated financial statements for the year ended 31 December 2006.

Consolidated financial statements

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

Principal activities

TAIB Bank B.S.C.(c) holds an investment banking license issued by the Central Bank of Bahrain (formerly known as Bahrain Monetary Agency).

The Bank has its registered office at TAIB Tower, Diplomatic Area, Manama, Kingdom of Bahrain. The Bank's shares are listed on the Bahrain Stock Exchange.

The principal activities of the Group as a Private Bank are wealth management and wealth transfer products and services, asset management, private equity investments, real estate investments, provision of financial and securities advisory services and brokerage services.

Results and financial position

The results for the year ended 31 December 2006 and the financial position of the Group as at that date are set out in the accompanying consolidated financial statements.

Dividend

The Directors recommend to the Annual General Meeting to pay a cash dividend of US\$ 9.7 million, representing 10% of the paid up capital of the Bank, for the year ended 31 December 2006 (2005: cash dividend of US\$ 4.6 million representing 5% and a share dividend of US\$ 5.1 million representing 5% of the paid up capital of the Bank).

Directors

The following Directors served during the year ended 31 December 2006:

Mr. Abdulaziz R AlRashed (Chairman)
Mr. Iqbal G Mamdani (Vice Chairman and Chief Executive Officer)
Sheikh Abdulrahman Al Jeraisy
Sheikh Ahmed M Baroom
Mr. Pradip P Shah
Mr. Farouk Yousuf Khalil Almoayyed
Dr. Abdool Magid A K Vakil
Mr. Ibrahim Al Sultan

At 31 December 2006, Directors and their related parties held 63.4% (2005: 52.4%) of the share capital of the Bank. Some of these Directors also held an interest in, and were Directors of JAMBA SA, which owns 1.8% (2005: 18.71%) of the share capital of the Bank.

TAIB Bank B.S.C. (c)
Directors' report for the year ended 31 December 2006 (continued)

Ratings

In May 2006, Capital Intelligence Limited, a bank analysis and rating agency based in Cyprus, upgraded the long term ratings for the Bank from BB+ to BBB- and short-term ratings for the Bank from B to A3. The upgrade in ratings was due to TAIB's strong results and success of its private banking strategy and improvement in its overall risk profile.

In July 2006, Fitch, an international rating agency, affirmed the long and short term ratings for the Bank at BB and B, respectively, reflecting the sound capitalisation and liquidity as well as improving profitability of the Bank.

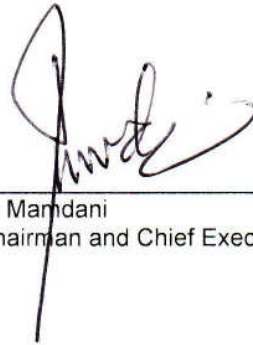
Auditors

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

By order of the Board of Directors



Abdulaziz R AlRashed
Chairman



Iqbal G Mamdani
Vice Chairman and Chief Executive Officer

17 January 2007

Independent auditor's report to the shareholders of TAIB Bank B.S.C. (c)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of TAIB Bank BSC (c) (the "Bank") and its subsidiaries (together, the "Group") which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent auditor's report to the shareholders of TAIB Bank B.S.C. (c) (continued)

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on regulatory requirements

Further, in accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain Law, we report that we have obtained all the information that we considered necessary for the purpose of our audit; the Bank has maintained proper books of accounts and the consolidated financial statements and the financial information contained in the Directors' report, are in agreement therewith; and, nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the Bahrain Commercial Companies Law, the Central Bank of Bahrain Law, the terms of its banking license or its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2006.


Manama, Kingdom of Bahrain
25 January 2007

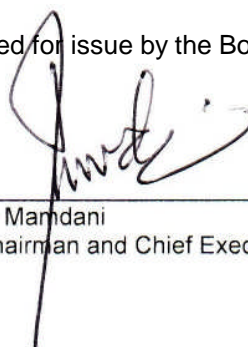
TAIB Bank B.S.C. (c)**Consolidated balance sheet****(All amounts expressed in thousands of United States Dollars unless otherwise stated)**

	Note	<u>31 December</u>	
		<u>2006</u>	<u>2005</u>
ASSETS			
Cash and balances with central banks		27,332	23,546
Placements with banks	4	217,134	166,064
Trading securities	5	35,654	30,061
Loans and advances	6, 7, 8, 9	11,527	14,522
Available-for-sale investment securities	7, 8, 10	80,528	144,089
Investment in associate	11	9,000	-
Investment property	12	27,594	26,540
Property and equipment	13	16,711	14,811
Other assets	7, 14	8,537	15,418
Total assets		<u>434,017</u>	<u>435,051</u>
LIABILITIES			
Deposits from banks		78,204	111,264
Deposits from customers	9, 15	148,068	144,958
Securities sold under agreements to repurchase	5, 10	2,904	3,911
Other liabilities	16	28,127	25,465
Long term debt		7,117	-
Total liabilities		<u>264,420</u>	<u>285,598</u>
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	17	107,012	101,916
Less: Treasury shares	17	(9,836)	(9,367)
Reserves	18	65,361	50,421
		<u>162,537</u>	<u>142,970</u>
Minority interest		7,060	6,483
Total equity		<u>169,597</u>	<u>149,453</u>
Total equity and liabilities		<u>434,017</u>	<u>435,051</u>

These consolidated financial statements have been approved for issue by the Board of Directors and signed on its behalf on 17 January 2007 by:



Abdulaziz R AlRashed
Chairman



Iqbal G Mandani
Vice Chairman and Chief Executive Officer

The notes on pages 11 to 43 are an integral part of these consolidated financial statements.

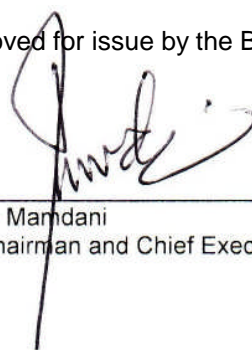
TAIB Bank B.S.C. (c)**Consolidated income statement****(All amounts expressed in thousands of United States Dollars unless otherwise stated)**

	Note	Year ended 31 December	
		2006	2005
Interest and similar income	19	15,992	12,392
Interest expense	20	(9,813)	(4,723)
		<u>6,179</u>	<u>7,669</u>
Fee and commission income	21	16,299	13,272
Net trading income	22	3,739	2,417
Gain on disposal of available-for-sale investment securities		18,680	29,829
Changes in fair value of investment property	23	1,054	(11,752)
Foreign exchange income		377	929
Other operating income		<u>3,074</u>	<u>1,267</u>
Total operating income		49,402	43,631
Staff costs	24	(12,898)	(11,528)
Other operating costs	25	(7,976)	(7,395)
Provisions – impairment of loans and investments	7	(6,002)	(5,971)
Profit before taxation		<u>22,526</u>	<u>18,737</u>
Overseas income tax expense		(159)	(73)
Profit for the year		<u>22,367</u>	<u>18,664</u>
Attributable to:			
Equity holders of the Bank		21,064	17,758
Minority interest		<u>1,303</u>	<u>906</u>
		22,367	18,664
Earnings per share for profit attributable to the equity holders of the Bank during the year (expressed in United States Dollars per share – Basic and diluted)	26	<u>\$0.219</u>	<u>\$0.183</u>

These consolidated financial statements have been approved for issue by the Board of Directors and signed on its behalf on 17 January 2007 by:



Abdulaziz R AlRashed
Chairman



Iqbal G Mamdani
Vice Chairman and Chief Executive Officer

The notes on pages 11 to 43 are an integral part of these consolidated financial statements.

TAIB BANK B.S.C. (c)
Consolidated statement of changes in equity for the year ended 31 December 2006
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Attributable to equity holders of the Bank										Minority interest	Total	
	Share capital	Treasury shares	Share premium	Capital reserve	Statutory reserve	Reserves				Retained earnings			Total
						Revaluation reserve	General reserve	Fair value reserve					
At 1 January 2006	101,916	(9,367)	290	476	18,554	3,280	6,171	96	21,554	50,421	6,483	149,453	
Bonus shares for 2005 approved on 29 March 2006 (Note 17)	5,096	-	-	-	-	-	-	-	(5,096)	(5,096)	-	-	
Dividend for 2005 approved on 29 March 2006 (Note 26)	-	-	-	-	-	-	-	-	(4,627)	(4,627)	-	(4,627)	
Movement in treasury shares	-	(469)	-	-	-	-	469	-	-	469	-	-	
Movement in fair value of available-for-sale investments (Note 10)	-	-	-	-	-	-	-	4,110	-	4,110	-	4,110	
Disposal of available-for-sale investments (Note 10)	-	-	-	-	-	-	-	(584)	-	(584)	-	(584)	
Revaluation of property and equipment	-	-	-	-	-	2,232	-	-	-	2,232	-	2,232	
Currency translation and other adjustment	-	-	-	-	(30)	-	-	-	(2,598)	(2,628)	-	(2,628)	
Net movement in equity	5,096	(469)	-	-	(30)	2,232	469	3,526	(12,321)	(6,124)	-	(1,497)	
Profit for the year	-	-	-	-	-	-	-	-	21,064	21,064	1,303	22,367	
Movement during the year	5,096	(469)	-	-	(30)	2,232	469	3,526	8,743	14,940	1,303	20,870	
Transfer to statutory reserve	-	-	-	-	2,237	-	-	-	(2,237)	-	-	-	
Movement in minority interest	-	-	-	-	-	-	-	-	-	-	(726)	(726)	
At 31 December 2006	107,012	(9,836)	290	476	20,761	5,512	6,640	3,622	28,060	65,361	7,060	169,597	

The notes on pages 11 to 43 are an integral part of these consolidated financial statements.

TAIB BANK B.S.C. (c)
Consolidated statement of changes in equity for the year ended 31 December 2005
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Attributable to equity holders of the Bank									Minority interest	Total	
	Share capital	Treasury shares	Reserves									Total
			Share premium	Capital reserve	Statutory reserve	Revaluation reserve	General reserve	Fair value reserve	Retained earnings			
At 1 January 2005	101,916	(9,107)	290	476	16,545	2,842	6,201	17,801	6,614	50,769	16	143,594
Movement in treasury shares	-	(260)	-	-	-	-	(30)	-	-	(30)	-	(290)
Movement in fair value of available-for-sale investments (Note 10)	-	-	-	-	-	-	-	5,854	-	5,854	-	5,854
Disposal of available-for-sale investments (Note 10)	-	-	-	-	-	-	-	(23,559)	-	(23,559)	-	(23,559)
Revaluation of property and equipment	-	-	-	-	-	438	-	-	-	438	-	438
Currency translation adjustment	-	-	-	-	137	-	-	-	(267)	(130)	-	(130)
Net movement in equity	-	(260)	-	-	137	438	(30)	(17,705)	(267)	(17,427)	-	(17,687)
Profit for the year	-	-	-	-	-	-	-	-	17,758	17,758	906	18,664
Movement during the year	-	(260)	-	-	137	438	(30)	(17,705)	17,491	331	906	977
Transfer to statutory reserve	-	-	-	-	1,872	-	-	-	(1,872)	-	-	-
Movement in minority interest	-	-	-	-	-	-	-	-	(679)	(679)	5,561	4,882
At 31 December 2005	101,916	(9,367)	290	476	18,554	3,280	6,171	96	21,554	50,421	6,483	149,453

The notes on pages 11 to 43 are an integral part of these consolidated financial statements.

TAIB Bank B.S.C. (c)
Consolidated cash flow statement
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

	Year ended 31 December	
	2006	2005
Cash flows from operating activities:		
Net income for the year before taxation and minority interest	22,526	18,737
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in fair value of investments held for trading	(3,202)	(672)
Changes in fair value of derivative financial instruments	(1,512)	(6,398)
Changes in fair value of investment properties	(1,054)	11,752
Provision for impairment	6,002	5,971
Depreciation	874	924
Cash flows from operating profits before changes in operating assets and liabilities	<u>23,634</u>	<u>30,314</u>
Movements in operating assets and liabilities:		
Trading securities	(2,391)	(14,676)
Loans and advances	2,995	6,495
Other assets	5,888	8,565
Deposits from banks	(33,060)	65,083
Deposits from customers	3,110	(5,513)
Other liabilities	4,751	(939)
Securities sold under agreements to repurchase	(1,007)	(1,698)
Currency translation and other adjustment	(2,628)	(130)
Net cash provided by operating activities	<u>1,292</u>	<u>87,501</u>
Cash flows from investing activities:		
Net movement in available-for-sale investment securities	61,085	(8,912)
Net investment in associate	(9,000)	-
Net acquisition of property and equipment	(542)	(2,063)
Net cash provided by/(used in) investing activities	<u>51,543</u>	<u>(10,975)</u>
Cash flows from financing activities:		
Dividend paid	(4,627)	-
Purchase of treasury shares	(469)	(260)
Net movement in long term debt	7,117	(4,343)
Net cash provided by/(used in) financing activities	<u>2,021</u>	<u>(4,603)</u>
Net increase in cash and cash equivalents	54,856	71,923
Cash and cash equivalents at beginning of the year	<u>189,610</u>	<u>117,687</u>
Cash and cash equivalents at end of the year (Note 27)	<u>244,466</u>	<u>189,610</u>

The notes on pages 11 to 43 are an integral part of these consolidated financial statements.

TAIB Bank B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006

(All amounts expressed in thousands of United States Dollars unless otherwise stated)

1 Incorporation and principal activity

TAIB Bank B.S.C. (c) (the "Bank") was incorporated in Bahrain as an Exempt Company and holds an investment banking license issued by the Central Bank of Bahrain (formerly known as Bahrain Monetary Agency). Pursuant to an amendment to the Bahrain Commercial Companies Law on 10 October 2004, the Bank changed its status from "Exempt Company" to "Bahrain Closed Joint Stock Company". The Bank has its registered office at TAIB Tower, Diplomatic Area, Manama, the Kingdom of Bahrain. Its shares are listed on the Bahrain Stock Exchange.

The principal activities of the Bank and its subsidiaries (the "Group") as a Private Bank are wealth management and wealth transfer products and services, asset management, private equity investments, real estate investments, provision of financial and securities advisory services and brokerage services.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated:

2.1 Basis of preparation

The Group's consolidated financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The consolidated financial statements are prepared under the historical cost convention as modified by the fair valuation of available-for-sale investments and financial assets held for trading, investment properties, certain property and equipment and derivative contracts.

The preparation of financial statements in conformity with IFRS requires use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 8.

During the year, there have been amendments to published standards and interpretations effective from 1 January 2006. The application of the amendments and interpretations listed below did not result in substantial changes to the Group's accounting policies:

- International Accounting Standards (IAS) 19 Amendment – Actuarial Gains and Losses, Group Plan disclosures: The Group decided to retain its former accounting policy regarding the recognition of actuarial gains or losses;
- IAS 21 Amendment – Net Investment in Foreign Operation: This amendment is not relevant for the Group;
- IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions: This amendment is not relevant for the Group;
- IAS 39 Amendment – The Fair Value Option: This amendment does not have any impact on the classification and the valuation of the Group's financial instruments classified at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments classified at fair value through profit or loss;
- IAS 39 and IFRS 4 Amendment – Financial Guarantee Contract: This amendment is not relevant for the Group;

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.1 Basis of preparation (continued)

- IFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards: This amendment is not relevant for the Group;
- IFRS 6 Amendment - Exploration for and Evaluation of Mineral Resources: This amendment is not relevant for the Group;
- IFRIC 4 – Determining whether an Agreement contains a Lease: This interpretation is not relevant for the Group; and
- IFRIC 5 – Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds: This interpretation is not relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the Group's 2006 financial year and have not been early adopted:

- IFRS 7 – Financial Instruments: Disclosures – effective for annual periods beginning on or after 1 January 2007. IAS 1 – Amendments to capital disclosures – effective for annual periods beginning on or after 1 January 2007. The Group has assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendments of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from the annual periods beginning 1 January 2007;
- IFRIC 7 – Applying the Restatement Approach under IAS 29 - effective for annual periods beginning on or after 1 March 2006;
- IFRIC 8 – Scope of IFRS 2 - effective for annual periods beginning on or after 1 May 2006;
- IFRIC 9 – Reassessment of embedded derivatives - effective for annual periods beginning on or after 1 June 2006
- IFRIC 10 – Interim Financial Reporting and Impairment – effective for annual periods beginning on or after 1 November 2006; and
- IFRIC 12 – Service Concession Arrangements – effective for annual periods beginning on or after 1 January 2009.

Other than IFRS 7, the application of the above new interpretations will not have a material impact on the Group's consolidated financial statements in the period of initial recognition.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.2 Basis of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. They are de-consolidated from the date on which control ceases.

Undertakings in which the Group has power to exercise control over operations and which are intended to be temporary because the undertakings have been acquired and are held exclusively with a view to resale within next twelve months are not consolidated. Unconsolidated subsidiaries are accounted for and disclosed as available-for-sale investment securities.

All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated. The accounting policies for subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group.

Separate disclosure is made of minority interests.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

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

2.3 Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments in other economic environment. Segments with a majority of revenues or assets which are 10% or more of all the segments are reported separately.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.4 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The consolidated financial statements are presented in United States Dollars, which represents the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency of the Bank using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Translation differences on non-monetary items, such as equities held as trading securities, are as part of fair value gain or loss in the income statement. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

Group entities

The results and financial position of all Group entities that have a functional currency different from the Bank's presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet are translated at the closing exchange rate at the date of the balance sheet;
- Income and expenses for each income statement are translated at the average exchange rates; and
- The gains or losses arising on translation are dealt with in the shareholders' equity.

2.5 Trading securities

The Group considers a securities as held for trading if it was acquired or incurred principally for the purpose of selling or repurchasing in near term or if it is a part of portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-taking.

Trading securities comprise marketable equity, funds and debt securities. Investments in funds are stated at the valuation provided by the investment managers. Quoted equity and debt securities are stated at market value. Government Agency Bonds are stated at net present value of estimated future cash flows discounted at effective yield.

Gains or losses in respect of trading securities are disclosed as net trading income. Dividends are included in other operating income when declared by the investee company.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.6 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. Loans and advances are carried at amortised cost using effective interest method and are stated net of impairment provisions which are charged to the income statement.

2.7 Available-for-sale investment securities

Available-for-sale investment securities are those intended to be held on for an indefinite period of time which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale investment securities are initially recognised at fair value plus transaction costs. Available-for-sale investment securities are subsequently measured at fair value, unless fair value cannot be reliably measured. Gains and losses arising from changes in fair value of available-for-sale investment securities are directly recognised in equity, until the investment is derecognised or impaired. At this time, the cumulative gain or loss previously reported in equity is included in the income statement. However, interest calculated using effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement. Dividends on available-for-sale investment securities are recognised in the income statement when the entity's right to receive the payment is established.

In respect of available-for-sale investments carried at cost, the variability in the range of reasonable fair value estimates is so great and the probabilities of the various outcomes are so difficult to assess that the usefulness of a single estimate of fair value is negated.

2.8 Investment property

Investment property comprises land and building and are carried at fair value. Fair value is based on valuation as assessed by independent valuers, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are reviewed annually by professional valuers who hold a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued.

Property held for rental yields and capital appreciation, which is not occupied by the entities in the Group, is classified as investment property. Changes in fair value of investment property are recorded in the income statement.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.9 Provision for impairment

Assets carried at amortised costs

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets are considered to be impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the assets (a "loss event") and the loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists for the financial asset that are individually significant, and individually or collectively for the financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of similar financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of loss is measured as the difference between the assets carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognized, then the previously recognised impairment loss is reversed. The amount of reversal is recognised in the income statement.

Assets classified as available-for-sale

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as available-for-sale, a significant or prolonged decline in fair value of the security below the cost is considered in determining whether the assets are impaired. If any evidence exists of significant impairment for the available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the income statement – is removed from the equity and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.10 Trade date accounting

All regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the Group commits to purchase or sell the financial instrument.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.12 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques including discounted cash flow models and option pricing models as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative instruments held for trading are measured at fair value and changes in fair value are recorded in the income statement as net trading income.

2.13 Securities sold under agreements to repurchase

Securities sold under agreements to repurchase are treated as financing transactions and are stated at the amounts at which the securities will subsequently be repurchased as specified in the respective agreements as adjusted for accrued interest. These securities are included in the balance sheet as financial assets at fair value and the counter party liability is shown as securities sold under agreements to repurchase.

2.14 Overseas taxation

Provision for taxation of foreign subsidiaries is determined based on the tax legislation applicable in the jurisdiction in which the foreign subsidiaries are domiciled and is determined based on reported income before income taxes. There is no corporate taxation in the Kingdom of Bahrain.

2.15 Employee benefits

Compensation costs

Group employee benefits and entitlements including entitlement for annual leave, holiday, air passage and other short term benefits are recognized as they accrue to the employees.

Pension plans

The Group's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.15 Employee benefits (continued)

Termination benefits

Provision for staff terminal benefits for employees of the Bank and subsidiaries are made in compliance with the labour legislation of the countries in which the entities are domiciled.

Share-based compensation

The Group operates an equity-settled share based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to the equity over the remaining period.

2.16 Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

2.17 Share capital

Dividends on ordinary shares

Dividends on ordinary shares are recognised in shareholders' equity in the period in which they are approved by the shareholders.

Treasury shares

Where the Bank or other member of the Group purchases Bank's equity share capital, the consideration paid is deducted from the total shareholder's equity as treasury shares until they are sold or reissued. When such shares are subsequently sold or reissued, any consideration received is included in the shareholders' equity.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.18 Interest income and expense

Interest and similar income and expense for all interest bearing financial instruments are recognized in the income statement on an accrual basis using the effective interest method. Interest and similar income includes coupons earned on fixed income investments and trading securities.

Once a financial asset or a group of financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.19 Fee and commission

Fee and commission are generally recognised on an accrual basis when the service has been provided. Asset management fees related to investment funds are recognised rateably over the period in which service is provided. The same applies to wealth management and custody services provided over an extended period of time. Performance fees or fee components are recognised when the performance criteria is fulfilled. Placement fees arising from structuring transactions for clients are recognised on completion of the underlying transaction. Brokerage commission arising from providing brokerage services to clients is recognised on completion of the underlying transaction.

2.20 Property and equipment

Property and equipment, except building, are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Building is stated at fair value, based on annual valuation by external independent valuers, less accumulated depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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

An increase in the carrying amount arising on revaluation of building is credited to revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the income statement. Each year the difference in depreciation based on the revalued carrying amount of the assets is charged to the income statement and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

2 Significant accounting policies (continued)

2.21 Property and equipment (continued)

If an item of property and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation reserve of property and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the income statement.

Depreciation is computed on a straight-line basis in order to write off the cost of the assets over their estimated useful lives of three to fifty years, as appropriate.

Capital work in progress comprises expenditure incurred on the acquisition and installation of property and equipment which is transferred to property and equipment or investment property, as appropriate.

2.22 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and investments in short term financial instruments held for periods not exceeding ninety days.

2.23 Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacity that result in holding or placing assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising there on are excluded from these financial statements, as they are not the assets of the Group.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

3 Financial risk management

The Group's activities expose it to various forms of financial risks: credit and investment risk, fair value risk, liquidity risk, interest rate risk, foreign currency risk and price risk. The Group's overall risk management policies address these risks and seek to put in place mitigants for such risks and thus minimise potential adverse effects on the Group's financial performance.

Risk Management is carried out by the Risk Management team, which identifies, evaluates and manages financial risks in close co-operation with the Group's operating units.

Credit and investment risk

Credit and investment risks are managed and mitigated by association with reputed partners in the area of real estate, private equity and fund investments, as well as through rigorous pre-investment due diligence, diversification strategies, concentration / exposure limits across sectors, etc.. In respect of inter-bank exposures, such risks are minimized by association only with well-known names in banking as counterparties.

Fair value risk

The Bank's overall approach ensures that identification, measurement and monitoring of such risks is rigorous. The Bank's risk policies address issues relating to both pre-investment due diligence and post-investment monitoring and management of all investments in the various private banking asset classes.

The fair value of traded financial instruments is based on available market information and/or quoted market prices at the balance sheet date.

Liquidity risk

Liquidity risks within the Group is managed by specifying threshold minimum balances of cash and near cash assets, whereby such thresholds are linked to the levels of the Group's liabilities to the customers and banks, together with concentration/exposure limits for the various investment classes.

Interest rate risk and maturity mismatch risks

Interest rate risk and maturity mismatch risks are managed by maintaining a reasonable balance between maturities of assets and liabilities, within the general constraints of the regional financial markets.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risks arising from various currency exposures, and from income streams from non-base currency exposures. The Group manages these risks in accordance with its policies, which include the use of forward currency contracts and/or swaps, as may be appropriate.

Price risk

The Group has established limits and sub-limits in place for trading securities (including funds). This includes maximum ceiling of exposures, percentages of investments to be made in capital guaranteed products, acceptable rating for the issuer of the guarantee and leveraging. The Bank also has policies relating to maximum investments per fund, sub-limits for investments in funds which are not capital guaranteed, sub-limits for the equities of specific markets, and cut-loss/ cut profit requirements. Adherence to these limits is monitored effectively.

TAIB BANK B.S.C. (c)**Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)**
(All amounts expressed in thousands of United States Dollars unless otherwise stated)**4 Placements with banks**

Placements with banks include placements held as collateral and margin amounting to US\$4.2million (2005: US\$6.4 million).

5 Trading securities

	2006	2005
Investments in equities and funds	31,044	29,038
Government agency bonds (U.S. Government guaranteed/sponsored agencies)	<u>4,610</u>	<u>1,023</u>
	<u>35,654</u>	<u>30,061</u>

Government agency bonds are primarily financed by repurchase agreements against which they are secured.

6 Loans and advances

	2006	2005
Term loans	25,206	22,807
Less: Provisions for impairment	<u>(13,679)</u>	<u>(13,680)</u>
	11,527	9,127
Advance to a shareholder	<u>-</u>	<u>5,395</u>
	<u>11,527</u>	<u>14,522</u>

Term loans include non-performing exposures aggregating US\$3.2 million (2005: US\$3.4 million).

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

7 Provisions

Impairment of available-for-sale investments securities, loans and advances and other assets are as follows:

	Available- for-sale investment securities	Loans and advances	Other assets	Total
At 1 January 2005	3,305	11,863	1,213	16,381
Charge for the year	4,137	1,817	17	5,971
Provisions utilised during the year	(1,900)	-	(1,157)	(3,057)
Other movements	(14)	-	(17)	(31)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	5,528	13,680	56	19,264
Charge for the year	6,002	-	-	6,002
Provisions utilised during the year	(3,133)	-	-	(3,133)
Other movements	-	(1)	-	(1)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	8,397	13,679	56	22,132

8 Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within next financial year. Estimates and judgements are continuously evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a semi-annual basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrower. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of available-for-sale investment securities

The Group determines that available-for-sale investment securities are impaired when there has been a significant and prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates amongst other factors, whether there is deterioration in the financial health of the investee, industry or sector performance, changes in technology, and operational and financing cash flows.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

9 Related-party transactions

The Group carries out transactions in the normal course of business with related parties, defined as shareholders and directors of the Bank and its subsidiaries, and businesses in which shareholders and directors, individually or combined, have control or significant influence. Related parties also include key management personnel.

	2006	2005
<u>Jamba SA</u>		
- Advances to Jamba SA	-	5,456
- Deposits/ current account in favour of Jamba SA	393	60
- Interest income on advance to Jamba SA	195	200
- Interest expense on deposit from Jamba SA	4	-
<u>Subsidiaries of Jamba SA</u>		
- Advances to subsidiaries of Jamba SA	-	50
- Interest income on advance to subsidiaries of Jamba SA	-	265
	2006	2005
<u>Acacia Real Estate Limited (Note 11)</u>		
- Sale of available-for-sale investment securities	39,400	-
- Realised gain from sale of available-for-sale investment securities	4,000	-
<u>Customer deposits</u>		
- Deposits received from directors and their related parties	809	1,907
- Interest expenses on Deposits received from directors and their related parties	2	80
<u>Key management compensation</u>		
	2006	2005
Salaries and other short-term employee benefits	3,319	2,269
Termination benefits	57	58
	3,376	2,327
<u>Loans to related shareholders' and it's subsidiaries</u>		
	2006	2005
At 1 January	5,446	8,488
Movement in demand account	(33)	286
Loan repayments received	(5,946)	(2,145)
Provisions for impairment	-	(1,015)
Interest charged	191	465
Exchange rate difference	424	(633)
At 31 December	82	5,446

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

10 Available-for-sale investment securities

	2006	2005
Government agency bonds	4,007	6,115
Property interests held for sale – equity	26,315	47,695
Property interests held for sale – debt securities	-	43,780
Private equity investments	15,976	13,082
Investments in funds	24,903	28,231
Other	9,327	5,186
	<u>80,528</u>	<u>144,089</u>
	2006	2005
Government Agency Bonds – fair value	<u>4,007</u>	<u>6,115</u>
Property interests held for sale		
Equity – unlisted – fair value	26,315	47,695
Debt securities – unlisted – cost	-	43,780
	<u>26,315</u>	<u>47,695</u>
Private equity investments		
Listed – fair value	5,930	4,422
Unlisted – fair value	10,046	8,660
	<u>15,976</u>	<u>13,082</u>
Investment in funds – unlisted – fair value	<u>24,903</u>	<u>28,231</u>
Other – unlisted – fair value		
Euro bonds/T-Bills	6,628	2,190
Turkish lira denominated bonds	1,627	1,992
US treasury strips	1,072	1,004
	<u>9,327</u>	<u>5,186</u>

The movement in Available-for-sale investment securities is summarized as follows:

	2006	2005
At 1 January	144,089	157,019
Exchange difference on monetary assets	1,310	(1,484)
Additions	15,174	57,411
Disposals (sale and redemption)	(80,702)	(47,015)
Fair value reserve movement on sale of investments from equity to income statement	(584)	(23,559)
Changes in fair value	4,110	5,854
Provision for impairment of available-for-sale investments	(6,002)	(4,137)
Provision for impairment of available-for-sale investments utilised during the year	<u>3,133</u>	<u>-</u>
At 31 December	<u>80,528</u>	<u>144,089</u>

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

10 Available-for-sale investment securities (continued)Government Agency Bonds

Government Agency Bonds comprise the Group's investments in US Government guaranteed/sponsored agency bonds. Of these bonds, US\$2.9 million (2005: US\$3.9 million) are financed by repurchase agreements against which the bonds are secured.

11 Investment in associate

During the year Bank invested US\$10 million in Acacia Real Estate Limited ("ACACIA). ACACIA is incorporated under the laws of the Territory of the British Virgin Islands to provide a diverse range of conventional and Shariah-compliant investments. This investment represents 20% of the paid up share capital of ACACIA amounting to US\$50 million. The Bank has sold some of its property interests (equity and debt) held for sale, to ACACIA for a consideration of US\$39.4 million.

	2006	2005
Investment	10,000	-
Impact of accounting as Associate	<u>(1,000)</u>	-
	<u>9,000</u>	-

12 Investment property

The Bank alongside its co-investors, acquired an interest in a land in a country in the Middle East. In relation to this transaction, the Bank has an obligation to provide a return to its co-investors, equivalent to 20% of the participation amount. This amount has been expensed in prior years and has been classified under other liabilities.

The Bank has rented out a portion of TAIB Tower and accordingly, reclassified the let out portion from property and equipment to investment property. The rental income from this investment property amounted to US\$0.3 million (2005: US\$0.1 million) and included in other income.

	2006	2005
At 1 January	26,540	38,292
Changes in fair value	<u>1,054</u>	<u>(11,752)</u>
At 31 December	<u>27,594</u>	<u>26,540</u>

The Bank's investment properties were revalued in September and December 2006 (2005: in December 2005) by independent professionally qualified valuers on an open market basis.

TAIB BANK B.S.C. (c)**Notes to the consolidated financial statements for the year ended 31 December 2006** (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)**13 Property and equipment**

	2006	2005
Cost	21,237	20,105
Revaluation	2,232	438
Accumulated depreciation	<u>(6,758)</u>	<u>(5,732)</u>
Net book amount	<u>16,711</u>	<u>14,811</u>

Included in accumulated depreciation is an amount of US\$0.9 million (2005: US\$0.9 million) representing depreciation charged during the year. The Bank's properties were revalued in December 2006 by independent valuer.

14 Other assets

	2006	2005
Interest receivable	2,337	2,689
Prepaid expenses and security deposits	906	953
Derivative financial instruments	13	402
Other accounts receivable	5,337	11,430
Less: Provision for impairment	<u>(56)</u>	<u>(56)</u>
	<u>8,537</u>	<u>15,418</u>

15 Deposits from customers

	2006	2005
Deposits	93,507	116,802
Current accounts	<u>54,561</u>	<u>28,156</u>
	<u>148,068</u>	<u>144,958</u>

16 Other liabilities

	2006	2005
Interest payable	1,748	1,254
Accrued expenses	6,616	5,707
Derivative financial instruments	2,395	4,503
Other accounts payable	<u>17,368</u>	<u>14,001</u>
	<u>28,127</u>	<u>25,465</u>

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

16 Other liabilities (continued)

In the ordinary course of business, the Group enters into derivatives contracts either to meet customer requirements or to manage its foreign currency and interest exposures. The fair value of these derivative instruments are included in other assets and other liabilities when positive or negative respectively.

	2006		2005	
	Fair value	Contract/ notional amount	Fair value	Contract/ notional Amount
Currency forwards	13	7,486	402	55,655
Index options	-	1,000	-	3,775
	13		402	
Interest rate caps purchased	-	124,000	-	127,000
Interest rate written floors related to caps purchased	(2,395)	130,000	(4,503)	130,000
	(2,395)		(4,503)	

17 Share capital

	2006	2005
<u>Authorised</u>		
200 million (2005: 200 million) ordinary shares of US\$1 each	200,000	200,000
<u>Issued and fully paid</u>		
107.012 million (2005: 101.916 million) ordinary shares of US\$1 each	107,012	101,916

In the course of its investment activities, the Bank sometimes buys and sells its own shares. These shares are treated as treasury shares and deducted from shareholders' equity. Gains and losses on purchase and sale of own shares are transferred to the general reserve. The total number of treasury shares at 31 December 2006 was 9.8 million shares (31 December 2005: 9.4 million shares).

Pursuant to the Extra Ordinary General Meeting held on 29 March 2006, the paid up share capital of the Bank has increased by issue of 5,096,000 bonus shares at US\$1 per share amounting to US\$5,096,000.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

17 Share capital (continued)

Share option granted to employees

Share options are granted to selected employees of the Bank. The exercise price of the granted options is equal to the market price of the shares immediately prior to the date on which the grant of the option. The options are exercisable starting immediately from the grant date and have a contractual option term of three years. Share options granted to employees shall stand cancelled upon the employee's resignation from the Bank or upon termination of service. The Group has no legal or constructive obligation to repurchase or settle options in cash.

During the year ended 31 December 2006, the Bank had a share-based payment arrangement with employees. The exercise price of these options is US\$1.65 per share and the contractual and expected weighted average remaining life is 3 years.

Reconciliation of the movements in the number of share options is summarised below:

	Number of options
At 1 January 2006	-
Granted during the year	8,750,000
Forfeited during the year	(900,000)
Exercised during the year	-
	<hr/>
At 31 December 2006	<u>7,850,000</u>

The exercise price of the options is US\$1.65 while the market price of the shares as at 31 December 2006 is US\$1.60.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

18 Reserves

Capital reserve

The capital reserve represents bonus shares issued by TAIB Yatirim Bank A.S. and is not available for distribution.

Statutory reserve

In accordance with the provisions of local legislation of the countries in which the Bank and its subsidiaries are domiciled, a proportion of the net profit for the year is transferred to a non-distributable statutory reserve.

Revaluation reserve

Revaluation reserve represents surplus arising on the revaluation of its building, TAIB Tower. The valuation is based on an independent evaluation by an external valuer and the surplus arising out of revaluation is transferred to a separate component of equity as revaluation reserve.

General reserve

General reserve represents appropriations from the Bank's net profit as approved by the Board of Directors and can only be distributed with the shareholders' approval. Gains and losses on purchase and sale of treasury shares are also charged to the general reserve.

Fair value reserve

Gains and losses arising from changes in fair value of available-for-sale investment securities are recognized in the fair value reserve in equity, until the investment is sold, derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Retained earnings

Retained earnings represent distributable profits after transfer of amounts to statutory and general reserves.

Movement in retained earnings also includes transfer from revaluation reserve of the difference between the depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's original cost.

Included in retained earnings and statutory reserve at 31 December 2006 is a cumulative negative currency translation adjustment of US\$12.0 million (2005: US\$12.7 million) in respect of the Bank's subsidiaries in India and Turkey.

TAIB BANK B.S.C. (c)**Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)**
(All amounts expressed in thousands of United States Dollars unless otherwise stated)**19 Interest and similar income**

	2006	2005
Interest income on placements with banks	9,187	4,022
Interest and similar income from investments	5,086	6,920
Other interest income	1,719	1,450
	<u>15,992</u>	<u>12,392</u>

20 Interest expense

	2006	2005
Interest expense on customer deposits	5,770	4,026
Interest expense on deposits received from banks and others	4,043	697
	<u>9,813</u>	<u>4,723</u>

21 Fee and commission income

	2006	2005
Investment banking and structuring fees	10,550	7,255
Placement fees	2,525	3,065
Brokerage commission	3,224	2,952
	<u>16,299</u>	<u>13,272</u>

22 Net trading income

	2006	2005
Gain on investments in funds and equities	4,192	2,968
Fair value loss on investments in Government Agency Bonds	(453)	(551)
	<u>3,739</u>	<u>2,417</u>

TAIB BANK B.S.C. (c)**Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)**
(All amounts expressed in thousands of United States Dollars unless otherwise stated)**23 Changes in fair value of investment property**

	2006	2005
Fair value gain on building	1,054	248
Fair value loss on land	-	(12,000)
	<hr/>	<hr/>
	1,054	(11,752)
	<hr/>	<hr/>

24 Staff costs

	2006	2005
Salaries and short term employee benefits	12,568	11,184
Termination benefits	330	344
	<hr/>	<hr/>
	12,898	11,528
	<hr/>	<hr/>

Employee retirement and terminal benefits

The costs associated with contributions made by the Group in relation to defined contribution pension schemes amounted to US\$0.3 million (2005: US\$0.3 million). In relation to these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

25 Other operating costs

	2006	2005
Premises and equipment costs	1,203	1,297
Depreciation	874	924
Other costs	5,899	5,174
	<hr/>	<hr/>
	7,976	7,395
	<hr/>	<hr/>

TAIB BANK B.S.C. (c)**Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)**
(All amounts expressed in thousands of United States Dollars unless otherwise stated)**26 Earnings per share**Basic

Basic earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year, excluding the average number of issued and fully paid up ordinary shares purchased by the Bank and held as treasury shares.

Diluted

The share options issued by the Bank do not have dilutive impact on the ordinary shares. A calculation is done to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006	2005
Net income attributable to shareholders (US\$'000)	21,064	17,758
Weighted average number of issued and outstanding fully paid up ordinary shares (in 000's)	96,073	97,299
Earnings per share expressed in United States Dollars: – Basic and Diluted	\$0.219	\$0.183

The Directors recommend to the Annual General Meeting to pay a cash dividend of US\$ 9.7 million, representing 10% of the paid up capital of the Bank, for the year ended 31 December 2006 (2005: cash dividend of US\$ 4.6 million representing 5% and a share dividend of US\$ 5.1 million representing 5% of the paid up capital of the Bank).

27 Cash and cash equivalents

	2006	2005
Cash and balances with central banks	27,332	23,546
Placements with banks	217,134	166,064
	244,466	189,610

TAIB BANK B.S.C. (c)**Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)**
(All amounts expressed in thousands of United States Dollars unless otherwise stated)**28 Funds under management**

	2006	2005
Discretionary accounts	35,545	47,784
Non-discretionary accounts	476,822	552,688
	<hr/>	<hr/>
	512,367	600,472
	<hr/>	<hr/>

The non-discretionary accounts comprise customers' investments in real estate and private equity investments, which are undertaken through the Bank and investments in Indian equity securities, which are undertaken through TAIB Securities Mauritius Limited.

29 Contingent liabilities and commitmentsOther commitments

	2006	2005
Guarantees	83	1,425
Undrawn loan commitments	48	48
	<hr/>	<hr/>
	131	1,473
	<hr/>	<hr/>

At 31 December 2006, all of the Group's letters of credit, guarantee and commitments are due to expire within one year.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

30 Interest rate risk management

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing and maturity dates.

						2006
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Non interest bearing	Total
Cash and balances with central banks	27,332	-	-	-	-	27,332
Placements with banks	205,187	11,001	946	-	-	217,134
Trading securities	570	1,374	2,666	-	31,044	35,654
Loans and advances	-	1,140	7,217	3,170	-	11,527
Available-for-sale investment securities	4,007	-	1,626	7,701	67,194	80,528
Investment in associate	-	-	-	-	9,000	9,000
Investment property	-	-	-	-	27,594	27,594
Property and equipment	-	-	-	-	16,711	16,711
Other assets	-	-	-	-	8,537	8,537
Total assets	237,096	13,515	12,455	10,871	160,080	434,017
Deposits from banks	28,146	27,146	22,912	-	-	78,204
Deposits from customers	38,573	1,905	38,542	-	69,048	148,068
Securities sold under agreements to repurchase	2,904	-	-	-	-	2,904
Other liabilities	-	-	-	-	28,127	28,127
Long term debt	-	-	-	7,117	-	7,117
Total liabilities	69,623	29,051	61,454	7,117	97,175	264,420
Shareholders' equity					162,537	162,537
Minority interest					7,060	7,060
Total liabilities, shareholders' equity minority interest	69,623	29,051	61,454	7,117	266,772	434,017
On balance sheet interest rate sensitivity gap	167,473	(15,536)	(48,999)	3,754		
On balance sheet cumulative interest rate sensitivity gap	167,473	151,937	102,938	106,692		

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

30 Interest rate risk management (continued)

	2005					
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Non interest bearing	Total
Cash and balances with central banks	23,546	-	-	-	-	23,546
Placements with banks	157,716	5,000	2,348	1,000	-	166,064
Trading securities	1,023	-	457	-	28,581	30,061
Loans and advances	9,261	1,790	2,294	1,177	-	14,522
Available-for-sale investment securities	26,242	-	11,169	61,122	45,556	144,089
Investment property	-	-	-	-	26,540	26,540
Property and equipment	-	-	-	-	14,811	14,811
Other assets	4,810	-	-	-	10,608	15,418
Total assets	222,598	6,790	16,268	63,299	126,096	435,051
Deposits from banks	104,500	4,062	2,338	-	364	111,264
Deposits from customers	48,364	646	10,854	51,793	33,301	144,958
Securities sold under agreements to repurchase	3,911	-	-	-	-	3,911
Other liabilities	-	-	-	-	25,465	25,465
Total liabilities	156,775	4,708	13,192	51,793	59,130	285,598
Shareholders' equity					142,970	142,970
Minority interest					6,483	6,483
Total liabilities, shareholders' equity minority interest	156,775	4,708	13,192	51,793	208,583	435,051
On balance sheet interest rate sensitivity gap	65,823	2,082	3,076	11,506		
On balance sheet cumulative interest rate sensitivity gap	65,823	67,905	70,981	82,427		

Off balance sheet interest rate risk

As at 31 December 2006 (and 31 December 2005) the Bank has one outstanding interest rate derivative contract maturing 2010. Under the terms of this contract if the monthly Libor is less than 5%, the Bank will pay to the counterparty, difference between the monthly Libor interest rate and 5.5% until the monthly Libor reaches 5.5%, on notional amount of US\$130 million (2005: US\$ 130 million). Under the terms of this contract, the Bank will receive interest from the counterparty when the monthly Libor is in excess of 6%, i.e. the difference between 6% and monthly Libor, subject to a cap of 8.0% monthly Libor rate, on a notional amount of US\$124 million (2005: US\$ 127 million). During 2006 the Bank was a payer under this contract.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

30 Interest rate risk management (continued)

The tables in respect of balance sheet interest rate risk include floating rate instruments as follows:

	2006		2005	
	Up to 1 Month	Total	Up to 1 month	Total
Trading securities	570	570	1,023	1,023
Available-for-sale investment securities	4,007	4,007	6,115	6,115
	4,577	4,577	7,138	7,138
Interest rate cap – notional amounts	124,000	124,000	127,000	127,000
Interest rate floors – notional amounts	(130,000)	(130,000)	(130,000)	(130,000)

The effective interest rate by major currencies for each category of the monetary financial instruments as at 31 December is shown below:

	2006					2005				
	USD	GBP	EUR	BHD	TRY	USD	GBP	EUR	BHD	TRY
	%	%	%	%	%	%	%	%	%	%
Assets										
Placement with banks	5.07	5.08	3.63	4.71	17.50	3.27	4.47	2.02	3.50	14.60
Loans and advances	6.38	-	-	-	-	4.25	-	-	-	-
Available-for-sale investment securities										
- Treasury bills	-	-	-	-	18.36	-	-	-	-	19.09
- Eurobonds	4.76	-	-	-	-	5.53	-	-	-	-
Liabilities										
Deposits from banks	5.54	5.04	-	-	-	3.43	-	-	-	-
Deposits from customers	5.61	4.80	3.45	5.82	-	4.05	4.28	1.88	3.00	-
Securities sold under agreements to repurchase	5.87	-	-	-	-	3.30	-	-	-	-
Long term debt	5.99	-	-	-	-	3.18	-	-	-	-

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

31 Credit risk and concentrations of credit risk

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to both positive and negative developments affecting a particular industry or geographical location.

The Group had no significant concentrations of credit risk as at 31 December 2006 or at 31 December 2005.

Geographical and industrial distributions of assets, liabilities and off balance sheet items are shown in Note 34.

32 Significant net open foreign currency positions

Significant net open foreign currency positions held by the Group are as follows:

	Long/(short) position	
	2006	2005
United Arab Emirates Dirhams	2,125	5,055
Kuwaiti Dinars	561	2,494
Saudi Riyals	483	4,735
Omani Riyals	844	922
Indian Rupees	(504)	(1,020)
Qatari Riyal	1,425	367

33 Maturity profile

The maturity profile of assets and liabilities of the Group is as follows:

	2006			2005		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Up to 1 month	234,981	144,870	90,111	225,321	195,985	29,336
From 1 to 3 months	41,351	31,337	10,014	28,972	7,934	21,038
From 3 months to 1 year	92,501	80,223	12,278	47,359	29,886	17,473
From 1 year to 5 years	46,550	7,990	38,560	118,587	51,793	66,794
From 5 years and over	18,634	-	18,634	14,812	-	14,812
	434,017	264,420	169,597	435,051	285,598	149,453
Shareholders' equity	-	162,537	(162,537)	-	142,970	(142,970)
Minority interest	-	7,060	(7,060)	-	6,483	(6,483)
	434,017	434,017	-	435,051	435,051	-

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

34 Segmental reporting and concentration of assets, liabilities and off balance sheet items**(a) Geographical segments**

The Group is organised on geographical basis and operates in four main geographical areas. The Group's exposure to credit risk is spread across these areas:

North America	-	United States of America
Europe	-	United Kingdom, France and Turkey
Middle East	-	Bahrain, UAE, Saudi Arabia, Oman, Kuwait and Qatar
Rest of Asia	-	India, Kazakhstan and Macau SAR, People's Republic of China.

					2006
	North America	Europe	Middle East	Rest of Asia	Total
<u>Segmental income</u>					
Operating income/(loss)	11,580	23,717	(385)	14,490	49,402
<u>Segmental result</u>					
Income/(loss) before tax	3,978	12,606	(2,797)	8,739	22,526
Overseas taxation					(159)
Income after tax					22,367
Minority interest					(1,303)
Profit for the year attributable to equity holders of the Bank					21,064
<u>Other information</u>					
Segmental assets	70,338	166,324	160,045	37,310	434,017
Segmental liabilities	25,011	25,666	199,235	14,508	264,420
Off balance sheet items	260,466	3,754	4,775	109	269,104
Capital expenditure	545	855	1,279	247	2,926
Depreciation	29	166	511	168	874
Provisions for impairment	6,002	-	-	-	6,002

TAIB BANK B.S.C. (c)**Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)**
(All amounts expressed in thousands of United States Dollars unless otherwise stated)**34 Segmental reporting and concentration of assets, liabilities and off balance sheet items (continued)****(a) Geographical segments (continued)**

					2005
	North America	Europe	Middle East	Rest of Asia	Total
<u>Segmental income</u>					
Operating income/(loss)	5,691	43,140	(10,164)	4,964	43,631
<u>Segmental result</u>					
Income/(loss) before tax	2,128	29,842	(14,049)	816	18,737
Overseas taxation					(73)
Income after tax					18,664
Minority interest					(906)
Profit for the year attributable to equity holders of the Bank					17,758
<u>Other information</u>					
Segmental assets	89,163	145,695	147,485	52,708	435,051
Segmental liabilities	40,743	9,953	225,614	9,288	285,598
Off balance sheet items	257,000	34,723	76,586	1,473	369,782
Capital expenditure	-	1,464	598	-	2,062
Depreciation	35	193	527	169	924
Provisions for impairment	1,304	2,699	-	1,968	5,971

Transactions across the geographical segments are on normal commercial terms and conditions. There are no material items of income or expense between the geographical segments.

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

34 Segmental reporting and concentration of assets, liabilities and off balance sheet items (continued)**(b) Business segments**

The Group is organised into three main business segments:

Asset management:	Incorporating full financial advisory services, funds and portfolio management and proprietary trading activities.
Private banking:	Incorporating real estate acquisitions, divestments, joint venture and specialized private equity deals and trust services.
Brokerage:	Offering full brokerage services within the Group's selected markets.

				2006
	Asset management	Private banking	Brokerage	Total
<u>Segmental income</u>				
Operating income	11,790	33,354	4,258	49,402
<u>Segmental result</u>				
Income before taxation	3,265	18,176	1,085	22,526
Overseas taxation				(159)
Income after taxation				22,367
Minority interest				(1,303)
Profit for the year attributable to equity holders of the Bank				21,064
<u>Other information</u>				
Segmental assets	303,173	130,009	835	434,017
Segmental liabilities	210,510	52,030	1,880	264,420
Capital expenditure	2,019	902	5	2,926
Depreciation	330	380	164	874
Provisions for impairment	-	6,002	-	6,002

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

34 Segmental reporting and concentration of assets, liabilities and off balance sheet items (continued)

(b) Business segments (continued)

				2005
	Asset management	Private banking	Brokerage	Total
<u>Segmental income</u>				
Operating income	7,401	32,570	3,660	43,631
<u>Segmental result</u>				
Income before taxation	1,683	16,593	461	18,737
Overseas taxation				(73)
Income after taxation				18,664
Minority interest				(906)
Profit for the year attributable to equity holders of the Bank				17,758
<u>Other information</u>				
Segmental assets	257,728	176,885	438	435,051
Segmental liabilities	247,586	37,131	881	285,598
Capital expenditure	1,250	810	2	2,062
Depreciation	433	372	119	924
Provisions for impairment	18	5,953	-	5,971

Assets, liabilities and off balance sheet items for the Group are distributed over the following industry sectors:

	2006			2005		
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
Trading and manufacturing Banks and financial institutions	141,746	150,872	-	148,926	165,640	-
	<u>292,271</u>	<u>113,548</u>	<u>269,104</u>	<u>286,125</u>	<u>119,958</u>	<u>369,782</u>
	<u>434,017</u>	<u>264,420</u>	<u>269,104</u>	<u>435,051</u>	<u>285,598</u>	<u>369,782</u>

TAIB BANK B.S.C. (c)

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)
(All amounts expressed in thousands of United States Dollars unless otherwise stated)

35 Consolidated subsidiaries

The Bank's subsidiaries at 31 December 2006 are set out below:

Subsidiary	Country of Incorporation	Ownership/control		Principal activity
		2006	2005	
TAIB Yatirim Bank A.S.	Turkey	100%	100%	Investment banking
TAIB Yatirim A.S.	Turkey	100%	100%	Securities brokerage services
TAIB Kazak Bank	Kazakhstan	100%	100%	Commercial banking
TAIB Securities W.L.L.	Kingdom of Bahrain	100%	100%	Securities brokerage services
TAIB Capital Corporation Limited	India	74%	74%	Merchant banking
TAIB Securities (India) Limited*	India	74%	74%	Securities brokerage services
TAIB Asset Management Company E.C.	Kingdom of Bahrain	100%	100%	Investment advisory services
TAIB Securities Mauritius Limited	Mauritius	100%	100%	Holding investments
TAIB Investments N.V.	Netherlands Antilles	100%	100%	Real estate investments
TAM Investment Company	USA	-	100%	Real estate investments
TAIB Securities Inc.	USA	100%	100%	Securities advisory services
TAIB Securities Limited	United Kingdom	100%	100%	Securities advisory services
TAIB (Suisse) S.A.	Switzerland	100%	100%	Financial services
TAIB Asia Limited	Hong Kong	100%	100%	Financial services
TAIB Invest Inc.	Cayman Islands	100%	100%	Holding investments
TAIB Explorer Fund	Cayman Islands	67%	61%	Asset management
TAIB Crescent Global Fund	Cayman Islands	94%	87%	Asset management
TAIB Health Sciences Fund	Cayman Islands	85%	79%	Asset management
Everest Fund	Luxembourg	49%	63%	Asset management
TAIB Income Fund	British Virgin Islands	87%	78%	Asset management
TAM Holdings Inc.	USA	100%	100%	Real estate investments
Delray Property Investments Inc.	USA	100%	-	Real estate investments
SOSQ Property Investments Inc.	USA	100%	-	Real estate investments
TAIB GCC Blue Chip Fund	Kingdom of Bahrain	80%	-	Asset management
TAIB Islamic Equities UK Fund	Cayman Islands	100%	-	Asset management
TAIB Golden Horn Fund	British Virgin Islands	70%	-	Asset management

* TAIB Securities (India) Limited is a 100% subsidiary of TAIB Capital Corporation Limited.

36 Comparatives

Where necessary, comparatives figures have been adjusted to conform with the changes in presentation in the current year.

Investment property amounting to US\$27,594 (2005: US\$26,540) has been reclassified from available-for-sale investment securities.