

LET'S TALK...

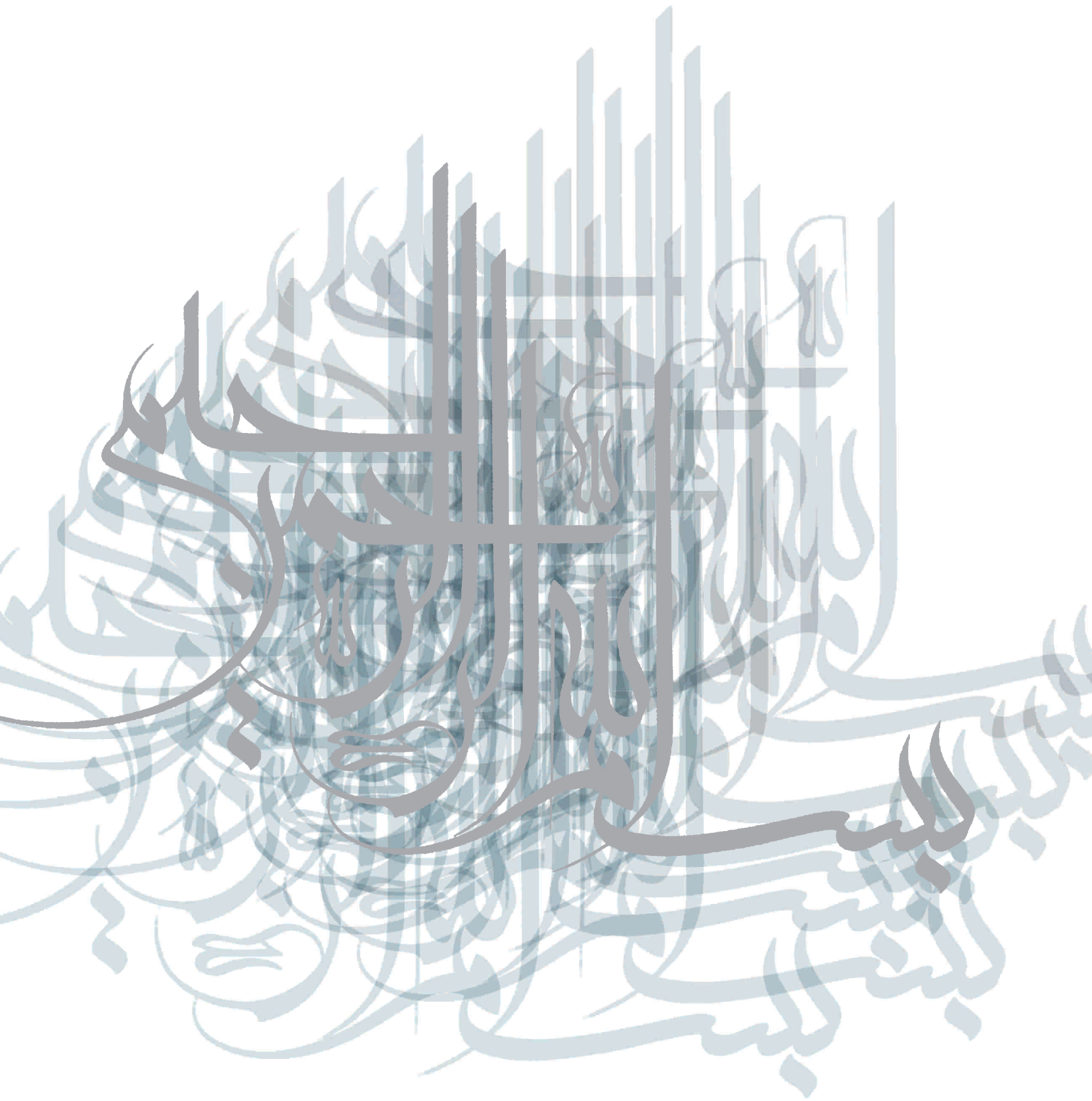
About a future full of potential



بنك المستقبل

futurebank







CONTENTS

Financial Highlights	3
Board of Directors' Report	4
Board of Directors	5
Group Management	6
Board Committee Members and Organization Chart	8
Major Shareholders, Voting Rights and Directors' Interest	9
CEO's Statement and Management Review	10
Risk Management Overview	12
Financial Review	14
Auditor's Report	16
Financial Statements - 2006	17



We envision ourselves as an institution offering a new-age attitude and drive. We will initiate success stories by knowing you and your needs better, and building relationships. Our values are eternal, and while staying true to our core strengths, we will be flexible enough to take on a future full of potential.

FINANCIAL HIGHLIGHTS

	2006	2005	2004
Income and expenses (USD Millions)			
Net interest income	19.9	15.1	5.9
Other income	1.6	1.0	0.4
Operating expenses	5.4	4.7	1.6
Profit before provisions	16.1	11.4	4.7
Net (provision)/ write back	(0.1)	1.3	(0.1)
Goodwill	-	-	1.5
Net profit/(Loss)	16.0	12.7	6.1
Financial Position (USD Millions)			
Total assets	1,016.1	399.4	416.3
Net Loans	174.0	142.8	121.2
Placements	802.1	235.6	265.2
Investments	14.6	0.0	11.4
Total deposits	887.3	278.4	309.0
Customer deposits	145.6	131.8	107.8
Shareholder's equity	121.8	117.8	105.2
Ratios (percentage) Profitability			
Net Income/ Average equity	14.1	11.4	6.0
Net income/ Average assets	2.5	3.1	3.0
Operating expenses/ Total income	25.4	29.3	26.4
Earning per share (USD)	0.2	0.1	0.1
Liquidity			
Customer deposits/ Net loan and advances	83.7	92.3	88.9
Loans and advances/ Total assets	17.1	35.8	29.1
Liquid assets/ Total assets	72.4	41.9	45.5
Capital Adequacy			
Capital Adequacy	15.7	35.6	28.3
Equity/ Total assets	0.1	0.3	0.3

BOARD OF DIRECTORS' REPORT



Future Bank's growing global reach now extends far beyond its regional presence, thanks to the vast reach of the global network of its shareholders.

On behalf of the members of the Board of Directors of Future Bank, it is my privilege to present the audited financial statements for the year ended 31st December 2006.

Future Bank was formed as a Joint Venture Project between three leading banks - Bank Saderat Iran, Bank Melli Iran, and Ahli United Bank (AUB) Bahrain, with a strategic vision of becoming a unified entity which incorporates the strengths of all three of its constituents. Established with the support of the Central Bank authorities in both Bahrain and Iran, Future Bank has continued to build upon its core strength of aligning the vast multi-market potential of the national economies which it inherently represents, providing its clients with rapid access to these markets, along with world-class financial services. Future Bank's growing global reach now extends far beyond its regional presence, thanks to the vast reach of the global network of its shareholders.

For 2006, I am pleased to report a productive and prosperous year in terms of Future Bank's financial and corporate performance. With the decision to commence full commercial banking activity, the performance of the Bank during the year is well ahead of initial expectations. The progress which we have achieved in earnings and the advances which have been realized towards infrastructural developments can largely be attributed to the strategic goals set out by the Board of Directors. We have successfully addressed the initial challenges of bringing about a change in mindset to successfully consolidate our independent assets into a single establishment, driven by a unifying goal & mission.

Throughout the course of 2006, Future Bank strengthened its stance as a fully-operational cohesive Bank that is poised to meet the

growing needs of its growing customer base. Major infrastructural issues were focused upon, with the branch networks of both Bank Saderat Iran & Bank Melli Iran in Bahrain brought into a successful consolidation drive, along with the seasoned local support of AUB.

Venturing into the future, Future Bank's aims are aligned with the aspirations of its growing client-base. Bringing together the best of inter-market financial opportunities and global prospects, Future Bank will continue to provision leading-edge banking services. The bank is uniquely geared to accurately provide the most beneficial assessment of Iran's burgeoning modern economy, and is positioned to lead the way for regional investors who seek to tap into the rewarding potential of this region. The Bank has established a formidable reputation for acting in the best interest of its customers and shareholders.

Finally, the Board would like to express their thanks and appreciation to all the respective authorities in both Bahrain and Iran who supported the establishment of the Future Bank joint venture and the subsequent formation of the Bank. Our success is attributable to all our valued clients to whom we are grateful for their trust. Our gratitude is also extended to our shareholders for their support, and to all our staff and management for their dedication and professionalism.

Mr. Ali Sedgi
Chairman

BOARD OF DIRECTORS



1. Mr. Ali Sedghi

Chairman

Iranian

Board Member since 2006

Chairman & Managing Director, Bank Melli Iran

Seated Center

2. Dr. Hamid Borhani

Deputy Chairman

Iranian

Board Member since 2006

Chairman and Managing Director, Bank Saderat

Iran

Chairman, Bank Saderat PLC - UK

Seated Right

3. Mr. Hamad Al Marzouq

Deputy Chairman

Kuwaiti

Board Member since 2004

Deputy Chairman, Ahli United Bank – Bahrain

Deputy Chairman, Ahli United Bank (UK) PLC.,

Chairman and Managing Director, Bank of Kuwait & the Middle East - Kuwait

Deputy Chairman, Ahli Bank – Qatar

Deputy Chairman, Delta International Bank - Egypt

Seated Left

4. Mr. Adel El-Labban

Director

Egyptian

Board Member since 2004

Group CEO & Managing Director, Ahli United Bank B.S.C - Bahrain

Board Member, Ahli United Bank PLC (UK) - UK

Board Member, Bank of Kuwait & the Middle East

– Kuwait

Board Member, Ahli Bank QSC – Qatar

Board Member, Bahrain Stock Exchange - Bahrain

Board Member, Kuwait & Middle East Financial

Investment Co. (KMEFIC), Kuwait

Board Member, Delta International Bank - Egypt

Board Member, National Work Fund – Bahrain

Standing 2nd from Right

5. Dr. Valiollah Seif

Chief Executive Officer & Managing Director

Iranian

Board Member since 2004

Chairman, Melli Bank PLC - UK

Standing 3rd from Right

6. Mr. Gholam H. Zaferani

Director

Iranian

Board Member since 2004

Deputy CEO, Saman Bank Corporation - Iran

Standing 3rd from Left

7. Mr. Gholam Sourì

Director

Iranian

Board Member since 2004

General Manager, Foreign Department, Bank

Saderat Iran

Standing 1st from Left

8. Mr. Abbas Fatemi Torshizi

Deputy CEO & Director

Iranian

Board Member since 2004

Standing 2nd from Left

9. Mr. Shahram Razavi

Deputy CEO & Director

Iranian

Board Member since 2004

Standing 1st from Right

GROUP MANAGEMENT

DR. VALIOLLAH SEIF

Chief Executive Officer & Managing Director

PhD in Accounting & Finance from Allameh Tabatabaee University. Over 25 years of banking experience as Finance Director, Board Member of Bank Sepah, Chairman of the Board & Managing Director of Bank Mellat, Bank Saderat, Bank Sepah and Bank Melli Iran. Joined the Bank in 2006.

MR. SHAHRAM RAZAVI

Deputy Chief Executive Officer & Deputy Managing Director – Business Development, Treasury & Investment and Retail Banking

MBA Roosevelt University, USA. Over 25 years of banking experience as Economics Expert, Acting General Manager in Bank Saderat Iran, General Manager in Bank Saderat Iran; Athens Branch & Paris Branch & General Manager International Division. Joined the Bank in 2006.

MR. ABBAS FATEMI

Deputy Chief Executive Officer & Deputy Managing Director – Risk, Finance & Operations

BA in English Language, Tehran University. Over 37 years of banking experience in Bank Melli Iran. Assistant Director of Bank Melli Iran, International Division, Tehran; Manager of Bank Melli Iran, Dubai Main Branch for 7 years. Joined the Bank in 2004.

MR. VISTASP BURJOR SOPARIWALLA

Head of Finance & Administration

BCom, CA. Over 16 years of banking experience spanning Financial Control, Operations & Treasury services holding successively senior managerial positions. Prior work experience primarily with BNP PARIBAS, Bank of Bahrain & Kuwait and Bahraini Saudi Bank. Joined the Bank in 2006.

MR. HOSSEIN REZAAE NICO

Head of Information Technology

Master Degree in International Business from Wollongong University, Australia. Over 12 years of experience in banking; Treasury & Trade Finance and Information Technology Systems at Bank Melli Iran, Dubai and Commercial Bank of Dubai, Dubai. Joined the Bank in 2006.

MR. K. SURESH KUMAR

Head of Corporate Banking

CAIB from Indian Institute of Bankers, Mumbai. Over 21 years of banking experience mainly in Corporate Credit - Marketing, Appraisal, Risk & Remedial Management at United Bank of India, Oman International Bank, IDBI Bank and as Senior Vice President at Mizuho Corporate Bank. Joined the Bank in 2005.

MR. MOHAN SHENOY YARMAL

Head of Treasury & Investment

Master of Commerce from the University of Mysore. Over 29 years of banking experience holding various banking positions as Chief Accountant and Assistant Dealer in Bank Saderat Iran, OBU, Bahrain. Joined the Bank since inception.

MR. MILIND VINAYAK KAMAT

Head of Risk

BCom, FCA, Chartered Accountant. Over 20 years of banking experience holding various positions in various banks; Union Bank of India, Bank of Bahrain & Kuwait, Mumbai and as Vice President at Calyon Bank. Joined the Bank in 2005.

MR. K.V. SURESH

Head of Operations

BSC, CAIB. He has wealth of banking operational experience and knowledge. In his career span of 27 years, he has worked in various positions in Indian bank, in India, and in Bahrain with ABN Amro Bank and Bank of Bahrain and Kuwait, before joining Future Bank in January 2007.

MRS. MUNIRA MOH'D TAQI NOORULLA

Head of Human Resources

Over 34 years of banking experience and holding various banking positions spanning from Chief Accountant, Manager Loan, Credit & Human Resources at Bank Melli Iran, Bahrain. Joined the Bank since inception.

MR. MAHMOOD YOUSIF MOHAMMED

Head of Retail Banking

Over 34 years of banking experience and holding various banking positions spanning from Chief Accountant, Branch Manager at Bank Melli Iran Bahrain and Manager, Information Technology. Joined the Bank since inception.

MR. RIYADH RASHID ALI AL-SAMAHJI

Regional Manager, Muharraq & Sitra Branch

Over 12 years of Banking experience and holding various Banking positions at Bank Saderat Iran, Bahrain Branch. Joined the Bank since inception.

MR. FEREDOUN MOHD ABGHARI

Representative, Tehran Representative Office

Over 38 years of banking experience and holding various Managerial positions at Bank Melli Iran, Tehran & United Arab Emirates. Joined the bank in 2005.

MR. FARHOOD GHULAMREZA NAZARI

Branch Manager, Kish Branch

BA in Accounting. Over 19 years of banking experience and holding various Managerial positions in Bank Saderat Iran. Joined the bank in 2006.



“The most important thing in communication is to hear what isn’t being said.”

Peter F. Drucker



BOARD COMMITTEE MEMBERS AND ORGANIZATION CHART

BOARD COMMITTEES

The two principal Board Committees are:

The Board Audit Committee:

Mr. Hamad Al Marzouq – Chairman of Audit Committee
 Mr. Gholam H. Zaferani
 Mr. Gholam Sour

The Executive Committee:

Dr Hamid Borhani – Chairman of Executive Committee
 Mr. Ali Sedghi
 Mr. Adel El- Labban
 Dr. Valiollah Seif
 Mr. Abbas Fatemi
 Mr. Shahram Razavi

Mr. Abdulhameed Almeamari - Acting Corporate Secretary

TERMS OF REFERENCE OF THE VARIOUS COMMITTEES

BOARD COMMITTEES

Executive Committee

Deputise for the Board on matters needing decision specifically delegated to it. Approve policies, objectives and strategies. Consider periodic management reports on the Bank's performance including financial & risk management reports.

Audit Committee

Assists the Board of Directors in discharging its responsibilities relating to the bank's accounting policy, internal audit controls, compliance procedures, risk management functions, ensures the integrity of the financial statements, reviews the performance of the internal audit function & liaise with the external auditors and regulators.

MANAGEMENT COMMITTEES

All the below mentioned meetings are chaired by the CEO & the Managing Director. All the meetings are held on a monthly basis, except for the Senior Management Committee & the Senior Credit Committee meetings, which are held once every week.

Senior Management Committee

Reviews and monitors progress on strategic initiatives, including regulatory, financial, operational and compliance issues.

Asset Liability Committee

Sets guidelines for the overall management of the liquidity risk & interest rate risk; determines the funding strategy of the bank in order to maximize net interest income at minimal risk.

Senior Credit Committee

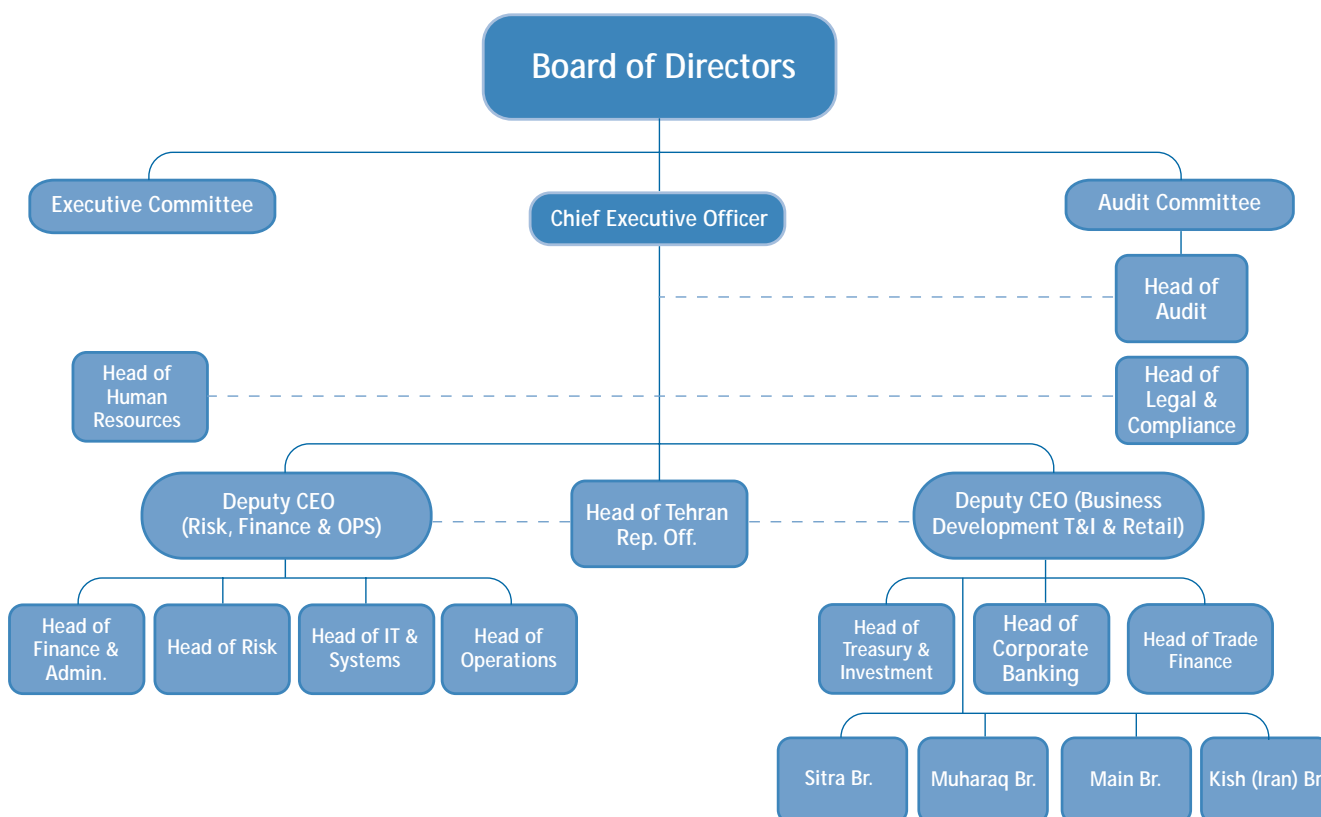
Implements the Credit Policy as authorized by the Board inclusive of approval of the credit related proposals, renewal of facilities, business services and reviews new credit related products.

Risk Management Committee

Oversees the implementation, interpretation and follow up of the risk policy & establishes guidelines for all lending activities to promote a sound risk culture within the bank.

Information Technology Committee

Reviews and manages the overall IT strategy, with a focus on the projects under implementation and provides a forum for user-IT interface.



MAJOR SHAREHOLDERS, VOTING RIGHTS, AND DIRECTORS' INTERESTS

Major Shareholders (5% and above)

Name	Nationality	No. of Shares
Ahli United Bank	Bahraini	33,000,000
Bank Saderat Iran	Irani	33,000,000
Bank Melli Iran	Irani	33,000,000

Distribution schedule of each class of equity security, setting out the number of holders and percentage in the following categories:

Categories	No. of Shares	No. of Shareholders	% of Outstanding Shares
Less than 1%	-----	-----	-----
1% up to less than 5%	-----	-----	-----
5% up to less than 10%	-----	-----	-----
10% up to less than 20%	-----	-----	-----
20% up to less than 50%	99,000,000	3	100
50% and above	-----	-----	-----
Total	99,000,000	3	100

Class of Equity

Class Type	No. of Holders	Voting Rights
Ordinary Shares 99,000,000	3	99,000,000

Directors' Interest and Details of Shareholding by Directors and their related parties:

None of the Directors' or their related parties had any shareholding in the Bank as at 31 December, 2006



CEO'S STATEMENT AND MANAGEMENT REVIEW



I am pleased to report a productive and prosperous year in terms of Future Bank's financial and corporate performance. In 2006, the Bank's Balance Sheet size grew by 154%, as we crossed the USD 1 billion mark during the current year in terms of Total Assets. In addition, Net Profits for the Bank rose by 26.2% over the previous year.

The progress which has been achieved in earnings and the advances which have been realized towards infrastructural developments can largely be attributed to the strategic goals set out by the Board of Directors. We have successfully addressed the initial challenges of bringing about a change in mindset to successfully consolidate our independent assets.

Operating Environment

Although the banking industry continued to witness increased competition, Bahrain's success as an international financial centre was complemented by the implementation of rigorous international standards for banks & financial institutions. The Kingdom's burgeoning economy concluded yet another year of record performance, with its financial, services and industrial sectors marking major contributions. The progress of local landmark developments such as the Bahrain Financial Harbour, the World Trade Centre, and the successful completion of these projects

during 2007, will undoubtedly support sustainable long-term growth. For oil producing countries, persistently high oil prices have helped to eradicate the issues of fiscal deficits and mounting debts. This in turn has ensured the GCC region's robust nature, and has encouraged public spending in major infrastructural and industrial projects. However, the economic boom in the region is not without its perils. The price inflation in real estate and monetary assets has economic implications and the unified GCC currency will bring along with it, its own challenges for the future, in terms of market reorientation. The crucial factor of aligning with a single currency or a basket of currencies is still under consideration within the GCC states.

In 2006, the Bank's Balance Sheet size grew by 154%, as we crossed the USD 1 billion mark during the current year in terms of Total Assets. In addition, Net Profits for the Bank rose by 26.2% over the previous year.

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Operational Achievements

Throughout the course of 2006, Future Bank strengthened its stance as a fully-operational cohesive bank that is poised to meet the needs of its growing customer base. Focusing on infrastructural issues, the branch networks of both Bank Saderat Iran & Bank Melli Iran in Bahrain were brought into a successful consolidation drive, along with the seasoned local support of Ahli United Bank. The consolidation and development of the Bank's existing relationships along with new business developments were also followed up. Growth was recorded in all areas of activity, as the Bank is committed to achieving long term sustainable growth through building strong relationship with the customers.

Future Bank continued to target areas where it could leverage its competitive advantage, for utilizing its core competencies. This has resulted in significant improvements in Earnings per share for the year 2006, which have increased to 16 cents from 13 cents in 2005.

Corporate Banking

Future Bank's corporate banking strategy is based on the provision of comprehensive and customized financial solutions to our corporate customers, primarily in Bahrain, the GCC and Iran. The Bank extends a wide range of corporate banking products including Working Capital Credit, Structured Financing, along with Syndication and Transaction banking products and services.

The steady growth achieved during the year in providing high quality syndication facilities to corporate enterprises in Iran at competitive rates has allowed the Bank to bolster its expertise in Syndicated loans. This in turn has provided an additional thrust to Future Bank's attractiveness to other prospective syndication participants.

Catering to the needs of our Iranian customers, the Bank intends to set up its first ever overseas branch in KISH Island, in the Islamic Republic of Iran. This facility will become a noteworthy hub for routing the majority of our Iranian Corporate Banking business. Necessary regulatory approvals have been obtained and work is in progress for the branch's tentative opening during the 2nd quarter of calendar year 2007. Furthermore, The Bank's rigorous drive to touch base with reputed customers listed in the Tehran Stock Exchange in the Islamic Republic of Iran has successfully resulted in many potential deals, which will be concluded during 2007.

Information Technology

At Future Bank, technology is employed as a key strategic business tool, central to maintaining the Bank's competitive advantage. In 2006, Future Bank dedicated significant time and resources to upgrading its IT systems, in order to meet its growing communication and integration needs.

The Bank aims to effectively employ technology in a cost-efficient manner, to achieve superior standards of customer service. Future Bank has continuously developed its technological edge in its formative years and will continue to invest in strategic IT developments throughout 2007 and beyond.

The Bank is currently in the process of establishing a highly secure environment to enable banking activities through various channels, including Internet, SMS and Telephone. A multi-layered security architecture comprising firewalls, filtering routers, encryption and digital certification ensures that our customers' account information is protected from unauthorized access. Firewalls and filtering routers ensure that only legitimate Internet users are permitted access to the Internet Banking system, while Encryption techniques (including sophisticated public key encryption) will guarantee the privacy of the data flow. Future Bank has

adopted an efficient universal banking solution, as the core banking system for its Retail and Corporate Banking business. The implementation of an online Management Information System which will provide us with the technological "head start" and institutional agility to launch new high-potential products across business segments, enabling rapid growth. In collaboration with reputed consultants, the Bank is adopting a comprehensive IT Governance framework to streamline its IT Performance management and effective IT operating structure. The formation of an IT Control framework and a responsible IT Organization will help us align our technological edge with our business activities and will ensure that our technology remains resilient enough to adapt to future needs.

Human Resources

At the forefront of Future Bank's ambitious growth and development plans remains our ongoing commitment to the recruitment and retention of high quality professionals, to guide the course of the bank's core activities. In recognizing human resources as our most valuable asset, the Bank introduced and implemented its new HR policy during the year.

Progress in this field included furthering the skills of employees, to enable them to adapt to the ever changing growing requirements of the financial industry in general and the banking industry in particular. Staff training and development initiatives were intensified with teams participating in 45 professional training programs, ranging from banking, accounting, management, and IT studies, in conjunction with external professional courses which were mandated for senior staff members. The establishment and implementation of best practice procedures towards branch operations were also inducted.

Future Outlook

Venturing into the future, Future Bank aligns its aims with the aspirations of its growing client-base. Bringing together the best of in inter-market financial opportunities and global prospects, the Bank will continue to provision leading-edge financial products and banking services. Uniquely geared to accurately provision the most beneficial assessment of Iran's burgeoning modern economy, Future Bank is positioned to lead the way for regional investors who seek to tap into this market's potential. The Bank has established a formidable reputation for acting in the best interest of its customers and shareholders.

Our commitment to forging stronger ties with our stakeholders will continue to inspire us to provide market leading practices and offerings, such as the upcoming "Future One" Fund launch – This innovative product comprises of investments based in Iran and has already received the necessary regulatory approval from the Foreign Investment Promotion and Protection Authority (FIPPA), along with being awarded the full support of the Government of the Islamic Republic of Iran. The Bank is also seeking necessary approvals from the Central Bank of Bahrain for the successful launch of the first-ever Iran Country Fund, which will serve as a pioneering offering in the Capital Market arena and a forerunner to similar innovative offerings which will feature into the future. Approvals for a Kish Island branch, due to open during the 2nd quarter of 2007, have also been received, for which we are thankful to the regulators - The Central Bank of Iran and the Central Bank of Bahrain.



DR. VALIOLLAH SEIF
Chief Executive Officer & Managing Director

RISK MANAGEMENT OVERVIEW

The management of Risk involves the identification, measurement, ongoing monitoring and control of all financial and non-financial risks to which the Bank is potentially exposed. It is understood that Risks cannot be eliminated, but can be effectively controlled and mitigated. This involves continuous monitoring of political, economic and market conditions, in addition to the creditworthiness of the Banks' counterparts. To achieve this objective the Bank has opted to utilize the best management practices supported by skilled and experienced personnel and the appropriate technology.

The Board of Directors of the Bank assumes ultimate responsibility for the Risk Management function through a comprehensive set of policies and strategies which are subject to periodic review. The Board defines the Risk appetite of the Bank through such policies and strategies which ultimately provide the necessary direction and framework for all activities undertaken by the Bank. The Senior Management, under the direct supervision of the Board is responsible for establishing procedures for effective implementation of these policies and strategies.

The Risk function at Future Bank was formalized in September 2005. Within a short span of 15 months, the Bank managed to leap frog into various areas of Risk Management. To begin with, a Risk Management Committee (RMC) was set up with the representation of Senior Management. The RMC is chaired by the CEO and is responsible for the implementation, interpretation and follow-up of all Risk Policies. The terms of reference of the Committee broadly include the implementation of all policies relating to the management of Credit and Market and Operational Risk on an ongoing basis.

The Risk Management Department (RMD) is responsible for the day-to-day management of Risk which includes the maintenance of various limits, monitoring of these limits, reporting of all excesses and anomalies to the Risk Management Committee, and following-up with the respective front office representatives for regularization.

Routine internal audits assess whether the policies and procedures are complied with and if necessary suggest ways to improve internal procedures.

The risks associated with Future Banks' business are broadly categorized into credit, market, liquidity and operational risks. These are detailed in the following sections.

CREDIT RISK

Credit risk is the potential financial loss arising due to counterpart default or counterpart failure to perform as per agreed terms. The aim of Credit Risk Management is to ensure that all credit exposures are undertaken and managed within the parameters defined in the credit policy and the risk reward relationship is maintained. In July 2006, the Bank adopted a comprehensive Credit Policy and a Credit Risk Manual to implement the policy. All of the Bank's Credit activities are guided by a set of principles as described in the policy document. They are managed through the procedures laid down in the Credit Risk Manual.

The Credit approval process follows the well accepted principle of joint signature under which the Credit application generated by the front office is vetted by a representative of the Risk Department before it is placed at the Credit Committee. The approval levels are well defined with clear delegations in terms of amounts and tenors. In case of relatively risk-free exposures, such as cash

collateralized loans, sub delegations are also permitted under the policy. The Bank has adopted an elaborate rating system which assigns equal weightage to quantitative and qualitative factors. Rating is mandatory for all credit decisions. The Bank's entire portfolio has been segregated into three broad categories, namely the Investment Grade Assets which comprises the good assets (Ratings A to D), the Watch List (Rating E) and the Non Investment Grade Assets (Ratings F, Y, and Z) which are essentially Non Performing Assets.

The day-to-day monitoring of individual borrowers or counterparty exposures is the responsibility of each respective business unit. The Credit Administration unit under the Credit Risk Department ensures that credit facilities are released after proper approval and against proper documentation. The Credit Monitoring and Control unit ensures that limits and other parameters such as interest rates and covenants are properly maintained in the system, and any deviations are promptly reported to the Risk Committee. It also monitors past dues, expired credits and any other exceptions.

A remedial unit is in place to manage workout cases and follow-up on difficult loans. The Bank follows IAS – 39 guidelines for making provisions in respect to its impaired assets. All provisions are recommended by the Risk Department and approved by the Risk Committee.

The Bank will follow the standardized approach for Credit Risk.

LIQUIDITY RISK

Liquidity risk is the risk of Bank failing to meet its commitments, unless it raises funds at unreasonable prices, or is forced to sell its assets at whatever price. It arises out of funding mismatches.

Future Bank's Liquidity Risk is managed through the ALCO mechanism. The Bank uses the maturity ladder (time buckets) approach for managing its liquidity. The limits for the funding requirements for each time bucket of the maturity ladder, the cumulative outflow of cash for each time bucket, and limits on each gap, are reviewed and approved by ALCO. It is the Bank's policy to keep its assets in high quality liquid assets such as inter-bank placements, to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals. A substantial portion of the Bank's deposits are made up of retail, current and fixed deposit accounts, which although are payable on demand or at short notice have traditionally formed part of a stable deposit base and a source of stable funds.

The Treasurer is responsible for the day-to-day management of liquidity and reports directly to Senior Management.

MARKET RISK

Market Risk is defined as the Risk of potential losses in the on balance sheet and off balance sheet positions, arising out of adverse movements in interest rates, equity prices, exchange rates, commodity prices and derivatives. This risk arises from Asset –Liability mismatches, changes in the yield curve, and changes in the volatilities of the market value of derivatives.

The magnitude of market risk carried on the Balance Sheet is minimal. At present the Bank does not trade in foreign exchange for its own account, nor does it carry open positions except for its nostros. The Bank does not deal in commodities.

The Bank currently holds no trading portfolio and therefore the application of the VaR techniques is not relevant for the time being. The Bank has invested a specified amount in Iranian Government Bonds and has adopted a cut-loss policy to prevent losses arising if the Iranian Rial would be subject to depreciation. In addition, the Bank is also indirectly exposed to loss on account of depreciation of the Iranian Rial, as it has granted loans designated in Bahraini Dinar in Bahrain against Iranian Rial deposits in Iran. The exchange risk is being monitored on a regular basis.

The Bank is also exposed to Market Risk in Iranian equities, as a major portion of its offshore Credit portfolio is secured by Iranian stocks. A policy is in place to diversify this risk into various stocks to avoid concentrations, to obtain an adequate cushion to protect against possible decline in prices, regular monitoring, with top-up and sell down thresholds.

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from failed processes, technology, people or external events. It includes reputation risk. The Bank is engaged in an effort to put in place Standard Operating procedures which comply with the highest standards of Internal Control. An external consultant has been hired to review existing operating procedures and to recommend revised policies and procedures in line with the Best Management practices. The objective of this exercise is to create the basic infrastructure which will become the foundation for management of Operational Risk.

The Bank's IT systems are being streamlined through an IT security audit. Management Information Systems (MIS) are being strengthened with particular focus on exception management. The Internal Audit Department is considered as the final layer of Internal Control and reports directly to the Board of Directors.

A Business Continuity plan is in place to ensure the continuity of essential services to customers in case of occurrence of any calamity resulting in disruption of normal business activity. Similarly, a disaster recovery plan is also under final stages of completion. The Bank is in the process of setting up a disaster recovery site at one of its branches as a back site in case of any disaster.

An external consultant has been hired to help the Bank design and implement a new operational risk management framework, defining key operational risk areas, key control standards and key risk indicators in line with the Basel II recommendations. The Bank will follow the basic indicators approach for operational risk.

DEPOSIT PROTECTION SCHEME

Deposits held with the bank are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation concerning the establishment of Deposit Protection Scheme and Deposit Protection Board. No liability is due until one of the member commercial banks of the Scheme is unable to meet its deposit obligations.

“It is insight into human nature that is the key to the communicator's skill.”

William Bernbach



FINANCIAL REVIEW

Income Statement

During the year ended 31 December 2006, Future Bank made a record net profit of USD 16 million, an increase of 26.2% over the last year's net profit of USD 12.7 million. Net Operating Income grew by 33.7% from USD 16.1 million to USD 21.5 million. This strong financial performance reflected the continued growth across all of the Bank's principal business activities. The significant year-on-year increase in the Bank's profitability was attributable to increases in both interest and non-interest earnings, with containment over the growth in expenses during the year.

The Bank saw its Net Interest income rise by USD 4.9 million as compared to the previous year. This accounted for an increase of 32.4% which was achieved despite the increase in the interest expense during the year. The increase in the interest earnings was principally due to significantly higher loan volumes, related in particular to Iranian projects and syndicated financing.

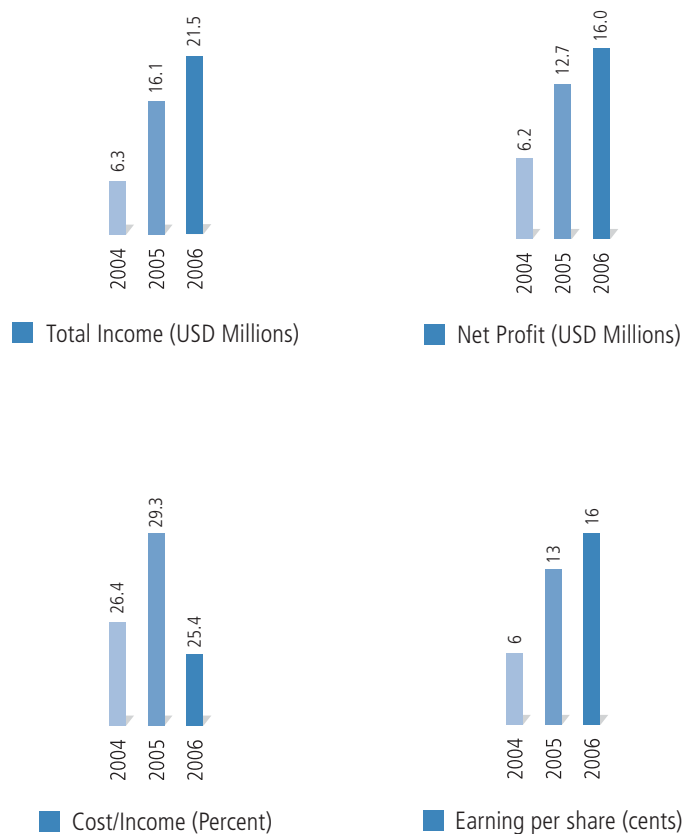
The year commenced with the FED increasing its benchmark rates consistently over the first half of the financial year, whilst holding them steady during the latter half. This resulted in easing off of the pressure towards constant increases in the cost of borrowing. Prudent use of liquidity positions and the deployment of net available funds were mainly responsible for the maintenance of the net interest margin at 2.5%.

Fees and commission income almost doubled over the previous year, mainly due to new syndication deals accomplished by the Bank with companies based in Iran, besides a few corporate deals done within Bahrain with major corporate clients. This resulted in the Fee income rising from USD 0.29 million to USD 0.59 million. Together with foreign exchange profits, the Bank's non-interest income during 2006 represented a contribution of 7.5% (USD 1.6 million) to total income, as compared to 6.5% (USD 1.1 million) in the previous year.

The Bank's operating expenses stood at USD 5.5 million in 2006, up 16.1% over the previous year comparative. This increase was largely due to increments in staffing costs which were necessitated by salary adjustments and the cost of fresh recruitment intakes for the Bank during the year.

Notwithstanding the above increases, the Cost to Income ratio further improved to 25.4% as compared to 29.3% in the previous year.

The Bank follows the International Accounting Standard (IAS) 39 for the provisioning requirements of its non-performing portfolio. The net provisions for the year were USD 0.06 million, as compared with a net recovery on account of non-performing accounts to the extent of USD 1.3 million in the previous year.



Balance Sheet

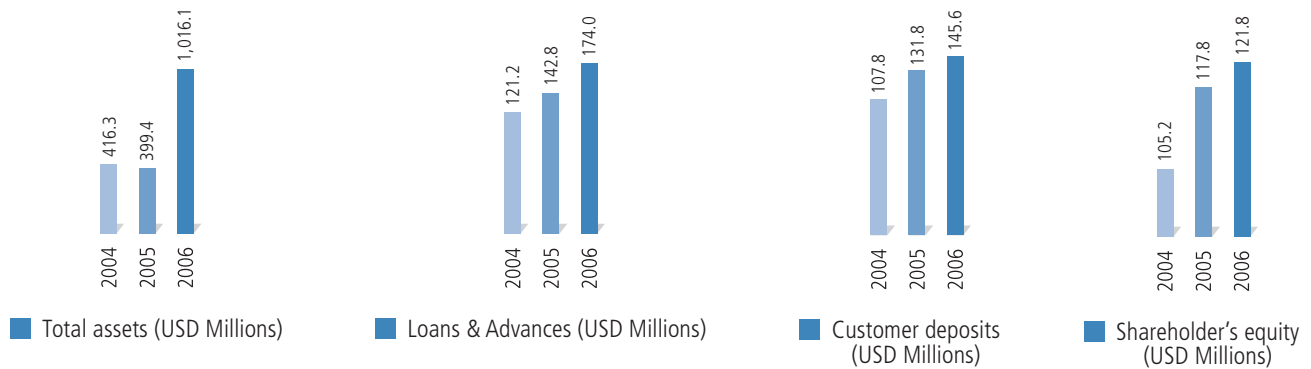
The Bank's balance sheet has more than doubled in size as compared to the previous year, growing from USD 399.4 million to USD 1016.1 million. This represents an increase of 154.3% in the Bank's total assets and is attributable mainly to the significant growth in the Bank's Inter-bank portfolio by 240.5%.

Net loans and advances rose by USD 31.2 million registering an increase of 21.8% during the year, as compared to previous years, owing highly to the growth in corporate lending, arising from Syndicated deals done with Iranian based companies. Net Loans and Advances comprised 17.1% of the Bank's total assets, compared to 35.7% in the previous year, while the Inter-bank portfolio comprised 78.9% of the Bank's total assets, compared to 58.9% in the previous year.

Investments of USD 14.6 million comprised of specific investments which the Bank made in high yielding Iranian Bonds, These are classified under the "Held to Maturity" (HTM) category as per IAS 39.

Inter-bank deposits form major sources of funding for the Bank towards its Inter-bank portfolio. The ratio of Inter-bank deposits to total liabilities and the shareholders fund stood at 72.9%, as compared to 36.7% in the previous year. For the year ended 2006, the loans to customer deposit ratio including Medium Term facilities availed by the bank, stood at 99.2%, compared to 108.3% in the previous year to reflect better utilizations.

Equity before appropriation increased to USD 121.8 million at the end of 2006, from USD 117.8 million at the end of the previous year. Equity to Total assets accounted for 12.0% of the Total assets of the Bank, as compared to 29.5% in the previous year. The Bank's Capital adequacy ratio at 15.7% is sufficiently higher as compared to the minimum requirement of 12%, as prescribed by the Central Bank of Bahrain for banks operating in Bahrain. This ratio measures the total qualifying capital held by an institution in relation to its risk weighted assets.



AUDITORS' REPORTS

To the Shareholders of Future Bank B.S.C (C)

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

Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the 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 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Regulatory Matters

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

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

25 January 2007
Manama, Kingdom of Bahrain

FINANCIAL STATEMENTS 2006

INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 US\$ '000	2005 US\$ '000
OPERATING INCOME			
Interest income	8	42,919	23,377
Interest expense	9	22,992	8,323
Net interest income		19,927	15,054
Fees and commission - net	10	599	299
Net gains arising from dealing in foreign currencies		651	314
(Loss) gain on disposal of equipment		(10)	223
Other operating income		381	220
		1,621	1,056
NET INTEREST AND OTHER INCOME			
		21,548	16,110
Provision for (write back of) loan losses - net	13	60	(1,299)
OPERATING INCOME AFTER PROVISIONS			
		21,488	17,409
OPERATING EXPENSES			
Staff costs		3,203	2,439
Depreciation		252	129
Other operating expenses		2,025	2,154
		5,480	4,722
PROFIT FOR THE YEAR			
		16,008	12,687

The attached notes 1 to 25 form part of these financial statements.

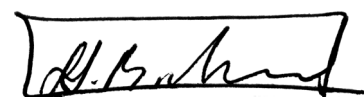
BALANCE SHEET

Year ended 31 December 2006

	Notes	2006 US\$ '000	2005 US\$ '000
ASSETS			
Cash and balances with central banks	11	8,404	7,106
Due from banks	12	802,164	235,608
Loans and advances to customers	13	174,008	142,812
Non-trading investments	14	14,596	27
Other assets	15	5,569	2,597
Equipment		936	803
Goodwill		10,455	10,455
		1,016,132	399,408
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		741,657	146,452
Customers' deposits		145,643	131,898
Other liabilities	16	6,972	3,206
		894,272	281,556
EQUITY			
Share capital	17	99,000	99,000
Statutory reserve	18	3,487	1,886
Retained earnings		7,373	4,966
Proposed dividend	19	12,000	12,000
		121,860	117,852
		1,016,132	399,408



CEO & Managing Director



Director
Deputy Chairman

The attached notes 1 to 25 form part of these consolidated financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2006

	Notes	2006 US\$ '000	2005 US\$ '000
OPERATING ACTIVITIES			
Profit for the year		16,008	12,687
Adjustments for:			
Depreciation		252	129
Provision for credit losses net of reversals	13	60	(1,299)
Loss (gain) on disposal of equipment		10	(223)
Operating profit before changes in operating assets and liabilities		16,330	11,294
Changes in operating assets and liabilities:			
Mandatory reserve deposits with Central Bank of Bahrain		(1,804)	(809)
Due from banks		14,801	(51,113)
Loans and advances to customers		(31,256)	(20,265)
Other assets		(2,949)	(692)
Due to banks		595,205	(54,767)
Customers' deposits		13,745	24,140
Other liabilities		3,766	1,098
Net cash from (used in) operating activities		607,838	(91,114)
INVESTING ACTIVITIES			
Capital deposit paid to Central Bank of Iran		-	(1,113)
Proceeds from maturity of non-trading investments		-	11,421
Purchase of non-trading investments		(14,569)	-
Purchase of equipment		(397)	(788)
Proceeds from disposal of equipment		2	323
Net cash (used in) from investing activities		(14,964)	9,843
FINANCING ACTIVITIES			
Dividend paid		(12,000)	-
Net cash used in financing activities		(12,000)	-
DECREASE IN CASH AND CASH EQUIVALENTS		580,874	(81,271)
Cash and cash equivalents at the beginning of the year		104,812	186,083
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	20	685,686	104,812

The attached notes 1 to 25 form part of these consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Notes	Share capital USD '000	Statutory reserve USD '000	Retained earnings USD '000	Proposed dividend USD '000	Total USD '000
Balance at 1 January 2005		99,000	617	5,548	-	105,165
Net profit for the year - 2005		-	-	12,687	-	12,687
Transfer to statutory reserve		-	1,269	(1,269)	-	-
Proposed dividend	19	-	-	(12,000)	12,000	-
Balance at 31 December 2005		99,000	1,886	4,966	12,000	117,852
Dividend paid during the year		-	-	-	(12,000)	(12,000)
Net profit for the year - 2006		-	-	16,008	-	16,008
Transfer to statutory reserve		-	1,601	(1,601)	-	-
Proposed dividend	19	-	-	(12,000)	12,000	-
Balance at 31 December 2006		99,000	3,487	7,373	12,000	121,860

The attached notes 1 to 25 form part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

1. ACTIVITIES

Future Bank B.S.C. (c) ("the Bank") is a closed Bahrain Joint Stock Company incorporated on 1 July 2004 when the Bank acquired the Bahrain commercial branches of Bank Melli Iran (BMI) and Bank Saderat Iran (BSI) and the offshore banking unit of BSI. The Bank operates in the Kingdom of Bahrain under a licence issued by the Central Bank of Bahrain and is engaged in commercial banking activities. The Bank has three branches in Bahrain and has obtained regulatory approval for opening a branch in Kish Island in the Islamic Republic of Iran. The address of the Bank's registered office is PO Box 785, Manama, Kingdom of Bahrain.

The financial statements for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the directors on 25 January 2007.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost convention. The financial statements have been presented in US Dollars which is the functional currency of the Bank, and all values are rounded to the nearest thousand (\$ thousand) except when otherwise indicated.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

The following standards and interpretations have been issued but are not yet effective.

- IFRS 7 Financial Instruments: Disclosures and consequent amendments to IAS 1 - Capital Disclosures
- IFRS 8 Operating Segments

The above amendments only impact disclosures and will be effective for 2007 and 2009 respectively.

- IFRIC Interpretation 8 Scope of IFRS 2
- IFRIC Interpretation 9 Reassessment of Embedded Derivatives
- IFRIC Interpretation 11 IFRS 2 - Group and Treasury Share Transactions

Management do not expect these interpretations to have a significant impact on the Bank's financial statements when implemented in 2007.

2.2 Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Impairment losses on loans and advances

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to such allowance.

Collective impairment provisions on loans and advances

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

As at the balance sheet date no such provision was considered necessary.

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies

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

(1) Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

(2) Financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially measured at their fair value plus, any directly attributable incremental costs of acquisition or issue.

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on trade date, i.e. the date that the Bank commits to purchase or sell the asset.

(ii) Held-to-maturity investments

Held-to-maturity investments are those which carry fixed or determinable payments and fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement line 'Impairment losses on financial investments'.

(iii) Loans and advances

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. This accounting policy relates to the balance sheet captions 'Due from banks' and 'Loans and advances to customers'. After initial measurement, the loans and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such loans and advances are recognised in the income statement in 'Provision for credit losses'.

(3) Derecognition of financial assets and financial liabilities

(i) Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

At 31 December 2006

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(4) Impairment of financial assets (continued)

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that that occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments. The probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, any impairment loss, is recognised in the income statement.

Impairment is determined as follows:

- (a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate;
- (b) for assets carried at fair value, impairment is the difference between cost and fair value; and
- (c) for assets carried at cost, impairment is based on present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

(5) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

(6) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet, if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(7) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and similar income

For all financial instruments measured at amortised cost, interest-income or expense is recorded at the effective interest rate.

(ii) Fee and commission income

Credit origination fees are treated as an integral part of the effective interest rate of financial instruments and are recognised over their lives, except when the underlying risk is sold to a third party at which time it is recognised immediately. Other fees and commission income are recognised when earned.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(8) Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated using the straight-line method to write down the cost of equipment to their residual values over their estimated useful life of 5 years.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

(9) Goodwill and negative goodwill

Goodwill arising on acquisition is measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised, but reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit, to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination, is recognised as negative goodwill and included in the income statement in the year in which the acquisition is made.

(10) Provisions

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

(11) Employees' end of service benefits

The Bank provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Bank makes contributions to the General Organisation for Social Insurance calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

(12) Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with central banks (excluding mandatory reserve deposits), deposits with banks with original maturities of less than ninety days.

(13) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

At 31 December 2006

3. CREDIT RISK AND CONCENTRATION OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank manages credit risk by setting limits for individual borrowers, and groups of borrowers and for geographical and industry segments. The Bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, and limits the duration of exposures.

For details of the composition of the loans and advances portfolio refer note 13.

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

The distribution of assets (excluding goodwill), liabilities, and off-balance sheet items by geographic region and industry sector was as follows:

	2006			2005		
	Assets USD'000	Liabilities USD'000	Credit commitments USD'000	Assets USD'000	Liabilities USD'000	Credit commitments USD'000
Geographic region:						
Domestic (Bahrain)	477,150	159,801	6,920	126,698	124,282	4,948
Other Middle East countries	335,039	673,529	-	212,942	113,436	-
Europe	193,366	60,895	-	49,300	43,838	-
Asia, North America and Rest of the World	122	47	-	13	-	-
	1,005,677	894,272	6,920	388,953	281,556	4,948
Industry sector:						
Trading and manufacturing	67,244	-	-	70,863	14,026	3,937
Banks and financial institutions	851,238	741,657	6,920	267,178	146,452	-
Construction and real estate	37,428	-	-	17,971	-	1,011
Other	49,767	152,615	-	32,941	121,078	-
	1,005,677	894,272	6,920	388,953	281,556	4,948

As at 31 December 2006, the five (2005: three) largest customers accounted for 43% (2005: 27%) of the net loans and advances.

4. MARKET RISK

Market risk arises from fluctuations in interest rates and foreign exchange rates. The Board has set limits on the value of risks that may be accepted. This is monitored on a weekly basis by the Asset and Liability Committee.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

At 31 December 2006

5. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank's management believe that the Bank is not exposed to material interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities as the repricing of assets and liabilities occur at similar intervals.

The Bank's interest sensitivity position based on contractual repricing arrangements or maturity at **31 December 2006** is shown in the table below:

	Up to 1 months USD'000	Up to 3 months USD'000	3 to 6 months USD'000	6 months to 1 year USD'000	1 to 3 years USD'000	Over 3 years USD'000	Non- interest bearing items USD'000	Effective Total yield USD'000 %
ASSETS								
Cash and balances with Central banks		-	-	-	-	-	8,404	8,404 -
Due from banks	630,321	109,099	18,053	39,785	4,906	-	-	802,164 6.7%
Loans and advances to customers	47,865	67,314	6,105	7,141	40,823	4,760	-	174,008 8.7%
Non - trading investments	3,782	10,787	-	-	-	-	27	14,596 16.8%
Other assets	-	-	-	-	-	-	5,569	5,569 -
Equipment	-	-	-	-	-	-	936	936 -
Goodwill	-	-	-	-	-	-	10,455	10,455 -
Total assets	681,968	187,200	24,158	46,926	45,729	4,760	25,391	1,016,132
LIABILITIES AND EQUITY								
Due to banks	460,523	250,943	-	30,191	-	-	-	741,657 5.2%
Customers' deposits	55,330	17,780	24,671	17,926	9,074	-	20,862	145,643 4.1%
Other liabilities	-	-	-	-	-	-	6,972	6,972 -
Equity	-	-	-	-	-	-	121,860	121,860 -
Total liabilities and equity	515,853	268,723	24,671	48,117	9,074	-	149,694	1,016,132
Total interest rate sensitivity gap	166,115	(81,523)	(513)	(1,191)	36,655	4,760	(124,303)	-
Cumulative interest rate sensitivity gap	166,115	84,592	84,079	82,888	119,543	124,303	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

At 31 December 2006

5. INTEREST RATE RISK

The Bank's interest sensitivity position based on contractual repricing arrangements or maturity at 31 December 2005 is shown in the table below:

	Up to 1 months USD'000	Up to 3 months USD'000	3 to 6 months USD'000	6 months to 1 year USD'000	1 to 3 years USD'000	Over 3 years USD'000	Non- interest bearing items USD'000	Effective Total yield USD'000 %
ASSETS								
Cash and balances with Central Bank of Bahrain	-	-	-	-	-	-	7,106	7,106 -
Due from banks	148,134	17,603	25,374	22,111	22,386	-	-	235,608 4.5%
Loans and advances to customers	8,526	23,249	12,615	30,460	66,793	1,169	-	142,812 8.1%
Non - trading investments	-	-	-	-	-	-	27	27 -
Other assets	-	-	-	-	-	-	2,597	2,597 -
Equipment	-	-	-	-	-	-	803	803 -
Goodwill	-	-	-	-	-	-	10,455	10,455 -
Total assets	156,660	40,852	37,989	52,571	89,179	1,169	20,988	399,408
LIABILITIES AND EQUITY								
Due to banks	50,046	90,226	-	6,180	-	-	-	146,452 4.7%
Customers' deposits	65,187	16,281	22,361	18,596	9,473	-	-	131,898 4.2%
Other liabilities	-	-	-	-	-	-	3,206	3,206 -
Equity	-	-	-	-	-	-	117,852	117,852 -
Total liabilities and equity	115,233	106,507	22,361	24,776	9,473	-	121,058	399,408
Total interest rate sensitivity gap	41,427	(65,655)	15,628	27,795	79,706	1,169	(100,070)	-
Cumulative interest rate sensitivity gap	41,427	(24,228)	(8,600)	19,195	98,901	100,070	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

At 31 December 2006

6. CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank views the US Dollar as its functional currency. As the Bahraini Dinar is pegged to the US Dollar, the currency risk is minimal. The Board has set limits on positions by currency. Positions are monitored on a daily basis and strategies used to ensure positions are maintained within established limits.

Breakdown of assets and liabilities by currency:

	31 December 2006			31 December 2005		
	Bahraini Dinars USD'000	US Dollars USD'000	Other USD'000	Bahraini Dinars USD'000	US Dollars USD'000	Other USD'000
ASSETS						
Cash and balances with central banks	7,295	1,095	14	5,993	-	1,113
Due from banks	6,555	422,673	372,936	14,590	180,082	40,936
Loans and advances to customers	89,745	79,013	5,250	83,667	49,380	9,765
Non - trading investments	27	-	14,569	27	-	-
Other assets	747	4,166	656	489	1,898	210
Equipment	936	-	-	793	10	-
Goodwill	-	10,455	-	-	10,455	-
Total assets	105,305	517,402	393,425	105,559	241,825	52,024
LIABILITIES AND EQUITY						
Due to banks	3,324	378,085	360,248	29,439	93,122	23,891
Customers' deposits	122,244	21,565	1,834	91,837	38,545	1,516
Other liabilities	3,253	3,263	456	1,318	1,888	-
Equity	-	121,860	-	-	117,852	-
Total liabilities and equity	128,821	524,773	362,538	122,594	251,407	25,407
Non exposure	(23,516)	(7,371)	30,887	(17,035)	(9,582)	26,617

'Other' currency mainly comprises Euro

7. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis. In addition, the Bank maintains a statutory deposit with the Central Bank of Bahrain equal to 5% of customer deposits.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

At 31 December 2006

7. LIQUIDITY RISK (continued)

The table below summaries the maturity profile of the Bank's assets and liabilities based on contractual repayment arrangements and does not take account of the effective maturities as indicated by the Bank's deposit retention history.

The maturity profile of the assets and liabilities at **31 December 2006** was as follows:

	Up to 1 months USD'000	1 to 3 months USD'000	3 to 6 months USD'000	6 months to 1 year USD'000	1 to 3 years USD'000	Over 3 years USD'000	No fixed maturity USD'000	Total USD'000
ASSETS								
Cash and balances with Central banks	1,359	-	-	-	-	-	7,045	8,404
Due from banks	622,821	109,099	18,053	39,785	12,406	-	-	802,164
Loans and advances to customers	45,675	9,876	2,658	8,941	88,638	18,220	-	174,008
Non - trading investments	-	2,344	-	9,185	-	3,040	27	14,596
Other assets	5,569	-	-	-	-	-	-	5,569
Equipment	-	-	-	-	-	-	936	936
Goodwill	-	-	-	-	-	-	10,455	10,455
Total assets	675,424	121,319	20,711	57,911	101,044	21,260	18,463	1,016,132
LIABILITIES								
Due to banks and other financial institutions	460,523	250,943	-	30,191	-	-	-	741,657
Customers' deposits	76,192	17,780	24,671	17,926	9,074	-	-	145,643
Other liabilities	6,770	-	-	-	202	-	-	6,972
Total liabilities	543,485	268,723	24,671	48,117	9,276	-	-	894,272
Net liquidity gap	131,939	(147,404)	(3,960)	9,794	91,768	21,260	18,463	121,860

The maturity profile of the assets and liabilities at 31 December 2005 was as follows:

	Up to 1 months USD'000	1 to 3 months USD'000	3 to 6 months USD'000	6 months to 1 year USD'000	1 to 3 years USD'000	Over 3 years USD'000	No fixed maturity USD'000	Total USD'000
Total assets	161,507	41,644	39,013	45,459	92,760	2,476	16,549	399,408
Total liabilities	118,439	106,507	22,361	24,776	9,473	-	-	281,556
Net liquidity gap	43,068	(64,863)	16,652	20,683	83,287	2,476	16,549	117,852

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

At 31 December 2006

8. INTEREST AND SIMILAR INCOME

	2006 US\$ '000	2005 US\$ '000
Loans and advances	24,124	10,577
Due from banks	18,012	12,190
Non-trading investments	783	610
	42,919	23,377

9. INTEREST EXPENSE AND SIMILAR CHARGES

	2006 US\$ '000	2005 US\$ '000
Due to banks	16,651	4,731
Customers' deposits	6,341	3,592
	22,992	8,323

10. NET FEE AND COMMISSION INCOME

	2006 US\$ '000	2005 US\$ '000
Fee and commission income	662	361
Fee and commission expense	(63)	(62)
	599	299

11. CASH AND BALANCES WITH CENTRAL BANKS

	2006 US\$ '000	2005 US\$ '000
Cash	770	463
Current account with the Central Bank of Bahrain	589	1,379
Mandatory deposits with the Central Bank of Bahrain	5,955	4,151
Deposit with the Central Bank of Iran	1,090	1,113
	8,404	7,106

The deposit with the Central Bank of Iran is denominated in Iranian Rials and represents 50% of the capital of the Bank's proposed branch in Kish Island in the Islamic Republic of Iran.

12. DUE FROM BANKS

	2006 US\$ '000	2005 US\$ '000
Placements	691,828	132,969
Loans and advances	110,336	102,639
	802,164	235,608

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

At 31 December 2006

13. LOANS AND ADVANCES TO CUSTOMERS

	2006 US\$ '000	2005 US\$ '000
Term loans	71,230	72,454
Overdrafts	45,389	52,212
Syndicated loans	55,180	18,173
Consumer loans	6,690	6,778
Bills discounted	1,432	1,094
	179,921	150,711
Less: Suspended interest	(2,364)	(3,919)
Less: Provision for credit losses	(3,549)	(3,980)
	174,008	142,812

The movements in provision for credit losses were as follows:

	2006 US\$ '000	2005 US\$ '000
At 1 January	3,980	25,963
Charge for the year	377	202
Recoveries	(317)	(1,501)
Net provision	60	(1,299)
Amounts written off	(491)	(20,684)
At 31 December	3,549	3,980

At 31 December 2006 loans and advances on which normal interest is not being accrued, or is suspended amounted to USD 8.9 million (2005: USD 10.2 million).

14. NON-TRADING INVESTMENTS

Non-trading investments include US \$ 14,569 thousand (2005: Nil) of Iranian Government bonds of which investments of US \$ 11,529 thousand mature within one year of the balance sheet date. The balance mature in 2010. These are designated by the Bank as 'held-to-maturity' and are stated at amortised cost. Refer Note 5 for effective yield on these investments.

15. OTHER ASSETS

	2006 US\$ '000	2005 US\$ '000
Interest receivable	5,054	2,088
Sundry debtors and prepayments	485	299
Other	30	210
	5,569	2,597

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

At 31 December 2006

16. OTHER LIABILITIES

	2006 US\$ '000	2005 US\$ '000
Interest payable	4,429	1,888
Staff related provisions	763	665
Accounts payable	944	515
Others	836	138
	6,972	3,206

17. SHARE CAPITAL

	2006 US\$ '000	2005 US\$ '000
Authorised: 200 million (2005: 200 million) ordinary shares of USD 1 each	200,000	200,000
Issued and fully paid: 99 million (2005: 99 million) ordinary shares of USD 1 each	99,000	99,000

18. STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equates to 50% of the paid up share capital. This reserve is non distributable, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

19. PROPOSED DIVIDEND

The Board of Directors has proposed a cash dividend of USD 0.12 per share totalling USD 12 million (2005: USD 0.12 per share totalling USD 12 million) which is subject to the approval of the shareholders at the Annual General Meeting.

20. CASH AND CASH EQUIVALENTS

	2006 US\$ '000	2005 US\$ '000
Cash and balances with the Central Bank of Bahrain on current account	1,359	1,842
Due from banks with an original maturity of less than ninety days	684,327	102,970
	685,686	104,812

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

At 31 December 2006

21. RELATED PARTY TRANSACTIONS

Related parties represent shareholders, directors, senior management and their related concerns. All the loans and advances to related parties are performing advances and are free of any provision for possible credit losses.

The balances of related parties included in the financial statements were as follows:

	2006 US\$ '000	2005 US\$ '000
Placements with shareholders (included in due from banks in the balance sheet)	443,940	108,132
Loans and advances to shareholders (included in due from banks in the balance sheet)	38,363	52,515
Loans to group entities of shareholders	30,000	15,000
Deposits from shareholders (included in due to banks in the balance sheet)	41,939	53,904

The income, expense and the year end balance in respect of related parties included in the financial statements are as follows:

	2006 US\$ '000	2005 US\$ '000
Interest income	19,932	8,370
Interest expense	1,706	2,464

Compensation of the Directors and key management personnel is as follows:

	2006 US\$ '000	2005 US\$ '000
Salaries and allowances	711	616
Termination benefits	30	25
Total compensation paid to Directors and key management personnel	741	641

22. DERIVATIVES

At 31 December 2006, the Bank had purchase and sale forward foreign exchange contracts outstanding with notional amounts of USD 19.9 million and USD 19.7 million respectively (2005: USD 37.6 million and USD 37.4 million respectively), mostly maturing within twelve months from the balance sheet date. As most contracts are matched, the resultant fair value is not material.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

At 31 December 2006

23. COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

The primary purpose of these instruments is to ensure that the funds are available to the customers as required. Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Bank's customers.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Bank to make payments on behalf of customers.

	2006	2005
	US\$ '000	US\$ '000
Commitments on behalf of customers:		
Acceptances	776	1,302
Letters of credit	2,178	736
Guarantees	3,966	2,910
	6,920	4,948

24. CAPITAL ADEQUACY

The risk asset ratio, calculated in accordance with the capital adequacy guidelines approved by the Central Bank of Bahrain, for the Bank is as follows:

	2006	2005
	US\$ '000	US\$ '000
Capital base:		
Tier 1 capital	121,860	117,852
Tier 2 capital	-	-
Goodwill	(10,455)	(10,455)
Total capital base (a)	111,405	107,397
Risk weighted assets (b)	707,958	301,704
Capital adequacy (a/b * 100)	15.7%	35.6%
Minimum requirement	12%	12%

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of the Bank's financial instruments, are not materially different from their carrying values at the balance sheet date.



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