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Gulf Finance House

GFH SUKUK LIMITED

(incorporated as a limited liability company in the Cayman Islands)

US$1,000,000,000
Sukuk Certificate Issuance Programme

Gulf Finance House B.S.C.

(a wholesale Islamic bank incorporated in the Kingdom of Bahrain)

Under the Sukuk Certificate issuance programme (the "**Programme**") described in this Base Prospectus, GFH Sukuk Limited (in its capacity as issuer, the "**Issuer**", and in its capacity as trustee under the Master Trust Deed and each Supplemental Trust Deed (as defined below), the "**Trustee**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue sukuk trust certificates (the "**Sukuk Certificates**") in series (each a "**Series**") in any currency agreed by the Issuer and the relevant Dealer (as defined below).

Sukuk Certificates may only be issued in registered form. The maximum aggregate face amount of all Sukuk Certificates from time to time outstanding under the Programme will not exceed US$ 1,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement described in this Base Prospectus), subject to increase as described in this Base Prospectus.

The Sukuk Certificates may be issued on a continuing basis to the Dealers specified under *"General Description of the Programme"* and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific Series or on an ongoing basis. References in this Base Prospectus to the relevant Dealer shall, in the case of an issue of Sukuk Certificates being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Sukuk Certificates.

The Sukuk Certificates will be limited recourse obligations of the Issuer. An investment in Sukuk Certificates issued under the Programme involves certain risks. For a discussion of these risks, see the "Risk Factors" section in this Base Prospectus.

Each series of Sukuk Certificates issued under the Programme will be constituted by (i) a master trust deed (the "**Master Trust Deed**") dated on or about 9 July 2007 (the "**Programme Date**") entered into between the Issuer, the Trustee, GFH, HSBC Trustee (C.I.) Limited (the "**Transaction Administrator**") acting on behalf of the holders of the Sukuk Certificates from time to time (the "**Certificateholders**") and (ii) a supplemental trust deed (the "**Supplemental Trust Deed**") in relation to the relevant Series. Sukuk Certificates of each Series confer on Certificateholders the right to receive certain payments (as more particularly described herein) arising from the assets of a trust declared by the Issuer in relation to the relevant Series (the "**Trust**") consisting of, beneficial interest in a pool of Shari'ah compliant income generating assets, interests or contracts which may consist of, *inter alia*, ijara (leasing contracts), real estate, shares, murabaha (a mode of financing whereby the financier purchases a specific asset/commodity chosen by the financier's customer and sells it to that customer at a predetermined price), istisna'a (variously referred to as a commissioned manufacture and sale, a commissioned future sale and purchase/sale transaction in which a buyer/customer places an order for the construction or manufacture of an object to be delivered at a future date) and other Shari'ah compliant investments and/or transactions (the "**Sukuk Asset Trust Property**") owned by Gulf Finance House B.S.C. ("**GFH**"). GFH shall create a trust in favour of the Issuer (the "**Sukuk Asset Trust**") of each Series pursuant to a master purchase trust deed entered into by GFH and the Issuer on or about the Programme Date (the "**Master Purchase Trust Deed**") thereby creating the "**Sukuk Assets**" which, together with any other assets in the relevant Trust, constitute the "**Trust Assets**".

The Issuer and the Trustee will have the benefit of a Shari'ah compliant liquidity facility (the "**Liquidity Facility**") from GFH (in its capacity as the "**Liquidity Facility Provider**" to support timely payments by the Issuer of, *inter alia*, Periodic Distribution Payments (as defined herein) in connection with Sukuk Certificates and to cover any costs and expenses incurred by the Issuer in connection with having a beneficial interest in Sukuk Assets. In addition, the Trustee will have the benefit of a Purchase Undertaking Deed from GFH to purchase the Sukuk Assets in relation to each Series of Sukuk Certificates. Subject to the information provided herein, payment in respect of the Sukuk Certificates is ultimately dependent on the payment by GFH under, *inter alia*, the Liquidity Facility and the Purchase Undertaking Deed. GFH will have the benefit of a Sale Undertaking Deed poll dated on or about the Programme Date executed by the Issuer ("**Sale Undertaking Deed**") pursuant to which the Issuer has agreed to sell the relevant Sukuk Assets to GFH if the circumstances of Condition 11.2 (*Early Dissolution for Tax Reasons*) or Condition 11.3 (*Optional Dissolution (Call)*) are applicable.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for Sukuk Certificates issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Sukuk Certificates to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market.

References in this Base Prospectus to Sukuk Certificates being "**listed**" (and all related references) shall mean that such Sukuk Certificates have been admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market and having been admitted to the Official List. The London Stock Exchange's Gilt Edged and Fixed Interest Market is a regulated market for the purposes of Directive 93/22/EEC (the "**Investment Services Directive**").

Notice of the aggregate face amount of Sukuk Certificates and any other terms and conditions not contained herein which are applicable to each Series of Sukuk Certificates will be set out in a final terms supplement (the "**Final Terms**") which, with respect to the Sukuk Certificates to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange.

The Programme provides that Sukuk Certificates may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Sukuk Certificates and/or Sukuk Certificates not admitted to trading on any market.

The Issuer may agree with any Dealer that Sukuk Certificates may be issued with terms and conditions not contemplated by the Terms and Conditions of the Sukuk Certificates herein, in which event a supplemental Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Sukuk Certificates.

Co-Arrangers and Dealers

Dredsner Kleinwort **HSBC**

The date of this Base Prospectus is 9 July 2007

IMPORTANT NOTICES

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **"Prospectus Directive"**).

The board of directors of GFH have approved the Programme. The "responsibility statement" can be found on page 33 of this Base Prospectus.

The Issuer and GFH accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge of each of the Issuer and GFH (each having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus should be read and construed together with any amendments or supplements hereto and with any other documents incorporated by reference herein and, in relation to any Series (as defined herein) of Sukuk Certificates, should be read and construed together with the relevant Final Terms.

Copies of Final Terms will be available from the registered office of the Issuer and the specified office set out below of the Principal Paying Agent (as defined below) save that, if the relevant Sukuk Certificates are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Certificateholder holding one or more Sukuk Certificates and such Certificateholder must produce evidence satisfactory to the Issuer or, as the case may be, the Principal Paying Agent as to its holding of such Sukuk Certificates and identity.

Certain information identified as such in this Base Prospectus has been extracted from independent sources identified in this Base Prospectus. Each of the Issuer and GFH confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Dealers, the Principal Paying Agent or any other service provider in connection with the Programme and/or Sukuk Certificates and the Transaction Administrator have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers, the Principal Paying Agent or any other service provider in connection with the Programme and/or Sukuk Certificates and the Transaction Administrator as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer or GFH in connection with the Programme. No Dealer, the Principal Paying Agent, any other service provider in connection with the Programme and/or Sukuk Certificates nor the Transaction Administrator accepts any liability in relation to the information contained in this Base Prospectus or any other information provided by the Issuer and GFH in connection with the Programme.

No person is or has been authorised by the Issuer and GFH to give any information or to make any representation, not contained in or not consistent with, this Base Prospectus or any other information supplied in connection with the Programme or the Sukuk Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Trustee, GFH, the Transaction Administrator or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Sukuk Certificates (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Trustee, GFH, the Transaction Administrator, the Principal Paying Agent or any other service provider in connection with the Programme and Sukuk Certificates or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Sukuk Certificates should purchase any Sukuk Certificates. Each investor contemplating purchasing any Sukuk Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and GFH. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Sukuk Certificates constitutes an offer or invitation by or on behalf of the Issuer, the Trustee, GFH, the Transaction Administrator, the Principal Paying Agent, any other service provider in connection with the Programme and/or Sukuk Certificates or any of the Dealers to any person to subscribe for or to purchase any Sukuk Certificates.

No comment is made or advice given by the Issuer, the Trustee, GFH, the Transaction Administrator, the Principal Paying Agent, any other service provider in connection with the Programme and/or Sukuk Certificates or any of the Dealers in respect of taxation matters relating to any Sukuk Certificates or the legality of the purchase of Sukuk Certificates by an investor under applicable or similar laws.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, ATTORNEY AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF SUKUK CERTIFICATES.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Sukuk Certificates shall in any circumstances imply that the information contained herein concerning the Issuer, the Trustee or GFH is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Transaction Administrator and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer, the Principal Paying Agent, any other service provider in connection with the Programme and/or Sukuk Certificates or GFH during the life of the Programme or to advise any investor in the Sukuk Certificates of any information coming to their attention.

The Sukuk Certificates have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the **"Securities Act"**). Subject to certain exceptions, the Sukuk Certificates may not be offered, sold or delivered within the United States or to or for the benefit or account of, U.S. persons, see the "*Subscription and Sale*" section in this Base Prospectus.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Sukuk Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Sukuk Certificates may be restricted by law in certain jurisdictions. The Issuer, the Trustee, the Transaction Administrator, GFH, the Principal Paying Agent, any other service provider in connection with the Programme and/or Sukuk Certificates and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Sukuk Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Trustee, the Transaction Administrator, GFH, the Principal Paying Agent, any other service provider in connection with the Programme and/or Sukuk Certificates or the Dealers which would permit a public offering of any Sukuk Certificates or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Sukuk Certificates may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Sukuk Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Sukuk Certificates. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Sukuk Certificates in the United States, the European Economic Area (including the United Kingdom), Dubai International Financial Centre, Federal Republic of Germany, Malaysia, United Arab Emirates, the Kingdom of Saudi Arabia, Malaysia, Hong Kong, Singapore and the Cayman Islands, see "*Subscription and Sale*" section in this Base Prospectus and/or the Programme.

Shari'ah Compliance

Prospective investors should make their own determination as to compliance of the Sukuk Certificates and the Programme with the principles of the Shari'ah. Prospective investors should be aware that different Shari'ah scholars and other persons may hold different views as to the interpretation and application of Shari'ah principles in the context of Sukuk Certificates and/or the Programme.

This Base Prospectus includes forward-looking statements. All statements other than statements of historical facts included in this Base Prospectus may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue" or similar terminology. Although the Issuer and GFH believe that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

Investor Identification and Anti-Money Laundering

Each potential investor will provide satisfactory evidence of identity and, if so required, the source of funds to purchase Sukuk Certificates within a reasonable time period determined by the Issuer. Pending the provision of such evidence, an application to subscribe for Sukuk Certificates will be postponed. If a potential investor fails to provide satisfactory evidence within the time specified, or if a potential investor provides evidence but the Issuer is not satisfied therewith, the application may be rejected immediately in which event any money received by way of application, will be returned to the applicant by inter-bank transfer to the account from which the monies originated, without any additional amount added thereto and at the risk and expense of the applicant.

The Issuer will comply with Bahrain's Legislative Decree No. (4) of 2001 with respect to Prohibition and Combating of Money Laundering and various Ministerial Orders issued thereunder including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institutions' Obligations Concerning the Prohibition and Combating of Money Laundering. The Issuer will also comply with international anti-money laundering requirements as existing from time to time. Under the above domestic or international requirements, the Issuer may be obliged to report certain information to regulatory agencies.

Certain Publicly Available Information

Certain statistical data and other information appearing in this Base Prospectus have been extracted from public sources. Neither the Issuer nor GFH accepts responsibility for the factual correctness of any such statistics or information but both the Issuer and GFH accept responsibility for accurately extracting and transcribing such statistics and information and believe, after due inquiry, that such statistics and information represent the most current publicly available statistics and information from such sources at and for the periods with respect to which they have been presented.

In this Base Prospectus all references to **"$"**, **"US$"** or **"US Dollars"** are to the lawful currency of the United States of America, reference to **"£"** and **"Sterling"** are to the lawful currency of the United Kingdom, references to **"Bahraini Dinar"** and **"BHD"** are to the lawful currency, for the time being, of the Kingdom of Bahrain, references to **"Malaysian Ringgit"**, **"MYR"** or **"RM"** are to the lawful currency of Malaysia, references to "**SAR**" are to the lawful currency of the Kingdom of Saudi Arabia, references to **"S$"** are to Singapore Dollar and references to **"€"**, **"EUR"** or **"euro"** are to the single currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

The Bahraini Dinar has been pegged to the US Dollar since 25 December 2001. The mid point between the official buying and selling rates for the Bahraini Dinar is at a fixed rate of BD 0.376 = US Dollar 1.00.

Certain figures included in this Base Prospectus have been subject to rounding adjustments, accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

NOTICE TO UK RESIDENTS

The Sukuk Certificates represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000 ("FSMA")) which has not been authorised, recognised or otherwise approved by the United Kingdom Financial Services Authority ("the Financial Services Authority"). Accordingly, this Base Prospectus is not being distributed to, and must not be passed on to, the general public in the United Kingdom.

The distribution in the United Kingdom of this Base Prospectus, any Final Terms, and any other marketing materials relating to the Sukuk Certificates (A) if effected by a person who is not an authorised person under FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Financial Promotion Order") and (ii) persons falling within any of the categories of persons described in Article 49 (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order and (B) if effected by a person who is an authorised person under FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "Promotion of CISs Order"), (ii) persons falling within any of the categories of person described in Article 22 (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Base Prospectus or any other marketing materials in relation to the Sukuk Certificates.

Potential investors in the United Kingdom are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Sukuk Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

Any individual intending to invest in any investment described in this Base Prospectus should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient resources to sustain any loss that may arise from such investment.

CAYMAN ISLANDS NOTICE

No invitation to the public in the Cayman Islands to subscribe for any Sukuk Certificates of the Issuer is permitted to be made.

The Issuer does not fall within the definition of a "Mutual Fund" as defined in the Mutual Funds Law (as amended) of the Cayman Islands (the "Law") and accordingly is not regulated by the Law.

NOTICE TO JERSEY RESIDENTS

The Jersey Financial Services Commission has given , and has not withdrawn, its consent under Article 9(1) of the Control of Borrowing (Jersey) Order 1958 as amended to the issue of the Sukuk Certificates by the Issuer. It must be distinctly understood that, in giving this consent, the

Jersey Financial Services Commission does not take any responsibility for the financial soundness of the Issuer or for the correctness of any statements made, or opinions expressed with regard to it.

The investments described in this document do not constitute a collective investment fund for the purpose of the Collective Investment Funds (Jersey) Law 1988, as amended, on the basis that they are investment products designed for financially sophisticated investors with specialist knowledge of, and experience of investing, in, such investments, who are capable of fully evaluating the risks involved in making such investments and who have an asset base sufficiently substantial as to enable them to sustain any loss that they might suffer as a result of making such investments. These investments are not regarded by the Jersey Financial Services Commission as suitable investments for any other type of investor.

Any individual intending to invest in any investment described in this document should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and has sufficient financial resources to sustain any loss that may arise from it.

The Sukuk Certificates may not be (i) offered to , sold to, or purchased by persons resident for income tax purposes in Jersey (other than financial institutions in the ordinary course of business); and (ii) transferred to a person resident for income tax purposes in Jersey (other than financial institutions in the ordinary course of business) unless the Registrar is satisfied that the beneficial owner thereof is not resident in Jersey for income tax purposes. The Sukuk Certificates may only be issued or allotted exclusively to (i) a person whose ordinary activities involve him in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of his business or who it is reasonable to expect will acquire, hold, arrange or dispose of investments (as principal or agent) for the purposes of his business; or (ii) a person who has received and acknowledged a warning to the effect that (a) the Sukuk Certificates are only suitable for acquisition by a person who (i) has a significantly substantial asset base such as would enable him to sustain any loss that might be incurred as a result of acquiring the Sukuk Certificates; and (ii) is sufficiently financially sophisticated to be reasonably expected to know the risks involved in acquiring the Sukuk Certificates. Neither the issuer of the Sukuk Certificates nor the activities of any functionary with regard to the issue of the Sukuk Certificates are subject to all the provisions of the Financial Services (Jersey) Law 1998. Each Person who acquires the Sukuk Certificates will be deemed, by such acquisition, to have represented that he or it is one of the foregoing persons.

An investment in the Sukuk Certificates is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses which may result from such investment.

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GENERAL DESCRIPTION

The following is an overview of the principal features of the Programme. This general description does not contain all of the information that an investor should consider before investing in Sukuk Certificates and is qualified in its entirety by the remainder of this Base Prospectus and the applicable Final Terms. Each investor should read the entire Base Prospectus and the applicable Final Terms carefully, especially the risks of investing in the Sukuk Certificates issued under the Programme discussed under "Risk Factors" section contained in this Base Prospectus.

Words and expressions defined in *"Form of the Sukuk Certificates" and "Terms and Conditions of the Sukuk Certificates"* shall have the same meanings in this summary of the Programme.

Overview

The Programme provides a facility for the issuance of Sukuk Certificates in series (each, a **"Series"**). The terms and conditions governing each Series of Sukuk Certificates will be the *"Terms and Conditions of the Sukuk Certificates"* as described in this Base Prospectus, as modified or supplemented by the applicable Final Terms. The following is a summary of the principal features of the Sukuk Certificates.

On the occasion of each issuance of Sukuk Certificates, the Issuer will receive the proceeds of the Sukuk Certificates in the amount specified in the relevant Supplemental Trust Deed for the relevant Series.

The Trustee has agreed to apply, on each occasion on which Sukuk Certificates are issued and in respect of the relevant Series of Sukuk Certificates only, the net proceeds of the issue of such Sukuk Certificates to acquire the relevant Sukuk Assets pursuant to a master purchase agreement dated on or about 9 July 2007 between GFH, the Issuer and the Trustee (the **"Master Purchase Agreement"**), the relevant Supplemental Purchase Agreement (as defined below) and the Master Purchase Trust Deed (as defined below). The Sukuk Assets shall be a beneficial interest a pool of Shari'ah compliant income generating assets, interests or contracts, which may include, *inter alia*, ijara (leasing contracts), real estate, murabaha contracts, istisna contracts, shares, and/or other Shari'ah compliant assets, interests or contracts (the **"Sukuk Asset Trust Property"**). GFH shall create a trust over the relevant Sukuk Asset Trust Property in favour of the Trustee pursuant to a master purchase trust deed dated on or about 9 July 2007 between GFH and the Trustee (the **"Master Purchase Trust Deed"**).

Pursuant to the terms of the Master Purchase Agreement and the Master Purchase Trust Deed, GFH may from time to time request to purchase certain Sukuk Assets (such assets being the **"Transferred Sukuk Assets"**) in consideration of GFH creating a beneficial interest in favour of the Issuer over other substitute Sukuk Assets (such assets being the **"Substitute Sukuk Assets"**). Such Substitute Sukuk Assets must have a value as at the date of such transfer of no less than the value the Transferred Sukuk Assets had as at the Issue Date of the relevant Series and must be approved by the GFH Shari'ah board for this purpose (which shall not include Murabaha Contracts).

The Initial Sukuk Assets (as defined in the Master Trust Deed) relating to each Series of Sukuk Certificates will be the subject of and specified in, a supplemental purchase agreement between the Trustee and GFH (each a **"Supplemental Purchase Agreement"**).

The Issuer and Trustee have appointed GFH (as the Managing Agent) to manage the Sukuk Assets of each Series of Sukuk Certificates pursuant to a management agreement dated on or about 9 July 2007 between, *inter alias*, the Trustee, the Transaction Administrator and GFH (the **"Management Agreement"**).

Profit received in respect of the Sukuk Assets of each Series of Sukuk Certificates will be applied to pay Periodic Distribution Amounts in respect of such Series of Sukuk Certificates on the relevant Periodic Distribution Date(s), as more particularly described in the Conditions. Any amount corresponding to the principal amounts of the relevant Series received in respect of the Sukuk Assets of each Series of Sukuk Certificates will be reinvested by the Trustee in, *inter alia* acquiring additional Sukuk Assets created by declaring the relevant Sukuk Asset Trust over the relevant additional Sukuk Asset Trust Property (**"Additional Sukuk Asset Trust Property"**) pursuant to the Master Purchase Trust Deed, the Master Purchase Agreement and the relevant Supplemental Purchase Agreement for the relevant Series (**"Additional Sukuk Assets"**). Any such Additional Sukuk Assets will form part of the Sukuk Assets of the relevant Series of Sukuk Certificates.

GFH has agreed, in the Management Agreement, to make the Liquidity Facility available to the Trustee to cover (as defined in the Management Agreement) Liquidity Shortfalls (including any additional amounts as may be required to be paid in respect of the relevant Series due to taxation) and any costs and expenses incurred by the Trustee in having an interest in the relevant Sukuk Assets. No interest is payable in respect of any advances made pursuant to the Liquidity Facility.

GFH has agreed to acquire Sukuk Assets of the relevant Series of Sukuk Certificates on the relevant Maturity Date or, as the case may be, on the relevant Dissolution Date arising from the occurrence of a Dissolution Event pursuant to a purchase undertaking deed poll dated on or about 9 July 2007 by GFH in favour of the Trustee (the **"Purchase Undertaking Deed"**), to be supplemented, at the time of each such purchase, by a Sale Agreement containing the specific terms applicable to the relevant sale and purchase. The Trustee has also undertaken pursuant to the Sale Undertaking Deed to sell Sukuk Assets of the relevant Series of Sukuk Certificates to GFH at GFH's option, if and only if the circumstances for early dissolution of the relevant Trust of the Sukuk Certificates pursuant to Condition 11.2 (if applicable) or Condition 11.3 (if applicable) are applicable. The purchase price payable by GFH pursuant to each such Sale Agreement will be an amount equal to (a) the Aggregate Nominal Amount (as specified in the relevant Final Terms) of the relevant Series of Sukuk Certificates, (b) the amount of accrued but unpaid Periodic Distribution Amounts on such date (including any additional amounts payable pursuant to Condition 12 (*Taxation*)) and (c) any outstanding amounts due to GFH under the Liquidity Facility (the **"Exercise Price"**). A **"Sale Agreement"** is the agreement to be entered into by GFH and the Trustee substantially in the form annexed to the Purchase Undertaking Deed or Sale Undertaking Deed, as applicable, containing the specific terms applicable to the relevant sale and purchase pursuant to the Purchase Undertaking Deed or Sale Undertaking Deed, as the case may be.

Pursuant to a master trust deed (the **"Master Trust Deed"**) dated on or about 9 July 2007 between the Issuer, the Trustee, GFH and HSBC Trustee (C.I.) Limited (the **"Transaction Administrator"**), as the same will be supplemented (on the occasion of the issue of each Series of Sukuk Certificates) by a supplemental trust deed (each, a **"Supplemental Trust Deed"**) in respect of the relevant Series of Sukuk Certificates, as the case may be, the Trustee will declare a trust (each, a **"Trust"**) over the Trust Assets of the relevant Series. Each Trust will be declared for the benefit of the relevant Certificateholders of the relevant Series, unless otherwise specified in the relevant Supplemental Trust Deed.

The Issuer will act in its capacity as trustee in respect of the Trust Assets for the benefit of Certificateholders of each Series in accordance with the Master Trust Deed, the relevant Supplemental Trust Deed and the Conditions.

The Trustee will only act upon the instructions of the Certificateholders in carrying out the activities of the Trust. To facilitate the giving of such instructions by the Certificateholders, it is a term of the Sukuk Certificates that HSBC Trustee (C.I.) Limited is appointed as the Transaction Administrator pursuant to a transaction administration deed between the Trustee and the Transaction Administrator dated on or about the Programme Date (the **"Transaction Administration Deed"**) to act as agent for the Certificateholders and be solely entitled to provide instructions to the Trustee on their behalf. By subscribing for interests in the Sukuk Certificates, the Certificateholders agree to the Issuer appointing the Transaction Administrator to act as agent for the Certificateholders on the terms set out in the Transaction Administration Deed.

Certificateholders, by subscribing for or acquiring Sukuk Certificates, acknowledge that no recourse may be had for the payment of any amount owing in respect of any Sukuk Certificates against the Issuer, the Trustee or the Transaction Administrator, in any circumstances whatsoever, or the relevant Trust to the extent the relevant Trust Assets (as defined in the Conditions) have been exhausted, following which all obligations of the Issuer, the Trustee, the Transaction Administrator and the relevant Trust shall be extinguished.

Certificateholders should note that through a combination of, *inter alia*, the Liquidity Facility and the Purchase Undertaking Deed, the Trustee and the Transaction Administrator will have recourse to GFH and the ability of the Issuer to pay the amounts due in respect of the Sukuk Certificates will ultimately be dependent on GFH.

A description of GFH is included within this Base Prospectus under *"Description of GFH"* below.

The Master Purchase Agreement, the Master Purchase Trust Deed, the Management Agreement (including the Liquidity Facility available to the Issuer), the Purchase Undertaking Deed, the Sale Undertaking Deed and the Transaction Administration Deed are described in more detail in *"Summary of the Principal Programme Documents"* set out in this Base Prospectus.

Issuer and Trustee:	GFH Sukuk Limited.
Ownership of the Issuer:	The Issuer is an exempted company with limited liability incorporated in the Cayman Islands on 23 May 2007 whose objects, as set out in paragraph 3 of its Memorandum of Association (**"Articles"**) include the business to be carried out by the Issuer in connection with the Sukuk Certificates. The authorised share capital of the Issuer is US$50,000 consisting of 5,000,000 shares of US$0.01 each, of which 1,000 shares are fully paid up and issued. The Issuer's entire issued share capital is held by Walkers SPV Ltd. under the terms of a trust for charitable purposes.
Liquidity Facility Provider:	Gulf Finance House B.S.C.
Co-Arrangers:	Dresdner Bank Aktiengesellschaft, HSBC Bank plc
Dealers:	Dresdner Bank Aktiengesellschaft, HSBC Bank plc and any other Dealers appointed in accordance with the Dealer Agreement.
Transaction Administrator:	HSBC Trustee (C.I.) Limited.
Principal Paying Agent, Calculation Agent, Transfer Agent and Replacement Agent:	HSBC Bank plc.
Registrar:	HSBC Private Bank (Jersey) Limited.
Administration of the Issuer:	The affairs of the Issuer are managed by Walkers SPV Limited (the **"Corporate Administrator"**), who will provide, amongst other things, certain administrative services for and on behalf of the Issuer pursuant to the Corporate Services Agreement dated on or about 14 June 2007 between, *inter alia*, the Issuer, the Corporate Administrator and the Transaction Administrator (the **"Corporate Services Agreement"**).

Managing Agent:	GFH will act as Managing Agent in connection with the Sukuk Assets pursuant to the Management Agreement.
Certain Restrictions:	Each issue of Sukuk Certificates denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see *"Subscription and Sale"* set out in this Base Prospectus).
Programme Size:	Up to US$1,000,000,000 (or its equivalent in other currencies calculated in accordance with the Dealer Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Distribution:	As specified in the applicable Final Terms.
Denomination of the Sukuk Certificates:	The Sukuk Certificates will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Sukuk Certificate will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see *"Certain Restrictions"* above, and save that the minimum denomination of each Sukuk Certificate admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €50,000 (or, if the Sukuk Certificates are denominated in a currency other than euro, the equivalent amount in such currency).
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer, GFH and the relevant Dealer.
Status:	Each Sukuk Certificate will evidence an undivided beneficial ownership of the Certificateholders in the Trust Assets of the relevant Series, will be a limited recourse obligation of the Issuer and will rank pari passu, without any preference or priority, with all other present and future Sukuk Certificates issued under the Programme.
Shari'ah compliant Liquidity Facility:	GFH has agreed, in the Management Agreement, to make available a Shari'ah compliant liquidity facility to the Issuer to ensure timely payment of, *inter alia*, Periodic Distribution Amounts in respect of each Series of Sukuk Certificates and to cover any cost and expenses incurred by the Issuer in connection with having an ownership interest in the Sukuk Assets. See *"Summary of Principal Programme Documents"* set out in this Base Prospectus.

Form of Sukuk Certificates:	The Sukuk Certificates will be issued in registered form only, as described in *"Form of the Sukuk Certificates"*.
Listing and admission to trading:	Application has been made to the UK Listing Authority for Sukuk Certificates issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Sukuk Certificates to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. Sukuk Certificates may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Sukuk Certificates which are neither listed nor admitted to trading on any market may also be issued. The applicable Final Terms will state whether or not the relevant Sukuk Certificates are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Maturities:	The Sukuk Certificates will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency (as selected in the applicable Final Terms).
Issue Price:	Sukuk Certificates may only be issued on a fully-paid basis and at an issue price which is at par.
Periodic Distributions:	Certificateholders are entitled to receive Periodic Distribution Amounts (as defined in the Conditions) calculated on the basis specified in the applicable Final Terms.
Redemption of Sukuk Certificates:	Sukuk Certificates shall be redeemed at par.
Ratings:	If applicable to the relevant Series, the rating assigned to such Series of Sukuk Certificates to be issued under the Programme will be specified in the applicable Final Terms.
Dissolution Events:	Upon the occurrence of any Dissolution Event (as defined in the Conditions), the Sukuk Certificates may be redeemed on the Dissolution Date at 100 per cent. of their principal amount and the relevant Return Accumulation Period may be adjusted accordingly. See Condition 14 *(Dissolution Events)*.
Negative Pledge:	The Purchase Undertaking Deed contains a negative pledge given by GFH.
Covenants:	GFH has given certain restrictive covenants in the Purchase Undertaking Deed. The Issuer has given certain restrictive covenants as described in Condition 6 *(Covenants)*.

Step Up: So long as any Sukuk Certificate remain outstanding, on the occurrence of a Step Up Event (as defined in Condition 6.3) the applicable Rate payable in respect of such Sukuk Certificate shall be increased by 0.5 per cent. per annum from the beginning of the Return Accumulation Period (if any) immediately subsequent to the Step Up Event to but excluding the Maturity Date applicable to the relevant Series.

Cross Default: The Management Agreement contains a cross default provision in relation to GFH. See *"Summary of Principal Programme Documents and Transaction Documents"*.

Optional Dissolution: If so specified in the applicable Final Terms, a Series of Sukuk Certificates may only be dissolved prior to its scheduled dissolution in the circumstances set out in Condition 11.2 *(Early Dissolution for Tax Reasons)* or Condition 11.3 *(Optional Dissolution (Call))*. The Sale Undertaking Deed enables GFH to purchase the Sukuk Assets prior to the scheduled dissolution of the relevant Series of Sukuk Certificates if the circumstances of Condition 11.2 *(Early Dissolution for Tax Reasons)* or Condition 11.3 *(Optional Dissolution (Call))* are applicable.

Withholding Tax: All payments in respect of Sukuk Certificates by the Issuer shall be made without withholding or deduction for, or on account of, any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction (as such term is defined in Condition 1). In the event that any such withholding or deduction is made, the Issuer will, save in the limited circumstances provided in Condition 12 (*Taxation*), be required to pay additional amounts so that the holders of the Sukuk Certificates will receive the full amounts that they would have received in the absence of such withholding or deduction.

Governing Law and Jurisdiction: The Sukuk Certificates will be governed by, and construed in accordance with, English law.

The Master Trust Deed, each Supplemental Trust Deed, the Dealer Agreement, the Agency Agreement, the Purchase Undertaking Deed, the Sale Undertaking Deed, each Sale Agreement, the Master Purchase Agreement, the Master Purchase Trust Deed, the Management Agreement each Supplemental Purchase Agreement, the Beneficiary Deed and Power of Attorney, the Transaction Administration Deed, the Costs Undertaking Deed and the programme manual (containing suggested forms and operating procedures for the Programme), as the same may be amended or supplemented from time to time (the **"Programme Manual"**) will be governed by English law and the parties thereto agree that any disputes arising out of or in connection with these Programme Documents and Transaction Documents shall be referred to and finally resolved by arbitration under the Rules of the London

	Court of International Arbitration (the **"LCIA Rules"**). The seat or legal place of arbitration shall be London. The Corporate Services Agreement will be governed by the laws of the Cayman Islands. The courts of the Cayman Islands have jurisdiction to hear all disputes relating to it.
Selling Restrictions:	There are restrictions on offers, sales and transfers of Sukuk Certificates in the United States of America, the European Economic Area (including the United Kingdom), Federal Republic of Germany, Dubai International Financial Centre, Malaysia, United Arab Emirates, Hong Kong, Singapore and the Cayman Islands and such other restrictions as may be required in connection with the offering and sale of a particular Series of Sukuk Certificates, see "*Subscription and Sale*" in this Base Prospectus.
United States Selling Restrictions:	Regulation S, Category 2.

RISK FACTORS

Each of the Issuer and GFH believes that the factors described below represent the principal risks inherent in investing in the Sukuk Certificates issued under the Programme but the inability of the Issuer to pay any amounts on or in connection with any Sukuk Certificate may occur for other reasons and neither the Issuer nor GFH represents that the statements below regarding the risks of holding any Sukuk Certificate are exhaustive.

Although the Issuer and GFH believe that the various structural elements described in this Base Prospectus lessen some of these risks for Certificateholders, there can be no assurance that these measures will be sufficient to ensure payment to Certificateholders of any Periodic Distribution Amount or the Dissolution Distribution Amount, as the case may be, in respect of the Sukuk Certificates of any Series on a timely basis or at all.

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in "Form of the Sukuk Certificates" and *"Terms and Conditions of the Sukuk Certificates" shall have the same meanings in this section.*

Risk factors relating to the Issuer

Issuer is a newly established SPV

At the date of this Base Prospectus, the Issuer is a newly established special purpose company incorporated in Cayman Islands on 23 May 2007 under the Companies Law (as amended) of the Cayman Islands and has no operating history. The Issuer will not engage in any business activity other than the issuance of the Sukuk Certificates, the acquisition of the Sukuk Assets as described herein and other activities incidental or related to the foregoing as required under the Programme Documents and the Transaction Documents, as the case may be.

The Issuer's only material assets, which will be held on trust for the Certificateholders, shall be the Trust Assets and the obligation of GFH to make other payments under the Purchase Undertaking Deed and the Management Agreement (as defined herein) including advances to be made to the Issuer and the Trustee to cover any shortfalls which may arise in connection with timely payment of the amounts due under each Series of Sukuk Certificates) (including any additional amounts with regard to each Periodic Distribution Amount due under each Series of Sukuk Certificates) on any Periodic Distribution Date (each a **"Liquidity Shortfall"**) pursuant to the Liquidity Facility. The ability of the Issuer and the Trustee to pay amounts due on the Sukuk Certificates will primarily be dependent upon receipt by the Issuer from GFH of all amounts due under the Liquidity Facility, the Master Trust Deed, the Purchase Undertaking Deed and the Management Agreement (which in aggregate may not be sufficient to meet all claims under the Sukuk Certificates).

Risk Factors relating to the Business of Gulf Finance House

GFH's ability to develop investment opportunities for GFH's clients and the willingness of GFH's clients to invest in GFH's product offerings may be adversely affected by changes in general economic, political and market conditions in the GCC or wider MENA region, including from wars, acts of terrorism or catastrophic events

GFH offers to its clients, develops and invests in, significant projects and investment opportunities that are located in the GCC or wider MENA region. In addition, most of GFH's clients are concentrated in the GCC region. Wars, acts of terrorism, uncertain political or economic prospects, or instability in the GCC region and other countries in the Middle East could:

- reduce investment opportunities for GFH and it's clients in the GCC region;
- adversely affect local or international financial markets or both, whether as a result of a real or perceived negative impact on the local or international economy; and
- decrease GFH's clients' funds available for investment with GFH or decrease their demand for GFH's products relating to the GCC region.

Any of these events could have a material adverse effect on GFH's business, financial condition and results of operations.

GFH is organised and conducts certain operations in the Kingdom of Bahrain. Wars, acts of terrorism and uncertain political or economic prospects or instability in the GCC region could have an impact on the stability of Bahrain and its political and economic conditions and could adversely affect GFH's organisational structure and ability to operate GFH's business.

The economies in the GCC region have for the past few years experienced, and continue to experience, rapid and high growth that has created a favourable environment for GFH's business to originate and place investments in the GCC. This economic growth is, in particular, attributable to relatively high oil prices. Revenues relating, directly or indirectly, to oil prices are one of the primary sources of wealth in the GCC region. There can be no assurance that the price of oil, or economic growth in the GCC region, will remain high. In the past, oil prices have varied considerably over time and been relatively low for significant periods of time. If the price of oil were to decrease significantly in real or nominal terms and, as consequence, or for other reasons, economic growth or investment demand in the GCC region were to decline significantly, GFH's business, financial condition or results of operation could be materially adversely affected.

GFH is vulnerable to the potential cyclicality of development and investment in the infrastructure and real estate sector in the GCC and other countries in which GFH invests

For the past few years, growth in the GCC economy in general, and in GFH's business and its profitability in particular, have been attributable to significant investment in local infrastructure and related real estate, both by governments and the private sector in the GCC. For the financial year ended 31 December 2006, income from GFH's infrastructure development business accounted for approximately 65 per cent. of GFH's gross revenues. Local infrastructure and real estate projects in the GCC, as well as certain other emerging markets in which GFH's operations are expanding, are one of the primary sources of the investment opportunities that GFH originates. There can be no assurance that growth in this area of activity will continue. Historically, investment in infrastructure and related real estate has been correlated to economic growth and has been cyclical. Downturns in the economy generally will negatively affect the demand and value of real estate properties and related infrastructure. In particular, investment in infrastructure and real estate has sometimes been subject to sharp, rapid declines in growth or asset values, or both, at the end of economic booms or after the collapse of economic bubbles.

Whether in relation to a downturn generally in the economy or specifically in the real estate sector, an oversupply of space in GFH's markets would typically cause demand for, and returns on, real estate to decline. Such a decline, as well as illiquidity of investments in infrastructure and related real estate, and the potential tax effect of dispositions, could significantly impede GFH's ability to originate or place such investments or to respond to favourable or adverse changes in the performance of the properties underlying them.

GFH's infrastructure and real estate projects may not realise gains or may realise gains that fall short of the expected returns

Whether as a result of general difficulties in the economy or real estate sector or specific problems in GFH's particular infrastructure and real estate projects, GFH's clients' and GFH's own infrastructure development investments may not generate the earnings expected from them. If these investments do not perform as anticipated, the returns GFH is able to deliver to GFH's clients, as well as the value of GFH's investments, will be adversely affected. Investments in infrastructure and related real estate can be illiquid. There can be no assurance that GFH or its clients will be able to exit such investments or to realise any gains. The failure to realise adequate returns for GFH or it's clients from GFH's infrastructure development projects could have a material adverse effect on GFH's results of operations and may decrease GFH's ability to attract clients to GFH's products in the future.

Assumptions made in the conception of GFH's large infrastructure and related real estate projects may prove to be inaccurate

GFH conceives and invests in large infrastructure and real estate projects on the basis of assumptions that GFH makes about their eventual profitability, including assumptions about the nature of the real estate, its location, its value, its zoning and the demand for the specific infrastructure and real estate to be developed. GFH makes these underlying assumptions partly based on GFH's own experience and expertise and partly based on the advice of third party consultants, such as market, financial, construction, legal and environmental consultants. These assumptions may prove to be faulty, whether because of GFH's or their errors of analysis or judgment or inherent uncertainties relating to them. Even if they are reasonable and well founded when they are initially made, these assumptions may prove incorrect over the course of the relatively long period that it can take to complete the projects (which range from approximately 18 months to three years in the case of the development of the infrastructure and approximately four to seven years in the case of the completion of the project). The negative consequences of incorrect assumptions about infrastructure development projects could be substantial, in particular because of their large size and relatively long implementation periods. If, as a result of low probability or unforeseeable circumstances or failures of evaluation or otherwise, the analysis behind GFH's infrastructure and real estate projects proves to be flawed, the investments of GFH and its clients in infrastructure development projects may be unprofitable and GFH's reputation with clients may suffer.

The implementation of GFH's large infrastructure and related real estate projects may not be successful

There are inherent risks in the implementation of large infrastructure and real estate investment projects. These risks include:

- the failure of construction contractors to finish projects on time and within budget;
- defective materials or building methods and a shortage of materials;
- shortages of equipment and labour;
- adverse weather conditions, natural disasters;
- labour disputes, disputes with sub-contractors, accidents; and
- zoning problems and changes in governmental priorities.

Because GFH relies primarily on third party project managers to implement GFH's development infrastructure investment projects, certain of these risks are outside GFH's control. If GFH commences a project which delays in completion, does not complete within budget or does not reach the quality standards planned, GFH's reputation, business, results of operations, growth prospects and financial condition may be adversely affected.

GFH depends on a small number of large infrastructure and related real estate projects to earn a large proportion of GFH's revenues and profits

GFH generates a substantial proportion of its revenues and profits from a small number of large projects, which are concentrated in investments in infrastructure and related real estate projects. For the financial year ended 31 December 2006, GFH's four largest transactions accounted for 91.5 per cent. of GFH's total investment advisory income. If GFH fail to originate and place large deals, GFH's business, results of operations and growth prospects will be materially adversely affected.

Because the amount and timing of GFH's revenues can vary significantly depending on the extent and stage of advancement of a small number of large deals, GFH's operating results are susceptible to fluctuations and are volatile. In particular GFH's quarterly operating results may not therefore be indicative of GFH's annual results. In addition, GFH's operating results may fall below securities analysts' expectations, which may cause the price of GFH's securities to fall abruptly and significantly.

In developing, placing with clients and participating in investment products in emerging markets, GFH is exposed to numerous risks that could negatively affect GFH's business, financial condition and results of operations

Most of GFH's business is concentrated in investments in emerging markets that GFH place with clients.

GFH often originates, develops and participates in these investments and is expanding its business in emerging markets that are new to GFH, such as North Africa and India. Many emerging markets are developing both economically and politically and may have relatively unstable governments and economies based on only a few commodities or industries. Many emerging market countries do not have firmly established investment product markets and companies may lack depth of management or may be vulnerable to political or economic developments such as nationalisation of key industries.

Investments in companies and other entities in emerging markets may involve a high degree of risk and be speculative. Risks include, but are not limited to:

- greater risk of expropriation, confiscatory taxation, nationalisation, social and political instability (including the risk of changes of government following elections or otherwise) and economic instability;
- the relatively small current size of some of the markets for securities and other investments in emerging market projects and the current relatively low liquidity and price volatility in them;
- certain national policies that may restrict GFH's investment opportunities, including restrictions on investing in projects, industries or issuers deemed sensitive to relevant national interests;
- legal uncertainties, for example:
  - (i) a weak judicial system or the absence of developed legal and regulatory structures governing private or foreign investment and private property; and
  - (ii) culturally and historically limited cognisance and acceptance of the rule of law;
- the potential for higher rates of inflation or hyper-inflation;
- currency risk and the imposition, extension or continuation of foreign exchange controls;
- interest rate risk;
- lower levels of democratic accountability;
- differences in accounting standards and auditing practices which may result in unreliable financial information;
- different corporate governance frameworks; and
- corruption.

Investor risk aversion to emerging markets can have a significant adverse effect on the value or liquidity of investments made in or exposed to such markets. It can accentuate any downward movement in the actual or anticipated value of such investments that is caused by any of the factors described above.

GFH may suffer from adverse changes in general economic and market conditions, including the cyclicality of the financial markets

In addition to the foregoing risks specific to the GCC region, emerging markets and the infrastructure and real estate sector, GFH's business is also exposed to general downturns in economic and market conditions. In recent years, the financial markets have been adversely affected by events including wars, acts of terrorism and natural disasters, and there is a significant risk that similar disruptions will recur in the future. Uncertain economic prospects or declines in investment markets for whatever reason could result in GFH's clients withdrawing from the markets or decreasing their rate of investment or their allocation to GFH's investments as a whole. Additionally, a general downturn in economic and market conditions may have an adverse effect on the performance of GFH's portfolio of investments and GFH's ability to source additional attractive investment targets.

GFH is exposed to reputational risks related to GFH's operations and to GFH's industry

GFH depends on the trust and confidence of GFH's clients and co-sponsors to succeed in GFH's business. GFH's reputation could be adversely affected if investments or financial products GFH recommends do not perform as expected. GFH is also exposed to the risk that misconduct, operational failures, litigation and negative publicity and press speculation, whether or not valid, will harm GFH's reputation. In addition, GFH's reputation may be adversely affected by the conduct of third parties over whom GFH has no control, including clients and co-sponsors and managers of projects in which GFH's clients invest.

Moreover, if one of GFH's investments becomes associated with financial scandals or widely publicised improper behaviour, GFH's own reputation may be affected.

GFH is also exposed to adverse publicity relating to the industry as a whole. Financial scandals unrelated to GFH or questionable ethical conduct by a competitor may taint the reputation of the industry and affect the perception of investors, public opinion and the attitude of regulators.

Any damage to GFH's reputation, or to the reputation of GFH's industries, could cause existing clients to withdraw their business and lead potential clients to be reluctant to do business with GFH. Furthermore, negative publicity may result in greater regulatory scrutiny of GFH's operations and of the industry generally. Any of these developments could have an adverse effect on GFH's business, results of operations or financial condition.

GFH may underwrite, but may not be able to place with GFH's clients, investments in GFH's infrastructure and related real estate projects and private equity and asset management deals

In GFH's development infrastructure and other transactions, GFH may underwrite the initial purchase of the investments using GFH's own financial resources and, in certain cases, those of GFH's voting and economic co-investors, partly on the basis of indications of interest which GFH obtains from potential investors. GFH subsequently syndicates the equity investments by placing, on a deal-by-deal basis, a majority of the acquired equity stakes in such investments with GFH's clients. If GFH were to be unsuccessful in placing a majority of the equity investments GFH underwrites, GFH's own exposure to the investments may exceed GFH's targeted co-investment range, thereby exposing GFH's balance sheet to greater risk, which would have material adverse effects on GFH's business, financial condition or results of operations.

Increasing competition from existing investment managers and new entrants in the market may adversely affect GFH's profitability

GFH may face increasing competition for investable wealth in the GCC region from existing and new competitors who may perceive the region's economic growth in recent years as an opportunity to expand further their investment placement activities. For instance, private wealth management groups of global investment and commercial banks are increasingly establishing local offices in the region's major metropolitan areas.

Competition for placement of emerging market assets and real estate, private equity and other alternative investment assets (including those products offered by GFH) has steadily grown in the GCC region as the asset classes become more developed, GCC investors become more familiar with these asset classes and the number of regional asset providers grows. In respect of private equity and asset management, GFH competes with a broad range of international and regional investment firms with whom GFH has overlapping investment strategies. Moreover, in the future, GFH could face new competition from enterprises seeking to emulate the business model for development infrastructure projects that GFH has pioneered, which could have material adverse effects on GFH's business, financial condition or results of operations.

Substantial money inflows into the real estate and private equity markets may lead to an increase in transaction prices and diminish returns

The real estate and private equity markets have grown at a very rapid pace in recent years, leading to a substantial growth in equity placement value. Although real estate and private equity investment managers and funds worldwide have expanded the range of their investments in terms of transaction sizes, industries and geographical regions, there is a finite set of available investment opportunities at any given time. The most attractive opportunities are being pursued by an increasing number of managers with an increasing amount of funds to invest.

As a result, the pricing of transactions in the real estate and private equity markets may become less disciplined, with higher prices being offered than were offered in the past for comparable investments. If this occurs, returns on investments in the real estate and private equity markets would likely decline.

This trend is already somewhat visible in certain segments of the real estate investment market and the private equity market.

A decrease in returns from the real estate and private equity markets over time may have an adverse effect on the amount investors are prepared to invest in these markets and result in lower cash inflows into or higher cash outflows from the real estate and private equity markets. In addition, lower returns would lead to a decline in the fees investors are willing to pay to managers and funds for asset management and investment advisory services and a decline in performance fees generally. Even if fee rates do not decline, absolute amounts of fees received would decline if investments with GFH declined as a result of negative performance. These developments would have an adverse impact on GFH's business and results of operations.

Resignation or loss of members of GFH's senior management could adversely affect GFH's ability to execute GFH's strategy

Members of GFH's senior management have been instrumental in establishing GFH's business and in managing GFH's growth. Their continued service is important to GFH's overall management, as well as to GFH's culture and strategic direction. All of GFH's senior management are at-will employees and, accordingly, they have the ability to leave at any time and could, upon leaving GFH's employment, compete with GFH's activities. A resignation or loss of any of the members of the senior management could adversely affect GFH's ability to implement GFH's strategies and may, as a result, adversely affect GFH's performance and results of operations.

Failure to recruit or retain professionals and other staff could lead to a loss of clients, the inability to implement GFH's expansion strategy and a decline in GFH's revenues

GFH relies on professionals to attract and retain clients, to source, evaluate and oversee projects and to manage client funds successfully. As a result, GFH's ability to attract and retain qualified professionals is central to GFH's ability to maintain and grow GFH's business and revenues. High turnover of staff could negatively affect GFH's growth or result in disruptions or inefficiencies that negatively affect GFH's operations.

The task of attracting and retaining high quality professionals is likely to be challenging for GFH as GFH seeks to implement GFH's strategy of expanding GFH's product offerings and geographical focus. In order to implement its expansion strategy in a controlled manner GFH will need to hire additional professionals.

The market for experienced professionals, however, is competitive, and consequently, GFH may not be successful in GFH's efforts to recruit and retain the required core personnel. A failure to recruit or retain high quality professionals and other staff could limit GFH's ability to grow GFH's business and implement GFH's expansion strategy, which could adversely affect GFH's business and GFH's results of operations.

Implementing GFH's growth strategy may lead to increased costs and lower profitability and negatively affect GFH's corporate culture

GFH's strategy contemplates growing GFH's origination of investment opportunities outside of the GCC region and expanding GFH's product offerings, for example, by developing GFH's private equity and fund business. Implementing this strategy may entail significant difficulties and will significantly increase costs, including the cost of recruiting, training and retaining a higher number of investment professionals and higher compliance costs arising from exposure to additional jurisdictions and activities. As GFH's operations expand, GFH may become subject to legal uncertainties or regulations to which GFH is not currently subject or from which GFH is currently exempt, which may lead to greater exposure to risk or higher compliance costs. GFH's expected growth may also lead to organisational and cultural challenges as GFH strives to integrate GFH's newly acquired resources, including in ensuring that adequate controls and supervisory procedures are in place. Unless GFH's expanded operations are able to generate sufficient additional fees or investment income, GFH's results of operations will be adversely affected by higher costs. In addition, if GFH does not manage the expansion and integration process successfully, the working relationship among GFH's investment professionals and the culture of GFH's organisation may suffer, with potentially adverse effects on GFH's future ability to retain high quality investment professionals and on clients' perceptions of GFH's organisation.

GFH relies significantly on data processing systems. Failure of such systems, associated back-up facilities or breach of GFH's information security systems could have a material adverse effect on GFH's business

GFH's business is highly dependent on GFH's communications and information systems and those of GFH's key service providers for monitoring investment performance, forecasting liquidity requirements, making investment decisions and maintaining reliable accounting and processing data. Any failure or interruption of such systems from terrorist activity and natural or man-made disasters, including from bomb threats, explosions, fires or floods, could have a material adverse effect on GFH's business or GFH's operating results. The same is true of third party service providers on which GFH depends. Although GFH have backup systems in place, GFH cannot guarantee that these systems will not fail and will be adequate in the face of a disaster.

GFH also rely heavily on financial, accounting and other data processing systems, especially in connection with the confirmation or settlement of transactions and the recording or accounting of transactions. An external information security breach, such as a hacker attack, a virus or worm, or an internal problem with information protection, such as failure to control access to sensitive systems, could materially interrupt GFH's business operations or cause disclosure or modification of sensitive or confidential information. Any such failure could result in material financial loss, regulatory actions, breach of client contracts, reputational harm or legal liability, which, in turn, could cause a decline in GFH's earnings or stock price.

GFH's risk management strategies and procedures may leave GFH exposed to unidentified or unanticipated risks

Risk management applies both to GFH's own asset management operations as well as to the investments GFH makes for GFH's clients. GFH have developed, and continue to update, strategies and procedures specific to GFH's business for managing risks, which include operational risk, market risk, liquidity risk and reputational risk. For additional information regarding GFH's risk management strategies and procedures, see *"Risk Management"*. Management of these risks can be very complex given the highly structural nature of many of GFH's products and other operations. These strategies and procedures may fail under some circumstances, particularly if GFH is confronted with risks that GFH have underestimated or not identified.

In addition, some of GFH's methods for managing the risk related to GFH's clients' investments are based upon observations of historical market behaviour. Statistical techniques are applied to these observations in order to arrive at quantifications of some of GFH's risk exposures. These statistical methods may not accurately quantify GFH's risk exposure if circumstances arise which were not observed in GFH's historical data. In particular, as GFH enters new lines of business, GFH's historical data may be incomplete.

If the measures used to assess and mitigate risk prove insufficient, GFH may experience material unanticipated losses and a decrease in the performance of GFH's investments, resulting in adverse effects on GFH's operations and on GFH's ability to retain and grow GFH's business.

GFH is exposed to the risk of losses as a result of employee misrepresentation, misconduct or improper practice

Misrepresentation, misconduct or improper practice by any of GFH's employees could expose GFH to the risk of direct and indirect financial loss and damage to GFH's reputation. Such misrepresentation, misconduct and improper practice could involve, for example, GFH's employees mis-selling to potential investors, engaging in corrupt or illegal practices to originate investment opportunities or to place investments, intentionally or inadvertently releasing confidential information or failing to follow internal procedures. Such actions by employees could expose GFH to financial losses resulting from the need to reimburse customers or other business partners or as a result of fines or other regulatory sanctions, and may damage GFH's reputation.

A deterioration of GFH's credit ratings could result in increased funding costs and may have a material adverse impact on GFH's liquidity and impact investor perception of GFH's business

GFH cannot guarantee that the rating agencies will not downgrade GFH's debt ratings in the future. GFH is currently rated BBB- by Standard and Poor's and BBB by Capital Intelligence. Furthermore, GFH cannot offer any assurance that GFH will be able to take measures to maintain GFH's current ratings or to strengthen GFH's ratings in the event of a potential downgrade, or that the rating agencies will consider that the measures taken by GFH for this purpose are adequate. In addition, factors beyond GFH's control, such as those relating to the industry or geographic regions in which GFH operate, may affect the ratings assigned to GFH by these agencies.

GFH's credit ratings may affect the willingness of institutional investors to place their funds with GFH. This is due to a potential perception of GFH's weakened financial stability as a consequence of any downgrade.

Because the financial and other terms of GFH's debt agreements depend in part on GFH's credit rating, any deterioration in GFH's credit ratings or a negative outlook given by a rating agency could result in increased funding costs and may limit GFH's funding sources or impact GFH's liquidity. In addition, rating downgrades may limit GFH's ability to conduct certain businesses or may cause clients to be reluctant to do business with GFH. A reduction in GFH's credit rating could have a material adverse affect on GFH's business, results of operations or financial condition.

GFH may be unable to maintain positive working relationships with governmental authorities in the GCC region and other emerging markets, which would adversely affect GFH's ability to conduct successful development infrastructure projects in these regions

The success of GFH's development infrastructure projects is highly dependent on GFH's ability to foster positive and committed working relationships with governmental authorities in the regions in which GFH seek to conduct business. For example, the strength of these relationships gives GFH greater credibility when GFH present governmental authorities GFH's projects and their potential economic development, social and other benefits. This in turn allows GFH to obtain necessary or desirable government support for GFH's projects and in many instances attractive terms for the parcels of land on which GFH seek to develop a new project.

Attractive terms for land provide GFH with considerable cost savings at the outset of a project, thereby facilitating GFH's ability to realise a profit when GFH later seek to exit GFH's investment following the completion of infrastructure improvements on the property. In addition, GFH must generally seek the pre-approval of local governments in the form of building permits, zoning changes, or otherwise before GFH can begin work on a new project. If GFH's relationship with governmental authorities were to deteriorate, GFH might be unable to obtain considerable cost savings at the outset of a project and the requisite building permits in connection with a project.

GFH may also be affected by changes in government personnel, whether as a result of changes in government, ruling parties or the positions of government employees. Any inability on GFH's part to maintain positive working relationships with current governmental authorities or to develop similar positive working relationships with any successor governmental authorities in the future could have a material adverse effect on GFH's financial condition or results of operations.

Investments in prospective private equity portfolio companies are risky, and GFH could fail to realise gains on these investments

Investment in the companies GFH identifies for GFH's private equity products involves a number of significant risks, including the following:

- *Limited capital resources.* These companies may have limited financial resources and may be unable to meet their indebtedness obligations under their financing arrangements.

- *Limited operating history.* Some prospective portfolio companies may have limited operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns.

- *Limited information.* Generally, little public information exists about these companies, and GFH is required to rely on the ability of GFH's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If GFH is unable to uncover all material information about these companies, GFH may not make a fully informed investment decision, and GFH may fail to make adequate returns on GFH's investments.

- *Dependency on key managers and personnel.* Some prospective portfolio companies may depend on the management talents and efforts of a small group of persons, and the death, disability, resignation or termination of one or more of these persons could have a material adverse effect on GFH's portfolio company and, in turn, on GFH's results of operations.

- *Other risk factors.* Prospective portfolio companies generally have less predictable operating results, may be susceptible to economic slowdowns or recessions, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position.

As a result of the factors set out above or other circumstances, GFH's private equity investments may not realise gains, or may realise gains that fall short of GFH's historical track record or the returns desired by GFH's clients.

Additionally, GFH co-invest alongside GFH's clients in GFH's private equity product lines. If these investments do not perform as anticipated, the value of GFH's co-investments will decrease and the returns GFH is able to deliver to GFH's clients will be adversely affected. GFH cannot guarantee that GFH will be able to exit GFH's investments in GFH's portfolio companies, whether by flotation, merger or sale to a strategic or financial buyer, and accordingly, GFH may not be able to realise any gains. The failure to realise gains on GFH's co-investment or to provide adequate returns for GFH's clients of GFH's private equity products could have a material adverse effect on GFH's results of operations and may decrease GFH's ability to attract clients to GFH's investment products in the future. Adverse economic conditions also may decrease the value of GFH's equity investments.

Risks Related to Regulatory and Legal Matters

A breach of regulatory requirements may result in enforcement measures or subject GFH to significant penalties and could adversely affect its reputation, all of which could result in a significant decline in its business

Although GFH seeks to comply with all regulatory requirements applicable to it, any possible future breach of regulatory requirements may result in enforcement measures being taken against it. There is a risk that, in the case of severe or repeated breaches of the regulatory requirements in any jurisdiction, the licenses of GFH or its banking subsidiary could be revoked or limited. Possible sanctions could also include the revocation of licenses to operate certain businesses, the suspension or expulsion from a particular jurisdiction or market of any of GFH's business organisations or their key personnel, the imposition of fines and censures on GFH employees or GFH itself and the imposition of additional capital requirements.

Banks, as well as securities regulators typically have a wide range of interpretive and enforcement powers in the event they favour stricter regulation or discover any irregularities. The Central Bank of Bahrain has been active in regulating GFH and other financial institutions in Bahrain, including through specific enquiries, positions and communications relating to GFH's activities. Public trust and confidence are critical to GFH's business, and any material loss of investor or client confidence as a result of a breach or an alleged breach of regulatory requirements could result in a significant decline in investments with GFH, which would have a material adverse effect on GFH's business, results of operations and financial condition.

GFH are subject to the risk that tax, accounting and regulatory changes may adversely affect its after tax income or its operations and the risk that such changes may make the products that it offers less attractive to clients

GFH are headquartered in Bahrain and have special purpose vehicles primarily located in the Cayman Islands. GFH both hold and offer investments to its clients in the GCC, and it anticipates holding and offering investments in other jurisdictions, including countries in the European Union. Should the tax laws or interpretations of the tax laws change or should current practices become more restrictive in any of the jurisdictions in which GFH conducts operations or where GFH or its clients make investments, GFH's after tax income could be adversely affected and its investments could become less attractive, causing its clients to shift their investments away from or towards particular jurisdictions. This is especially relevant to the tax regimes of the European Union, Bahrain and the Cayman Islands, where GFH conducts business or has holding companies, and the GCC, where the majority of GFH's investments are located and subject to tax. Similarly, regulatory or accounting changes applicable in any of the jurisdictions where GFH conducts operations or its clients are located or where GFH or its clients make investments could adversely affect GFH's business, including the manner in which GFH reports its income, and could make GFH's investments less attractive to it or GFH's clients. GFH is particularly sensitive to regulatory changes in the Kingdom of Bahrain, where it is subject to regulation by the CBB, and in the European Union, GCC, and certain emerging markets, where its operations are conducted and where the majority of GFH's and its clients' investments are located.

Regulation of the financial investments sector in the markets in which GFH operates is increasing and will likely continue to increase. Adverse changes in the laws or regulations governing GFH's *business could force it to introduce changes in its products and operations, and would likely increase GFH's compliance costs. Governmental enforcement actions or investigations in GFH's industry could have the same effect and also lead to sanctions*

GFH conducts its business in multiple jurisdictions, each of which may have separate regulatory requirements governing GFH's product offerings. The regulations to which GFH is subject may not be uniform or harmonised. In addition, GFH may become subject to more stringent regulations in the future. It is also possible that laws and regulations could be amended or interpreted in a manner that would be adverse to GFH and its current operations. In this regard, during the past year at least, governments, legislators, regulators and industry groups in Europe and the United States have actively been discussing and evaluating whether private equity, hedge or other funds for non-retail investors should be subject to more extensive regulation in such areas as disclosure, corporate governance and licensing of funds and their employees. This regulatory interest appears in the recent past to have had, and may in the future have, an influence on regulators in the GCC region. For example, regulators in the GCC region have sought from GFH information about the disclosure that GFH provides to investors in GFH's various fund products, in particular in respect of fees and use of proceeds. Given the general global trend towards enhanced disclosure and protection of investors and securities markets, GFH faces the possibility of continued or increased scrutiny of GFH's business by regulators in the GCC region and in other markets where GFH may hold investments or operate in.

If regulation becomes more stringent and restricts GFH's business (such as, for example, minimum standard conditions for GFH's products or stricter regulation relating to fees), or negatively affects the investment performance of the products GFH offers, GFH's business and revenues could be adversely affected. A more stringent regulatory regime may also result in substantially higher compliance costs that would affect GFH's profitability. Tougher regulations could effectively preclude GFH from offering certain products or operating in certain jurisdictions. If GFH fails to comply with existing or future regulatory requirements, enforcement measures may be taken against GFH. Due to the fragmented status of investment management regulation and the complexity of certain of GFH's products, GFH cannot completely mitigate the risk that despite thorough compliance efforts, GFH and its products may be in violation of relevant laws or regulations, such as, for example, regarding which products may be publicly distributed without a license, or what type of distribution methods may qualify as a non-public distribution. In the unlikely event of a severe violation, or repeated violations, of the regulatory requirements in any jurisdiction, the result could be the suspension or expulsion of GFH's business or key personnel from a particular jurisdiction or market, the imposition of fines and censures on GFH's employees or GFH and the imposition of additional regulation and harm to GFH's reputation.

GFH is subject to anti-money laundering and other regulations and exposed to the risks arising from any non-compliance and to the risk that more stringent rules will impose high costs and restrictions on its business

GFH is subject to laws in Bahrain relating to the prevention of money laundering. Generally, GFH is required to conduct a due diligence investigation of each customer and any other beneficial owners of relevant assets and to notify the authorities if it suspects that assets involved in a transaction or a business relationship originate from criminal activity. For cultural and religious reasons certain jurisdictions will not respect this limited liability arrangement, which could result in damages to investors in one portion of GFH's business if required to assume potential liabilities of another portion of GFH's business. This could lead to reputational and, indirectly, financial losses.

The introduction of Basel II may adversely affect GFH's business

In June 2004, the Basel Committee on Banking Supervision of the Bank for International Settlements, or Basel Committee, approved significant changes to existing international banking capital adequacy standards and endorsed the publication of "International Convergence of Capital Measurement and Capital Standards, a revised Framework", the new capital adequacy framework commonly referred to as Basel II. The Basel II rules allow banks to use internal credit ratings to determine the amount of regulatory capital that must be held by a bank. In addition, the new rules introduce a capital charge for "Operational Risk". This framework could cause GFH to be subject to higher capital requirements.

Risks Related to GFH's Shareholding and Corporate Structure

Immediately after the completion of GFH's GDR Listing (as defined below), members of GFH's Board of Directors, excluding directors who are also members of GFH's Executive Management, will have a beneficial interest in, directly or indirectly (through holding companies, personal trusts or otherwise), 31.5 per cent. of GFH's shares and members of GFH's Executive Management will have a beneficial interest in, directly or indirectly (through holding companies, personal trusts or otherwise), 1.3 per cent. of GFH's shares. Those individuals are in charge of devising and implementing GFH's strategy, supervising its investment management activities and directing all other critical aspects of its business. The decisions of those individuals as directors and managers may be directly or indirectly influenced by their interests as shareholders. The preferences and interests of those large shareholders may be different from the preferences and interests of the Certificateholders.

Risk factors relating to the Sukuk Certificates

The Sukuk Certificates are Limited Recourse and Unsecured Obligations

Recourse in respect of Sukuk Certificates is limited to the Trust Assets of the relevant Series of Sukuk Certificates and the amounts received in respect of the Trust Assets will be the primary source of payments on such Series. Following a Dissolution Event, or early dissolution pursuant to Condition 11.2 (*Early Dissolution for Tax Reasons*) or Condition 11.3 (*Optional Dissolution (Call)*), the sole rights of the Issuer, the Trustee, the Transaction Administrator (acting on behalf of the Certificateholders) and the Certificateholders in connection with the relevant Series will be against GFH to pay the Exercise Price in respect of such Series. Certificateholders will otherwise have no recourse to any assets of the Transaction Administrator, GFH, the Dealers and the Agents (as defined in the Conditions) or any affiliate of any of the foregoing entities in respect of any shortfall in the expected amounts due under the relevant Trust Assets. GFH is obliged to make its payments under the Purchase Undertaking Deed and the relevant Sale Agreement pursuant thereto and to provide a Liquidity Facility to or otherwise make payments to the Issuer pursuant to the Management Agreement, Master Trust Deed and the relevant Supplemental Trust Deed, as directed by the Transaction Administrator (acting as agent of the Certificateholders).

Absence of secondary market/limited liquidity

There is no assurance that a market for the Sukuk Certificates of any Series will develop or, if it does develop, that it will continue for the life of such Sukuk Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Sukuk Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Sukuk Certificates may fluctuate and a lack of liquidity, in particular, may have a severe adverse effect on the market value of the Sukuk Certificates. Accordingly, the purchase of the Sukuk Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Sukuk Certificates and the financial and other risks associated with an investment in the Sukuk Certificates.

Sukuk Certificates subject to early dissolution by the Issuer

An early dissolution feature of any Sukuk Certificate is likely to limit its market value. During any period when the Issuer may elect to dissolve Sukuk Certificates, the market value of those Sukuk Certificates generally will not rise substantially above the dissolution amount payable. This also may be true prior to any dissolution period.

Risk factors relating to the Sukuk Asset Trust Property and the Sukuk Assets

Liability attaching to owners of assets

In order to comply with the requirements and principles of Shari'ah, the Issuer (in its capacity as Trustee) will receive beneficial interest in the Sukuk Asset Trust Property of each Series from GFH under the Master Purchase Agreement, the relevant Supplemental Purchase Agreement and the Master Purchase Trust Deed. The Trustee will declare a trust in respect of the Trust Assets of the relevant Series in favour of the Certificateholders of such Series pursuant to a Supplemental Trust Deed constituting the Series. Accordingly, Certificateholders will have beneficial interests in the relevant Trust Assets including the relevant Sukuk Assets unless transfer of/creation of beneficial interest in the Sukuk Asset Trust Property is prohibited by, or ineffective under, any applicable law (see "*Transfer of/ Creation of Beneficial Interest in the Sukuk Asset Trust Property*" below).

No investigation or enquiry will be made and no due diligence will be conducted in respect of the Sukuk Asset Trust Property corresponding to the Sukuk Assets transferred to the Issuer. Only limited representations will be obtained from GFH in respect of the Sukuk Asset Trust Property corresponding to the Sukuk Assets of any Series of Sukuk Certificates. In particular, the precise terms of the Sukuk Asset Trust Property or the nature of the Sukuk Assets Trust Property will not be known (including whether there are any restrictions on transfer or any further obligations required to be performed by GFH to give effect to the transfer of the relevant Sukuk Assets). No steps will be taken to perfect any transfer of the relevant Sukuk Asset Trust Property or otherwise give notice of the transfer to any lessee or obligor in respect thereof. Obligors and lessees may have rights of set off or counterclaim against GFH in respect of such Sukuk Asset Trust Property.

In addition, to the extent that a third party is able to establish a direct claim against the Issuer, the Trustee or any Certificateholders on the basis of a right, beneficial title, interest or benefit, as the case may be, in any Sukuk Asset or the corresponding Sukuk Asset Trust Property, GFH has agreed in the Costs Undertaking Deed to indemnify the Issuer, the Trustee and Certificateholders against any such liabilities. In the event that GFH is unable to meet any such claims then Certificateholders may suffer losses in excess of the original face amount invested.

Transfer of/Creation of Beneficial Interest in the Sukuk Asset Trust Property

No investigation will be made as to whether any Sukuk Assets Trust Property may be transferred or a trust can be validly declared over such property as a matter of the law governing the contracts, the law of the jurisdiction where such assets are located or even the law where the obligor is situated. In addition, no investigation will be made to determine if the Master Purchase Agreement together with the relevant Supplemental Purchase Agreement and the Master Purchase Trust Deed will have the effect of transferring the Sukuk Assets or creating a valid trust over the Sukuk Asset Trust Property of the relevant Series of Sukuk Certificates. Accordingly, no assurance will be given that the relevant Sukuk Assets will actually be transferred to the Issuer and Trustee or a valid trust has been created over the Sukuk Asset Trust Property.

Nevertheless, since the Certificateholders will not have any rights of enforcement as against the Trust Assets (other than the Purchase Undertaking) and their rights are limited to enforcement against GFH of its obligation to acquire the Sukuk Assets pursuant to the terms of the Purchase Undertaking Deed and its obligations to make payment under the Liquidity Facility (see "*The Sukuk Certificates are Limited Recourse and Unsecured Obligations*" above). Accordingly, any such restriction on the ability of GFH to make a valid transfer of the Sukuk Assets to the Issuer or create a valid trust over the Sukuk Asset Trust Property in favour of the Issuer and Trustee may have limited consequence in the ability of the Certificateholders to receive payments in respect of the Sukuk Certificates.

In order to maintain the economic benefit of the proposed transfer/creation of trust, the Master Purchase Agreement provides that to the extent that the transfer of any Sukuk Assets/creation of trust over the Sukuk Asset Trust Property is not effective in any applicable jurisdiction for any reason, GFH agrees to pay any and all amounts received by it in respect of the Sukuk Assets to the Trustee immediately upon receipt. GFH (in the Master Purchase Agreement) has provided indemnities for, *inter alia*, any losses suffered as a result of any failure to transfer any Sukuk Assets/creation of trust over the Sukuk Asset Trust Property. Ultimately payments of amounts due in respect of the Sukuk Certificates will however be dependent on the performance of GFH in making payments under the Purchase Undertaking Deed (and the relevant Sale Agreement) and its obligations to provide the Liquidity Facility pursuant to the Management Agreement and pursuant to the Costs Undertaking Deed.

Risk factors relating to payments

Periodic Distribution Amount

It is expected that the rate of return of the Sukuk Assets of each Series of Sukuk Certificates will exceed the relevant Periodic Distribution Amount due in respect of the corresponding Series of Sukuk Certificates. It is expected that until the Sukuk Certificates of the relevant Series are redeemed in full, the Trustee will receive principal collections in respect of the relevant Sukuk Asset Trust Property comprising the relevant Sukuk Asset and that such principal will be invested in Shari'ah compliant contracts, interests or assets, as the case may be, comprising additional Sukuk Asset Trust Property corresponding to Additional Sukuk Assets or as otherwise specified in the relevant Final Terms.

There is no assurance that such principal collections will be so invested nor any assurance that the rate of return of any such Shari'ah compliant contracts, interests or assets, as the case may be, comprising additional Sukuk Asset Trust Property, will be sufficient to ensure that the Trustee will have sufficient level of return from such collections to pay Periodic Distribution Amounts in respect of any Series of Sukuk Certificates. Any failure to pay the Periodic Distribution Amount due on a Periodic Distribution Date could constitute a Dissolution Event subject to grace period in respect of the relevant Series of Sukuk Certificates. Ultimately, payments of amounts due in respect of the Sukuk Certificates will be dependent on the performance of GFH in making payments under the Purchase Undertaking Deed (and the relevant Sale Agreement) and its obligations to provide the Liquidity Facility pursuant to the Management Agreement.

Credit risk

The Issuer is subject to the risk of default in payment by the obligors under any Sukuk Asset Trust Property corresponding to any Sukuk Assets. This risk is addressed in respect of the Sukuk Certificates by GFH, primarily pursuant to a combination of the Liquidity Facility in the Management Agreement and the Purchase Undertaking Deed (and the relevant Sale Agreement). GFH has undertaken to make advances to the Issuer on demand pursuant to the Liquidity Facility contained in the Management Agreement to allow timely payment of amounts due to Certificateholders under the Sukuk Certificates. Furthermore, the relevant Exercise Price payable by GFH in respect of any Sukuk Assets under the Purchase Undertaking Deed (and to be specified in the relevant Sale Agreement) or the Sale Undertaking Deed (and the relevant Sale Agreement), as the case may be, will be (a) the Aggregate Nominal Amount (specified in the relevant Final Terms) of the relevant Series of Sukuk Certificates, (b) the amount of payable but unpaid Periodic Distribution Amounts on such date (including any additional amounts payable pursuant to Condition 12 (*Taxation*) and (c) any outstanding unpaid amounts under the Liquidity Facility.

Currency risk

The payments made by GFH to the Issuer under the Programme Documents and Transaction Documents or obligors in respect of any Sukuk Asset Trust Property may be calculated by reference to a schedule denominated in a variety of currencies, (each, an **"asset reference currency"**), though the actual payments may be made in a currency selected by the obligor. Accordingly, in the event of changes in the rate of exchange between the Specified Currency (as selected in the Applicable Final Terms) of the relevant Series of Sukuk Certificates and the relevant asset reference currency or in the rate between the relevant asset reference currency and the currency in which the obligor makes payments, as the case may be, there could be a shortfall in the amounts available to pay principal and profit in respect of the Sukuk Certificates. Ultimately, payments of amounts due in respect of the Sukuk Certificates will however be dependent on the performance of GFH in making payments under the Purchase Undertaking Deed (and the relevant Sale Agreement) and its obligations to provide the Liquidity Facility pursuant to the Management Agreement.

Risk factors relating to taxation

Taxation Risks on Payments

Payments made by GFH to the Issuer under the Programme Documents and Transaction Documents or the Issuer in respect of the Sukuk Certificates could become subject to taxation. Condition 12 (*Taxation*) provides that the Issuer is required to gross-up for any such withholdings or deductions imposed by authorities in the Cayman Islands (if any) in certain circumstances. Furthermore, GFH has pursuant to the Liquidity Facility and Purchase Undertaking agreed to pay additional amounts equal to what the Issuer will be required to pay pursuant to Condition 12 to cover any withholding or deduction for taxes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July, 2005, to provide to the tax authorities of another Member State details of certain payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor the Principal Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Certificate as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by the Principal Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Risk factors relating to enforcement

Bahraini bankruptcy law

In the event of GFH's insolvency, Bahraini bankruptcy law may adversely affect GFH's ability to perform its obligations under the relevant Programme Documents and Transaction Documents to which it is a party and, consequently, the Issuer's ability to make payments to Certificateholders. There is little precedent to predict how a claim on behalf of Certificateholders against GFH would be resolved. Bahrain bankruptcy law provides that a decree of bankruptcy will not invalidate a contract unless it has been entered into for "personal reasons; there is no statutory definition of this term and the only occurrence when it has been applied has been in connection with family disputes.

Change of law

The structure of the issue of the Sukuk Certificates under the Programme is based on English law, and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible change to English law, Bahraini law or administrative practices after the date of this Base Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Sukuk Certificates to be issued under the Programme or of GFH to comply with its obligations under the Programme Documents and the Transaction Documents.

Enforcement Risk

Ultimately the payments under the Sukuk Certificates are dependent upon GFH making payments in the manner contemplated under the Purchase Undertaking Deed (and the relevant Sale Agreement in relation thereto) and providing advances under the Liquidity Facility and making other payments as provided pursuant to the Costs Undertaking Deed.

If GFH should fail to make such payments, it would be necessary to bring an action against GFH to enforce its obligations, which could be both time consuming and costly. GFH has irrevocably agreed to certain documentation being governed by English law and to the courts of England having exclusive jurisdiction to settle disputes. Notwithstanding that a judgment may be obtained in an English court there is no assurance that GFH has or would at the relevant time have assets in the United Kingdom against which such a judgment could be enforced. Under the laws of certain jurisdictions where GFH operates, while the parties to any agreement may stipulate the laws of England as the law by which that agreement is to be governed and construed and submit to the jurisdiction of the English courts, the courts of such jurisdiction may not be bound by such acceptance or submission. If any actions were instituted before such courts and adjudicatory authorities, such courts and authorities would not apply the relevant foreign law but, rather, would apply local laws which may not recognise the doctrine of conflicts of law.

Claims for Specific Enforcement

In the event that GFH fails to perform its obligations under the Purchase Undertaking Deed or the relevant Sale Agreement or to make advances under the Liquidity Facility or make other payments under the Costs Undertaking Deed, then the potential remedies available to the Issuer, the Trustee and the Transaction Administrator, as the case may be, include obtaining an order for specific enforcement of GFH's obligations or a claim for damages. There is no assurance that a court will provide an order for specific enforcement which is a discretionary matter.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors including an obligation on the Issuer, the Trustee or the Transaction Administrator, as the case may be, to mitigate. No assurance is provided on the level of damages which a court may award in the event of a failure by GFH to perform its obligations set out in the Purchase Undertaking Deed, the relevant Sale Agreement or the Costs Undertaking Deed or other Programme Documents or Transaction Documents to which it is a party.

Additional risks

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Sukuk Certificates. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Sukuk Certificates. **A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time**.

The Sukuk Certificates may not be a Suitable Investment for all Investors

Each potential investor in the Sukuk Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Sukuk Certificates, the merits and risks of investing in the Sukuk Certificates and the information contained in this Base Prospectus or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Sukuk Certificates and the impact the Sukuk Certificates will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Sukuk Certificates, including Sukuk Certificates with principal amount and Periodic

Distribution Amount (as defined in the Conditions) payable in one or more currencies, or where the currency for principal amounts or Periodic Distribution Amounts (as defined in the Conditions) or is different from the potential investor's currency;

(d) understand thoroughly the terms of the Sukuk Certificates and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Sukuk Certificates are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Sukuk Certificates which are complex financial instruments unless it has the expertise to evaluate how the Sukuk Certificates will perform under changing conditions, the resulting effects on the value of the Sukuk Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

Consents to variation of Programme Documents and other matters

The Master Trust Deed contains provisions permitting the Trustee acting on the instructions of the Transaction Administrator (acting on behalf of the Certificateholders), from time to time and at any time without any consent or sanction of the Certificateholders to make any modification to the Master Trust Deed if, in the opinion of the Transaction Administrator, such modification (a) is of a formal, minor or technical nature, or (b) is made to correct a manifest or proven error, or (c) is not materially prejudicial to the interest of Certificateholders. Unless the Transaction Administrator otherwise decides, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

Emerging Markets

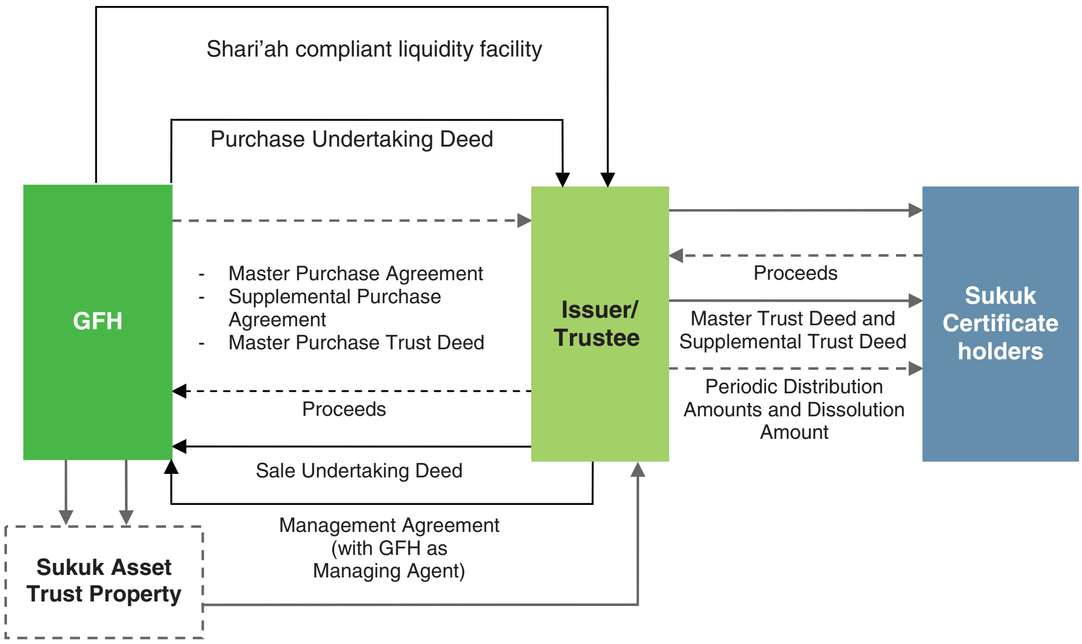
Investors in emerging markets should be aware that these markets may be subject to significantly more risks than developed markets, including in some cases significant legal, economic, regulatory and political risks (see also the "*Overview of the Kingdom of Bahrain*" section in this Base Prospectus). Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for knowledgeable investors who fully appreciate the significance of the risk involved.

STRUCTURE DIAGRAM AND CASHFLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying the transaction. Potential investors are referred to the terms and conditions of the Sukuk Certificates and the detailed descriptions of the relevant Transaction Documents and Programme Documents set out elsewhere in this document for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.

The Shari'ah board of GFH have approved the proposed structure of the Programme in their meeting dated 7 June 2007. A copy of their pronouncement can be made available upon request to GFH.

Structure Diagram



Cashflows

Payments by the Certificateholders and the Issuer

On the Issue Date of each Series of Sukuk Certificates, the relevant Certificateholders will pay the Issue Price (as defined in the Conditions) in respect thereof to the Trustee. The Issuer, and in its capacity as Trustee, in respect of the Master Trust Deed and Supplemental Trust Deed will, using those proceeds, pay the Purchase Price to GFH for the purchase of the relevant Sukuk Assets pursuant to the Master Purchase Agreement, the Supplemental Purchase Agreement, the Master Purchase Trust Deed and the Master Purchase Trust Deed.

Periodic Payments by GFH

On each Periodic Distribution Date, GFH (as Managing Agent) will pay the Issuer an amount representing Collections (representing collection from the relevant Sukuk Assets) in an amount which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the Sukuk Certificates.

Dissolution Payments

On the Maturity Date of each Series, the Trustee will sell the relevant Sukuk Assets pursuant to the Purchase Undertaking Deed and the relevant Sale Agreement to GFH and the Exercise Price (as defined below) paid by GFH is intended to fund the Dissolution Amount payable by the Issuer under the Sukuk Certificates.

The Trust may be dissolved prior to the Maturity Date for a range of reasons including (i) default or the imposition of Taxes or (ii) in certain cases where so specified in the applicable Final Terms, at the option of the Issuer. In any such case the Dissolution Amount will be funded through the sale of the Sukuk Assets by the Issuer to GFH or action taken to enforce such sale.

FORM OF THE SUKUK CERTIFICATES

The Sukuk Certificates of each Series will be in registered form. Sukuk Certificates will be issued outside the United States in reliance on Regulation S under the U.S. Securities Act of 1933, as amended.

Each Series of Sukuk Certificates will initially be represented by a global Sukuk certificate in registered form (a **"Global Sukuk Certificate"**). Global Sukuk Certificates will be deposited with a common depositary (the **"Common Depositary"**) for Euroclear Bank S.A./N.V. (**"Euroclear"**) and Clearstream Banking, société anonyme (**"Clearstream, Luxembourg"**) and will be registered in the name of a nominee for the Common Depositary. Persons holding beneficial interests in Global Sukuk Certificates will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Sukuk Certificates in fully registered form.

Payments of any amount in respect of the Global Sukuk Certificates will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 2.2 (*Register*)) as the registered holder of the Global Sukuk Certificates. None of the Issuer, the Trustee, the Principal Paying Agent, the Transaction Administrator or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Global Sukuk Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payment of any amounts in respect of Sukuk Certificates in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 1 (*Definitions*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Global Sukuk Certificate will be exchangeable (free of charge), in whole but not in part, for definitive Sukuk Certificates only upon the occurrence of an Exchange Event. The Issuer will promptly give notice to Certificateholders in accordance with Condition 17 (*Notices*) if an Exchange Event occurs. For these purposes, **"Exchange Event"** means that (i) a Dissolution Event (as defined in Condition 14 (*Dissolution Events*)) has occurred and is continuing or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Global Sukuk Certificate) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Trustee may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

For so long as any of the Sukuk Certificates is represented by a Global Sukuk Certificate held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg, as the case may be, as the holder of a particular face amount of such Sukuk Certificates (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the face amount of such Sukuk Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its Agents (as defined in the Conditions) as the holder of such face amount of such Sukuk Certificates for all purposes other than with respect to any payment on such face amount of such Sukuk Certificates, for which purpose the registered holder of the relevant Global Sukuk Certificate shall be treated by the Issuer, the Trustee and their respective Agents as the holder of such face amount of such Sukuk Certificates in accordance with and subject to the terms of the relevant Global Sukuk Certificate and the expressions "**Certificateholder**" and "**holder of Sukuk Certificates**" and related expressions shall be construed accordingly.

Any reference in this Base Prospectus to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Series of Sukuk Certificates issued under the Programme.

[Date]

GFH Sukuk Limited

Issue of [Aggregate Nominal Amount of Series] [Title of Sukuk Certificates]

under the

US $1,000,000,000
Sukuk Certificate Issuance Programme

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 9 July 2007 (the **"Base Prospectus"**) which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **"Prospectus Directive"**). This document constitutes the Final Terms relating to the Sukuk Certificates described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with this Base Prospectus. Full information on GFH Sukuk Limited and the offer of the Sukuk Certificates described herein is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at the registered office of the Issuer at c/o Walkers SPV Limited, Walker House, 87 Mary Street, George Town, Grand Cayman, KY 1-9002, Cayman Islands and the Principal Paying Agent at HSBC Bank plc, 8 Canada Square, London E14 5HQ, United Kingdom and copies may be obtained from those offices.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

PART A – CONTRACTUAL TERMS

1.	Issuer:	
	(i) Issuer and Trustee:	GFH Sukuk Limited
	(ii) Liquidity Facility Provider:	Gulf Finance House B.S.C. (**"GFH"**)
2.	Series Number:	[ ]
3.	Specified Currency or Currencies:	[ ]
4.	Aggregate Nominal Amount of Series:	[ ]
5.	[(i)] Issue Price:	100 per cent. of the Aggregate Nominal Amount
	[(ii) Net Proceeds:	[ ] (*Required only for listed issues*)]
6.	Specified Denominations:	[ ] *Sukuk Certificates which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies)*

(N.B. if an issue of Sukuk Certificates is (i) not admitted to trading on a European Economic Area Exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €50,000 minimum denomination is not required)

7. (i) Issue Date: [ ]

   (ii) Return Accrual Commencement Date: [The Issue Date/other (*specify other*)]

8. Maturity Date: *[Specify date or (for Floating Rate Periodic Distribution Sukuk Certificates) Periodic Distribution Date falling in or nearest to the relevant month and year*]

9. Periodic Distribution Amount Basis: [[ ] per cent. Fixed Periodic Distribution Amount] [[*specify reference rate*] +/- [ ] per cent. Floating Periodic Distribution Amount]

   [Screen Rate Determination] (*if Floating*) *(further particulars specified below)*

10. Dissolution Basis: Dissolution at par

11. Change of Periodic Distribution Amount or Dissolution Basis: *[Specify details of any provision for convertibility of Sukuk Certificates into another Periodic Distribution Amount or Dissolution/ Amount basis/[Not Applicable]*

12. Method of distribution: [Syndicated/Non-Syndicated]

PROVISIONS RELATING TO PERIODIC DISTRIBUTION AMOUNTS (IF ANY) PAYABLE

13. Fixed Periodic Distribution Amount Provisions [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

    (i) Fixed Amount[(s)]: [ ] [per Sukuk Certificate of [ ] Specified Denomination and per Sukuk Certificate of [ ] Specified Denomination]

    (ii) Periodic Distribution Date(s): [ ] in each year up to and including the Maturity Date

    (iii) Rate[(s)]: [ ] per cent. per annum [payable [annually/ semi-annually/ quarterly/monthly] in arrear]

    (iv) Return Accumulation Period: [Condition 7.5 (Return Accumulation Period) Applies/other (s*pecify*)]

(v)	Broken Amount(s):	[ ] *(Insert particulars of any initial or final broken Periodic Distribution Amounts or of any initial or final broken Fixed Amounts which do not correspond with the Fixed Amount[(s)] specified under paragraph 14(i))*
(vi)	Day Count Fraction:	[Actual/Actual [ICMA] / Actual/365 [(fixed)] / Actual/360 / 30[E]/360 / other] *(include if Fixed Amount not specified in respect of any Return Accumulation Period)*
(vii)	Other terms relating to the method of calculating Periodic Distribution Amount for Fixed Periodic Distribution Amount Sukuk Certificates:	[Not Applicable/*give details*]
14.	Floating Periodic Distribution Amount Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	[Specified Periodic Distribution Dates:]	[ ] *(Specified Period and Specified Periodic Distribution Dates are alternatives. if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")*]
(ii)	Specified Period:	[ ] *(Specified Period and Specified Periodic Distribution Dates are alternatives. a Specified Period, rather than Specified Periodic Distribution Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention is Eurodollar Convention. Otherwise, insert "Not Applicable")*
(iii)	Business Day Convention:	[Floating Rate Convention/Following Business Date Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(specify other)*]
(iv)	Additional Business Centre(s):	[Not Applicable/*give details*]
(v)	Manner in which the Rate(s) is/are to be determined	[Screen Rate Determination (Condition 8.3 *(Screen Rate Determination)* Applies)/*(specify other)*]
(vi)	[Screen Rate Determination:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	- Reference Rate:	[*For Example, LIBOR or EURIBOR*]

	- Periodic Distribution Determination Date(s):	[ ]
	- Relevant Screen Page:	[*For example, Telerate page [3750/248]*]
	- Relevant Time:	[*For example, 11.00 a.m. London time/ Manama time*]
	- Relevant Financial Centre:	[*For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)*]]
	- Reference Banks:	[ ]
(vii)	Margin:	[ ]
(viii)	Day Count Fraction:	[Actual/365 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 Other]
(ix)	Calculation Agent:	[Principal Paying Agent] *[specify other]*
(x)	Other terms relating to the method of calculating Floating Periodic Distributions:	[Not Applicable] *[give details]*

PROVISIONS RELATING TO DISSOLUTION

15.	Optional Dissolution (Call):	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Optional Dissolution Amount (Call)	[Final Dissolution Amount/[ ] per Sukuk Certificate of [ ] specified denomination] plus accrued Periodic Distribution Amounts (if any)/other *(specify)*]
(ii)	Optional Dissolution Date (Call)	[Any Periodic Distribution Date/other *(specify)*]
(iii)	Notice Period:	[ ] *(Not less than 30 nor more than 60 days)*
16.	Final Dissolution Amount:	[[ ] per Sukuk Certificate of specified denomination plus accrued Periodic Distribution Amount (if any) *(specify other)*]
17.	Early Dissolution Amount (Tax):	[Final Dissolution Amount/[ ] per Sukuk Certificate of specified denomination, plus accrued Periodic Distribution Amounts (if any)/ other *(specify other)*]
18.	Dissolution Event:	As listed in sub-paragraphs (a) to (e) inclusive of Condition 14 (*Dissolution Events*)

GENERAL PROVISIONS APPLICABLE TO THE SUKUK CERTIFICATES

19.	Form of Sukuk Certificates:	Registered Sukuk Certificates: Global Sukuk Certificate exchangeable for Sukuk Certificates in definitive registered form in the limited circumstances specified in the Global Sukuk Certificate.
20.	Additional Financial Centre(s) or other special provisions relating to Periodic Distribution Dates:	[ ] *(Note that this item relates to the date and place of periodic distribution, and not Return Accumulation Period end dates, to which items 13(ii) and 14(iv) relate)*
21.	Other terms or special conditions:	[Not Applicable/*give details*]

DISTRIBUTION

22.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*][1]
	(ii) Date of Subscription Agreement:	[ ]
23.	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
24.	Additional selling restrictions:	[Not Applicable/*give details*]

PROVISIONS IN RESPECT OF THE SUKUK ASSET TRUST PROPERTY AND TRUST ASSETS

25.	Initial Sukuk Asset Trust Property:	[As scheduled to the Supplemental Purchase Agreement, a copy of which schedule is set out in Annex 1 hereto/other *(specify)*]
26.	Trust Assets:	[Condition 5.1 (trust assets) applies/other *(specify)*]
27.	Application of Trust Assets (Prior to Dissolution):	[As specified in Condition 5.2 *(application of Trust Assets Prior to Dissolution)*/other *(specify)*]
28.	Application of Trust Assets (Following a Dissolution):	[As specified in Condition 5.3 *(application of Trust Assets on the Maturity Date or following Dissolution)*/other *(specify)*]
29.	[(i) Maximum Rate of Return:	[[ ] per cent. per annum/Not applicable]
	[(ii) Minimum Rate of Return:	[[ ] per cent. per annum/Not applicable]
30.	Certificateholder Contribution:	[ ]
31.	Certificateholder Entitlement:	[[ ], calculated pursuant to the Master Trust Deed and Supplemental Trust Deed dated [*date*]/other *(specify)*]

1 There should be no reference to a stabilising manager in the distribution provisions of the Final Terms as stabilising activity is not permitted in the United Kingdom in respect of units in a collective investment scheme, such as the Sukuk Certificates.

32.	Record Date:	[*Specify date which is on fifteenth day before the relevant Periodic Distribution Date*/other *(specify)*]
33.	Calculation Date(s):	[Date/The [*number*] day of each [month/year/other]
34.	Calculation Period:	[ ]
35.	Report Date(s):	[*Specify date which is one day after Calculation Date*/other *(specify)*]
36.	Settlement Date(s):	[*Specify date which is four days after Calculation Date*/other *(specify)*]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Sukuk Certificates described herein pursuant to the US$1,000,000,000 Sukuk Certificate Issuance Programme of GFH Sukuk Limited.

RESPONSIBILITY

Each of the Issuer and GFH accepts responsibility for the information contained in these Final Terms. To the best of the knowledge and belief of each of the Issuer and GFH (having taken all reasonable care to ensure that such is the case) the information contained in these Final Terms is in accordance with the facts and does not omit anything likely to affect the import of such information. [[ ] has been extracted from [ ]. Each of the Issuer and GFH confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of GFH Sukuk Limited	Signed on behalf of Gulf Finance House B.S.C.
By:______________________	By:______________________
Duly authorised	*Duly authorised*

PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING**

(i)	Listing:	[London] [*specify other*] [none]
(ii)	Admission to trading:	[Application has been made for the Sukuk Certificates to be admitted to trading on [ ] with effect from [ ]] [Not Applicable]
(iii)	Estimate to total expenses related to admission to trading:	[ ]

2. **RATINGS**

Ratings:	the Sukuk Certificates to be issued have been rated: [S&P: [ ]] [MOODY'S : [ ]] [FITCH: [ ]] [[OTHER]: [ ]] *(The above disclosure should reflect the rating allocated to Sukuk Certificates of the type being issued under the Programme generally or, where the issue has been specially rated, that rating.)*

3. **NOTIFICATION**

The Financial Services Authority [has been requested to provide/has provided – *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [*names of competent authorities of host Member State*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.

4. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE]**

[Save for any fees payable to the [Managers/Dealer], so far as each of the Issuer and GFH is aware, no person involved in the issue of the Sukuk Certificates has an interest material to the offer. [*Amend as appropriate if there are other interests*].

5. **[FIXED RATE SUKUK CERTIFICATES ONLY – YIELD**

Indication of yield:	[ ] *The yield is calculated at the issue date on the basis of the Issue Price. It is not an indication of future yield.*]

6. **OPERATIONAL INFORMATION**

(i)	ISIN code:	[ ]

(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other than Euroclear Bank S.A./N.V and Clearstream Banking Société anonyme and the relevant identification number(s):	[Not Applicable / *give name(s) and number(s)*]
(iv)	Delivery	Delivery [against / free of] payment
(v)	Names and addresses of additional Paying Agent(s) (if any):	[ ]

TERMS AND CONDITIONS OF THE SUKUK CERTIFICATES

The following is the text of the Terms and Conditions of the Sukuk Certificates, which will be endorsed on each Sukuk Certificate in individual registered form issued under the Programme. The applicable Final Terms in relation to any series of Sukuk Certificates may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Sukuk Certificates.

GFH Sukuk Limited (in its capacity as issuer, the **"Issuer"** and, in its capacity as trustee, the **"Trustee"** has established a programme (the **"Programme"**) for the issuance of up to US $1,000,000,000 in aggregate principal amount of Sukuk Certificates.

Sukuk Certificates issued under the Programme (the **"Sukuk Certificates"**) are issued in series (each a **"Series"**). Each Series is the subject of the final terms (the **"Final Terms"**) which are set out in Part A of such Final Terms attached or endorsed to this Sukuk Certificate. The Conditions applicable to any particular Series of Sukuk Certificates are these Conditions as supplemented, amended and/or replaced by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail. Any references to the applicable or relevant Final Terms are to Part A of the Final Terms (or the relevant provisions of such Final Terms) attached to or endorsed to this Sukuk Certificate.

Each of the Sukuk Certificates will represent an undivided beneficial ownership (real ownership) interest in the relevant Trust Assets held by the Trustee on trust (the **"Trust"**) for, *inter alia*, the benefit of the registered holders of the Sukuk Certificates pursuant to (i) a Master Trust Deed (the **"Master Trust Deed"**) dated on or about 9 July 2007 and made between the Issuer, the Trustee, GFH and HSBC Trustee (C.I.) Limited (the **"Transaction Administrator"**) and (ii) the relevant supplemental trust deed (each, a **"Supplemental Trust Deed"**) applicable to each Series.

In these Terms and Conditions (**"Conditions"**), references to **"Sukuk Certificates"** shall be references to the Sukuk Certificates which are the subject of the relevant Final Terms.

The Transaction Administrator has been appointed by the Trustee pursuant to a transaction administration deed dated on or about 9 July 2007 (the **"Transaction Administration Deed"**) to act as agent for the Certificateholders (as such term is defined in Condition 2.2 (*Register*) below). Certificateholders will not have direct recourse to the Issuer but may only act through the Transaction Administrator.

Payments relating to the Sukuk Certificates will be made pursuant to an issue and paying agency agreement dated on or about 9 July 2007 (the **"Agency Agreement"**) made between the Issuer, Gulf Finance House B.S.C. (**"GFH"**), the Transaction Administrator, HSBC Bank plc as principal paying agent (the **"Principal Paying Agent"**, which expression shall include any successor agent) and as calculation agent (in such capacity, the **"Calculation Agent"**, which expression shall include any successor agent) and as replacement agent (in such capacity, the **"Replacement Agent"** which expression shall include any successor Replacement Agent) and HSBC Private Bank (Jersey) Limited as registrar (the **"Registrar"** which expression shall include any successor Registrar) and, together with the Calculation Agent, the Transfer Agent, the Registrar and the Principal Paying Agent, the **"Agents"**).

The Trust Assets comprise, *inter alia*, the undertaking of GFH to purchase outstanding Sukuk Assets on the Maturity Date, or as the case may be, on the Dissolution Date and the benefit of a Shari'ah compliant liquidity facility (as set out in the Management Agreement) from GFH (in such capacity, the **"Liquidity Facility Provider"**) to support, *inter alia*, timely payments of, *inter alia*, Periodic Distribution Amounts under each Series of Sukuk Certificates (the **"Liquidity Facility"**).

Copies of the documents set out below are available for inspection and obtainable free of charge during normal business hours at the Specified Offices for the time being of the Principal Paying Agents. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the documents set out below to which the Issuer and the Trustee are party and the Transaction Administration Deed:

(a) a master purchase agreement between the Issuer, the Trustee and GFH dated on or about 9 July 2007 (the **"Master Purchase Agreement"**);

(b) any supplemental purchase agreement (each, a **"Supplemental Purchase Agreement"**) in relation to Sukuk Certificates which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system;

(c) a master purchase trust deed entered into between GFH (as trustee) and the Issuer (as beneficiary) dated on or about 9 July 2007 (the **"Master Purchase Trust Deed"**);

(d) a management agreement between the Issuer, Trustee, the Transaction Administrator and GFH as managing agent (the **"Managing Agent"**) dated on or about 9 July 2007 (the **"Management Agreement"**), incorporating, *inter alia*, the Liquidity Facility;

(e) a purchase undertaking deed poll by GFH in favour of the Trustee (in its capacity as Issuer and Trustee) dated on or about 9 July 2007 (the **"Purchase Undertaking Deed"**), containing the form of Sale Agreement to be executed by GFH and the Issuer on the Maturity Date or, as the case may be, Dissolution Date of the relevant Series of Sukuk Certificates;

(f) a sale undertaking deed poll by the Trustee in favour of GFH dated on or about 9 July 2007 (the **"Sale Undertaking Deed"**), containing the form of Sale Agreement to be executed by Trustee and GFH pursuant to the terms of the Sale Undertaking Deed;

(g) the Master Trust Deed;

(h) any Supplemental Trust Deed in relation to Sukuk Certificates which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system;

(i) the Transaction Administration Deed;

(j) a beneficiary deed and power of attorney between, *inter alia*, GFH, the Transaction Administrator, the Trustee and the Issuer dated on or about the Programme Date (the **"Beneficiary Deed"**);

(k) the Agency Agreement;

(l) a corporate services agreement between Walkers SPV Limited (as provider of corporate services to the Issuer) and the Issuer dated on or about 14 June 2007 (the **"Corporate Services Agreement"**);

(m) a dealer agreement between the Issuer, the Trustee, GFH and the Dealers dated on or about 9 July 2007 (the **"Dealer Agreement"**);

(n) a costs undertaking deed poll entered into by GFH dated on or about 9 July 2007 (the **"Costs Undertaking Deed"**); and

(o) any applicable Final Terms in relation to Sukuk Certificates which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system.

Copies of the Supplemental Purchase Agreement, the Supplemental Trust Deed and the applicable Final Terms in respect of Sukuk Certificates which are not admitted to listing, trading and/or quotation on any listing authority, stock exchange or quotation system will only be available for inspection and obtainable free of charge by the relevant Certificateholders from the Principal Paying Agent.

The statements in the Conditions include summaries of, and are subject to, detailed provisions of the Master Trust Deed, the relevant Supplemental Trust Deed, the Transaction Administration Deed and the Agency Agreement.

By subscribing for or purchasing and holding interests in Sukuk Certificates issued under the Programme, the Certificateholders irrevocably agree to the Trustee appointing the Transaction Administrator to act as their agent in respect of the relevant Series of Sukuk Certificates on the terms set out in the Transaction Administration Deed entered into by the Transaction Administrator and the Trustee on or about 9 July 2007 (as the same may be supplemented, amended or replaced from time to time). Certificateholders further acknowledge, agree and confirm that the Transaction Administrator shall not, in the absence of fraud on its part, be liable or responsible for any Liabilities which may result from anything done or omitted to be done by it in the exercise, purported exercise, or non-exercise of any of its powers, duties, trusts, authorities or discretions under or in connection with the provisions of the Transaction Administration Deed or any other Programme Documents or Transaction Documents to which it is a party.

1 INTERPRETATION

1.1 Definitions

In these Conditions the following expressions have the following meanings:

"Additional Business Centre(s)" means the city or cities specified as such in the relevant Final Terms;

"Additional Financial Centre(s)" means the city or cities specified as such in the relevant Final Terms;

"Business Day" means:

(i) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in Bahrain, in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre; and

(ii) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;

"Business Day Convention", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

"Following Business Day Convention" means that the relevant date shall be postponed to the first following day that is a Business Day;

"Modified Following Business Day Convention" or "Modified Business Day Convention" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

"Preceding Business Day Convention" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

"FRN Convention", **"Floating Rate Convention"** or **"Eurodollar Convention"** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred *provided, however, that*:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

"No Adjustment" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"Calculation Agent" means the Principal Paying Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Periodic Distribution Amount and/or such other amount(s) as may be specified in the relevant Final Terms;

"Certificateholder Contribution" has the meaning given in the relevant Final Terms;

"Certificateholder Entitlement" has the meaning given in the relevant Final Terms;

"Day Count Fraction" means, in respect of the calculation of an amount for any period of time (the **"Calculation Period"**), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

(i) if **"Actual/Actual (ICMA)"** is so specified, means:

(a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(b) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(ii) if **"Actual/365"** is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if **"Actual/365 (Fixed)"** is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if **"Actual/360"** is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if **"30/360"** is so specified, means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(vi) if **"30E/360"** or **"Eurobond Basis"** is so specified means, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the date of final maturity is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);

"Dissolution Amount" means, as appropriate, the Final Dissolution Amount, the Early Dissolution Amount (Tax), the Optional Dissolution Amount (Call) or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms;

"Dissolution Date" means, as the case may be, (a) following the occurrence of a Dissolution Event (as defined in Condition 14 (*Dissolution Events*)), the date on which a Series of Sukuk Certificates is dissolved in accordance with the provisions of Condition 14 (*Dissolution Events*), (b) the date on which a Series of Sukuk Certificates is dissolved in accordance with the provisions of Condition 11.2 (*Early Dissolution for Tax Reasons*), or (c) the Optional Dissolution Date (Call) in accordance with the provisions of Condition 11.3 (*Optional Dissolution (Call)*);

"Early Dissolution Amount (Tax)" means, in respect of any Sukuk Certificate, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"Extraordinary Resolution" has the meaning given in the Schedule to the Transaction Administration Deed;

"Final Dissolution Amount" means, in respect of any Sukuk Certificate, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"Fitch" means Fitch Ratings Limited or any successor to its ratings business;

"Fixed Amount" has the meaning given in the relevant Final Terms;

"Issue Date" has the meaning given in the relevant Final Terms;

"Liability" means any loss, damage, cost, charge, claim, demand, expense, judgment, actions, proceeding or liability whatsoever (including, without limitation, in respect of taxes, duties, levies, imposts and other charges) and including any value added tax or similar tax charged or chargeable in respect thereof and legal fees and expenses on a full indemnity basis;

"Margin" has the meaning given in the relevant Final Terms;

"Maturity Date" has the meaning given in the relevant Final Terms;

"Maximum Rate of Return" means the maximum rate of return of profit (if any) specified in the relevant Final Terms in respect of the relevant Sukuk Assets;

"Minimum Rate of Return" means the minimum rate of return of profit (if any) specified in the relevant Final Terms in respect of the relevant Sukuk Assets;

"Moody's" means Moody's Investor Services, Inc. or any successor to its rating business;

"Optional Dissolution Amount (Call)" means, in respect of any Sukuk Certificate, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"Optional Dissolution Date (Call)" has the meaning given in the relevant Final Terms;

"Participating Member State" means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

"Payment Business Day" means:

(i) if the currency of payment is euro, any day which is:

  (A) a day on which banks in the relevant place of surrender of the Certificate of Registration are open for presentation and payment of registered securities and for dealings in foreign currencies; and

  (B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, any day which is:

 (A) a day on which banks in the relevant place of surrender of the Certificate of Registration are open for presentation and payment of registered securities and for dealings in foreign currencies and in London and in Bahrain; and

 (B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre and in London and in Bahrain;

"Periodic Distribution Amount" means, in relation to a Sukuk Certificate and a Return Accumulation Period, the amount of profit distribution payable in respect of that Sukuk Certificate for that Return Accumulation Period;

"Periodic Distribution Date" means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Return Accrual Commencement Date (in the case of the first Periodic Distribution Date) or the previous Periodic Distribution Date (in any other case);

"Periodic Distribution Determination Date" has the meaning given in the relevant Final Terms;

"Person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"Principal Financial Centre" means, in relation to any currency, the principal financial centre for that currency provided, however, that:

(i) in relation to euro, it means the principal financial centre of such Participating Member State as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(ii) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"Programme Documents" means the Master Purchase Agreement, the Master Purchase Trust Deed, the Management Agreement, the Purchase Undertaking Deed, the, Sale Undertaking Deed, the Master Trust Deed, the Transaction Administration Deed, the Beneficiary Deed, the Agency Agreement, the Corporate Services Agreement, the Costs Undertaking Deed and the Dealer Agreement;

"Rate" means the rate or rates (expressed as a percentage per annum) representing a defined share of the profits distributable by the Issuer in respect of the Sukuk Certificates specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

"Rating Agency" means S&P, Moody's, Fitch or any other internationally recognised statistical rating agency;

"Record Date" means the date falling on the fifteenth day before the relevant Periodic Distribution Date, or such other date as may be specified in the relevant Final Terms;

"Reference Banks" has the meaning given in the relevant Final Terms or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"Reference Rate" has the meaning given in the relevant Final Terms;

"Regular Period" means:

(i) in the case of Sukuk Certificates where profit distributions are scheduled to be payable only by means of regular payments, each period from and including the Return Accrual Commencement Date to but excluding the first Periodic Distribution Date and each successive period from and including one Periodic Distribution Date to but excluding the next Periodic Distribution Date;

(ii) in the case of Sukuk Certificates where, apart from the first Return Accumulation Period, profit distributions are scheduled to be payable only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Periodic Distribution Date falls; and

(iii) in the case of Sukuk Certificates where, apart from one Return Accumulation Period other than the first Return Accumulation Period, profit distributions are scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Periodic Distribution Date falls other than the Periodic Distribution Date falling at the end of the irregular Return Accumulation Period;

"Relevant Date" means, unless otherwise specified in the relevant Final Terms, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Certificateholders by the Issuer in accordance with Condition 17 *(Notices)*;

"Relevant Financial Centre" has the meaning given in the relevant Final Terms;

"Relevant Jurisdiction" means, the Kingdom of Bahrain and the Cayman Islands or any political subdivision therein with powers to tax;

"Relevant Screen Page" means the page, section or other part of a particular information service (including, without limitation, the Reuter Money 3000 Service and the Telerate Service) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"Relevant Time" has the meaning given in the relevant Final Terms;

"Return Accrual Commencement Date" means the Issue Date of the Sukuk Certificates or such other date as may be specified as the Return Accrual Commencement Date in the relevant Final Terms;

"Return Accumulation Period" means each period beginning on (and including) the Return Accrual Commencement Date or any Periodic Distribution Date and ending on (but excluding) the next Periodic Distribution Date;

"Sale Agreement" means the agreement entered into by GFH, the Issuer and the Trustee, substantially in the form annexed to the Purchase Undertaking Deed or Sale Undertaking Deed, as applicable, containing the specific terms applicable to the relevant sale and purchase pursuant to the Purchase Undertaking Deed or Sale Undertaking Deed, as the case may be;

"S&P" means Standard & Poor's, a division of McGraw-Hill Companies, Inc. or any successor to its rating business;

"Specified Currency" has the meaning given in the relevant Final Terms;

"Specified Denomination(s)" has the meaning given in the relevant Final Terms;

"Specified Period" has the meaning given in the relevant Final Terms;

"Specified Office" has the meaning given in the Agency Agreement;

"Stock Exchange" means, in relation to Sukuk Certificates, the stock exchange or exchanges (if any) on which such Sukuk Certificates are for the time being quoted or listed;

"Subsidiary" means, in relation to any Person (the **"first Person"**) at any particular time, any other Person (the **"second Person"**):

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"Sukuk Assets" means the beneficial interest in the Sukuk Asset Trust Property in relation to the relevant Series of Sukuk Certificates created pursuant to the Master Purchase Trust Deed and acquired by the Issuer and the Trustee pursuant to the Master Purchase Agreement and the relevant Supplemental Purchase Agreement;

"Sukuk Asset Trust Property" means the portfolio of Sukuk asset trust property as more particularly described in the Master Trust Deed, the relevant Supplemental Trust Deed, the relevant Purchase Report and in the relevant Final Terms;

"TARGET Settlement Day" means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open;

"Taxes" means any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction, and all interest, penalties or similar liabilities with respect thereto;

"Transaction Documents" means, in respect of each Series of Sukuk Certificates, any Supplemental Purchase Agreement, any Supplemental Trust Deed, the Master Purchase Trust

Deed, any Relevant Agreement (as defined in the Dealer Agreement), any Servicing Reports and/or Purchase Reports, the Costs Undertaking Deed and any Sale Agreement;

"Treaty" means the Treaty establishing the European Communities, as amended; and

"Trust Assets" means the assets, rights, cash or investments described in Condition 5.1 *(Trust Assets)*.

1.2 Interpretation

In these Conditions:

(i) any reference to principal shall be deemed to include the Dissolution Amount, any additional amounts in respect of principal which may be payable under Condition 12 *(Taxation)* in respect of a Sukuk Certificate and any other amount in the nature of principal payable pursuant to these Conditions;

(ii) any reference to Periodic Distribution Amounts shall be deemed to include any additional amounts in respect of profit distributions which may be payable under Condition 12 *(Taxation)* and any other amount in the nature of a profit distribution payable pursuant to these Conditions;

(iii) references to Sukuk Certificates being "outstanding" shall be construed in accordance with the Agency Agreement;

(iv) if an expression is stated in Condition 1.1 *(Definitions)* to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Sukuk Certificates;

(v) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement as amended and/or supplemented up to and including the Issue Date of the Sukuk Certificates; and

(vi) words and expressions defined and rules of construction and interpretation set out in each of the Programme Documents shall, unless the context otherwise requires, have the same meanings in these Conditions.

2 FORM, DENOMINATION AND TITLE

2.1 Form and Denomination

The Sukuk Certificates are issued in registered form in the Specified Denominations and, save as provided by Condition 3.2 *(Delivery of New Certificates of Registration)*, each Sukuk Certificate shall represent the entire holding of Sukuk Certificates by the same holder.

In the case of a Series of Sukuk Certificates with more than one Specified Denomination, Sukuk Certificates of one Specified Denomination will not be exchangeable for Sukuk Certificates of another Specified Denomination. The Sukuk Certificates will be serially numbered.

The Sukuk Certificates are not issuable in bearer form.

For so long as any of the Sukuk Certificates is represented by a Global Sukuk Certificate held on behalf of Euroclear Bank S.A./N.V. (**"Euroclear"**) and/or Clearstream Banking, société anonyme (**"Clearstream, Luxembourg"**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of such Sukuk Certificates (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Sukuk Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error or proven error) shall be treated by the Issuer and Trustee, GFH and the Agents as the holder of such principal amount of such Sukuk Certificates for all purposes other than with respect to payment in respect of such Sukuk Certificates, for which purpose the registered holder of the Global Sukuk Certificate shall be treated by the Issuer and Trustee, GFH and any Agent as the holder of such principal amount of such Sukuk Certificates in accordance with and subject to the terms of the relevant Global Sukuk Certificate and the expressions **"Certificateholder"** and **"holder"** in relation to any Sukuk Certificates and related expressions shall be construed accordingly.

Sukuk Certificates which are represented by a Global Sukuk Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2.2 Register

The Registrar will maintain a register (the **"Register"**) of Certificateholders in respect of the Sukuk Certificates in accordance with the provisions of the Agency Agreement. In these Conditions, the **"Certificateholder"** means the person in whose name such Sukuk Certificate is registered in the Register (or in the case of a joint holding, the first named person). A certificate of registration (each a **"Certificate of Registration"**) will be issued to each Certificateholder in respect of its registered holding of Sukuk Certificates serially numbered with an identifying number which will be recorded also on the Register.

2.3 Title

The Issuer, the Trustee, GFH, the Transaction Administrator and the Agents may (to the fullest extent permitted by applicable laws) deem and treat the person in whose name any outstanding Sukuk Certificate is for the time being registered (as set out in the relevant Register) as the holder of such Sukuk Certificate or of a particular principal amount of the Sukuk Certificates for all purposes (whether or not such Sukuk Certificate or principal amount shall be overdue and notwithstanding any notice of ownership thereof or of trust or other interest with regard thereto, and any notice of loss or theft or any writing thereon), and the Issuer, the Trustee, GFH, the Transaction Administrator and the Agents shall not be affected by any notice to the contrary.

All payments made to such holder shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge the liability for moneys payable in respect of such Sukuk Certificate or principal amount.

3 TRANSFERS OF SUKUK CERTIFICATES AND ISSUE OF CERTIFICATES

3.1 Transfers

Subject to Conditions 3.4 (*Closed Periods*) and 3.5 (*Regulations*), a Sukuk Certificate may be transferred by depositing the Certificate of Registration issued in respect of that Sukuk Certificate, with the form of transfer on the back duly completed and signed, at the Specified Office of the Registrar or any of the other Agents.

3.2 Delivery of new Certificates of Registration

Each new Certificate of Registration to be issued upon transfer of Sukuk Certificates will, within five business days of receipt by the Registrar or the relevant other Agent of the duly completed form of transfer endorsed on the relevant Certificate of Registration, be mailed by uninsured mail at the risk of the holder entitled to the Sukuk Certificate to the address specified in the form of transfer. For the purposes of this Condition, **"business day"** shall mean a day on which banks are open for business in the city in which the Specified Office of the Registrar or the relevant other Agent with whom a Certificate of Registration is deposited in connection with a transfer is located.

Where some but not all of the Sukuk Certificates in respect of which a Certificate of Registration is issued are to be transferred a new Certificate of Registration in respect of the Sukuk Certificates not so transferred will, within five business days of receipt by the Registrar or the relevant other Agent of the original Certificate of Registration, be mailed by uninsured mail at the risk of the holder of the Sukuk Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

3.3 Formalities free of charge

Registration of transfer of Sukuk Certificates will be effected without charge by or on behalf of the Issuer, the Registrar or any other Agent but upon payment (or the giving of such indemnity as the Issuer, the Registrar or any other Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

3.4 Closed periods

No Certificateholder may require the transfer of a Sukuk Certificate to be registered during the period of 15 days ending on a Periodic Distribution Date, a Maturity Date, a Dissolution Date or any other date on which any payment of principal or profit in respect of a Sukuk Certificate falls due.

3.5 Regulations

All transfers of Sukuk Certificates and entries on the Register will be made subject to the detailed regulations concerning the transfer of Sukuk Certificates scheduled to the Master Trust Deed. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Transaction Administrator. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests one.

4 STATUS

The Sukuk Certificates evidence an undivided beneficial ownership (real ownership) interest in the Trust Assets of the relevant Series of Sukuk Certificates subject to the terms of the Master Trust Deed, the relevant Supplemental Trust Deed, the Transaction Administration Deed, the Purchase Undertaking Deed, the Sale Undertaking Deed, the relevant Sale Agreement and these Conditions and will be limited recourse obligations of the Issuer. Each Sukuk Certificate ranks *pari passu*, without any preference or priority, with all other present and future Sukuk Certificates.

5 THE TRUST

5.1 Trust Assets

Unless otherwise specified in the relevant Final Terms and the relevant Supplemental Trust Deed, the Trust Assets in respect of each Series of Sukuk Certificates will comprise:

(a) the Initial Trust Property (as defined in the Master Trust Deed);

(b) the Sukuk Assets;

(c) the rights of the Issuer and the Trustee in the Programme Documents (other than the Dealer Agreement) and any Transaction Documents (other than any Relevant Agreement) to which it is a party;

(d) the rights of the Trustee to any Cash (as defined in the Master Trust Deed) in any of its bank accounts (and any profit or income earned on such Cash) and any other amounts held by any agent on its behalf (including, but not limited to, any amount held on its behalf pursuant to the Management Agreement) which are attributable to, arise from, or are in any way connected with such Series of Sukuk Certificates;

(e) any investments made on behalf of the Trustee by the Managing Agent other than Sukuk Assets (and any profit or income earned on such investments other than Sukuk Assets) which are attributable to, arise from, or are in any way connected with such Series of Sukuk Certificates;

(f) any other assets, rights, cash or investments of the Issuer and the Trustee as may be specified in the relevant Final Terms,

(g) and any proceeds arising from the sale of any of the relevant assets comprised in (a) to (g) and any assets representing the same.

5.2 Application of Trust Assets prior to Dissolution

Prior to the Maturity Date or, as the case may be, the Dissolution Date in respect of any Series, payments of Periodic Distribution Amounts in respect of the Sukuk Certificates of such Series will represent (unless otherwise specified in the relevant Final Terms), *inter alia*, distributions from (a) profit collections received by or on behalf of the Trustee from GFH in its capacity as Managing Agent in respect of the relevant Sukuk Assets (and, if applicable, the proceeds of certain indemnities from GFH) after paying certain fees and expenses of the Trust and (b) if applicable, any amounts advanced to (or otherwise contributed to) the Trust and/or the Issuer and Trustee by GFH pursuant to any Programme Documents.

5.3 Application of Trust Assets on the Maturity Date or following Dissolution

On the Maturity Date or, as the case may be, the Dissolution Date in respect of any Series, the Sukuk Assets will be sold by the Trustee to GFH pursuant to the Purchase Undertaking Deed or the Sale Undertaking Deed, as the case may be, and the relevant Sale Agreement in return for a purchase price (to be specified in the relevant Sale Agreement) equal to (a) the Aggregate Nominal Amount specified in the relevant Final Terms) of the relevant Series of Sukuk Certificates, and (b) the accrued but unpaid Periodic Distribution Amount on such date (including any additional amounts payable pursuant to Condition 12 (*Taxation*)) and (c) the amount payable but unpaid by the Trustee to GFH under the Management Agreement in respect of the Liquidity Facility in connection with the Sukuk Certificates.

The Trustee will apply the proceeds of such purchase price together with any remaining Trust Assets and, if applicable, any amounts advanced to (or otherwise paid to) the Trustee by GFH pursuant to any Programme Documents and any other amounts as may be specified in the relevant Final Terms to make payments in respect of, *inter alia*, the Sukuk Certificates in accordance with the following order of priority (or as otherwise specified in the relevant Final Terms):

(i) FIRST to pay an amount equal to any and all sums payable to the Certificateholders in respect of the relevant Series of Sukuk Certificates until redeemed in full in accordance with these Conditions,

(ii) SECONDLY to repay any advances made by GFH to the Issuer pursuant to, and subject to the terms of, Clause 24 (*Liquidity Facility*) of the Management Agreement in relation to the relevant Series of Sukuk Certificates until repaid in full; and

(iii) THIRDLY to pay the relevant Basic Fee and all remaining amounts to GFH by way of an Incentive Fee, for acting as Managing Agent in relation to the Programme.

6 COVENANTS

6.1 The Issuer has covenanted in the Master Trust Deed that, *inter alia*, for so long as any Sukuk Certificate is outstanding, it shall not (without the consent of the Transaction Administrator):

(a) incur any indebtedness in respect of borrowed money whatsoever, or give any guarantee in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) other than the Sukuk Certificates issued under the Programme;

(b) secure any of its present or future indebtedness for borrowed money by any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);

(c) sell, transfer, convey or otherwise dispose of (i) its legal and/or beneficial title to the Sukuk Assets of the relevant Series or any interest therein except pursuant to the Purchase Undertaking Deed or the Sale Undertaking Deed and the relevant Sale Agreement(s) or (ii) its interests in any of the other Trust Assets of the relevant Series except pursuant to the Programme Documents, the relevant Supplemental Purchase Agreement or the relevant Supplemental Trust Deed;

(d) use the relevant Certificateholder Contribution for any purpose other than as set out in the Programme Documents, the relevant Supplemental Trust Deed or the relevant Final Terms;

(e) amend materially or agree to any material amendment of any Programme Document or Transaction Document to which it is a party, or its memorandum and articles of association, or enter into any other agreement, letter or other document in connection with the Programme without (i) the prior approval of the Certificateholders of the relevant Series by way of Extraordinary Resolution or with the prior written approval of the Transaction Administrator on behalf of the Certificateholders and (ii) first notifying the relevant Rating Agencies of the proposed amendments and subsequently providing the relevant Rating Agencies with copies of the relevant executed amended Programme Documents or Transaction Documents;

(f) act as trustee in respect of any trust other than the Trust corresponding to a Series of Sukuk Certificates issued from time to time pursuant to the Programme;

(g) have any Subsidiaries or employees;

(h) redeem any of its shares or pay any dividend or make any other distribution to its shareholders save for a one time dividend of US$1,000;

(i) put to its directors or shareholders any resolution for or appoint any liquidator for its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it, otherwise than for the purposes of, or pursuant to, an amalgamation, reorganisation or restructuring whilst solvent; and

(j) enter into any contract, transaction, amendment, obligation or liability other than the Programme Documents or Transaction Documents to which it is a party or as expressly permitted or required thereunder or engage in any business or activity other than:

   (i) as provided for or permitted in the Programme Documents, relevant Transaction Documents or any Final Terms;

(ii) the ownership, management and disposal of Trust Assets as provided in the Programme Documents, relevant Transaction Documents or any Final Terms; and

(iii) such other matters which are incidental thereto.

6.2 Step Up Events

So long as any Sukuk Certificate remain outstanding, on the occurrence of a Step Up Event the applicable Rate payable in respect of such Sukuk Certificate shall be increased by 0.5 per cent. per annum from the beginning of the Return Accumulation Period (if any) immediately subsequent to the Step Up Event to, but excluding, the Maturity Date applicable to the relevant Series.

6.3 For the purpose of Condition 6.2 only:

(i) A **"Step Up Event"** will be deemed to have occurred if, (a) for so long as any Sukuk Certificate remain outstanding, GFH's solicited rating assigned to the Sukuk Certificates by a Rating Agency is (i) withdrawn either by the relevant Rating Agency or at the request of GFH; or (ii) reduced from an Investment Grade Rating to a Non-Investment Grade Rating;

(ii) **"Investment Grade Rating"** means a credit rating of BBB- or higher by S&P, Baa3 or higher by Moody's or BBB- or higher by Fitch or equivalent GFH solicited credit ratings from any other Rating Agency;

(iii) **"Non-Investment Grade Rating"** means a credit rating of BB+ or lower by S&P, Ba1 or lower by Moody's or BB+ or lower by Fitch or equivalent GFH solicited credit ratings from any other Rating Agency.

7 FIXED PERIODIC DISTRIBUTION AMOUNT PROVISIONS

7.1 Application

This Condition 7 is applicable to the Sukuk Certificates only if the Fixed Periodic Distribution Amount Provisions are specified in the relevant Final Terms as being applicable.

7.2 Periodic Distribution Amount

A Periodic Distribution Amount representing a defined share of the profit in respect of the Trust Assets for the relevant Series of Sukuk Certificates will be payable in respect of the Sukuk Certificates and be distributable by the Issuer to the Certificateholders in accordance with these Conditions.

7.3 Fixed Amount

The Periodic Distribution Amount payable in respect of each Sukuk Certificate for any Return Accumulation Period shall be the relevant Fixed Amount and, if the Sukuk Certificates are in more than one Specified Denomination, shall be the relevant Fixed Amount in respect of the relevant Specified Denomination.

7.4 Periodic Distribution Date

Subject to Condition 7.6 (*Cessation of Profit Entitlement*), Condition 11.2 (*Early Dissolution for Tax Reasons*), Condition 11.3 (*Optional Dissolution (Call)*) and Condition 14 (*Dissolution Events*) below, and unless otherwise specified in the relevant Final Terms, each

Periodic Distribution Amount will be made in respect of the relevant Sukuk Certificates in arrear on each Periodic Distribution Date.

7.5 Return Accumulation Period

The Periodic Distribution Amount payable on each Periodic Distribution Date will be in respect of the relevant Return Accumulation Period which, unless otherwise specified in the relevant Final Terms, shall be the period from and including the Return Accrual Commencement Date of the relevant Series of Sukuk Certificates to but excluding the first Periodic Distribution Date in respect of such Series and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date.

7.6 Cessation of Profit Entitlement

No further amounts will be payable on any Sukuk Certificate from and including its Maturity Date or, as the case may be, Dissolution Date.

7.7 Calculation of Periodic Distribution Amount

The Periodic Distribution Amount payable on any Periodic Distribution Date in respect of each Sukuk Certificate for any period for which a Fixed Amount is not specified, shall be calculated by the Calculation Agent by applying the Rate applicable to the relevant Return Accumulation Period to the principal amount (in the case of a Sukuk Certificate in global form) or Specified Denomination (in the case of a Sukuk Certificate in individual registered form) of such Sukuk Certificate, multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards). For this purpose, a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7.8 Determination by the Issuer

The Issuer or the Transaction Administrator, as the case may be, shall, if the Calculation Agent defaults at any time in its obligation to determine the Periodic Distribution Amount in accordance with the above provisions, determine the Periodic Distribution Amount in the manner provided in Condition 7.7 (*Calculation of Periodic Distribution Amount*) above and any such determination shall be deemed to be a determination by the Calculation Agent.

7.9 Notifications, etc. to be final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 7, whether by the Calculation Agent or, if applicable, the Issuer or the Transaction Administrator, as the case may be, will (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Issuer, the Trustee, the Transaction Administrator, the Principal Paying Agent and all Certificateholders of such Series (in the absence as referred to above). No liability to the Issuer, the Trustee, GFH, the Transaction Administrator, the Principal Paying Agent or the Certificateholders shall attach to the Calculation Agent or, where applicable, the Issuer, the Trustee or the Transaction Administrator, as the case may be, in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition 7.

8 FLOATING PERIODIC DISTRIBUTION AMOUNT PROVISIONS

8.1 Application

This Condition 8 is applicable to the Sukuk Certificates only if the Floating Periodic Distribution Amount Provisions are specified in the relevant Final Terms as being applicable.

8.2 Periodic Distribution Amount

A Periodic Distribution Amount representing a defined share of the profit in respect of the Trust Assets for the relevant Series of Sukuk Certificates will be payable in respect of the Sukuk Certificates and be distributable by the Issuer to the Certificateholders in accordance with these Conditions.

8.3 Screen Rate Determination

If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) is/are to be determined, the Rate applicable to the Sukuk Certificates for each Return Accumulation Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate specified in the relevant Final Terms is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;

(ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

  (A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Periodic Distribution Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

  (B) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Return Accumulation Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Return Accumulation Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate for such Return Accumulation Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided, however*, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Return Accumulation Period, the Rate applicable to the Sukuk Certificates during such Return Accumulation Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Sukuk Certificates in respect of a preceding Return Accumulation Period.

8.4 Maximum or Minimum Rate(s) of Return

If any Maximum Rate of Return or Minimum Rate of Return is specified in the relevant Final Terms, then the Rate(s) applicable to the Sukuk Certificates for each Return Accumulation Period shall in no event be greater than the maximum or be less than the minimum so specified.

8.5 Cessation of Profit Entitlement

No further amounts will be payable on any Sukuk Certificate from and including its Maturity Date or, as the case may be, Dissolution Date.

8.6 Calculation of Periodic Distribution Amount

The Calculation Agent will, as soon as practicable after the time at which the Rate is to be determined in relation to each Return Accumulation Period, calculate the Periodic Distribution Amount payable in respect of each Sukuk Certificate for such Return Accumulation Period. The Periodic Distribution Amount will be calculated by applying the Rate applicable to the relevant Return Accumulation Period to the principal amount (in the case of a Sukuk Certificate in global form) or Specified Denomination (in the case of a Sukuk Certificate in individual registered form) of such Sukuk Certificate during such Return Accumulation Period, multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards). For this purpose, a **"sub-unit"** means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

8.7 Calculation of Other Amounts

If the relevant Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.

8.8 Determination by the Issuer

The Issuer or the Transaction Administrator, as the case may be, shall, if the Calculation Agent defaults at any time in its obligation to determine the Periodic Distribution Amount in accordance with the above provisions, determine the Periodic Distribution Amount in the manner provided in Conditions 8.6 (*Calculation of Periodic Distribution Amount*) and 8.7 (*Calculation of Other Amounts*) above and any such determination shall be deemed to be a determination by the Calculation Agent.

8.9 Publication

The Calculation Agent will cause each Rate and Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Sukuk Certificates have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate, Periodic Distribution Amount and Periodic Distribution Date) in any event not later than the first day of the relevant Return Accumulation Period. Notice thereof shall also promptly be given to the Certificateholders. The Calculation Agent (or, as the case may be, the Issuer or the Transaction Administrator, as the case may be) will be entitled to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Return Accumulation Period.

8.10 Notifications, etc. to be final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 8, whether by the Calculation Agent or, if applicable, the Issuer or the Transaction Administrator, as the case may be, will (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Issuer, the Trustee, the Transaction Administrator, the Principal Paying Agent and all Certificateholders (in the absence as referred to above). No liability to the Issuer, the Trustee, GFH, the Transaction Administrator, the Principal Paying Agent or the Certificateholders shall attach to the Calculation Agent or, where applicable, the Issuer or the Transaction Administrator, as the case may be, in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition 8.

9 PAYMENT

Payment of Dissolution Amounts and Periodic Distribution Amounts will be made by transfer to the registered account (as defined below) of the Certificateholder or by cheque drawn on a bank that processes payments in the Specified Currency mailed to the registered address of the Certificateholder if it does not have a registered account. Payments of Dissolution Amounts and payments of Periodic Distribution Amounts due otherwise than on a Periodic Distribution Date will only be made against surrender of the relevant Certificate of Registration at the Specified Office of any of the Agents. Periodic Distribution Amounts on Sukuk Certificates due on a Periodic Distribution Date will be paid to the holder shown on the Register at the close of business on the Record Date.

For the purposes of this Condition, a Certificateholder's **"registered account"** means the account in the Specified Currency maintained by or on behalf of such Certificateholder with a bank that processes payments in the Specified Currency, details of which appear on the Register at the close of business, in the case of principal and Periodic Distribution Amounts due otherwise than on a Periodic Distribution Date, on the second Payment Business Day before the due date for payment and, in the case of principal and Periodic Distribution Amounts due on a Periodic Distribution Date, on the relevant Record Date, and a Certificateholder's registered address means its address appearing on the Register at that time.

All such payments will be made subject to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions described in Condition 12 (*Taxation*).

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Payment Business Day preceding the due date for payment or, in the case of a payment of principal or due otherwise than on a Periodic Distribution Date, if later, on the Payment Business Day on which the relevant Certificate of Registration is surrendered at the Specified Office of an Agent.

Certificateholders will not be entitled to any other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Certificateholder is late in surrendering its Certificate of Registration (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

If the amount of any Dissolution Amount or Periodic Distribution Amount which is due on the Sukuk Certificates is not paid in full, the Registrar will annotate the Register with a record of the amount of any Dissolution Amount or Periodic Distribution Amounts in fact paid.

10 AGENTS

10.1 Agents of the Issuer

In acting under the Agency Agreement and in connection with the Sukuk Certificates, the Agents act solely as agents of the Issuer, the Trustee and (to the extent provided therein) GFH and do not assume any obligations towards or relationship of agency or trust for or with any of the Certificateholders.

10.2 Specified Offices

The names of the initial Agents and their Specified Offices at the date of the Base Prospectus are set out at the end of the Base Prospectus. Each of the Issuer, the Trustee and GFH reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents *provided, however, that*:

(a) it will at all times maintain a Principal Paying Agent;

(b) it will at all times maintain a Registrar;

(c) if and for so long as any Sukuk Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, it will at all times maintain a Paying Agent and/or Transfer Agent and/or Replacement Agent having its Specified Office in any place (if any) required by such listing authority, stock exchange and/or quotation system;

(d) it will at all times maintain a Replacement Agent;

(e) it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48 EC or any law implementing or complying with, or introduced to conform to, such Directive; and

(f) it will at all times maintain a Calculation Agent.

Notice of any termination or appointment and of any changes in Specified Offices will be given to the Certificateholders promptly by the Issuer in accordance with Condition 17 (*Notices*).

11 CAPITAL DISTRIBUTIONS OF TRUST

11.1 Scheduled Dissolution

Unless the Sukuk Certificates are redeemed earlier, each Series of Sukuk Certificates will be dissolved on the relevant Maturity Date at its Final Dissolution Amount together with, for the avoidance of doubt, any Periodic Distribution Amount payable. Upon payment in full of such amounts and the termination of the relevant Trust, the Sukuk Certificates shall cease to represent interests in the Trust Assets (or any other assets) and no further amounts shall be payable in respect thereof and the Issuer and Trustee shall have no further obligations in respect thereof.

11.2 Early Dissolution for Tax Reasons

The Trust in respect of a Series of Sukuk Certificates shall be dissolved if GFH has exercised its option to purchase the Sukuk Assets for the relevant Series pursuant to the Sale Undertaking Deed, in whole, but not in part:

(a) at any time (if the Floating Periodic Distribution Amount Provisions are not specified in the relevant Final Terms as being applicable); or

(b) on any Periodic Distribution Date (if the Floating Periodic Distribution Amount Provisions are specified in the relevant Final Terms as being applicable), on the Issuer (or an agent acting on behalf of the Issuer) giving not less than 30 nor more than 60 days' notice to the Certificateholders (which notice shall be irrevocable), at their Early Dissolution Amount (Tax), together with Periodic Distribution Amounts accrued and unpaid (if any) to the Dissolution Date. GFH may only exercise its option to purchase the Sukuk Assets pursuant to the Sales Undertaking, if:

(A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction or, by any authority in or of a Relevant Jurisdiction having a power tax), which change or amendment becomes effective on or after the date of issue of the Sukuk Certificates in respect of such Series; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of dissolution shall be given earlier than:

(1) where the relevant Series of Sukuk Certificates may be dissolved at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Sukuk Certificates were then due; or

(2) where the relevant Series of Sukuk Certificates may be dissolved only on a Periodic Distribution Date, 60 days prior to the Periodic Distribution Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Sukuk Certificates were then due.

Prior to the publication of any notice of dissolution pursuant to this paragraph, the Issuer shall deliver to the Transaction Administrator and the Principal Paying Agent (a) a certificate signed by two directors of the Issuer, which shall be binding on the Certificateholders, stating that the Issuer is entitled to effect such dissolution and setting forth a statement of facts showing that the conditions precedent in (A) and (B) above to the right of the Issuer so to dissolve have occurred, and (b) an opinion of independent legal advisors of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 11.2, the Trustee shall be bound to dissolve the Sukuk Certificates in accordance with this Condition 11.2. Upon such dissolution as aforesaid and the termination of the relevant Trust, the Sukuk Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and Trustee shall have no further obligations in respect thereof.

11.3 Optional Dissolution (Call)

If the Optional Dissolution (Call) option is specified in the relevant Final Terms as being applicable, the relevant Trust in respect of such Series of Sukuk Certificates shall be dissolved, if and only if, GFH has exercised its option to purchase the Sukuk Assets for the relevant Series pursuant to the Sale Undertaking Deed, in whole but not in part on any Optional Dissolution Date (Call) at the relevant Optional Dissolution Amount (Call) on the Issuer's (or an agent acting on behalf of the Issuer) giving not less than 30 nor more than 60 days' notice to the Certificateholders (which notice shall be irrevocable and shall oblige the Issuer and the Trustee to dissolve all of the Sukuk Certificates of the relevant Series on the relevant Optional Dissolution Date (Call) at the Optional Dissolution Amount (Call) plus Periodic Distribution Amounts payable (if any) to such date). Upon payment in full of such amounts and the termination of the relevant Trust, the Sukuk Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

11.4 No Other Optional Early Dissolution

The Issuer shall not be entitled to redeem any Series of Sukuk Certificates and dissolve the Trust created in respect of such Series at its option otherwise than as provided in Conditions 11.1 (*Scheduled Dissolution*), 11.2 (*Early Dissolution for Tax Reasons*) and 11.3 (*Optional Dissolution (Call)*) above.

11.5 Cancellation

All Sukuk Certificates which are redeemed will forthwith be cancelled and accordingly may not be held, reissued or resold.

12 TAXATION

All payments in respect of the Sukuk Certificates shall be made without withholding or deduction for, or on account of, any Taxes, unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay to the Certificateholders additional amounts so that the full amount which otherwise would have been due and payable under the Sukuk Certificates is received by parties entitled thereto, except that no such additional amount shall be payable to any Certificateholder:

(a) who is liable for such Taxes in respect of such Sukuk Certificate by reason of having some connection with any Relevant Jurisdiction other than the mere holding of such Sukuk Certificate; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) where the Certificate of Registration is required to be presented for payment and is presented for payment by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate of Registration to another Paying Agent in a Member State of the European Union; or

(d) where (in the case of principal or Periodic Distribution Amounts on dissolution) the relevant Certificate of Registration is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Certificateholder would have been entitled to such additional amount if it had surrendered the relevant Certificate of Registration on the last day of such period of 30 days.

13 PRESCRIPTION

The rights to receive distributions in respect of the Sukuk Certificates will be forfeited unless presented for payment within periods of 10 years (in the case of Final Dissolution Amounts) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof.

14 DISSOLUTION EVENTS

If any of the following events occurs and is continuing (each, a "**Dissolution Event**"):

(a) default is made in the payment of any Dissolution Amount in respect of the relevant Series of Sukuk Certificates on the date fixed for payment thereof, or default is made in the payment of any Periodic Distribution Amount in respect of any Sukuk Certificate on the due date for payment thereof and, in each case, such default continues for a period of seven days; or

(b) the Issuer fails duly to perform or comply with any of its obligations expressed to be assumed by it in the Programme Documents or the Transaction Documents unless (i) the default is capable of remedy and is remedied within 30 days after written notice thereof, has been delivered to the Issuer, addressed to the Issuer by the Transaction Administrator or (ii) such default is not (in the opinion of the Transaction Administrator) materially prejudicial to the interests of the Certificateholders; or

(c) a GFH Event (as defined in the Management Agreement) occurs and is continuing under the Management Agreement; or

(d) the Issuer or GFH repudiates any Programme Document or Transaction Document to which it is a party or does or causes to be done any act or thing evidencing an intention to repudiate any Programme Document or Transaction Document to which it is a party; or

(e) at any time it is or will become unlawful for the Issuer or GFH (by way of insolvency or otherwise) to perform or comply with any of its obligations under the Programme Documents and Transaction Documents or any of the obligations of the Issuer under the Programme Documents and Transaction Documents, are not or cease to be legal, valid, binding and enforceable,

then the Transaction Administrator at its discretion may, and if so requested in writing by the Certificateholders representing not less than 25 per cent. in principal amount of the Sukuk Certificates of the relevant Series for the time being outstanding, and subject to the provisions of Condition 15.2 (*Transaction Administrator's obligation to provide instructions*) shall, by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, declare the Trust in respect of the Sukuk Certificates of the relevant Series in accordance with the Master Trust Deed (and the relevant Supplemental Trust Deed) to be dissolved and the relevant Sukuk Certificates immediately due and payable, whereupon they shall become immediately due and payable at their Dissolution Amount together with accrued and unpaid Periodic Distribution Amounts (*if any*). Notice of any such declaration shall promptly be given to the Certificateholders of the relevant Series in accordance with Condition 17 (*Notices*). Upon payment in full of such amounts, the Sukuk Certificates shall cease to represent interests in the Trust Assets (or any other assets) and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

For the purpose of (a) above, amounts shall be considered due in respect of the Sukuk Certificates (including for the avoidance of doubt any amounts calculated as being payable under Condition 7 (*Fixed Periodic Distribution Amount Provisions*), Condition 8 (*Floating Periodic Distribution Amount Provisions*) and Condition 11 (*Capital Distributions of Trust*)) notwithstanding that the Issuer and the Trustee has at the relevant time insufficient funds or Trust Assets to pay such amounts.

The Issuer shall notify the Transaction Administrator promptly following the occurrence of a Dissolution Event.

15 ENFORCEMENT AND EXERCISE OF RIGHTS

15.1 Enforcement

Upon the occurrence of a Dissolution Event, to the extent that the amounts payable in respect of the Sukuk Certificates have not been paid in full pursuant to Condition 14 (*Dissolution*

Events), the Issuer and Trustee shall, upon being instructed to do so by the Transaction Administrator (acting on behalf of the Certificateholders), take one or more of the following steps:

(i) enforce the provisions of the Purchase Undertaking Deed and the relevant Sale Agreement against GFH; and/or

(ii) take such other steps as the Transaction Administrator may consider necessary to protect the interests of the Certificateholders.

Notwithstanding the foregoing, the Transaction Administrator may at any time, at its discretion and without notice, take such proceedings and/or other steps as it may think fit against or in relation to each of the Issuer and/or GFH to enforce their respective obligations under the Master Trust Deed, the applicable Supplemental Trust Deed, the Costs Undertaking Deed, the Conditions and the relevant Sukuk Certificates or other Transaction Documents or Programme Documents.

15.2 Transaction Administrator's obligation to provide instructions

The Transaction Administrator shall not be bound to provide instructions to the Issuer and Trustee to take any action in relation to the Trust Assets or any Dissolution Event or take any proceedings or any other steps unless requested to do so (a) by an Extraordinary Resolution or (b) in writing by the Certificateholders holding at least 25 per cent. in principal amount of the Sukuk Certificates then outstanding and in either case then only if it shall be indemnified and/or secured to its satisfaction against all liabilities to which it may render itself liable or which it may incur by so doing.

In addition, the Transaction Administrator shall not be bound to provide any instructions to the Issuer and Trustee to take any action pursuant to Condition 15.1 (*Enforcement*) unless it has express notice of the occurrence of a Dissolution Event.

15.3 Direct Enforcement by Certificateholders

No Certificateholder shall be entitled to proceed directly against, or provide instructions to, the Issuer or GFH or pursue any claim arising under the Trust Assets or the Sukuk Certificates to enforce the performance of any of the provisions of the Master Trust Deed, the Purchase Undertaking Deed, the Sale Undertaking Deed or any other Programme Document or Transaction Document, or pursuant to any Supplemental Purchase Agreement, or any Supplemental Trust Deed or any Sale Agreement, except through the agency of the Transaction Administrator.

15.4 Limited Recourse

Notwithstanding anything to the contrary contained herein or in any other Programme Document or Transaction Document, no payment of any amount whatsoever shall be made in respect of the Sukuk Certificates by the Issuer or the Trust or any agents thereof except to the extent that funds are available therefor from the Trust Assets of the relevant Series of Sukuk Certificates.

Certificateholders by subscribing for or acquiring the Sukuk Certificates acknowledge, agree and confirm that no recourse may be had for the payment of any amount owing in respect of the Sukuk Certificates against the Trustee or the Trust to the extent the Trust Assets have been exhausted following which all obligations of the Issuer and the Trustee, and the Trust, shall be extinguished.

In addition, no Certificateholder will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership (or similar procedure under applicable law) of the Trustee, the Trust, the Transaction Administrator or any of their affiliates as a consequence of such shortfall or otherwise.

The Sukuk Certificates do not represent an interest in or obligation of any of the Transaction Administrator, the Agents or any of their affiliates. Accordingly, Certificateholders will have no recourse to any assets of the Trustee (other than Trust Assets of the relevant Series of Sukuk Certificates), the Transaction Administrator or the Agents or any of their affiliates in respect of any shortfall.

15.5 Agreement of Certificateholders

By purchasing the Sukuk Certificates, each Certificateholder agrees that notwithstanding anything to the contrary contained herein or in any other Programme Document or Transaction Document:

(a) no payment of any amount whatsoever shall be made by any of the Issuer, the Trustee, or the Trust or any of their respective agents on their behalf except to the extent funds are available therefor from the Trust Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or under any other Programme Document or Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon any Programme Document or Transaction Document, against any of the Issuer, the Trustee, or the Trust to the extent the Trust Assets have been exhausted following which all obligations of the Issuer and the Trustee, and the Trust shall be extinguished; and

(b) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer and the Trustee under the Programme Documents and Transaction Documents to which it is a party have been paid in full, it will not institute against, or join with any other person in instituting against the Issuer, the Trustee or the Trust, any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law.

16 REPLACEMENT OF CERTIFICATES OF REGISTRATION

Should any Certificate of Registration be lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Offices of the Transfer Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates of Registration must be surrendered before replacements will be issued.

17 NOTICES

All notices regarding Sukuk Certificates will be deemed to be validly given if published in one or more leading English language daily newspapers of general circulation in London and the Gulf region. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and *Gulf News* in the Gulf region. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Sukuk Certificates are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Issuer shall approve.

Until such time as any definitive Sukuk Certificates are issued, there may, so long as the Global Sukuk Certificate representing the Sukuk Certificates is held in its entirety on behalf of

Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Sukuk Certificates. Any such notice shall be deemed to have been given to the holders of the Sukuk Certificates on the third day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with the relative Sukuk Certificate or Sukuk Certificates, with the Principal Paying Agent.

18 MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION AND REPLACEMENT OF TRANSACTION ADMINISTRATOR

(a) It is a term of the Sukuk Certificates that the Transaction Administrator shall act as agent of the Certificateholders for the purposes of providing instructions to the Issuer and the Trustee. No Certificateholder may directly provide instructions to the Issuer and Trustee.

(b) The Transaction Administration Deed contains provisions for the Transaction Administrator and/or GFH to convene meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Master Trust Deed, any other Programme Document, any Supplemental Purchase Agreement or any Supplemental Trust Deed, provided that GFH shall not be entitled to vote at any such meeting. The quorum at any meeting for passing an Extraordinary Resolution will be one or more Certificateholders, proxies or representatives holding or representing in the aggregate not less than 25 per cent. in principal amount of the relevant Series of the Sukuk Certificates for the time being outstanding, or at any adjourned such meeting one or more Certificateholders, proxies or representatives present whatever the principal amount of the Sukuk Certificates held or represented by him or them. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than two-thirds of the persons voting on a show of hands or, if a poll is duly demanded, a majority of not less than two-thirds of the votes cast on such poll and, if duly passed, will be binding on all holders of the relevant Series of the Sukuk Certificates, whether or not they are present at the meeting and whether or not voting.

(c) The Transaction Administrator may, on behalf of the Certificateholders, direct the Issuer and Trustee to agree, without the consent or sanction of the Certificateholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Master Trust Deed, the Transaction Administration Deed, any other Programme Document or any Transaction Document or determine, without any such consent as aforesaid, that any Dissolution Event shall not be treated as such, which in any such case is not, in the opinion of the Transaction Administrator, materially prejudicial to the interests of the Certificateholders or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest or proven error. The Transaction Administrator shall be entitled to assume, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to the Sukuk Certificates, that such exercise will not be materially prejudicial to the interests of the Certificateholders if the relevant Rating Agencies (if the relevant Series has been rated) have confirmed in writing (whether or not addressed to the Transaction Administrator) that their respective ratings of the Sukuk Certificates would not be adversely affected by such exercise.

(d) In connection with the exercise by it of any of the powers, trusts, authorities and discretions vested in it (any discretion vested in the Certificateholders being deemed to be a discretion vested in the Transaction Administrator as agent for the Certificateholders) by the Transaction Administration Deed, the Master Trust Deed, the Sukuk Certificates, the Conditions, the other Programme Documents or any Transaction Documents (including, without limitation, any modification, waiver, authorisation or determination), the Transaction Administrator (acting on behalf of the Certificateholders) shall have regard to the general interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and neither the Issuer, the Trustee nor the Transaction Administrator shall be entitled to require, nor shall any Certificateholder be entitled to claim from the Issuer, the Trustee, the Transaction Administrator or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent provided in Condition 12 (*Taxation*).

(e) Any modification, abrogation, waiver, authorisation or determination shall be binding on all the Certificateholders and the Transaction Administrator (acting on behalf of the Certificateholders) shall be required to notify the Certificateholders of any modification as soon as practicable thereafter in accordance with Condition 17 (*Notices*).

(f) The Transaction Administration Deed also contains provisions regarding (i) the removal of the Transaction Administrator in respect of a Series of Sukuk Certificates pursuant to an Extraordinary Resolution of Certificateholders of the relevant Series of Sukuk Certificates, and (ii) the retirement of the Transaction Administrator upon not less than three months' notice in writing to GFH and the Certificateholders of each Series of Sukuk Certificates then outstanding, provided that no such removal or retirement may become effective until a successor Transaction Administrator is appointed.

19 INDEMNIFICATION AND LIABILITY OF THE TRUSTEE AND THE TRANSACTION ADMINISTRATOR

(a) The Master Trust Deed and the Transaction Administration Deed contain provisions for the indemnification of each of the Issuer and Trustee and the Transaction Administrator in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.

(b) The Transaction Administration Deed contains provisions pursuant to which no director or officer of the Transaction Administrator or of any holding, affiliated or associated company of the Transaction Administrator shall be precluded from subscribing any Sukuk Certificates issued under the Programme, with or without a commission or other remuneration, or from purchasing or otherwise acquiring, holding, dealing in or disposing of any notes, bonds, debentures, shares or securities whatsoever or from being interested in any contract or transaction or from accepting and holding the office of Issuer or administrator for the holders of any other securities, and in any such case neither the Transaction Administrator nor any director or officer of the Transaction Administrator shall be liable to the Certificateholders for any profit made by it or him thereby or in connection therewith.

20 CURRENCY INDEMNITY

All payments made in respect of the Sukuk Certificates shall be made in the Specified Currency irrespective of the currency of the Trust Assets. Certificateholders shall accordingly be indemnified from the Trust Assets against:

(a) any Liability incurred by any of them arising from the non-payment in respect of the Sukuk Certificates or of any other amount due to the Certificateholders under these Conditions by reason of any variation in the rates of exchange between those used for the purposes of calculating the amount due under a judgment or order in respect thereof and those prevailing at the date of actual payment; and

(b) any deficiency arising or resulting from any variation in rates of exchange between (A) the date as of which the local currency equivalent of the amounts due or contingently due under the Conditions is calculated for the purposes of any bankruptcy, insolvency or liquidation of the Trust, the Issuer or GFH and (B) the final date for ascertaining the amount of claims in such bankruptcy, insolvency or liquidation. The amount of such deficiency shall be deemed not to be reduced by any variation in rates of exchange occurring between the said final date and the date of any distribution of assets in connection with any such bankruptcy, insolvency or liquidation.

The above indemnities apply irrespective of any indulgence granted by the Transaction Administrator or the Certificateholders from time to time and shall continue in full force and effect notwithstanding the judgment or filing of any proof or proofs in any bankruptcy, insolvency or liquidation of the Trust, the Issuer or GFH for a liquidated sum or sums in respect of amounts due under the Conditions. Any such deficiency as aforesaid shall be deemed to constitute a loss suffered by the Certificateholders and no proof or evidence of any actual loss shall be required by the Issuer or the liquidator or liquidators of the Trust.

21 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

22 GOVERNING LAW AND SUBMISSION TO JURISDICTION

Each of the Master Trust Deed, the Sukuk Certificates, the Transaction Administration Deed, the Agency Agreement, the Purchase Undertaking Deed, the Sale Undertaking Deed, the other Programme Documents (other than the Corporate Services Agreement which is governed by the laws of the Cayman Islands), each Supplemental Purchase Agreement, the Master Purchase Trust Deed, each Supplemental Trust Deed and each Sale Agreement is governed by, and will be construed in accordance with, English law.

The Issuer and Trustee in the Master Trust Deed have irrevocably and unconditionally agreed that any dispute arising out of or in connection with the Master Trust Deed (**"Proceedings"**) shall be referred to and finally resolved by arbitration under the Rules of the London Court of International Arbitration (the **"LCIA Rules"**). With regard to any such arbitration: (i) the number of arbitrators shall be three; (ii) the seat, or legal place, of arbitration shall be London; and (iii) language to be used in the arbitral proceedings shall be English.

The Issuer and Trustee have also agreed to waive any objection to the Proceedings on the grounds that they are an inconvenient or inappropriate forum.

The Issuer has in the Master Trust Deed appointed Walkers at its registered office at 48 Gracechurch Street, London EC2V 0EJ, United Kingdom, as its agent for service of process and has undertaken that, in the event of Walkers ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Transaction Administrator, as the case may be, as its agent for service of process in respect of any Proceedings. Nothing in these Conditions shall affect the right to serve proceedings in any manner permitted by law.

USE OF PROCEEDS

The net proceeds of each Series of Sukuk Certificates issued under the Programme will be applied by the Issuer for the purchase of the relevant Sukuk Assets of the relevant Series from GFH.

DESCRIPTION OF THE ISSUER

Introduction

The Issuer's legal and commercial name is **"GFH Sukuk Limited"**. The Issuer was incorporated in the Cayman Islands on 23 May 2007 under the Companies Law (as amended) of the Cayman Islands as an exempted company with limited liability with registered number WK-187903 and for an unlimited duration. The registered office of the Issuer is at the offices of Walkers SPV Limited, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands and its telephone number is +1 (345) 945 3727. The authorised share capital of the Issuer is 5,000,000 ordinary shares of USD 0.01 each. All of the issued share capital of the Issuer (being 1000 shares) is held Walkers SPV Limited, a licensed trust company in the Cayman Islands, under the terms of a charitable declaration of trust.

Principal Activities

The objects of the Issuer as set out in clause 3 of its Memorandum of Association are unrestricted, the Issuer having full power and authority to carry out any object not prohibited by law as provided by section 7(4) of the Companies Act (as amended). In particular, the Issuer may operate in the money and capital markets.

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to its incorporation, the authorisation and issue of the Sukuk Certificates, the acquisition of Sukuk Assets from time to time as described herein and other activities incidental or related to the foregoing as required under the Programme Documents and the Transaction Documents, as the case may be.

The Issuer is not, and has not been involved in any governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened of which the Issuer is aware), since its incorporation and the date of this Base Prospectus which may have or have had a significant effect on the financial position or profitability of the Issuer, taken as a whole. Since the date of its incorporation, no audited or unaudited financial statements of the Issuer have been prepared. The Issuer is not required to prepare audited or unaudited financial statements under Cayman Islands law and does not currently intend to do so.

Issuer in its capacity as trustee of the Sukuk Asset Trust Property

The Issuer (in such capacity, the **"Trustee"**) will act as trustee of the Master Trust Deed dated on or about 9 July 2007 and each Supplemental Trust Deeds dated on or about the issue date of each Series of Sukuk Certificates.

Pursuant to the terms of Master Trust Deed (and the relevant Supplemental Trust Deed), the Trustee has agreed to hold the Trust Assets of each Series upon trust absolutely for the relevant Certificateholders as beneficial tenants in common in respect of that Series of Sukuk Certificates only in accordance with the provisions of the Master Trust Deed and the relevant Supplemental Trust Deed.

Directors

The Director of the Issuer and their principal activities outside the Issuer are:

Name	Principal activity outside the Issuer
David Egglishaw	Managing Director, SPV Securities Walkers SPV Limited
Derrie Boggess	Director, SPV Securities Walkers SPV Limited
John Cullinane	Director of Walkers SPV Limited

The business address of each Director is Walkers SPV Limited, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands.

No potential conflicts of interest exist between any duties to the Issuer of any of the Directors and their private interests and/or other duties.

The Issuer has no employees.

SELECTED FINANCIAL INFORMATION

The following information has been derived from, and should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements of GFH and its subsidiaries and the other information contained in this Base Prospectus.

The GFH consolidated financial statements are prepared in accordance with IFRS and the Financial Accounting Standards of the Accounting and Auditing Organization for Islamic Financial Institutions and presented in U.S. dollars, the principal currency of GFH's operations and GFH's reporting currency. Figures for 2004 set forth in this Base Prospectus have been restated to reflect the retrospective application of IAS 27 and IAS 28.

The following table sets forth information extracted from the audited financial information statements of GFH for the years ended 31 December 2004, 2005 and 2006 and the unaudited reviewed financial statements of GFH for the 3 months ended 31 March 2007.

	Year ended 31 December			**Three months ended 31 March**	
	2004	**2005**	**2006**	**2006**	**2007**
	(US$ thousands)			*(US$ thousands)*	
Statement of income data:					
Income from investment advisory services	81,307	167,752	266,647	61,724	88,237
Placement, arrangement & management fees	2,777	27,280	20,337	6,118	4,168
Commission income from sale of land	9,472	-	-	-	-
Income from investment securities	(1,207)	12,403	11,982	3,455	4,456
Income from short term murabaha placements	4,036	13,559	35,357	7,176	8,041
Income from investments in sukuks	108	1,234	3,718	920	1,243
Income from Islamic financing assets	-	150	3,783	160	1,746
Other Income	166	548	3,882	369	11
Total Income	**96,659**	**222,926**	**345,706**	**79,922**	**107,902**
Staff costs	12,981	40,103	67,248	12,212	16,565
Investment advisory expenses	12,995	29,402	25,055	4,619	5,632
Impairment allowances on investments	7,287	-	6,728	-	-
Murabaha expense	2,102	8,022	24,322	3,994	9,737
Other expenses	4,558	5,015	10,767	2,012	3,696
Total Expenses	**39,923**	**82,542**	**134,120**	**22,837**	**35,630**
PROFIT FOR THE YEAR/PERIOD	**56,736**	**140,384**	**211,586**	**57,085**	**72,272**
Attributable to:					
Shareholders of the parent company	56,671	140,331	211,586	57,085	72,272
Minority Interest	65	53	-	-	-
Basic earnings per share (US cents)	**13.00**	**25.34**	**33.88**	**9.74**	**10.20**

	At 31 December			At 31 March	
	2004	2005	2006	2006	2007
	(US$ thousands)			*(US$ thousands)*	
Statement of balance sheet data:					
Cash and bank balances	4,295	13,412	15,050	44,704	48,583
Due from financial and non-financial institutions	264,339	685,771	687,765	800,297	604,009
Trading properties	-	8,660	2,960	8,890	2,960
Islamic financing assets	-	17,110	98,927	20,131	158,759
Investment in sukuks	-	61,374	77,993	47,812	72,967
Other investments	11,155	-	-	49,306	-
Assets held-for-sale	-	25,327	24,196	26,333	84,196
Investment securities	114,832	189,235	357,063	262,013	394,415
Other assets	26,043	97,184	232,496	74,729	259,899
Equipment	2,089	1,694	4,434	2,395	5,228
Total assets	**422,753**	**1,099,767**	**1,500,844**	**1,287,294**	**1,631,016**
Investors' funds	34,219	477,775	348,553	219,940	342,532
Customers' current accounts	-	5,090	7,297	1,896	13,103
Due to financial and non-financial institutions	130,157	176,145	340,916	480,439	564,169
Other liabilities	7,471	52,693	77,454	31,093	70,757
Total liabilities	**171,847**	**711,703**	**774,220**	**733,368**	**990,561**
Unrestricted investment accounts	**-**	**35,700**	**58,920**	**30,350**	**79,003**
Share capital	139,973	149,771	212,674	212,674	238,921
Advance towards share capital	-	-	2,708	-	-
Share premium	31,487	31,487	178,321	178,322	180,382
Treasury shares	-	-	(14,127)	-	(53,663)
Subsidiary company share grants	-	-	1,804	-	1,833
Statutory reserves	10,576	24,621	46,337	24,621	45,470
Investments fair-value reserve	3,899	227	364	528	940
Retained earnings	63,725	146,258	239,663	107,431	147,569
Minority interest	1,246	-	-	-	-
Total equity	**250,906**	**352,364**	**667,744**	**523,576**	**561,452**
Total liabilities, unrestricted investment accounts and equity	**422,753**	**1,099,767**	**1,500,884**	**1,287,294**	**1,631,016**
Off balance sheet items					
Restricted investment accounts	**14,050**	**106,393**	**123,393**	**93,683**	**142,877**

DESCRIPTION OF GULF FINANCE HOUSE B.S.C.

The information in this section has been collated and provided by GFH.

Overview

Gulf Finance House B.S.C. (**"GFH"** or the **"Bank"**) is a leading provider of Shari'ah compliant investment banking products in the Gulf Cooperation Council (**"GCC"**) countries, countries in the Middle East and North Africa region (**"MENA"**) and other emerging markets. GFH was founded in 1999 and has focused its investments in the areas of development infrastructure for large real estate projects, private equity, asset management funds and the retail banking products of its commercial banking subsidiary Khaleeji Commercial Bank B.S.C.(c). These products are placed with its clients in the GCC region.

As at 31 December 2006, GFH had total assets of approximately US$1.5 billion (compared to approximately US$1 billion as at 31 December 2005) and shareholder equity of approximately US$667 million (compared to approximately US$352 million as at 31 December 2005).

The head office of GFH is located at Al Salam Tower, Diplomatic Area, PO Box 1006, Manama, Kingdom of Bahrain and its telephone number is +973 17 538 538. GFH is regulated by the Central Bank of Bahrain (the **"Central Bank"**). GFH is licensed as an Islamic Investment bank by the Central Bank. GFH's shares are listed and publicly traded on stock exchanges in Bahrain, Kuwait and Dubai.

History

GFH was established on 6 November 1999 as an exempt joint stock company (Bank Sector) under registration number 44136 in accordance with the Commercial Companies Law No. 21/2001 and its amendments. GFH operates as an Islamic Investment bank and has been issued wholesale Islamic banking licence IBL/041 by the Central Bank. GFH's strategy is to provide Islamic investment banking services with an emphasis on supporting regional development (capitalizing on an increasing willingness amongst Islamic investors to invest in local and regional opportunities). GFH has one principal wholly-owned subsidiary, Khaleeji Commercial Bank, B.SC.(c) (**"KHCB"**). KHCB was established on 24 November 2004 as a niche Islamic private bank, headquartered in the Kingdom of Bahrain and operates under an onshore commercial banking licence granted by the Central Bank. KHCB offers its services to high net worth individuals and financial institutions in Bahrain. In addition, it provides financing opportunities for property developers, landowners and property investors across the MENA region. KHCB seeks to develop alliances with other Islamic banks, large property developers and real estate agents in the region to source investment and financing opportunities.

Since its formation in 1999, GFH has successfully launched projects and investments with an aggregate final value exceeding US$10 billion including several innovative development infrastructure projects such as Bahrain Financial Harbour and Al Areen Development in the Kingdom of Bahrain, Legends in Dubailand, UAE, Royal Metropolis in Jordan, Energy City – Qatar in Doha, Energy City – India in Mumbai and Morocco Gate in Marrakech, Morocco. GFH has also introduced innovative Shari'ah compliant structures such as "Investment Notes", "Financing Notes" and "Participating Rights" that have since found wide acceptance in the market.

Recent Developments

Qatar Islamic Bank

In March 2007 GFH cofounded Islamic Investment Bank of Qatar (**"QInvest"**) with Qatar Islamic Bank. GFH holds 15 per cent. of QInvest. QInvest will be the first dedicated Islamic investment bank operating out of Qatar and will originate, and package Shari'ah compliant investment opportunities in infrastructure and real estate direct investment, private equity, direct investment managed funds and corporate finance advisory services. QInvest has been capitalised with a paid up capital of US$500 million, and is expected to commence operations in July 2007.

Energy City India

In May 2007 GFH announced the launch of its $395 million private placement to raise the equity from clients for the Energy City India project. Energy City India is the second Energy City in a series of energy focussed business clusters. Energy City India will occupy 600 acres in new Mumbai, in the State of Maharashtra, planned to be the satellite city of Mumbai, which is the financial and business hub of India.

The project will be located within a few kilometres of new Mumbai's upcoming new international airport, which upon completion will be both the largest and busiest in Asia. The project site is also located along the Mumbai – Pune expressway, which is being developed by the government as a key business corridor.

The Energy City cluster concept provides a complete business infrastructure to both local and foreign oil and gas producers, as well as downstream refiners and producers and businesses involved in shipping, energy trading and support services.

Shareholders and Capital Structure

GFH's shares have been listed on the Bahrain Stock Exchange since 20 January 2004, as the primary exchange with secondary listings on the Kuwait Stock Exchange since 25 January 2004 and the Dubai Financial Market since 14 May 2006. In addition, an application has been made to the FSA for GFH shares, in the form of global depositary receipts (**"GDR"**), to be admitted to the Official List of the UK Listing Authority and the London Stock Exchange (the **"GDR Listing"**) . None of the shareholders hold a controlling interest in GFH. The following is a list of shareholders with a significant interest in GFH:

Abdul Latif Al Shaya and Abdul Aziz Al Shaya - 35,129,798 shares (5.45 per cent.)

Bahrain Islamic Bank - 32,390,536 shares - (5.02 per cent.)

Although GFH is not aware of any other holdings in its shares in excess of 5 per cent. there may be a significant change in the shareholding of the company upon the completion of the GDR Listing.

The following table sets out the distribution of shareholdings in GFH as at 31 December 2006.

Categories	***Number of shares***	***Number of Shareholders***	***Per cent. of total outstanding shares***
Less than 1%	346,242,608	2,122	53.73
1% to less than 5%	230,704,430	14	35.80
5% to less than 10%	67,520,334	2	10.47
Total	**664,467,372**	**2,138**	**100**

Capital Structure

As of 31 December 2006, GFH's authorised share capital was US$300 million and its issued and fully paid up share capital was US$212,674,233. The issued capital comprises 644,467,372 common shares of US$0.33 each. GFH has only one class of shares. Subsequent to the year end, the share capital has changed to US$238,920,543 amounting to 724,001,645 shares, primarily due to the issue of bonus shares.

Strategy

GFH's objective is to lead the Islamic Investment banking industry in the GCC, Middle East and North Africa by offering competitive investment products, superior investment performance and delivering earnings growth and value for its shareholders and clients. It seeks to achieve this in particular, by:

Originating and successfully executing high profile development infrastructure projects

Leveraging the expertise of its experienced management team, GFH intends to continue to selectively originate large-scale development infrastructure projects in accordance with its proven investment and operational processes.

Leverage placement capability

GFH's client base includes both institutional investors and high net worth individuals who typically have the ability to invest in a broad range of investments. In the future, GFH will seek to leverage its proven placement capability and expand its product offering in the areas of private equity and asset and wealth management in particular, with a view to placing a broader range of products with existing clients and capturing a wider range of their investment demand. In addition, GFH is actively marketing and seeking to target new sources of wealth across the region through its placement team based in Bahrain, and will seek to capture this demand by selectively exploring opportunities to distribute its products to clients outside of the GCC region.

Expand the geographical reach of existing origination and execution capabilities

GFH is focusing on originating new development infrastructure projects in emerging markets such as India, China, Russia, Libya and Egypt. In particular, GFH will be seeking to originate products in regions where the development opportunities and market dynamics are similar to those it has encountered previously.

Continue to recruit talented professionals

GFH continuously seeks to enhance its expertise by recruiting talented professionals with strong financial management skills and experience in the GCC and other markets.

Optimise balance sheet structure to fund growth while enhancing shareholder returns

GFH intends to optimise its balance sheet structure through greater use of Shari'ah compliant leveraged finance instruments to allow for further growth of its business without issuing new equity, thereby enhancing returns on shareholders' equity. GFH will also seek to increase the level of Shari'ah compliant leveraged finance instruments at the project level so as to enhance clients' returns and allow for flexibility when making equity placements in accordance with the financing need and client demand for a given project.

Business activities

GFH focuses on providing Shari'ah compliant products within the following core business lines, all of which are supported by its strong placement capabilities with clients: Development Infrastructure Projects, Private Equity Investment, Asset Management and Banking.

Set out below is a breakdown of GFH fee income by business line for the fiscal years ended 31 December 2004, 2005 and 2006 and for the three months ended 31 March 2006 and 2007:

	Year Ended 31 December			**Three Months Ended 31 March**	
(in US$ millions)	**2004**	**2005**	**2006**	**2006**	**2007**
Development infrastructure	77.5	178.4	179.4	57.9	79.9
Private equity	6.0	0.1	72.3	0.4	-
Asset management	0.6	4.9	11.0	3.6	0.7
KHCB	-	11.7	24.2	5.9	11.8
Total fee income	**84.1**	**195.1**	**286.9**	**67.8**	**92.4**

Development Infrastructure Projects

Over the past seven years, GFH has originated and implemented infrastructure and related real estate projects in each of the residential, hotel, commercial, entertainment and industrial sectors. In general, GFH's approach is to:

- conceive the development concept, undertake market and risk due diligence, prepare high-level master plans for real estate based projects and act as a "master developer";

- arrange for the design and implementation of the infrastructure component of these projects such as roads, bridges, parking lots, sewage, electricity, water, gas, telecommunications and other utilities; and
- exit an investment within 18 months to three years by sub-dividing the land and selling it to developers in accordance with the master plan.

GFH seeks at the outset to acquire the land for these projects on attractive financial, zoning and other terms in return for undertaking to co-sponsor, as a master developer, infrastructure projects that will offer local governments significant social and economic development benefits. By seeking to offer its clients a stake in, and exit after, the infrastructure development stage of a project and the land-only value component of the project, GFH strives to cater to its client's desire to limit their risk in relation to the real estate development project as a whole.

GFH typically uses special purpose vehicles that have been provided with the necessary funding to acquire the land necessary for the project. While outside clients provide the bulk of such funding, GFH generally retains a co-investment stake in its projects through an equity holding in each special purpose vehicle ranging from 5 to 15 per cent. GFH generally structures the development infrastructure project on a non-recourse basis so that it only bears a proportion of the risk for it on its balance sheet in line with its shareholding.

Typically, the special purpose investment vehicle appoints a management company (usually a wholly owned subsidiary) to implement the project and assist in the divestment of the property. Accordingly, it hires management personnel, architects, contractors, surveyors, environmental consultants, lawyers and other third party contractors. The boards of directors of both the special purpose vehicle and the management company usually include members of GFH's senior management as agents for the shareholders.

GFH earns upfront fees, which represent the vast majority of its revenue, ongoing management fees and, sometimes, exit fees from its role in originating, structuring and divesting a project. The upfront fees include advisory and structuring fees charged to the special purpose vehicle holding the assets for the project, and arrangement and placement fees charged to its clients in connection with their investments. Advisory and structuring fees include fees paid upon placement for identifying, conceptualising and planning the development infrastructure project, performing a due diligence investigation for this purpose and structuring the investment opportunity. Placement and arrangement fees are charged to each client generally as a percentage of the total investment by such client. Management fees (including fees for administrative services) are periodically charged, usually on an annual basis for the duration of the development infrastructure project, for the management services that GFH provides to various management companies employed by the special purpose investment vehicle. Such management fees are generally based on a percentage of the capital of the special purpose vehicle. An exit fee may be charged to GHF's clients upon the sale of the infrastructure development project (in whole or in part) if the realised return on investment exceeds a specified targeted return.

Investment Process

GFH divides its investment process for development infrastructure projects into three stages of: (i) origination; (ii) implementation; and (iii) realisation.

(i) *Origination*. The following stages comprise the origination process:

Stage 1 – Project Screening

GFH identify and source "off-market" development infrastructure project opportunities through:

- private investors or governmental authorities who seek the participation of GFH in the development of infrastructure projects as co-investors, co-sponsors or placement agents because of GFH's reputation and proven track record in developing infrastructure for real estate;

- real estate and other consultants who approach GFH with general or specific proposals for potential infrastructure opportunities; and
- GFH's identification of opportunities, based on GFH's market knowledge and networks of contacts.

Stage 2 – Initial Project Analysis

Once GFH have completed the screening process for identifying potential project opportunities, GFH:

- engages independent consultants to advise on general market conditions and the suitability of the proposed project site and to conduct a preliminary feasibility study on the proposed opportunity; and
- submits a preliminary investment application to the management committee (composed of, among others, the GFH CEO, deputy CEO and the head of risk management), and the Executive Investment Committee and request permission and a budget to proceed to stage 3-due diligence investigation. GFH Board approval in respect of a proposed opportunity is typically only required when the potential balance sheet risk is projected to exceed a quantitative threshold in excess of 10 per cent. of GFH's net worth.

At this stage, the placement team is advised of the specific potential opportunity and begins to gauge interest in it by informally contacting clients. The placement team is thereafter involved throughout each phase of the origination process to regularly assess client demand. Also beginning at this stage and thereafter, the risk management team regularly evaluates the risks relating to specific potential opportunities.

Stage 3 – Due Diligence Investigation

GFH conducts a due diligence investigation of the specific opportunities in which GFH:

- undertakes more detailed market feasibility studies and financial modelling. For proposed opportunities outside the GCC region, GFH engage specialist financial analysts to prepare the financial model or seek the detailed workings of the infrastructure design engineers and produce a model using their data. Where the opportunity is within the GCC region, GFH generally prepare financial models based on third party market studies and infrastructure design reports from recognised engineering firms;
- undertakes assessment of legal and tax matters, including obtaining a report on title, site and soil surveys, arranging for appropriate land searches to be conducted by external legal counsel and obtaining a tax analysis by a reputable international accounting firm;
- engages third parties to conduct environmental impact surveys and structural surveys (if necessary); and
- prepares a purchase report which is a comprehensive document detailing all information relevant to the proposed investment. The purchase report typically includes:
    - a valuation for the land;
    - the feasibility and market studies;
    - an investment recommendation including a proposed structure for the project; and
    - an asset management strategy (if applicable).

Stage 4 – Final Internal Approval

A project recommendation (including a risk management report) is submitted to the management committee and the Executive Investment Committee for final approval.

Stage 5 – Project Arranging and Fundraising

Once final internal approval is obtained, GFH:

- drafts a private placement memorandum to market the development infrastructure project;
- commences soft marketing of the proposed project with a view to obtaining commitments from clients as well as underwriting commitments. This process parallels the drafting of the private placement memorandum and can take between four to eight weeks;
- negotiates the terms for the purchase of the land and appoint master planners to design the infrastructure required and to plan the development. A memorandum of understanding is usually signed with the relevant government or local authority to confirm its support setting the terms on which the contract for the sale of the land will be based. Wherever possible, contracts for the sale of the land are concluded at this point with caveats to allow withdrawal where funds are not raised;
- notifies the Central Bank of Bahrain of GFH's intention to establish a special purpose vehicle (typically established off-shore) for the project; and
- incorporates the special purpose vehicle and other companies in the legal structure for the project.

Stage 6 – Placement Completion

After GFH has collected the funds from clients, GFH:

- procures the signing of all key contracts with relevant third parties and contractors;
- funds the special purpose vehicle; and
- procures that the special purpose vehicle enters into the contract for the purchase of the land.

Implementation. During the implementation phase, GFH internally appoints a project manager to act as the interface between GFH and the management company for the project. A quarterly report outlining the status of the project, achievement of any key performance indicators and targeted investment returns is submitted to the Board of Directors.

The management company develops the master plan for the project, seeks necessary approvals from local authorities, procures the construction of infrastructure for the development and typically sub-divides the development into parcels to sell to and/or to be jointly developed by other developers.

The majority of infrastructure development projects require that a "master community" be established. The master community is an administrative corporate body made up of all the owners and residents of plots and buildings within the project. It is a framework in which owners or occupiers can enjoy common property together, which may include driveways, paths, stairs, passages, lifts, lobbies, common garden areas and other facilities set up for use by all members of the master community. When approximately 75 per cent. of all of the plots in the development are occupied by residents, the master community is constituted and the special purpose vehicle exits from the project. The master community maintains a master insurance policy over the entire community. The members of the master community bear the cost of insurance through annual fees which also include operation and maintenance costs.

Typically, all consultants and other service providers engaged by the management company are required to maintain professional indemnity insurance reasonably satisfactory to the management company. Similarly, all contractors engaged by the management company are required to carry contractors all risk insurance. Consultants, contractors and other service providers are required to indemnify the management company for all insured risks and the services they provide to the management company. Sub-developers that have purchased land for development in accordance with the specified master plan are also required to carry insurances (as above) for their consultants, contractors and other service providers.

(iii) Realisation

GFH begins planning for realisation early in the project implementation stage, when GFH evaluates the possibilities and formulate a strategy for preparing and positioning an investment for a profitable divestiture. Throughout the life of an investment, GFH evaluates market conditions and exit alternatives, taking advantage of favourable market conditions and property valuations when they arise.

Private Equity Investment

Since its founding, GFH and its clients have invested in 9 private equity projects totalling approximately US$220.8 million in investment value across a broad range of industries, in particular Islamic financial institutions. GFH employs a broad-based approach to private equity investing by providing capital to fund both new and growth businesses, as well as for the acquisition of established companies operating primarily within the GCC and wider MENA regions.

Investment in Islamic Financial Institutions

The majority of GFH's private equity investments are in Islamic financial institutions and are offered to clients on a deal-by-deal basis pursuant to which GFH either (i) invests in the private equity asset using its own financial resources and subsequently places a significant portion of the interest in the target with its clients; or (ii) identifies the private equity asset and subsequently raises funds from clients before proceeding with an investment in the asset. In the past, financial institutions GFH has invested in have been active in the areas of takaful (Islamic insurance products), trade finance and equipment leasing, retail banking and investment banking. In the future, GFH will continue to utilise its deal-by-deal approach, along with private equity fund structures GFH has designed to hold a portfolio of investments during the life of the fund.

GFH's investment opportunities in the area of Islamic financial institutions are typically sourced either on its own (when GFH acts as founder or co-founder, for example) or through GFH's contacts with a broad range of senior executives located throughout the GCC and wider MENA regions. GFH invests in maintaining and strengthening these relationships and aims to ensure that its contacts have a strong understanding of its strategy and therefore the type of investments in which GFH and its clients are interested.

The following table sets forth details regarding GFH's top five private equity investments in Islamic financial institutions (in terms of carrying value) as at 31 December 2006:

Company	**Date of Investment**	**Original Equity Deployed (US$ million)**	**Carrying Value at 31 December 2006 (US$ million)**	**Interest held by us (%)**
QInvest	2006	75.0	N/A	15
KHCB	2004	80.0	80.0	100
Asian Finance House	2006	11.0	11.0	10
Rasmal Financial Services	2005	1.8	1.8	2.18
First Leasing Bank	2004	2.3	2.3	22.5
	TOTAL	170.1	95.1	

In addition to investment in other Islamic financial institutions, GFH and its clients have also invested in private equity assets in a number of other industries such as technology, hospitality, manufacturing and transportation.

The following table sets forth details regarding GFH's top five (in terms of carrying value) private equity investments in other industries as at 31 December 2006.

Company	Industry	Date of Investment	Original Equity Deployed (US$ million)	Carrying Value at 31 December 2006 (US$ million)	Interest held by us (%)
Balexco	Aluminium extrusion	2000	27.3	24.2	39.8
Injazat Technology Fund	Technology	2001	12.5	15.5	30.20
Al Arabi PE fund	Diversified	2005	10.3	10.3	40.9
Gulf Real Estate Company	Diversified	2005	8.0	8.0	20.0
North Gate Economic City	Real Estate	2006	66.7	66.7	4.0
		TOTAL	124.8	124.7	

From private equity investments in Islamic financial institutions and companies in other industries, GFH earns fees relating to advice, structuring and placement and, occasionally, management and performance. Such advisory and structuring fees include fees charged to clients, upon placement, for the provision of various services, including identification, due diligence and structuring of the private equity investment opportunity. Placement fees are charged to clients generally as a percentage of the total investment by the client. Although few products include ongoing management fees, GFH may also charge such fees (including fees for administrative services) periodically over the duration of the holding period of the investment based, in part, upon the total amount clients have invested. Performance fees are occasionally charged upon exit from the private equity investment if the realised return on investment for clients exceeds a specified targeted return.

Asset Management

GFH targets investments in closed-end, short-term Shari'ah compliant funds and currently has three property funds, one equity fund and two commodity (oil) funds. GFH actively manages its funds. GFH typically structures its funds so that each is separately managed by GFH through a special purpose management company and each is separately held by a special purpose investment vehicle.

The following table sets forth the objective and fee structure for each of GFH's current funds.

Fund	Size at 31 Dec. 06 (US$m)	Objective	Fee Structure Arrangement	Placement	Management	Acquisition	Advisory	Others
Al Basha'er GCC Equity Fund	328.9	Invest primarily in the shares of GCC-listed companies	N/A	3%	2.25%	N/A	N/A	Performance fee -10% of appreciation in NAV over 10% pa Hurdle Fee
AQAR 1	50.4	Acquire income producing properties in Bahrain	1.5%	1.5%	N/A	N/A	N/A	20% of the profits above the Hurdle Rate of 13% IRR
Gulf-German Residence	815.2	Acquire income producing residential properties in Germany	1.5%	1.5%	0.15%	N/A	N/A	Note A
Pan European Real Estate Fund	40.1	Acquire a mix of retail, commercial and industrial properties across Europe	1.5%	1.5%	0.15%	<2%	<2%	Performance fee -25% of the profits above the Hurdle Rate of 12% IRR Disposal fee <1%
Total	**1,220.7**							

Note A: Finance & Structuring Fee 1%, Disposal Fee 1%, Incentive Management Fee if profit >10% and <11%, 1% paid to Mgt. Co. If profit >11%, then the excess distributed equally between Note holder & Mgt. Co., Performance Fee if it exceeds the hurdle rate of 14%.

GFH's strategy for the asset management business is to seek to leverage its expertise in real estate and other industries and select appropriate investments to cater to its clients' demands for risk diversification.

GFH's assets under management have grown from over US$638million at 31 December 2004 to approximately US$1.3billion at 31 December 2006.

Banking Services

GFH provides banking services through its wholly-owned subsidiary, Khaleeji Commercial Bank B.S.C.(c) (**"KHCB"**). KHCB offers a range of structured investment products to its clients and prospective clients, including funds, repackaged products and structured restricted mudarabas and murabahas. In order to offer diversity to clients, these products range in nature from capital growth products to income producing products.

Subsidiaries, Associates and Funds

As at 31 December 2006, GFH had three subsidiaries:

- Khaleeji Commercial Bank, B.S.C.(c) of which GFH owns 100 per cent.

KHCB offers a range of structured investment products to its clients and prospective clients, including funds, repackaged products and structured restricted mudarabas and murabahas

- Hawafiz BSC(c) of which GFH owns 100 per cent.

  A special purpose vehicle set up to hold the Management Incentive Programme for the Bank's employees.

- GFH International Limited of which GFH owns 100 per cent.

  A company incorporated to provide office support service to GFH employees on visit to Europe.

As at 31 December 2006, GFH had seven associates

- Balexco Aluminium Extrusion Co. of which GFH owns 39.8 per cent.

  A Bahrain based manufacturer of aluminium extrusions for homes, offices, industrial and other applications.

- First Leasing Bank of which GFH owns 22.5 per cent.

  A Bahrain based Investment Bank dedicated exclusively to the introduction and expansion of equipment leasing throughout the GCC. Subsequent to 31 December 2006, GFH stake has reduced to 2.5 per cent. in the company.

- Injazat Technology Fund of which GFH owns 30.20 per cent.

  Injazat Technology Fund is a US$50 million venture capital fund operating in compliance with Shari'ah principles and targeting technology companies within the MENA region

- Mina Manama Inc. of which GFH owns 50 per cent.

  Mina Manama Inc. is a special purpose vehicle set up to hold GFH's and other investors interest in Bahrain Financial Harbour Holding Company.

- Al Arabi Private Equity Fund of which GFH owns 40.90 per cent.

  The Al Arabi Private Equity Fund launched by Abu Dhabi Investment House targets private equity, capital markets, asset management, and investment placement in the GCC

- Injazat Capital Limited of which GFH owns 33.33 per cent.

  Injazat Capital Limited is a private equity investment and corporate advisory firm that operates in compliance with Shari'ah principles and focuses on private equity transactions such as MBO, ILBO and multi-stage investments.

GFH considers only KHCB as a key subsidiary in terms of revenue and future growth potential:

Khaleeji Commercial Bank

GFH established KHCB as a wholly-owned subsidiary in November 2004. KHCB operates under a retail banking (Islamic principles) licence granted by the Central Bank and is a niche Islamic bank offering its services to high net worth individuals and financial institutions in Bahrain. In addition, it also actively provides financing opportunities for property developers, landowners and property investors across the Middle East. KHCB seeks to develop alliances with other Islamic banks, property developers, prominent regional investment groups and real estate agents in the region to source investment and financing opportunities. KHCB currently has one branch in Bahrain.

During 2007, the share capital of KHCB was increased from US$80 million to US$265 million resulting in paid up capital of US$265 million. GFH as the parent of KHCB, initially invested the additional capital. GFH intends to reduce its equity stake in KHCB by selling up to 60 per cent. of its interest in two stages to strategic and other investors. In the first stage, GFH recently sold, to strategic institutional investors in the GCC region, a stake in KHCB of approximately 30 per cent. for a profit of approximately US$33 million. In the second stage, GFH plans to reduce its stake by an additional 30 per cent., through a sale to institutions and high net worth individuals in the GCC region. This is in line with, as discussed above, in GFH's Private equity business strategy of developing other Islamic financial institutions.

It is expected that strategic and other investors who purchase KHCB's shares will provide KHCB with access to additional markets, distribution channels, clients and deal flows. It is anticipated that the first stage will be completed in June 2007 and the second stage completed in September, 2007.

KHCB contributed approximately 9 per cent. of GFH's total revenues for the year ended 31 December 2006 and is fully consolidated in GFH's financial accounts.

As at 31 December 2006, KHCB's assets were approximately US$255 million (compared to approximately US$188 million as at 31 December 2005), while its net profit as at 31 December 2006 was approximately US$21 million (compared to approximately US$10 million as at 31 December 2005).

Competition and competitive advantages

Competition

GFH faces competition from both Islamic banks and conventional banks. GFH views Investcorp, Arcapita and Unicorn Investment Bank as its regional competitors, especially in the area of alternative investment assets. In respect of private equity and asset management, GFH competes with a broad range of international and regional investment firms with whom GFH has overlapping investment strategies. In respect of its development infrastructure projects, GFH believes there is less direct competition because its development infrastructure projects are primarily "off-market" and its core strength is in finding and concluding projects which follow a different model to that of real estate developers. Real estate developers such as Emaar, Nakheel and DAMAC typically concentrate on delivering the end product rather than the infrastructure and therefore follow a different business model than GFH, taking on real estate construction and development risk and assuming a different risk profile on projects, and typically do not focus on Shari'ah compliant products. In the future, GFH could face new competition from enterprises seeking to emulate GFH's business model for development infrastructure projects.

Competitive Advantages

GFH management believes that GFH enjoys a number of key competitive advantages relative to regional banks and other competitors in the financial services industry, including the following:

A leading reputation built on a strong track record for project origination and execution in the GCC region

GFH has built its brand and reputation by consistently demonstrating its ability to originate development infrastructure projects and advance them towards completion. GFH has a comparatively well-established presence in the GCC region, having initiated and placed five development infrastructure projects since its was founded in 1999. The credibility established with project co-sponsors, including government agencies and developers, proves advantageous given the scale and potential economic and social impact of GFH's projects. GFH's history of generating strong risk-adjusted returns has also helped it to strengthen its credibility with clients.

Ability to originate, structure and execute large development infrastructure projects through proven processes and extensive knowledge and experience

GFH has developed its investment origination sourcing, selection knowledge and processes enabling it to create large development infrastructure projects. Value creation for its clients is largely based on GFH's ability to select the appropriate projects from an early stage and use its institutional capabilities across the investment cycle. GFH's capabilities are based on (i) the experience of its in-house development infrastructure team, which conducts feasibility studies and due diligence prior to project origination; (ii) its dedicated risk management department; (iii) well respected third-party advisors, including surveyors and marketing consultants; and (iv) regular feedback from the placement teams on client preferences. These resources enable GFH's Executive Investment Committee to be well placed to assess potential projects. GFH believes that its experience as an originator of emerging markets projects will also allow it to leverage its expertise in structuring development infrastructure projects in new countries.

Creation of strong returns on investments for clients

GFH has historically been able to generate strong returns for clients, having achieved exited internal rates of return of between 6 per cent. and 25 per cent. across all product categories over the past seven years. The strong returns on investment in turn provide GFH with an attractive marketing tool in approaching existing and new clients.

Innovation in structuring

GFH has an innovative culture that has led it to initiate projects across a broad range of developments in a number of countries, including energy cities, real estate projects, financial districts, tourism and recreational developments. All of these developments have been Shari'ah compliant, enabling GFH to be well positioned to capture a rapidly increasing pool of investor demand.

Strong placement capability with clients in the GCC

GFH has been able to raise large amounts of financing for its specialist investment products. GFH has over 2,600 clients, and a dedicated team of 35 placement agents that has a close and interactive relationship with existing clients, both in assessing existing investments as well as future opportunities. This proactive approach has allowed GFH to continually expand its client base while at the same time offering an increasingly broad range of investment products.

Depth and experience of management team

GFH has established a management team with extensive experience in the markets and sectors in which it operates.

Risk Management

Risk Management framework

The recognition and management of risk is an essential element of GFH's strategy. The Board of Directors, being ultimately responsible for the management of risks associated with GFH's activities, has established an integrated framework of committee structures, policies and controls to identify, assess, monitor and manage risk.

The risk management strategy is based upon risk principles approved by the Board of Directors and is underpinned by a system of delegations, passing from the Board of Directors through to appointed committees and the various support and business units of the Bank.

The key element of GFH's risk management philosophy is for the Risk Management Department to provide independent monitoring and control while working closely with the business units which ultimately "own" the risks. The Head of Risk Management reports directly to the CEO and has access to the Chairman and the Board of Directors.

Board of Directors' Responsibilities

The Board of Directors is responsible for, *inter alia*:

- Establishing the risk culture and ensuring that an effective risk management framework is in place

- setting the policies and guidelines for the risk management of the Bank;
- approving changes to and periodically reviewing the Bank's risk management policies, guidelines and strategy; and
- overseeing the establishment and the implementation of risk management systems and policies for balance sheet risk, off-balance sheet risk and for operational risk (including regulatory compliance).

Committees' Responsibilities

The Bank's risk management committee (**"RMC"**) consisting of the CEO, Deputy CEO, COO and Heads of Investment, Placement, Operations, Financial Control and Risk Management, is responsible for implementing risk management policies, guidelines and limits, and for ensuring that monitoring processes are in place. The Risk Management department, together with the Internal Audit and Compliance departments, provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board.

Risk Management Principles

The risk principles form the risk management control framework of the Bank. All principles are approved by the Board of Directors and may be amended with endorsement of the Board of Directors. The principles represent the risk parameters within which the Bank will operate.

Specific details relating to the policies and responsibilities for each category of risk and how the Bank manages within those risk parameters are contained in the relevant policy statements and procedural manuals for the Bank.

Risk Management Strategies

A structured framework has been established to ensure that the Bank's business strategy and operations are linked to its risk management objectives. The risk management strategy is underpinned by an integrated framework of responsibilities and functions from Board of Directors level down to operational levels, covering a wide spectrum of risk, most notably reputational, liquidity, investment and credit risk, operational risk, legal and regulatory risk.

The risk management strategy in respect of each risk is set out below.

Reputational risk

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

Liquidity risk

The Asset and Liability Management Committee (**"ALCO"**), which is chaired by the CEO and is comprised of senior executives of the Bank, has overall responsibility for managing the balance sheet and liquidity of GFH. The day-to-day management of liquidity is the responsibility of the Treasurer.

The Bank's three primary measures of liquidity are stock of liquid assets, surplus cash capital and net funding requirements. It is the policy of GFH to keep a large part of its assets in highly liquid short-term instruments. GFH has maintained a conservative balance sheet and currently has a relatively insignificant amount of on balance sheet leverage.

Investment and credit risk

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

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

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

Capital adequacy

The Bank's capital adequacy ratio is calculated in accordance with guidelines published by the Central Bank of Bahrain and there are policies in place for the calculation, maintenance and monitoring of regulatory capital. Required levels of capital are determined by reference to the relative risk associated with specified categories of assets owned by an institution. These requirements are generally referred to as risk based capital requirements, and are regarded by the bank's regulatory authorities as an important supervisory tool in measuring the safety and soundness of banking institutions. GFH, like other banks in Bahrain, is currently subject to a minimum risk based capital requirement of 12 per cent. of its total risk weighted assets. As at 31 December the capital adequacy ratio for GFH was 48 per cent. of its total risk weighted assets.

Currency risk

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

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

Operational risk

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

During 2006 GFH engaged international consultants to advise on possible enhancements to the Bank's operational risk framework. The consultants have submitted their initial report and where appropriate their recommendations are being implemented during 2007.

Legal and regulatory risk

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

Risk Management Reporting and Control

Effective measurement, reporting and control of risk is vital to ensure that the Bank's business activities are being managed in accordance with overall strategic and risk management objectives. Reporting to the Board and senior management includes quarterly risk review reports, quarterly updated and reviews on investments, required exception reporting as well as other routine reports on limits / breaches, liquidity, etc.

Risk Management Policies and Procedures

GFH has developed specific risk management policies, strategies and procedures in order to measure, monitor, manage and report on the key risks to which the Bank is exposed. These policies, strategies and procedures are contained in internal manuals.

Risk Management Committees

The Board Audit Committee

The audit committee is a sub-committee of the Board of Directors. From a Risk management perspective, the functions of the Audit committee include reviewing and evaluating the internal controls and risk assessment functions as well as ensuring compliance with laws and regulations.

*The Risk Management Committee (**"RMC"**)*

The RMC, which is chaired by the Chief Executive Officer, reviews, approves, and ratifies all risk management policies. It also reviews risk management reports.

*Asset Liability Management Committee (**"ALCO"**)*

The ALCO is chaired by the Chief Executive Officer and includes Deputy CEOs, COO,

Heads of Investment, Placement, Operations, Finance, Risk Management and Liquidity Management. The Committee members meet at least once a month to review, *inter alia*, balance sheet management, funding requirements, liquidity issues and banking relationships.

Compliance

The GFH management believes that GFH conducts its business in conformity with high ethical standards and complies with all laws and regulations pertaining to financial institutions.

Key regulations that the Bank complies with include, *inter alia*, the following:

Shari'ah Compliance

The Bank conducts its business in conformity with the Islamic Shari'ah which prohibits usury and encourages trade. The Bank ensures it and all its products remain Shari'ah compliant through the Shari'ah Supervisory Board of the Bank (please see Shari'ah Supervisory Board for further details on the Shari'ah Supervisory Board).

The Islamic Shari'ah are a set of laws derived from:

- the Holy Quran;
- the Sunna (the practice and traditions of the prophet Mohammed PBUH);
- the Qiyas (a comparison; used to make judgments on issues which have no clear-cut ruling in the Quran or the Sunna, through consideration of similar issues which do have a clear ruling);
- the Ijtehad (the diligent judgment of Islamic scholars through reasoning and logic); and
- the Ijmaa (a consensus or agreement used for issues which require Ijtehad).

Legal status and compliance

The Bank was incorporated in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 as an "Exempt Company". In 2004, the Bank's legal status was changed to a stockholding company in accordance with the Companies Law and its shares were listed on both the Bahrain and Kuwait Stock Exchanges. The Bank's shares were listed on the Dubai Financial Market in 2006. GFH closely follows amendments to the Companies Law to ensure compliance and takes particular measures in respect of its compliance with the Labour Law for the Private Sector, 1976 and any amendments thereto. The Bank undertakes an annual legal audit to confirm, inter alia, that it complies with the applicable laws, rules and regulations of Bahrain.

Financial Reporting Standards

The Bank's financial statements are prepared in accordance with International Financial Reporting Standards (**"IFRS"**) and also complies with the requirements of Financial Accounting, Governance, and Ethical Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (**"AAOIFI"**), an international, autonomous and non-profit-making body.

GFH is one of the founding members of AAOIFI. AAOIFI is committed to developing, in the public interest, accounting thought in the field of Islamic banking by preparing and issuing a single set of high quality global accounting standards for Islamic banks and financial institutions.

By conforming to the requirements of both IFRS and AAOIFI, GFH enhances the confidence of the users of its financial statements by presenting detailed, transparent and comparable information within its reporting.

Basel II Accord

During 2007, GFH will be required to calculate its risk weighted assets and capital on the basis of Basel I requirements for purposes of reporting to the Central Bank. Beginning in 2008, GFH will be required to follow the requirements of Basel II as implemented by the Central Bank.

Pursuant to Basel I, GFH's capital adequacy ratio stood at 39 per cent. as at 31 March 2007. As per the current Central Bank proposed requirements for Basel II, GFH's capital adequacy ratio will decrease to 19.3 per cent. as at 31 March 2007. This decrease is primarily due to the increased capital requirements under Basel II for unquoted investment securities and operational risk charge.

Central Bank

The Central Bank is the sole regulator of Bahrain's financial sector, covering the full range of banking, insurance, investment business and capital markets activities. The Central Bank succeeded the Bahrain Monetary Agency (**"BMA"**) on 7 September 2006 which until then had previously carried out central banking and regulatory functions since its establishment in 1973.

As an Islamic bank, GFH is supervised on a day-to-day basis by the Islamic Financial Institutions Supervision Directorate. GFH is also supervised by the Capital Markets Supervision Directorate on account of being listed on the Bahrain Stock Exchange.

Prudential Reporting Requirements

In pursuing its responsibilities as a pro-active regulatory authority, the Central Bank has issued the Prudential Information and Regulatory framework for Islamic banks (**"PIRI"**), with which GFH is in full compliance.

PIRI is a set of reports and information that the Islamic banks must submit to the Central Bank at predetermined intervals. The objective of the PIRI is to provide a regulatory framework and to use the information contained in the returns to monitor the operations of the Banks and to identify signs of deterioration in banks' performance. These are monitored through the assessment of banks' capital adequacy, asset quality, management of investment accounts, their quality of earnings and their liquidity management.

Regulatory Compliance

The Compliance Department monitors regulatory compliance and is also responsible for the Bank's anti-money laundering procedures via its Money Laundering Reporting Officer (**"MLRO"**). The key responsibilities of the Compliance Department are to:

- ensure that the Bank's operations achieve consistently high levels of compliance with all the laws and regulations imposed by the regulatory and statutory bodies;
- enhance staff awareness on compliance issues;
- provide an independent review and evaluation of the compliance issues and concerns within the Bank;

- to report to management/the appropriate authorities any cases of non-compliance; and
- ensure that internal policies and procedures of the Bank are being followed.

Anti Money Laundering

The Kingdom of Bahrain is part of the Financial Action Task Force (**"FATF"**) through the full membership of the Gulf Cooperation Council in the FATF, and is also a founding member of the regional MENA-FATF. As such GFH's regulator, the Central Bank, has extensive anti money laundering requirements (which are based on the FATF recommendations). GFH compliance with these requirements is monitored on an going basis both internally by the MLRO and externally by the Central Bank. The Central Bank also requires banks to have their External Auditors undertake an independent review of their anti money laundering procedures on an annual basis.

Information Technology

GFH has invested in state of the art IT systems and infrastructure which it feels are fully supportive of its growing activities and strategic plan. GFH currently uses the latest release of iMal as its core banking system. GFH has a primary disaster recovery site in an offsite location within Bahrain.

Tax

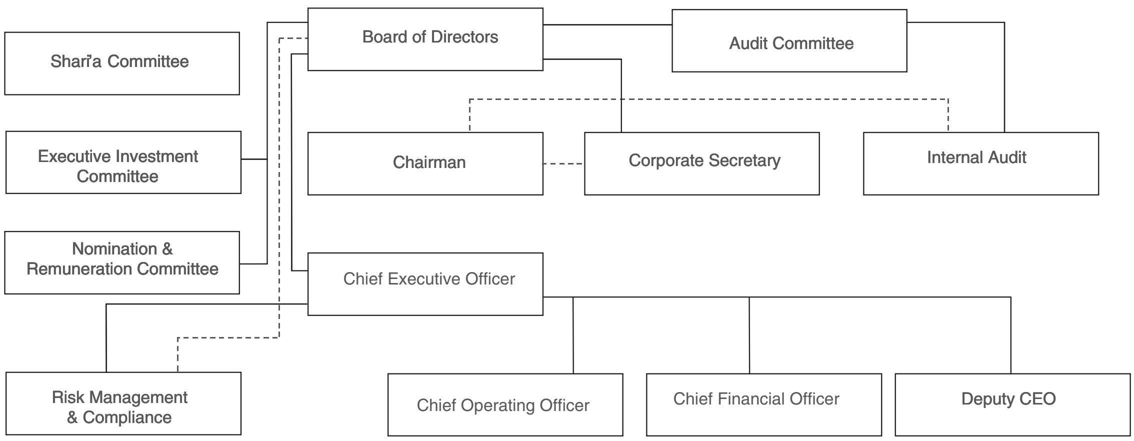
GFH is not subject to tax in Bahrain, whether corporate or otherwise.

GFH may be subject to tax in other jurisdictions where it operates.

Management and Employees

The Bank's organisational structure includes several functions independent from the Board of Directors including the Audit Committee, and the Shari'ah Supervisory Board.

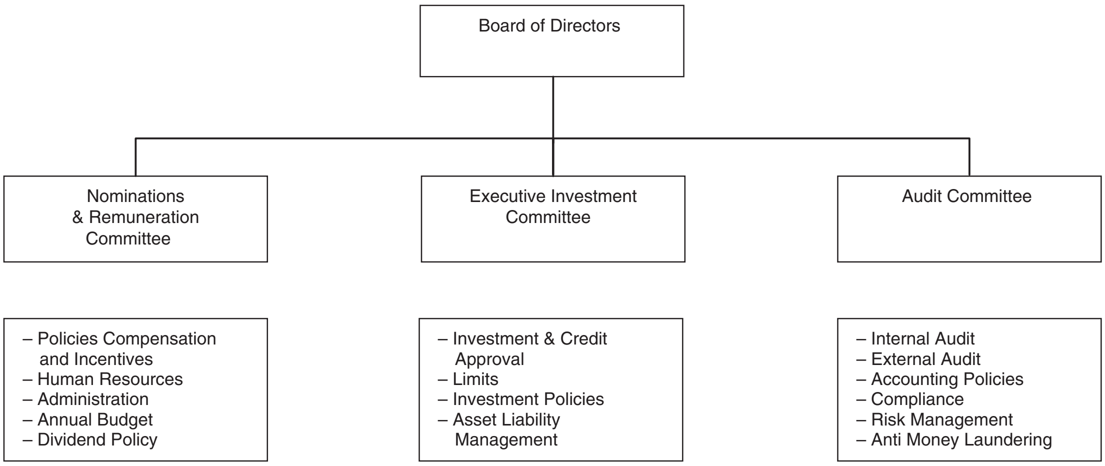
The organisational chart of GFH is as follows:



Corporate Governance Structure and Practice

GFH management believes that GFH fosters a strong corporate governance culture in line with leading international standards and practices. The Board of Directors and the Management of GFH are focused on maximizing long-term shareholder value with the right strategy for sustainable future growth.

The diagram below provides a simple overview of the Corporate Governance structure of the Bank:



GFH is subject to the corporate governance standards of the Central Bank. Recently, in an effort to bring the corporate governance of Bahraini banks more in line with corporate governance standards in many other countries, including the United Kingdom and the United States, the Central Bank has adopted a series of new corporate governance rules to foster a culture within Bahraini banks of proactive boards of directors that are accountable and responsible for the affairs and performance of their banks. Some of these new corporate governance rules became effective in October 2005, and GFH is implementing those rules in accordance with a schedule that has been approved by the Central Bank.

One of the rules currently in effect is a requirement that the entire board of directors rather than a sub-committee, be responsible for ensuring that the systems and controls framework of a bank is appropriate for the bank's business and associated risks. In assessing the systems and controls framework, each bank's board will be required to demonstrate that the bank's operations:

- are measured, monitored and controlled by appropriate, effective and prudent risk management systems commensurate with the scope of the bank's activities; and

- are supported by an appropriate control environment.

The Central Bank has adopted additional rules that became effective on 1 January 2007. GFH expects to implement these new corporate governance rules in accordance with a schedule that GFH submitted to the Central Bank for approval prior to the end of calendar year 2006. Included among these new Corporate Governance Rules are requirements that:

- boards of banks periodically assess their composition and size and, where appropriate, reconstitute themselves by selecting new directors to replace long-standing directors;

- no board member hold more than one directorship of bank licensees within the same license category;

- boards identify their members in the annual report as executive, non-executive and independent non-executive and outline in the annual report their criteria and materially thresholds for the definition of independence;

- independent non-executive directors be permitted to meet periodically without executive management present; and

- boards issue formal letters of appointment both to senior management and board members, outlining their specific responsibilities and accountabilities.

As part of GFH's implementation of the corporate governance rules of the Central Bank, its Board of Directors approved a new corporate governance charter in April 2007.

Board of Directors

The Board of Directors is responsible for overseeing the Bank's management and business affairs and makes all strategic decisions and major policy decisions. The Board of Directors acts in accordance with:

- GFH's Memorandum and Articles of Association;
- the Companies Law;
- the Central Bank Licensing Standards and Criteria;
- GFH's Internal Policies and Procedures; and
- other applicable laws.

The members of the Board of Directors are elected by shareholders at annual general meetings for a period of three years. The Board of Directors has the necessary power to manage GFH and act on its behalf.

The Board of Directors is currently comprised of twelve members: a Chairman, a Vice-Chairman, and ten other Directors.

The following table sets out the names of the members of GFH's Board of Directors as at 31 March 2007.

Name	Position
Dr. Fuad Abdulla Al-Omar	Chairman
Hamad A. Aziz Al-Shaya	Vice-Chairman
Abdul Rahman Ali Al-Saeed	Director
Adel Dawood Al-Ohali	Director
Abdul Latif Abdula Al-Meer	Director
Buti Khalifa Al-Flasi	Director
Mr. Esam Yousif Janahi	Director
Khalid Mohammed Najebi	Director
Samir Yaqoob Al-Nafisi	Director
Waleed A. Rahman Al-Rowaih	Director
Yousif A. Latif Al-Serkal	Director
Yousif Mohammed Khayat	Director

The Board of Directors can be contacted at Al Salam Tower, Diplomatic Area, P.O. Box 1006, Manama, Kingdom of Bahrain.

Brief biographical information on the members of GFH's Board of Directors is detailed below.

Dr. Fuad Abdulla Al-Omar, Chairman

Dr. Al-Omar is one of the main founders and Chairman of GFH, and Chairman of the Khaleeji Commercial Bank. He was previously a Vice President of the Islamic Development Bank in Jeddah as well as Chief Executive Officer of Islamic Corporation for the Development of the Private Sector. Dr. Al-Omar heads many organisations and committees including the Executive Committee of the Islamic Bank Portfolio, the Unit Investment Fund and the Consultative Committee of the Islamic Investment Insurance and Export Guarantee Corporation. Dr. Al-Omar has a Bachelor of Science Degree in Chemical Engineering from Worcester Polytechnic Institute, Massachusetts, USA, a Master's Degree in Business Administration from Boston College, USA and a Doctorate Degree in Administration and Economy from University of Leicester, England. He was named 'Islamic Banker of the Year 2001' in Bahrain and was honoured at Boston University with the 'Wall Street Award for Scientific Excellence.

Hamad A. Aziz Al-Shayea, Vice Chairman

Mr. Al-Shayea is the Deputy Chairman and Managing Director of M.H. Al-Shaya Co. W.L.L., a leading trade company in Kuwait. Mr. Al-Shayea holds a Bachelor's degree in Business Administration from the San Francisco State University, USA. He is also a board member of Kuwait Finance House, Bahrain.

Waleed Abdul Rahman Al-Rowaih

Mr. Al-Rowaih is the Chairman and Managing Director of Gulf Investment House Kuwait and represents them on GFH's Board of Directors. He is also the Deputy Chairman and Managing Director of Osoul Finance company, and Deputy Chairman of Khaleej Finance and Investment Company, Bahrain. He holds a Master's degree and a Bachelor of Science degree in Business Administration.

Abdul Rahman Ali Al-Saeed

Mr. Al-Saeed is Deputy Chairman and CEO of Kuwait Finance and Investment Company (and represents them on GFH's Board of Directors), Chairman of Kuwait Food Company and a member of the board of directors of Bayan Holding Company. Mr. Al-Saeed holds a Bachelor's Degree in Commerce and Finance from the Indian University.

Abdul Latif Abdulla Al-Meer

Professor Al-Meer is the Assistant General Manager of the Investment Department of Qatar Islamic Bank (and represents them on GFH's Board of Directors) and has several years of experience in banking, finance and accounting and holds a PhD in Business Administration from Nova University, Florida, USA and a Master's degree in Business Administration from Cornell University in New York. Professor Al-Meer is also a member of several international business organisations, including the International Sales and Marketing Organisation.

Adel Dawood Al-Ohali

Mr. Al-Ohali is the Managing Director and a partner of Al-Ohali Trading Group in Dammam, Kingdom of Saudi Arabia. Al-Ohali Trading Group is involved in a number of activities including finance, property and trade.

Buti Khalifa Al-Flasi

Previously the Chief Executive of Dubai Islamic Bank, Mr. Al-Flasi has extensive experience in the field of finance and management. He holds qualifications from the College of Economy, United Arab Emirates University. Mr. Al-Flasi has also worked for over 18 years with the UAE Central Bank.

Esam Yousif Janahi

Mr. Janahi is also one of the main founders and is currently Chief Executive Officer and a member of the Board of Directors of the Bank. He is the Chairman of Bahrain Financial Harbour and Bayan

Holding Company, Vice Chairman of Al Areen Holding and Director of Arab Finance House, Legends Development Company and Abu Dhabi Investment House. Mr. Janahi was named "Islamic Banker of the Year 2003" by the World Islamic Banking Conference and was nominated a "Young Global Leader" in 2004. Mr. Janahi is a member of the Shura Council of the Kingdom of Bahrain.

Previously, Mr. Janahi's career encompassed positions with First Islamic Investment Bank, Islamic Investment Company of the Gulf, TAIB Bank, TAIB Securities and Merrill Lynch International. Mr. Janahi holds a Bachelor's Degree with Honours in Industrial Management, from the University of Petroleum and Minerals, Saudi Arabia, and a Master's Degree in Business Administration from the University of Hull, UK.

Khalid Mohammed Najibi

Mr. Najibi is a founding member and Executive Director of M/s Najibi Investment Company, Director and Chairman of the Executive Committee of Bahrain Islamic Bank B.S.C., (and represents them on GFH's Board of Directors) and Director and Chairman of the Executive Committee in M/s Crown Industries Company W.L.L. He is also a board member in Capital Management House B.S.C. Mr. Najibi holds a CPA qualification from the State of California, USA, and a Bachelor's degree in Financial Management from Schiller International University, London, UK.

Samir Yaqoob Al-Nafisi

Mr. Al-Nafisi is the General Manager of the Al-Nafisi Trading Company, Kuwait. Mr. Al-Nafisi holds a Bachelor's degree in Science from Kuwait University. He has a long history in the banking sector, having worked with the Commercial Bank of Kuwait for a number of years. Mr. Al-Nafisi is currently serving as a board member of four major companies in Kuwait and Bahrain, and is also the Deputy Chairman of Kuwait Finance House as well as the Chairman of I.T.S., Kuwait and Al Khaleej Development Company, Bahrain and a board member of Bahrain Islamic Bank B.S.C.

Yousuf A. Latif Al-Serkal

Mr. Al-Serkal was previously the Executive Director of the Islamic Development Bank in Jeddah for over 20 years and a board member of Arab Economic Development Management Bank in Africa for more than 18 years. In addition to being a board member in Dubai Islamic Bank, one of GFH's shareholders, as well as a board member in several other prominent companies, Mr. Al-Serkal has been an Ambassador at the United Arab Emirates Ministry of Foreign Affairs in Abu Dhabi. He holds a Bachelor's degree in Administration and Economy from the College of Commerce and Economy, Baghdad.

Yousif Mohammed Khayat

Mr. Al Khayat is currently the Managing Director of Direct Investment Group of the Saudi Economic & Developments Co. Ltd. (and represents them on GFH's Board of Directors) and has extensive experience in the banking sector. He is affiliated with many groups, including the Mecca Region Governorate and Alfanar Investment Holdings in the Netherlands. Mr. Al Khayat holds a Bachelor's degree and Master's degree in Economics from the University of California, Santa Barbara, USA.

Committees of the Board of Directors

The Bank has three Committees that report directly to the Board of Directors. Each Committee acts under a charter setting out its specific composition and responsibilities. The following is a brief description of the three committees:

*Nomination and Remuneration Committee (**"NRC"**)*

The NRC was established in accordance with Article 42 of the memorandum and Articles of Association of GFH. The NRC is appointed by the Board of Directors and is established to assist the

Board of Directors in formulating and reviewing GFH's policies and rules, including the administrative policy. The NRC is responsible for handling the nomination and remuneration process, including the nomination, remuneration and compensation of the Bank's Board of Directors and Executive Management. The NRC regularly reviews the Bank's succession plan, which sets policies for compensation and incentives, human resources and administration. It is also responsible for approving the annual budget, dividend policy and GFH's capital expenditure.

A majority of the members of the NRC must be "independent non-executive directors". The NRC must have at least three members, excluding the Chairman. The members are selected by the Board of Directors. The term of appointment of the NRC members is three years. The NRC is currently comprised of Dr Fuad Abdulla Al Omar, Mr Buti Khalifa Al-Flasi, Mr Adel Dawood Al-Ohali and Mr Yousif Mohammed Khayat.

The NRC's main responsibilities are:

- to recommend the nomination of directors and members of the Executive Management including the nomination for the CEO and senior management;
- to recommend compensation and remuneration for directors, CEO and senior management;
- to prepare for the Board of Directors' evaluation process and follow up on the Board of Directors' resolutions and recommendations;
- to review, update and monitor the implementation of the Bank's succession plan;
- to determine the disclosure policy in respect of the Board of Directors and Executive Management remuneration in order to define the extent and nature of information to be made public regarding GFH's remuneration policy and the approach to setting remunerations and the level of remuneration paid to individuals, including details of basic salary and benefits;
- to review administrative decisions and refer decisions beyond its own authority to the Board of Directors;
- to review and approve performance-based remuneration by reference to corporate goals and objectives (through key performance indicators) set by the Board of Directors from time to time; and
- to report to the Board of Directors on a regular basis (every six months) on all matters within its duties and responsibilities.

In addition to the responsibilities specified above, the NRC reviews and sets recommendations for corporate governance, corporate and administrative policies, organization structure, nomination policies, compensation programs, the share incentive scheme, capital expenditure, the ethics policy, Shari'ah Supervisory Board remuneration, the succession plan and any other administrative management related matters in accordance with the policies established by the Board of Directors.

The NRC meets at least four times a year and will meet additionally as and when required. The dates of the NRC meetings is set at the beginning of each year. To the extent possible, meetings of the NRC Committee will be schedules to coincide with meetings of the Board of Directors.

Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its monitoring and audit responsibilities. The Audit Committee achieves this by reviewing the financial reporting process, reviewing the adequacy of the Bank's internal controls and its risk management systems and the process for monitoring compliance with policies, procedures, laws, regulations, and reviewing the

Bank's own code of business conduct. In addition, the Audit Committee monitors the effectiveness of the internal audit function and reviews the operational effectiveness of the policies and procedures of the Bank for identifying risks and the related controls.

The Audit Committee is appointed by the Board of Directors. Members of the Audit Committee are appointed on a three year term. The Board of Directors appoints one of the members as a Chairperson, and members serve in the Audit Committee for a maximum of two terms. The Audit Committee is composed of at least three, but not more than six, non-executive member of the Board of Directors.

At least one member of the Audit Committee must have a background in financial reporting, accounting or auditing. The Audit Committee is currently comprised of the following members: Mr Hamad A Aziz Al-Shayea, Mr Khalid Mohammed Najibi, Mr Yousif A Latif Al-Serkal and Mr Abdul Latif Abdulla Al-Meer.

The Audit Committee meets at least four times per financial year, usually one day prior to the Board of Directors meeting. Special meetings will be called, as circumstances require. The agenda of each meeting shall be approved by the chairman of the Audit Committee.

The Board of Directors as well as the committees receives regular reports on various aspects of the Bank's business from senior management as well as from internal audit, risk management, operations and finance.

*The Executive Investment Committee (**"EIC"**)*

The EIC was established in accordance with Article 42 of the Bank's memorandum and Articles of Association. The EIC is a sub-committee of the Board of Directors and is appointed to assist the Board of Directors in formulating GFH's investment policy and make investment transaction decisions. The EIC reports its activities to the Board of Directors on a regular basis (monthly, quarterly, half yearly and yearly). The EIC is headed by the Chairman of the Board of Directors. In the Chairman's absence, the Deputy Chairman will be chairing that particular meeting.

The size and members of the EIC is determined by the Board of Directors and consists of the Chairman, the Deputy Chairman, the CEO and other directors. Majority membership of the EIC must consist of the Bank's directors. Non-director members are recommended by the Chairman and the CEO, and shall be approved by the Board of Directors, based upon their skills, contacts, experience and ability to add value to the Bank's investment policy making. The EIC is currently comprised of Dr Fuad Abdulla Al Omar, Mr Hamad A Aziz Al-Shayea, Mr Samir Yaqoob Al-Nafisi, Mr Abdul Rahman Ali Al-Saeed, Mr Adbul Latif Abdulla Al-Meer, Mr Adel Dawood Al-Ohali, Mr Esam Yousif Janahi, Mr Waleed Abdul Rahman Al-Rowaihi and Mr Yousif Mohammed Khayat.

The EIC's main responsibilities are:

- the establishment of operating guidelines and the review and endorsement of the CEO's recommendations for investment strategies, products and services;
- investment transaction decisions within the authority delegated to it by the Board of Directors in addition to reviewing and monitoring investment, financing and trading decisions taken by the CEO and reverting investment decisions in excess of its own authority with its recommendations to the Board of Directors;
- the evaluation of investment, financing and trading performance and the recommendation of enhancements; and
- the approval of banking relationships and placement arrangements as recommended by the CEO and through the Chairman.

The EIC will meet at least four times a year. The specific schedule will depend upon the need to review investment proposals developed over the course of the year. To the extent possible, meetings of the NRC Committee will be schedules to coincide with meetings of the Board of Directors.

*Shari'ah Supervisory Board **("SSB")***

GFH has appointed its SSB in compliance with the Central Bank's licensing requirements, GFH's Articles and Memorandum of Association and the general practice of Islamic Banking. The SSB comprises scholars of high repute with extensive experience in Shari'ah compliance. The SSB members are appointed by GFH's shareholders and report direct to the Board of Directors.

The SSB participates in developing and overseeing the Bank's products and business activities and is responsible for certifying every product to ensure adherence to the principles of Shari'ah.

The SSB currently comprises four members: a Chairman and three additional Members.

Sh. Abdullah Bin Sulaiman Al-Manie (Saudi Arabia), Chairman

Sh. Abdullah Bin Sulaiman Al-Manie is a retired judge from the Supreme Court of Makkah Al Mukarrammah in Saudi Arabia. He is a member of the Grand Scholars Panel, Kingdom of Saudi Arabia, and is an expert of the Islamic Fiqh Academy. He also chairs Shari'ah Supervisory Boards of a number of Islamic banks.

Sh. Nizam Mohammed Saleh Yaqoobi (Bahrain), Executive Member

Sh. Nizam Mohammed Saleh Yaqoobi is a Board member of the Shari'ah Supervisory Board of the Bahrain Islamic Bank. He is also a Board and Executive member of the Shari'ah Supervisory Board, Abu Dhabi Islamic Bank. He is a Board member of the Dow Jones Islamic Index and is a Shari'ah Board Member of a number of Islamic banks.

Dr. Fareed Mohammed Hadi, General Secretary and Executive Member

Dr. Fareed Mohammed Hadi is an Assistant Professor of Arts Department of Arabic & Islamic Studies, in the University of Bahrain. He has a PhD in Ibn Hazm's Methodology of Jahala from the University of Edinburgh, United Kingdom. He also has a PhD in Al-Bukhari's Methodology from the University of Mohammed, Morocco. He is a Board Member of Shari'ah Supervisory Board of a number of the Bank's projects and Islamic banks.

Dr. AbdulAziz Khalifa Al-Qassar, Member

Dr. AbdulAziz Khalifa Al-Qassar is an Assistant professor of Fiqh and Shari'ah Department of Shari'ah and Islamic Studies, University of Kuwait. He has a PhD in law and Shari'ah from Al-Azhar University, Cairo, Egypt. He is a member of Fatwa and Shari'ah Board of a number of companies in Kuwait.

Key Senior Executives

GFH's current senior management team is comprised of individuals with backgrounds in corporate, retail, commercial and investment banking (both Islamic and conventional). On average, the Bank's key senior executives have a number of years of experience in the conventional and/or Islamic financial services industry.

The following table sets out the names of the key executives of GFH.

Name	**Position**
Mr. Esam Y. Janahi	Chief Executive Officer
Mr. Peter Panayiotou	Deputy Chief Executive Officer and Chief Investment Officer
Mr. Salah Rahimi	Chief Financial Officer
Mr. Edwin Ball	Chief Operating Officer
Mr. Tariq Kanoo	Head of Wealth Management & Placement

Brief biographical information on the key senior executives is detailed below.

Mr. Esam Y. Janahi

Mr. Janahi is the Chief Executive Officer of Gulf Finance House. He holds numerous directorships including Chairman of Bahrain Financial Harbour, Gulf Energy and Energy City Qatar; Chairman and Board Member of Bayan Holding Company, Jordan Gate and Royal Village Investment Companies; Vice Chairman of Al Areen Holding; and is a Board Member of Arab Finance House, Gulf Holding Company and Legends Development Company. He is also a member of the Shura Council of the Kingdom of Bahrain. Prior to founding GFH, Mr. Janahi held senior positions at First Islamic Investment Bank (now Arcapita), Islamic Investment Company of the Gulf, TAIB Bank and TAIB Securities, and Merrill Lynch International. He holds a BSc (Honours) in Industrial Management from the University of Petroleum and Minerals, Saudi Arabia, and an MOA from Hull University, UK. His numerous international awards include 'Islamic Banker of the Year' and 'Young Global Leader'.

Mr. Peter Panayiotou

Mr. Panayiotou is Deputy Chief Executive Officer and Chief Investment Officer of Gulf Finance House. He holds numerous directorships, including Chairman of Injazat Capital Bank; Vice Chairman of Bahrain Aluminium Extrusion Company; Director of Bahrain Financial Harbour; Chairman of Jordan Gate; and Chairman of Royal Village Company. Whilst working with Price Waterhouse Coopers (PAC) London, Mr. Panayiotou accumulated a wealth of financial services transaction experience both in the UK and Europe. Mr. Panayiotou also led the PAC practice in Oman, following a spell as a senior manager in the firm's Bahrain office. A Fellow of the Institute of Chartered Accountants in England and Wales, he also holds a degree in Jurisprudence from the University of Oxford.

Mr. Salah Rahimi

Mr. Salah Rahimi is Chief Financial Officer in Gulf Finance House. In his capacity as Chief Financial Officer, he is responsible for ensuring strategic financial operations related to accounting, finance, central bank reporting and maintaining exemplary financial regulatory standards in the Bank's financial processes and methodology. Mr. Rahimi holds Bachelor's degree in Business Administration from University of Southern California, he also passed professional exams CPA and CIA. Prior to joining Gulf Finance House he held several positions in the Area of Internal Audit in Deloitte & Touche, Al Juraid & Company and United Gulf Bank.

Mr. Edwin Ball

Mr. Ball is the Chief Operating Officer of Gulf Finance House. Mr. Ball has extensive experience and in-depth knowledge of the banking industry and has held various senior positions, including Managing Director, EMMA and Asia, FIG at Royal Bank of Canada, Divisional COO and CO in Capital Markets as well as Group Head of MIS at Deutsche Bank Group and Consultant at both BAN AMMO and Deloitte and Touche. He is responsible for monitoring and supervising the COO (Operations, Administration, IT and HR), Legal and Shari'ah, Institutional Relationship Management as well as Group Strategy, Business Performance and other Corporate Functions. The COO office is responsible for the development and delivery of the Bank's business strategy on behalf of the CEO, Deputy CEO and Executive Management. He holds an MBA in International Finance and Management from the European University at Antwerp, Belgium and a Bachelor's degree from the University of Toronto, Canada.

Mr. Tariq Kanoo

Mr. Kanoo is the Head of Wealth Management & Placement at Gulf Finance House. He brings over 15 years of wealth management experience from some of the world's premier investment banks and financial institutions, most recently from Goldman Sachs International Ltd, London. At Goldman

Sachs, Mr. Kanoo was managing over half a billion US dollars in client assets, mainly dealing with Islamic Shari'ah Compliant Products. Mr. Kanoo's responsibility is to enhance GFH's profitability by marketing its products and services to the corporate, high net worth individuals and other markets, ensuring efficient and successful operation of the investment placement team as well as ensuring that the department achieves the objectives and targets of GFH.

Conflict of Interest

As at the date of this Base Prospectus, none of the Directors, the Chief Executive Officer nor any member of senior management named above have or has any actual or potential conflict of interest between his duties to GFH and his private interests or other duties.

Employees

As of 31 December 2004, GFH had 72 employees, as of 31 December 2005, GFH had 108 employees and as of 31 December 2006, GFH had 176 employees. Of which, there were 3, 15 and 38 employees at GFH's subsidiary, KHCB, as at 31 December 2004, 2005 and 2006 respectively.

Selected Financial Information

"Net profit" attributable to GFH's shareholders increased from $56.7 million in 2004 to $140.3 million in 2005 and to $211.6 million in 2006, primarily due to an increase in fee income. GFH's total revenues increased from $96.6 million in 2004 to $222.9 million in 2005 and to $345.7 million in 2006, driven by a strong increase in income from investment advisory services. Income from investment advisory services accounted for 93% of GFH's gross fee income for the year 2006. Income from investment advisory services consists primarily of the upfront advisory and structuring fees that GFH charges to the SPVs holding client assets in each of GFH's investment portfolios.

GFH's total expenses increased from $39.92 million in 2004 to $82.5 million in 2005 and to $134.1 million in 2006, driven primarily by an increase in staff costs and *murabaha* expenses. Of the total staff compensation, performance-based compensation amounted to $5.4 million, $26.9 million and $51.6 million for the years 2004, 2005 and 2006, respectively. This higher performance based compensation was directly linked to GFH's financial performance and profit over the three-year period.

Balance sheet footings increased from $422.7 million in 2004 to $1,099.8 million in 2005 and to $1,500.8 million in 2006. The funds lying with GFH at the year end for deployment in SPVs were made up of "Investor's Funds" and funds "Due to Non Financial Institutions". These funds were primarily invested in short term inter-bank murabaha placements resulting in a corresponding increase in GFH's "Due from Financial and Non Financial Institution balances" from $264.3 million in 2004 to $685.8 million in 2005 and $687.8 million in 2006. GFH's investment securities increased from $114.8 million in 2004 to $189.2 million in 2005 to $357.1 million in 2006, primarily due to the increase in numbers and size of the funds launched during these years and consequently GFH's co-investments in them. GFH generally co-invests in its projects through an equity holding in each SPV ranging from 5% to 15% of the SPV's share capital.

"Other assets" increased from $26.0 million in 2004 to $97.2 million in 2005 and to $232.5 million in 2006, primarily due to an increase in fee receivables. GFH's fee receivables are earned from the SPVs which are based on the SPVs securing firm funding commitments from various underwriters / investors.

"Total equity" increased from $250.9 million to $352.4 million in 2005 and to $667.7 million in 2006 primarily due to retained profits, consequent to increase in net profits as stated above, and due to a capital increase of $19.6 million following a GFH rights issue in 2006.

Since GFH administers the SPVs on behalf of investors, through revocable proxies, there is representation of GFH on the Board of these SPVs. Accordingly, as per IFRS requirements, these SPVs are considered as a "related party", resulting in any transaction with them disclosed as a "related party" transaction. As GFH receives majority of its income from the SPV for structuring the transaction, these transactions are reflected as "related party" transactions.

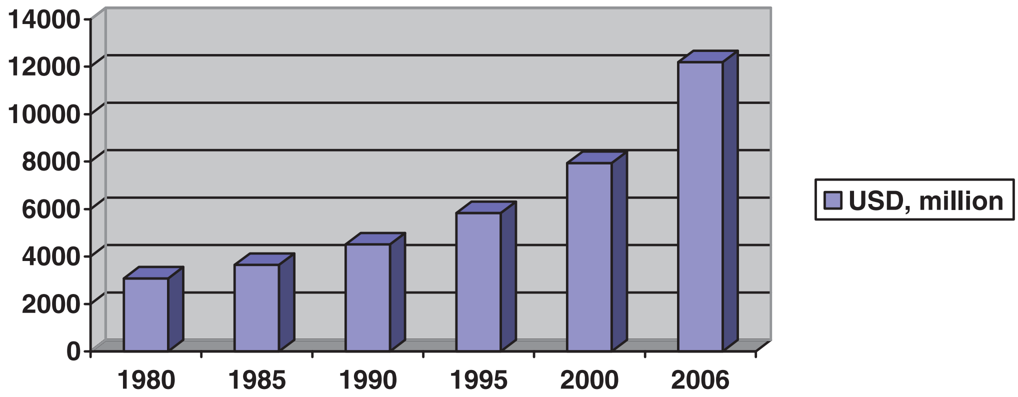
OVERVIEW OF THE KINGDOM OF BAHRAIN

The Bahrain Economy

The Kingdom of Bahrain (**"Bahrain"**) is an island nation located in the Arabian Gulf. Bahrain is neighbored to the west by Saudi Arabia and to the south by Qatar. In November 1986 Bahrain and Saudi Arabia were linked upon completion of the King Fahad Causeway. In June 2006 an agreement was signed between Bahrain and Qatar which will result in the construction of the Qatar-Bahrain Friendship Bridge which is to scheduled to be completed in 2010.

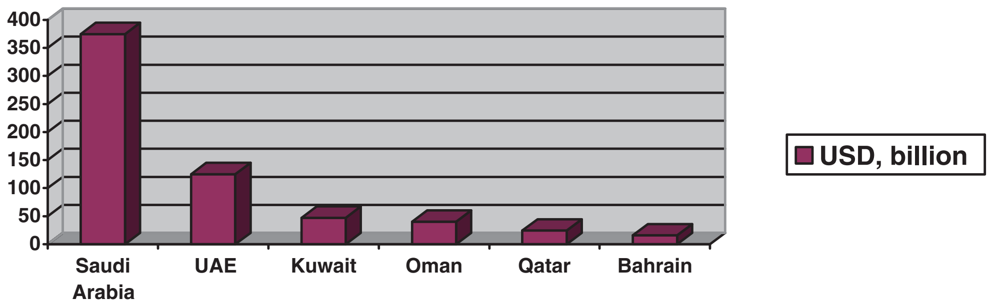
Bahrain is one of the fastest growing economies in the Middle East. It is estimated that in 2007 petroleum production and refining account for approximately 60 per cent. of export receipts, 70 per cent. of government revenues, and 11 per cent. of Bahrain's gross domestic product ("**GDP**"). High oil prices have resulted in a steady history of growth in Bahrain's GDP. The following table shows the growth of the GDP of Bahrain since 1980:

Gross Domestic Product of Bahrain (At Market Prices)



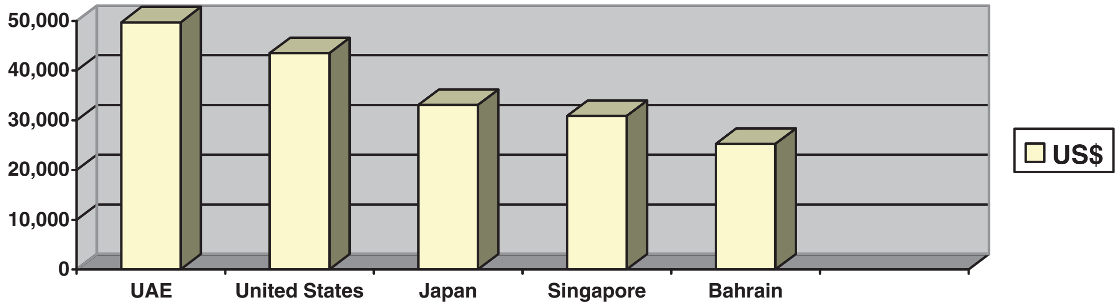
Source: International Monetary Fund, 2007

After years of strong economic growth, the Bahrain economy (measured in gross domestic product at purchasing power parity terms) grew to around US$17.7 billion in 2006. This growth in GDP is coupled with a growth in GDP in neighboring countries over the same period.



Source: Central Intelligence Agency (CIA) Factbook, 2007

Bahrain's GDP for 2006 was equivalent to US$25,300 per capita, which is higher than the global average and comparable to developed countries.



Source: Central Intelligence Agency (CIA) Factbook 2007

The following tables show economic performance indicators for Bahrain between 2003 and 2006.

	2003	**2004**	**2005**	**2006**
Total Population	710,000	720,000	734,000	749,000
Growth in Population (0%)	n.a.	1.4	1.9	2.0
Consumer Price Inflation (0%)	1.7	2.3	2.6	2.6
GDP at Market Prices (BD million)	3.65	4.14	5.08	6.03
GDP Per Capita at Market Prices (BD)	5,136	5,751	6,921	8,046
Real GDP Growth (0%)	7.2	5.4	6.9	7.1
Current Account Balance (US$ million)	219	442	1,581	3,299
Exchange Rate BD:US$	0.376	0.376	0.376	0.376

Source: International Monetary Fund, World Economic Outlook Database, 2006

Bahrain is actively pursuing the diversification and privatization of its economy to reduce the country's dependence on oil. As part of this effort, in August 2006 Bahrain and the US implemented a Free Trade Agreement (**"FTA"**), the first FTA between the US and a Gulf state. The nation has successfully transformed itself into one of the main financial hubs of the Gulf and a centre for Islamic finance.

Bahrain's position as a financial hub of the Middle East is being reinforced by the construction of the US$1.3 billion Bahrain Financial Harbour. This development will bring together under one roof all related activities of Bahrain's financial services sector, (including the Bahrain Stock Exchange which will relocate there) and will mark the creation of the new Bahrain International Insurance Centre. The entire development will be constructed in phases with final completion scheduled for mid-2009.

According to the 2006 Index of Economic Freedom by the Heritage Foundation/Wall Street Journal, Bahrain is ranked as the freest economy in the Middle East, and is the 25th overall in the world. Drawn by its relatively cosmopolitan outlook, favourable regulator structure, and excellent communications and transportation infrastructure, many multinational firms doing business in the Arabian Gulf are based in Bahrain. As a result of its open economy, more than one-third of its population are non-nationals (June 2007 estimates). Most importantly, as a result of the liberalised operating business environment, foreign direct investment into Bahrain has increased at a strong pace in recent years. According to the Untied Nations World Investment Report, Bahrain was ranked the top performer in the Middle East in terms of the achieved foreign direct investment relative to available resources.

Urban & Infrastructure Development

Land Master Plan

The Economic Development Board (**"EDB"**) of Bahrain along with the Steering Committee of the National Planning Development Strategy Project is working on creating a physical master plan for Bahrain, including its surrounding territorial waters. The project aims to develop a framework guide for the growth of Bahrain in many aspects for the next 25 years.

As the physical manifestation of EDB's Reform Project, the Land Master Plan aims at achieving an economic diversification strategy that include reinforcing Bahrain's position as a major financial hub of the Middle East. Adding to that, the Land Master Plan also seeks to maintain Bahrain's economic edge while ensuring a high quality of life for citizens and residents that will enable growth in tourism, healthcare and educational services. It aims at providing all Bahrainis with comfortable neighborhoods, well-defined towns, effective conservation policies for historic cities and villages, inspirational architecture, and to reinforce Manama (the capital of Bahrain) as a distinctive international city.

Infrastructure Development

Bahrain's telecommunications infrastructure is the most mature and advanced in the GCC. It is the first Gulf state to have a fully liberalised telecoms market, supervised by the Telecommunications Regulatory Authority. Bahrain also offers well-developed transportation networks by land, sea and air. This includes a modern road network, an international airport and seaports, Bahrain is well serviced by major airlines, cargo carriers and shipping lines.

In an effort to stay competitive, a great emphasis is being placed on the continual upgrade of Bahrain's infrastructure. Some projects in the pipeline include the expansion of the Bahrain International Airport and the port area, as well as the construction of the Friendship Bridge linking Bahrain and Qatar.

Incentive Schemes to Attract Foreign Investments

In January 2006, Bahrain introduced new regulations governing the start-up of businesses in Bahrain. The new rules did away with many of the pre-approvals previously required, making it easier, faster and cheaper to set up business. A "one-step" centrally located facility has been established to meet the needs of investors and to ensure smooth applications and easy incorporation.

Furthermore, Bahrain offers a tax friendly environment to its investors. Personal or corporate income is not taxable and there is no withholding on VAT. Business costs in the nation are kept low due to low costs for energy, utilities and rents.

Legal and Regulatory Environment

The Bahrain financial market falls under the governance of the Central Bank of Bahrain (formerly the Bahrain Monetary Agency) (**"CBB"**). Bahrain has one of the highest standards of financial regulation, a diverse range of innovative products, non-discriminatory treatment and an efficient system for managing secured institutions. The CBB made a landmark decision in 1975 to allow offshore banking units (**"OBUs"**) to commence operations, which led to Bahrain's rise as a pre-eminent financial centre. Bahrain currently houses the one of the largest concentration of Islamic financial institutions in the Middle East, which now comprises over 30 institutions. A number of specialised agencies and back office service providers have been established in Bahrain to ensure that the correct international standards are in place, and to further develop the financial services industry.

Regulation on Real Estate Development

Real estate development in Bahrain is subject to numerous regulations. Planning, building and environmental regulations all impact upon the shape and nature of a development. Planning approval for any development must first be obtained from the relevant government authority before development can begin. Usually the master planners or architects will assist in the application process. The same is true of building licences, which the developer usually obtains prior to commencing construction. The building licence, once granted will list the planning restrictions applying to the development, such as zoning and height restrictions. External environmental consultants are engaged to provide an environmental impact assessment, and additionally at times an environmental statement, based upon which the relevant government authority will decide which, if any, environment conditions it will impose upon the development.

The Survey and Land Registration Directorate of Bahrain (**"SLRDB"**) handles all applications for separation of title, land registration and strata titling. Once the buildings are constructed and the certificate or practical completion issued, a cadastral survey of the building is undertaken and the results lodged with the SLRDB who will then issue individual titles in respect of each individual property.

Political Considerations relating to Bahrain

Since 1999 the government of Bahrain has embarked upon a programme of political reform. These reforms resulted in the adoption of a new Constitution in February 2002, which envisages a bicameral parliament made up of an elected chamber and an appointed chamber. Elections in relation to the elected chamber, Bahrain's first for 30 years, were held in October and November of 2002. In 2006, parliamentary and municipal elections were once again held. Al Wifaq, the largest Shi'a political society in Bahrain, won the largest number of seats in the elected chamber of the legislature. However, Shi'a discontent has resurfaced in recent years with street demonstrations and occasional low-level violence.

BANKING SECTOR AND REGULATIONS IN THE KINGDOM OF BAHRAIN

The financial sector in Bahrain

Bahrain's financial sector is well-developed and diversified, consisting of a wide range of conventional and Islamic financial institutions and markets, including retail and wholesale banks, specialized banks, insurance companies, finance companies, investment advisors, money changers, insurance brokers, securities brokers and mutual funds. There is also a stock exchange, listing and trading both conventional and Islamic financial instruments. The sector is therefore well-positioned to offer a wide range of financial products and services, making it the leading financial centre in the GCC region.

The financial sector is the largest single employer in Bahrain, with Bahrainis representing over 80 per cent. of the work-force in 2006. Overall, the sector contributed: 27 per cent. of Bahrain's GDP in 2006, making it one of the key drivers of growth in the country. The sector is regulated and supervised by the CBB, which since 2002 has functioned as the single regulator for the entire financial system.

Bahrain's banking system is the largest component of the financial system, accounting for over 85 per cent. of total financial assets in 2006. The conventional segment includes 19 retail banks, 69 wholesale banks, 2 specialized banks as well as 36 representative offices of overseas banks. The Islamic segment, offering a host of Shari'ah compliant products and services includes 6 retail banks and 18 wholesale banks.

The banking sector has played a pivotal role in the emergence of Bahrain as a leading financial center in the region. As at 31 December 2006, banking sector assets stood at over US$180 billion, more than twelve times GDP for the year.

Industry growth has been supported by an open market economy; stable and prudent macro-economic and fiscal policies; a credible regulatory framework in line with international standards; and a notably strong and well-qualified local workforce. All these factors have combined to cement Bahrain's position as a regional banking hub, successfully attracting numerous foreign banking organizations to establish a physical presence in the country.

Recent growth in the sector has been backed by the good fortunes of the oil industry and the corresponding increases in liquidity. Bahraini banks are thus playing a central role in reinvesting surplus oil earnings as well as serving financing opportunities in other segments of the economy.

Bahrain as a centre for Islamic finance

In recent years, Bahrain has rapidly become a global leader in Islamic finance, playing host to the largest concentration of Islamic financial institutions in the Middle East. Presently, there are 24 Islamic banks and 11 Islamic insurance companies (takaful) operating in the Kingdom. In addition, Bahrain is at the forefront in the market for Islamic securities (sukuks), including short-term government sukuks as well as leasing securities. The CBB has played a leading role in the introduction of these innovative products.

The growth of Islamic banking in particular has been remarkable, with total assets in this segment jumping from approximately US$2billion in 2000 to approximately US$10billion by 2006, an increase of over 400 per cent. The market share of Islamic banks correspondingly increased from 1.8 per cent. of total banking assets in 2000 to 6.2 per cent. in 2006. Islamic banks provide a variety of products, including murabaha, ijara, mudaraba, musharaka, al salam and istitsna'a, restricted and unrestricted investment accounts, syndications and other structures used in conventional finance, which have been appropriately modified to comply with Shari'ah principles.

The CBB has installed a comprehensive prudential and reporting framework, tailor-made for the specific concepts and needs of Islamic banking and insurance. The rulebook for Islamic banks covers areas such as licensing requirements, capital adequacy, risk management, business conduct, financial crime and disclosure/reporting requirements. Similarly, the insurance rulebook addresses the specific features of takaful and re-takaful firms. Both rulebooks were the first comprehensive regulatory frameworks that dealt with the Islamic finance industry.

In addition to the numerous Islamic financial institutions active in its financial sector, Bahrain also plays host to a number of organizations central to the development of Islamic finance, including the Accounting and Auditing Organisation for Islamic Financial Institutions, the Liquidity Management Centre and the International Islamic Financial Market.

Regulation

The information presented in this section, which is included for the information of the investors, has been extracted from publicly available documents that have not been prepared or independently verified by us.

Overview of the CBB

The CBB is responsible for maintaining monetary and financial stability in the Kingdom of Bahrain. Pursuant the Central Bank of Bahrain and Financial Institutions Law 2006 (the **"CBB Law"**), the Central Bank of Bahrain succeeded the Bahrain Monetary Agency on 7 September 2006. The Bahrain Monetary Agency had previously carried out central banking and regulatory functions since its establishment in 1973.

The CBB Law represents a significant modernization and simplification of Bahrain's financial services legislation, as well as marks the final stage in the creation of a single regulator for Bahrain's financial services industry.

The CBB Law provides enhanced enforcement powers to the Central Bank of Bahrain as well as reinforces its operational independence. Other provisions include an expanded range of powers with respect to the regulation of the capital markets and the offering of securities, including the creation of the statutory offences of insider trading and market abuse.

The CBB implements Bahrain's monetary and foreign exchange rate policies, manages the government's reserves and debt issuance, issues the national currency and oversees the country's payments and settlement systems. It is also the sole regulator of Bahrain's financial sector, covering the full range of banking, insurance, investment business and capital markets activities.

As an Islamic bank, GFH are supervised on a day-to-day basis by the Islamic Financial Institutions Supervision Directorate of the CBB. We are also supervised by the Capital Markets Supervision Directorate on account of being listed on the BSE.

Basel II

The Central Bank of Bahrain has announced an intention to adopt all three pillars proposed by the Basel II Accord. It recently issued for consultation draft rulebook text in relation to Pillar 1 (maintenance of regulatory capital). Draft rulebook text in relation to Pillars 2 (supervisory review) and 3 (market discipline) is expected to be issued for consultation later in the year.

Minimum Capitalisation, Liquidity and Concentration Levels

Currently banks in Bahrain, including GFH, are subject to a minimum regulatory capital requirement of 12 per cent. of risk weighted assets (unless the Central Bank of Bahrain has agreed otherwise).

In addition, the Central Bank of Bahrain has established liquidity limits and maximum concentration levels for banks operating in Bahrain. With reference to liquidity limits, the CBB has established the following limits for negative maturity mismatch positions. Positions within such periods are required to be reported on a monthly basis.

Period	**Self Financed Accounts**	**Unrestricted Investment**	**Restricted Investment Accounts Only**	**Self Financed, Restricted/ Unrestricted Investment Accounts**
			Limit	
0-8 days	10%	10%	10%	15%
8 days – 1 month	20%	20%	20%	25%

The maximum concentration levels for banks in Bahrain have been prescribed by the CBB as follows:

(a) Direct exposures (i.e. funded by a bank's own funds or unrestricted investment accounts): A bank may not incur an exposure to an individual counterparty or group of closely related counterparties that exceeds 15 per cent. of the reporting bank's consolidated capital base without the prior written approval of the CBB;

(b) Restricted investment accounts: A bank may not incur an exposure to an individual counterparty or group of closely related counterparties, where the exposure is funded by restricted investment accounts that exceeds 30 per cent. of the reporting bank's consolidated capital base; and

(c) Combined exposure: A combined exposure of (a) and (b) above (funded by unrestricted investment accounts, a bank's own funds or restricted investment accounts) to an individual counterparty or group of closely related parties may not exceed 35 per cent. of the reporting bank's consolidated capital base.

GENERAL DESCRIPTION OF THE SUKUK ASSETS

The Sukuk Assets which are the subject of the Trust constituted for each Series of Sukuk Certificates may comprise beneficial interests in a pool of Shari'ah compliant income generating assets, interests or contracts, which may include, *inter alia*, Ijara Contracts (and the relevant underlying assets), real estate, Murabaha Contracts, Istisna Contracts or shares or any other underlying Shari'ah compliant assets, interests or contracts (the **"Sukuk Asset Trust Property"**) originated or owned, as the case may be, by GFH as further described in the relevant Final Terms. The Ijara Contracts comprise contracts where GFH as lessor has leased property to a lessee in respect of which regular payments are due from the lessee. The Murabaha Contracts may comprise of sale contracts whereby GFH has sold assets to an obligor for a purchase price which is determined on a cost plus a predetermined profit basis and such purchase price is on deferred payment terms. The shares may comprise of investments made by GFH in Shari'ah compliant companies.

The Shari'ah compliance of such Sukuk Assets has been determined by the GFH Shari'ah board. The composition of the pool of the Sukuk Assets will be approved by the GFH Shari'ah board for each Series.

The Sukuk Asset Trust Property corresponding to the Sukuk Assets in respect of each Series of Sukuk Certificates will be owned or originated by GFH and represent obligations of lessees and/or obligors or assets, as the case may be, in such jurisdictions as specified in the Master Purchase Agreement. GFH will represent in the Master Purchase Agreement that Sukuk Asset Trust Property corresponding to Sukuk Assets will be Shari'ah compliant as determined by GFH's Shari'ah board.

An outline summary of the Sukuk Asset Trust Property and corresponding Sukuk Assets of the relevant Series of Sukuk Certificates, will be set out in the relevant Final Terms. The composition of the Sukuk Assets may change over the life of each Series of Sukuk Certificates as the Trustee may utilise collections from the relevant Sukuk Assets to instruct GFH as agent (**"Managing Agent"**) on behalf of the Trustee is authorised to purchase or invest in additional Sukuk Assets, which will then form part of the Sukuk Assets of the relevant Series.

Pursuant to the terms of the Master Purchase Agreement and the Master Purchase Trust Deed, GFH may from time to time request to purchase back from the Trustee certain Sukuk Assets (such assets being the **"Transferred Sukuk Assets"**) in consideration of GFH selling a beneficial interest to the Trustee in other substitute Sukuk Assets (such assets being the **"Substitute Sukuk Assets"**). Such Substitute Sukuk Assets must have a value (as at the date of transfer) of no less than the Transferred Sukuk Assets as at the date of issue of the relevant Series and must be approved by the GFH Shari'ah board for this purpose (which shall not include Murabaha Contracts).

"Ijara Contract" means a contract where as lessor, leases property to a lessee in respect of which regular payments are due from the lessee.

"Istisna'a Contract" means a conditional sale contract whereby a party has undertaken a project or arranged for assets to be constructed or manufactured and has sold such project or assets to a buyer for payment on an instalment basis.

"Murabaha Contract" means a sale contract whereby the purchase price is determined on a cost plus a predetermined profit basis and such purchase price is payable either by instalments or by a single payment.

Composition of the pool of Sukuk Assets

GFH has undertaken in the Master Purchase Agreement to ensure that the composition of the pool of Sukuk Assets for each relevant Series (as determined by the value of the Initial Sukuk Assets and, if applicable, the Additional Sukuk Assets and Substitute Sukuk Assets) comprises no less than 33 per cent. Ijara Contracts (and the relevant underlying assets), real estate assets and/or shares which have been approved by the GFH Shari'ah board for this purpose.

No investigation or enquiry will or has been made and no due diligence will or has been conducted by or on behalf of any Dealer, the Transaction Administrator, the Issuer or the Trustee in respect of any Sukuk Asset Trust Property or Sukuk Assets or the transferability of any Sukuk Asset Trust Property or Sukuk Assets under relevant local law. Reference should be made to the paragraphs under "Risk factors relating to the Sukuk Assets" in the section entitled "Risk Factors" above.

SUMMARY OF THE PRINCIPAL PROGRAMME DOCUMENTS AND TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Programme Documents and Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Programme Documents and Transaction Documents. Copies of the Programme Documents and Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).

The Master Trust Deed, as supplemented by each Supplemental Trust Deed

The Master Trust Deed is entered into on the Programme Date between the Issuer, the Trustee, GFH and the Transaction Administrator and is governed by English law. The Supplemental Trust Deed is entered into on the date of the issue of the relevant Series of Sukuk Certificates between the same parties to the Master Trust Deed and is also governed by English law.

Upon issue of the Global Sukuk Certificate initially representing the Sukuk Certificates of any Series, the Master Trust Deed and the relevant Supplemental Trust Deed together constitute the Trust declared by the Trustee in relation to such Series.

The Trust Assets in respect of each Series of Sukuk Certificates comprise (unless otherwise specified in the relevant Supplemental Trust Deed), *inter alia*, the Initial Trust Property, as defined in the Master Trust Deed, the Sukuk Assets, the rights of the Issuer in any Programme Documents and Transaction Documents to which it is a party (in either capacities), as well as cash and certain eligible investments all as more fully set out in the Master Trust Deed and the relevant Supplemental Trust Deed.

The Master Trust Deed specifies that, on or after the relevant Maturity Date or, as the case may be, Dissolution Date of a Series of Sukuk Certificates, the rights of recourse in respect of Sukuk Certificates shall be limited to the amounts from time to time available and comprising the relevant Trust Assets of that Series, subject to the priority of payments set out in the Master Trust Deed, the relevant Supplemental Trust Deed, the relevant Sukuk Certificates and the Conditions. The Transaction Administrator and the Certificateholders have no claim or recourse against the Issuer and the Trustee in respect of any amount which is or remains unsatisfied and any unsatisfied amounts will be extinguished.

Pursuant to the Master Trust Deed, the Transaction Administrator acting on behalf of the Certificateholders in relation to each Series of Sukuk Certificates direct, the Trustee to, *inter alia*:

(a) hold the Trust Assets;

(b) enforce the Trust Assets including, insofar as it is able, all reasonably necessary steps to enforce each of the Liquidity Facility (contained in the Management Agreement), the Purchase Undertaking Deed, the relevant Sale Agreement, the Costs Undertaking Deed and Transaction Documents if GFH shall have at any time failed to perform its obligations under any of these agreements, as the case may be;

(c) collect and invest the proceeds of the Trust Assets in accordance with the terms of the Master Trust Deed and, if applicable, the terms of the relevant Supplemental Trust Deed;

(d) distribute the proceeds of any enforcement of the Trust Assets, as described in the Master Trust Deed and the Conditions (see the section entitled *Summary of the Principal Programme Documents and Transaction Documents – Management Agreement*);

(e) maintain proper books of account in respect of the relevant Trust; and

(f) take such other steps as are reasonably necessary to ensure that the Certificateholders of each Series receive the distributions to be made to them in accordance with the Transaction Documents and Programme Documents.

In the Master Trust Deed the Trustee also undertakes that, *inter alia*:

(a) it may or shall upon being directed to do so by the Transaction Administrator (acting on behalf of the Certificateholders) enforce the obligations of GFH under the Purchase Undertaking Deed and any other Programme Document or Transaction Document to which GFH is a party;

(b) to the extent that it prepares accounts, it shall cause to be audited by its Auditors in respect of each financial accounting period accounts in such form as will comply with all relevant legal and accounting requirements and all requirements for the time being of any stock exchange on which the Sukuk Certificates are listed;

(c) it shall procure that the Principal Paying Agent makes available for inspection by Certificateholders at its specified office copies of the Master Trust Deed and relevant Supplemental Trust Deed, the Agency Agreement, the other Programme Documents and relevant Transaction Documents, the then latest audited balance sheets and profit and loss accounts (consolidated if applicable) of itself (if any) and GFH and any Final Terms relating to Sukuk Certificates admitted to listing, trading and/or quotation on any listing authority, stock exchange or quotation system;

(d) following the occurrence of a Dissolution Event in respect of any Series of Sukuk Certificates and subject to Condition 14 (*Dissolution Events*), it shall (i) promptly notify the Transaction Administrator of the occurrence of such Dissolution Event, and (ii) take all such steps as are necessary to enforce the obligations of GFH under the Purchase Undertaking Deed, the relevant Sale Agreement and any other Programme Document or Transaction Document to which GFH is a party; and

(e) it (or the Managing Agent on its behalf) shall promptly notify the Transaction Administrator of any Liquidity Shortfalls in respect of any Series of Sukuk Certificates.

The Trustee acknowledges in the Master Trust Deed that the Transaction Administrator may in accordance with the terms of the Transaction Administration Deed convene meetings or obtain directions and instructions from Certificateholders.

The Transaction Administrator may, on behalf of the Certificateholders, direct the Trustee to agree, without the consent or sanction of the Certificateholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Master Trust Deed, the Transaction Administration Deed, any other Programme Document or any Transaction Document or allow for any Dissolution Event not to be treated as such, if in the opinion of the Transaction Administrator, any such case is not materially prejudicial to the interests of the Certificateholders or it may agree to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest or proven error.

The Master Purchase Agreement, as supplemented by each Supplemental Purchase Agreement

The Master Purchase Agreement between GFH, the Trustee and the Issuer, as supplemented and amended from time to time, and each Supplemental Purchase Agreement applicable to a Series of Sukuk Certificates, are, and will be, governed by English law.

Declaration of Trust

On the Closing Date of the relevant Series, GFH agrees to declare a Sukuk Asset Trust in favour of the Issuer pursuant to the Master Purchase Trust Deed over the relevant Sukuk Asset Trust Property and any ancillary rights, guarantees and security relating to such Sukuk Asset Trust Property, as identified in a schedule to the relevant Supplemental Purchase Agreement thereby creating the beneficial interest purchased by the Issuer from GFH pursuant to the Master Purchase Agreement and the relevant Supplemental Purchase Agreement. To the extent that any transfer of any Sukuk Assets (or the creation of the beneficial interest relating thereto) is not effective in any jurisdiction for any reason, GFH has agreed to account for all amounts received by it in respect of those Sukuk Assets to the Issuer.

Purchase Price

The purchase price payable for the Sukuk Assets of any relevant Series of Sukuk Certificates will be set out in and determined by the Supplemental Purchase Agreement.

Records

All records in respect of the Sukuk Assets will be retained by GFH.

Representations and Warranties

GFH will only provide very limited representations and warranties in respect of the Sukuk Asset Trust Property corresponding to the Sukuk Assets on the issue date of the relevant Series.

Undertakings of GFH

GFH provides only very limited undertakings in the Master Purchase Agreement.

Sukuk Asset Retransfer and Substitution

Pursuant to the terms of the Master Purchase Agreement and the Master Purchase Trust Deed, GFH may from time to time request to purchase from the Issuer and Trustee certain Sukuk Assets (such assets being the **"Transferred Sukuk Assets"**) in consideration of GFH creating a beneficial interest in favour of the Issuer and Trustee over other substitute Sukuk Assets (such assets being the **"Substitute Sukuk Assets"**). Such Substitute Sukuk Assets must have a value (as at the date of even transfer) of no less than the Transferred Sukuk Assets had as at the date of issue of the relevant Series and must be approved by the GFH Shari'ah board for this purpose (which shall not include Murabaha Contracts).

If GFH receives an increase in value as a result of such transfer and substitution, then GFH is deemed to hold as agent for the Issuer an amount of cash (in the relevant Specified Currency) equal to the difference in value between such Substitute Sukuk Assets and the Transferred Sukuk Assets (**"Surplus Amount"**). GFH agrees in the Master Purchase Agreement that it will pay funds up to such Surplus Amount as and when requested from time to time in writing or orally by the Issuer (or the Managing Agent acting on behalf of the Issuer) to the Issuer (**"Surplus Payments"**) for distribution by the Issuer (if and only if there is such a shortfall) towards covering any shortfalls in payment of Periodic Distribution Amounts to Certificateholders of the relevant Series. The Issuer will not be required to repay any such Surplus Payments to GFH at any time. After the Maturity Date of a Series of Sukuk Certificates, GFH can keep for itself (without any further right therein by the Issuer) the difference between all relevant Surplus Payments and the relevant Surplus Amount as an incentive fee for GFH having managed the relevant Transferred Sukuk Assets in a manner which has resulted in their increase in value in its capacity as Managing Agent.

The Master Purchase Trust Deed

The Master Purchase Trust Deed entered into between GFH (as trustee) and the Issuer (as beneficiary) is entered into on the Programme Date and is governed by English law. Pursuant to the declaration of Sukuk Asset Trust by GFH over the Sukuk Asset Trust Property in favour of the Issuer pursuant to the Master Purchase Trust Deed, the beneficial interest in the Sukuk Assets come into existence. The Master Purchase Trust Deed will be in force for the duration of the Programme.

Management Agreement

The Management Agreement is entered into on or about the Programme Date between GFH, the Issuer, the Trustee and the Transaction Administrator and is governed by English law.

Appointment of GFH as Managing Agent

The Issuer and Trustee will appoint GFH to act as Managing Agent to collect and service the Sukuk Assets applicable to each Series of Sukuk Certificates. In particular, GFH will prepare Servicing Reports (as defined below), hold records and apply collections in respect of the relevant Sukuk Assets, and to carry out any incidental matters relating thereto.

Standard of Care

GFH has agreed to exercise the same level of skill, care and attention in exercising its powers and performing its duties as it would exercise in servicing its own assets. In particular, GFH has agreed to (a) exercise at least the same standard of care in respect of the Sukuk Assets of each Series of Sukuk Certificates as it exercises in respect of assets of a similar type and nature to any Sukuk Assets of which it is and remains the legal and beneficial owner (apparent and real owner) and (b) in respect of the Sukuk Assets of each Series of Sukuk Certificates, act in accordance with its usual collection procedures at all times.

Delegation

GFH shall be entitled to delegate its obligations under the Management Agreement to any person approved by the Issuer and Trustee provided that GFH shall remain primarily liable for the obligations incurred by it hereunder notwithstanding any such delegation.

Investments

The Trustee shall appoint the Managing Agent pursuant to the Management Agreement to invest, or to identify opportunities for the Trustee to invest, any Trust Assets of the relevant Series represented by cash in accordance with the Management Agreement.

Under the Management Agreement, GFH undertakes to take all necessary steps and action as Managing Agent to maintain the total value of the pool of Sukuk Assets of a Series at no less than the total value of the pool of Sukuk Assets as at the Issue Date of the relevant Series of Sukuk Certificates. Accordingly, the rationale for having the Aggregate Nominal Amount of the relevant Series of Sukuk Certificates as one of the components for calculating the Exercise Price under the Purchase Undertaking Deed and Sale Undertaking Deed is that GFH is under such an obligation under the Management Agreement.

Fees

GFH shall be entitled to receive a fee for acting as Managing Agent which will comprise a fixed basic fee and an incentive fee calculated as the remaining amounts available from the application of profit collections as more particularly described in "*Application of Collections*" below.

Application of Collections

For the period between each date specified as such in the relevant Supplemental Purchase Agreement (each a **"Calculation Date"**) in connection with each Series (each a **"Collection Period"**), GFH will collect all amounts due in respect of the Sukuk Assets of the relevant Series of Sukuk Certificates and identify such collections in a report (the **"Servicing Report"**). All collections will be held by GFH as agent for the Trustee including the amount of the Available Collections (as defined below) and hold them as agent for and on behalf of the Trustee, though GFH will be entitled to deal with such collections as if they were part of its own funds.

In respect of each Series of Sukuk Certificates and unless otherwise specified in the relevant Final Terms, GFH will convert the relevant Available Collections into the Specified Currency of the relevant

Series at the then prevailing spot rates of exchange. On each Settlement Date, GFH will apply Available Collections (as defined below) to pay the following amounts on behalf of the Issuer in accordance with the following order of priority:

(i) first: to pay the Managing Agent for the Purchase Price of any Additional Sukuk Assets purchased on such Settlement Date;

(ii) second: to pay any remainder to the Managing Agent for investment as provided for in the Management Agreement on behalf of the Trustee;

(iii) third: to retain any remainder as residual principal for application on the next Settlement Date and to pay such remainder to the Managing Agent to hold as agent for the Issuer and Trustee.

In respect of each Series of Sukuk Certificates and unless otherwise specified in the relevant Final Terms, on each Settlement Date, GFH will apply the relevant Profit Collections (as defined below) received in the immediately preceding Calculation Period to pay the following amounts on behalf of the Issuer and Trustee in accordance with the following order of priority:

(i) first:

(A) on any Settlement Date immediately preceding a Periodic Distribution Date, to pay to the Principal Paying Agent any Periodic Distribution Amounts due and payable on the immediately following Periodic Distribution Date together with any amounts retained under (B) below; or

(B) on any other Settlement Date, to retain an amount equal to one sixth of the Periodic Distribution Amount payable on the next Periodic Distribution Date, such amount to be applied on the following Periodic Distribution Date in accordance with (A) above; by way of distributing any remaining Certificateholder Entitlement;

(ii) second: to repay any advances made by GFH to the Issuer in respect of the Shari'ah compliant liquidity facility provided to the Issuer pursuant to the Management Agreement until repaid in full;

(iii) third: to pay the Basic Fee and all remaining amounts to the Managing Agent (by way of Incentive Fee) in each case for acting as Managing Agent in relation to the Programme.

Notwithstanding the above, on the earlier of the Dissolution Date or the Maturity Date in respect of any Series of Sukuk Certificates, GFH as Managing Agent will apply (a) any Available Collections (including any residual Available Collections) and (b) any remaining collections in accordance with the priority of payments set out in the Master Trust Deed as reproduced in the Conditions.

"Available Collections" means all cash collections and other cash proceeds of Sukuk Assets in respect of principal including repayments and prepayments, principal thereunder and similar charges allocated to principal (as so determined by the Managing Agent) and all liquidation and sale proceeds of such Sukuk Assets allocated to principal (as so allocated by the Managing Agent) excluding, for the avoidance of doubt, any dividend payments from such Sukuk Assets.

"Profit Collections" means in respect of each Series of Sukuk Certificates any collection of cash from Sukuk Assets which do not represent Available Collections.

Investment in Shari'ah compliant assets interests or contracts

GFH as Managing Agent has agreed to identify opportunities for the Trustee to make investments in Shari'ah compliant investments pursuant to the terms of the Management Agreement.

Representations and Warranties

GFH shall make certain limited representations and warranties including, *inter alia*, as to due incorporation, power and authority, its constitution and composition, its liquidity and solvency and the validity of its obligations.

Termination of Appointment and GFH Events

The Managing Agent may be dismissed by the Issuer (with the consent of the Transaction Administrator) upon 90 days' notice following the occurrence and continuation of a GFH Event (defined below) to the other party provided that a successor has been duly appointed in its place.

The occurrence and continuation of a GFH Event will also be a Dissolution Event allowing the Transaction Administrator, at its option, to declare (or shall declare upon written request of Certificateholders representing not less than 25 per cent. in principal amount of the relevant Series of Sukuk Certificates for the time being outstanding) the Sukuk Certificates of the relevant Series to be immediately due and payable. The following events (each a **"GFH Event"**) constitute GFH Events:

(a) default is made by GFH in the payment of any amount pursuant to any Programme Document or Transaction Document to which it is a party and such default continues for a period of seven days.

(b) default is made by GFH in the performance or observance of any of its other obligations under or in respect of any Programme Document or Transaction Document to which it is a party unless (i) the default is capable of remedy and is remedied within 30 days after written notice thereof has been delivered to GFH, addressed to GFH by the Transaction Administrator or (ii) such default is not (in the opinion of the Transaction Administrator), materially prejudicial to the interests of the Certificateholders; or

(c) at any time it is or will become unlawful or contrary for GFH to perform or comply with any of its material (in the opinion of the Transaction Administrator) obligations under any Programme Document or Transaction Document or any of the material (in the opinion of the Transaction Administrator) obligations of GFH under any Programme Document or Transaction Document to which GFH is a party are not or cease to be legal, valid, binding and enforceable; or

(d) if (i) any Indebtedness (as defined below) of GFH, or any Principal Subsidiary (as defined below) is not paid when due or (as the case may be) within any originally applicable grace period, (ii) any such Indebtedness becomes due and payable prior to its stated maturity by reason of default (however described), or (iii) GFH, or any Principal Subsidiary fails to pay when due or (as the case may be) within any originally applicable grace period any amount payable by it under any Guarantee (as defined below) of any Indebtedness, provided that each such event shall not constitute a Dissolution Event unless the aggregate amount of all such Indebtedness, either alone or when aggregated with all other Indebtedness in respect of which such an event shall have occurred and be continuing, shall be more than US$10,000,000 (or its equivalent in any other currency or currencies); or

(e) GFH ceases to carry on the whole or a substantial part of its business unless it does so for the purpose of a reorganisation, the terms of which have been approved in writing by the Transaction Administrator and where GFH demonstrates to the satisfaction of the Transaction Administrator that it is solvent or a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or

(f) any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable GFH lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Programme Documents and Transaction Documents; or (ii) to ensure that those obligations are legal, valid, binding and enforceable, is not taken, fulfilled or done within 21 days of the Issuer and Transaction Administrator giving notice in writing to GFH; or

(g) (i) GFH or a Principal Subsidiary becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator, receiver or liquidator of GFH or a Principal Subsidiary or the whole or any part of the undertaking, assets and revenues of GFH or a Principal Subsidiary is appointed (or application for any such appointment is made and such application is not set aside, discharged or struck out within 21 days) or (iii) GFH or a Principal Subsidiary takes any action or commences any negotiations or proceedings with a view to (A) any adjustment of a material proportion of the whole or a specified class or category of its Indebtedness or (B) any deferment of any of its obligations or (C) making a general assignment or an arrangement or composition with or for the benefit of its creditors, provided always that this sub-paragraph (g) shall not apply to any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or

(h) an order or decree is made or an effective resolution is passed for the winding-up, liquidation or dissolution of GFH or a Principal Subsidiary, provided always that this paragraph (h) shall not apply to any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or

(i) any event occurs which has an analogous effect to any of the events referred to in paragraphs (g) and (h) (inclusive) above.

"Principal Subsidiary" means a subsidiary of the Group whose gross assets exceed 10 per cent. of the consolidated gross assets of the Group or the revenues of which exceed 10 per cent. of the consolidated revenues of the Group in each case determined by reference to the applicable financial statements undertaken to be provided by GFH (see *"Financial Statements and Reporting"*);

"Group" means GFH and its Subsidiaries (as defined below) taken as a whole.

Shari'ah Compliant Liquidity Facility

The Management Agreement also provides for the provision of the Liquidity Facility by GFH for the Trustee (or as the Transaction Administrator (acting on behalf of the Certificateholders) may direct) in order to ensure timely payment of amounts due under each Series of Sukuk Certificates (including, without limitation, any additional amounts as may be required to be paid in respect of the relevant Series of Sukuk Certificates pursuant to Condition 12 (*Taxation*)) and to cover any cost and expenses incurred by the Issuer in connection with having an ownership interest in Sukuk Assets.

The advances under the Liquidity Facility in respect of any Liquidity Shortfall must not exceed the relevant sum of accrued but unpaid Periodic Distribution Amounts in respect of the relevant Periodic Distribution Amounts under the Series of Sukuk Certificates (including any such additional amounts as aforesaid).

Sale Undertaking Deed

The Sale Undertaking Deed is executed on or about the Programme Date by the Trustee in favour of GFH and is governed by English law.

The Trustee has irrevocably undertaken in favour of GFH that it will sell all of the Sukuk Assets of each Series of Sukuk Certificates to GFH at GFH's option, if and only if: (i) the requirements of Condition 11.2 (*Early Dissolution for Tax Reasons*) are met giving the Trustee the option to redeem the Sukuk Certificates early; or (ii) at any time if the Optional Dissolution (Call) option is applicable to the relevant series of Sukuk Certificates pursuant to Condition 11.3 (*Optional Dissolution (Call)*) for a price equal to (a) the Aggregate Nominal Amount (as specified in the relevant Final Terms) of the relevant Series, plus (b) the amount of any accrued but unpaid Periodic Distribution Amounts (including any additional amounts as may be required to be paid in respect of the relevant Series of Sukuk Certificates pursuant to Condition 12 (*Taxation*)) on such date; and (c) amount payable but unpaid by the Issuer to GFH under the Liquidity Facility in connection with the relevant Series of Sukuk Certificates.

The rationale for having the Aggregate Nominal Amount of the relevant Series of Sukuk Certificates as one of the components for calculating the Exercise Price under the Sale Undertaking Deed is that GFH is under an obligation under the Management Agreement to maintain the total value of the relevant pool of Sukuk Assets at no less than the total value of the pool of Sukuk Assets as at the Issue Date.

The specific terms applicable to each such sale will be confirmed in a Sale Agreement, to be executed by the Issuer, the Trustee and GFH on the relevant date. The form of each such Sale Agreement is appended to the Sale Undertaking Deed. The Sale Undertaking Deed enables GFH to effectively require the Trustee to dissolve the Sukuk Certificates early if the circumstances of Condition 11.2 (*Early Dissolution for Tax Reasons*) or Condition 11.3 (*Optional Dissolution (Call)*) are applicable.

Purchase Undertaking Deed

The Purchase Undertaking Deed is executed on or about the Programme Date by GFH in favour of the Trustee and is governed by English law.

GFH has irrevocably undertaken in favour of the Issuer and the Trustee to acquire from the Issuer all of the Sukuk Assets of each Series of Sukuk Certificates on the relevant Maturity Date, or, if earlier, on the Dissolution Date (arising from a dissolution of the Sukuk Certificates following the occurrence and continuation of a Dissolution Event) of the relevant Series of Sukuk Certificates, for a purchase price equal to (a) the Aggregate Nominal Amount (as specified in the relevant Final Terms) of the relevant Series, plus (b) the amount of any accrued but unpaid Periodic Distribution Amounts (including any additional amounts as may be required to be paid in respect of the relevant Series of Sukuk Certificates pursuant to Condition 12 (*Taxation*)) on such date; and (c) amounts payable but unpaid by the Issuer to GFH under the Liquidity Facility in connection with the relevant Series of Sukuk Certificates. Payments of the purchase price are required to be made in the Specified Currency of the relevant Series (a) in accordance with the instructions of GFH as Managing Agent acting pursuant to the Management Agreement or (b) if no such instructions are received within a reasonable time, to the account specified by the Principal Paying Agent.

The rationale for having the Aggregate Nominal Amount of the relevant Series of Sukuk Certificates as one of the components for calculating the Exercise Price under the Purchase Undertaking Deed is that GFH is under an obligation under the Management Agreement to maintain the total value of the relevant pool of Sukuk Assets at no less than the total value of the pool of Sukuk Assets as at the Issue Date.

The specific terms applicable to each such sale will be confirmed in a Sale Agreement, to be executed by the Issuer, the Trustee and GFH on the Dissolution Date or, as the case may be, the Maturity Date of the relevant Series of Sukuk Certificates. The form of each such Sale Agreement is appended to the Purchase Undertaking Deed.

The covenants summarised below are contained in the Purchase Undertaking Deed:

Negative Pledge

GFH has irrevocably and unconditionally undertaken that, until the Sukuk Certificates have been redeemed in full in accordance with the Conditions, it shall not, and it shall procure that none of its Principal Subsidiaries will, create or permit to subsist any Security upon the whole or any part of its present or future assets or revenues (including uncalled capital) to secure any of its Indebtedness or any Guarantee of Indebtedness given by it, other than Permitted Security, without (i) at the same time or prior thereto securing equally and rateably therewith its obligations under the Programme Documents and Transaction Documents to which it is, in whatever capacity, a party, or (ii) providing such other Security for those obligations as may be approved by an Extraordinary Resolution.

"Extraordinary Resolution" has the meaning given to it in the Transaction Administration Deed.

"Guarantee" means, in relation to any Indebtedness of any person, any obligation of another person to pay such Indebtedness following valid demand or claim on that person including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to extend financing, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness.

"Indebtedness" means any present or future indebtedness of any person for or in respect of any money borrowed or raised including (without limitation) any borrowed money or liability arising under or in respect of any acceptance or acceptance credit or evidenced by any notes, bonds, debentures, debenture stock, loan stock or other securities or any moneys raised under any transaction having the commercial effect of borrowing or raising money.

"Permitted Security" means:

(a) any Security created or outstanding with the approval of an Extraordinary Resolution;

(b) any Security arising by operation of law, provided that such Security is discharged within 45 days of arising;

(c) any Security granted by a Subsidiary in favour of GFH or a Principal Subsidiary;

(d) any Security arising in the ordinary course of banking transactions (such as sale and repurchase transactions and share, loan and sukuk transactions or other capital markets transactions (including, without limitation, Islamic capital markets transactions)), in connection with which GFH or a Principal Subsidiary enters into as a lender provided that the Security is limited to the assets which are the subject of the relevant transactions;

(e) any Security created by the operation of a reservation of title clause contained in a vendor's or supplier's standard terms and conditions of sale in respect of goods acquired by GFH or a Subsidiary in the ordinary course of its business;

(f) any Security on assets or property existing at the time GFH or any Principal Subsidiary acquired such assets or property provided that such Security was not created in contemplation of such acquisition and does not extend to other assets or property (other than proceeds of such acquired assets or property), provided that the maximum amount of Indebtedness thereafter secured by such Security does not exceed the purchase price of such property or the Indebtedness incurred solely for the purpose of financing the acquisition of such assets or property;

(g) any Security securing Indebtedness of any person and/or its Subsidiaries existing at the time that such person is merged into or consolidated with GFH or a Subsidiary provided that such Security was not created in contemplation of such merger or consolidation and does not extend to any other assets or property of GFH or any Subsidiary;

(h) any other Security provided that the aggregate outstanding amount secured by that Security and any other Permitted Security permitted to be created and in effect under the Programme Documents and Transaction Documents (if any) does not, at any time, exceed 10 per cent. of the aggregate share capital and reserves of GFH as shown in its most recent audited consolidated (if then prepared by GFH) or non consolidated (if consolidated financial statements are not then prepared by GFH) financial statements prepared in accordance with IFRS and AAOIFI ; and

(i) any renewal of or substitution for any Security permitted by any of the preceding sub paragraphs (a) through (h), provided that with respect to any such Security incurred pursuant to this sub-paragraph (i) the principal amount secured has not increased and the Security has not been extended to any additional property (other than the proceeds of such property).

"Security" means any mortgage, pledge, lien, charge, assignment by way of security, hypothecation or security interest or any other agreement or arrangement having the effect of conferring security.

"Subsidiary" means in relation to any person (the **"first person"**) at any particular time, and other person (the **"second person"**);

(a) whose affairs and policies the first person controls or has power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.

Consolidated Tangible Net Worth Covenant

GFH irrevocably and unconditionally agrees and undertakes that until the Sukuk Certificates have been redeemed in full in accordance with the Conditions, it will at all times maintain a minimum of Consolidated Tangible Net Worth of not less than US$ 400,000,000 (or its equivalent in Bahraini Dinars).

"Consolidated Tangible Net Worth" means, the aggregate of the amount for the time being fully paid up or credited as fully paid up on GFH's issued share capital, advance towards share capital, share premium, any subsidiary company share grant, statutory reserves, investment fair value reserves, and retained earnings, of the Group, but deducting any treasury shares, and deducting any amounts attributable to goodwill or other intangible assets.

Authorisation and Consents

GFH unconditionally and irrevocably agrees and/or undertakes that until the Sukuk Certificates have been redeemed in full in accordance with the Conditions it will (i) obtain and maintain in full force and effect all consents, authorisations, approvals, notices, licences, registrations or filings required for the execution, delivery or performance, or compliance by GFH of the Programme Documents and Transaction Documents to which it is a party; and (ii) take all steps as are necessary to make the Programme Documents, Transaction Documents and any other document or agreement in connection with the Sukuk Certificates admissible in evidence in the Kingdom of Bahrain.

Financial Statements and Reporting

GFH has unconditionally and irrevocably agreed and undertaken that until the Sukuk Certificates have been redeemed in full in accordance with the Conditions, it shall supply the Transaction Administrator (with a copy to the Principal Paying Agent) as soon as the same become available, but in any event within 60 days after the end of each of its semi-annual or, within 180 days after the end of each of its financial years as applicable, the consolidated semi-annual or annual audited financial statements of the Group for that semi-annual or, as applicable, financial year, in each case, prepared in accordance with the Financial Accounting Standards of the Accounting and Auditing Organisation for Islamic Financial Institutions and in accordance with International Financial Reporting Standards.

Banking Regulation

GFH has unconditionally and irrevocably agreed and undertaken that until the Sukuk Certificates have been redeemed in full in accordance with the Conditions, it will adopt, maintain and implement any rules, regulations or directives or applicable directions of the Central Bank of Bahrain or any other successor, supervisory or regulatory authority.

Costs Undertaking Deed

Pursuant to a Costs Undertaking Deed poll by GFH, it will pay certain fees and expenses of, and indemnify against certain losses of, among others, the Issuer, the Trustee, the Transaction Administrator, the Principal Paying Agent, the Corporate Administrator, the Calculation Agent, the Transfer Agent, the Replacement Agent and the Registrar, as the case may be.

Transaction Administration Deed

The Transaction Administrator is appointed by the Trustee pursuant to the Transaction Administration Deed to act as agent and representative for the Certificateholders and be solely entitled to, *inter alia*, provide instructions to the Issuer and the Trustee. The Transaction Administration Deed will be governed by and construed in accordance with the laws of England.

Beneficiary Deed of Power of Attorney

The Beneficiary Deed of Power of Attorney is entered into by the Issuer, the Trustee, GFH and the Transaction Administrator.

GFH appoints the Transaction Administrator to be its attorney and to give directions on its behalf to the Trustee in connection with the Master Trust Deed and each Supplemental Trust Deed in the following circumstances:

(a) when directing the Trustee to take any steps in relation to the enforcement of the terms of any Programme Document or Transaction Document to which the Trustee is a party or making any request for payment of any amount under the Purchase Undertaking Deed, the relevant Sale Agreement or under the Liquidity Facility contained in the Management Agreement; or

(b) when directing the Trustee to serve any notice in respect of, or make any determination of any matter which would constitute a Dissolution Event; or

(c) at any time after a Dissolution Event; or

(d) when directing the Trustee to grant any consent, exercise any right or discretion or make any determination (including a determination as to reasonableness or materiality) under the Programme Documents or Transaction Documents.

GFH and the Trustee acknowledge that in exercising its power of attorney, the Transaction Administrator will have regard only to the interests of the Certificateholders.

GFH and the Transaction Administrator on behalf of the Certificateholders jointly direct the Trustee, and the Trustee covenants with GFH and the Certificateholders that it shall, pursuant to the terms of the Master Trust Deed, act on the directions of the Transaction Administrator alone.

TAXATION

THE FOLLOWING IS A GENERAL DESCRIPTION OF CERTAIN TAX CONSIDERATIONS RELATING TO THE SUKUK CERTIFICATES. IT DOES NOT PURPORT TO BE A COMPLETE ANALYSIS OF ALL TAX CONSIDERATIONS RELATING TO THE SUKUK CERTIFICATES. PROSPECTIVE PURCHASERS OF SUKUK CERTIFICATES SHOULD CONSULT THEIR TAX ADVISERS AS TO THE CONSEQUENCES UNDER THE TAX LAWS OF THE COUNTRY OF WHICH THEY ARE RESIDENT FOR TAX PURPOSES OF ACQUIRING, HOLDING AND DISPOSING OF SUKUK CERTIFICATES AND RECEIVING PAYMENTS OF PROFIT, PRINCIPAL AND/OR OTHER AMOUNTS UNDER THE SUKUK CERTIFICATES. THIS SUMMARY IS BASED UPON THE LAW AS IN EFFECT ON THE DATE OF THIS BASE PROSPECTUS AND IS SUBJECT TO ANY CHANGE IN LAW THAT MAY TAKE EFFECT AFTER SUCH DATE.

A. United Kingdom Taxation

The following paragraphs are based on the Issuer's understanding of United Kingdom law and HM Revenue & Customs published practice as at the date hereof. They describe the United Kingdom withholding tax treatment of payments under the Sukuk Certificates and the extent to which United Kingdom stamp duty and stamp duty reserve tax would be payable on the issue, transfer and redemption of the Sukuk Certificates.

The comments made below do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Sukuk Certificates. Those comments are made on the basis of the following assumptions, that:

(a) the Issuer is not resident in the United Kingdom for United Kingdom tax purposes;

(b) no register of the Sukuk Certificates is kept in the United Kingdom by or on behalf of the Issuer or GFH; and

(c) no payment to the Certificateholders, including any Periodic Distribution Amount, has a United Kingdom source for United Kingdom tax purposes.

Those comments related only to the position of persons who are absolute beneficial owners of the Sukuk Certificates.

The following is a general guide and should be treated with appropriate caution. Certificateholders who are in any doubt as to their tax position should consult their professional advisers. Certificateholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Sukuk Certificates are particularly advised to consult their professional advises as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments related only to certain United Kingdom taxation aspects in respect of the Sukuk Certificates. In particular, Certificateholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Sukuk Certificates even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

United Kingdom Withholding Tax

Periodic Distribution Amounts will be payable without withholding or deduction for or on account of the United Kingdom tax.

*United Kingdom Stamp Duty (**"Stamp Duty"**) and Stamp Duty Reserve Tax (**"SDRT"**)*

No Stamp Duty or SDRT is payable on the issue, transfer or redemption of a Sukuk Certificate. Any instrument transferring a Sukuk Certificate on the sale of the Sukuk Certificate which is executed in the

United Kingdom or which (if not executed in the United Kingdom) relates to any matter or thing done or to be done in the United Kingdom will be stampable at 0.5 per cent. of the sale consideration.

B. Bahraini Taxation

As at the date of this Base Prospectus there is no tax whether as to income, withholding or capital gains payable under Bahraini law. There are no currency or exchange control restrictions in force under Bahraini law and the face transfer of currency into and out of the Kingdom of Bahrain is permitted, subject to any international regulations in force from time to time.

C. EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income, which may include Periodic Distribution Amounts) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending as of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland) with effect from the same date.

D. Cayman Islands Taxation

There is, at present, no direct taxation in the Cayman Islands and interest, dividends and gains payable to the Issuer will be received free of all Cayman Islands taxes. The Issuer is registered as an “exempted company” pursuant to the Companies Law (as amended). The Issuer has received an undertaking from the Governor in Cabinet of the Cayman Islands to the effect that, for a period of twenty years from such date, no law that thereafter is enacted in the Cayman Islands imposing any tax or duty to be levied on profits, income or on gains or appreciation, or any tax in the nature of estate duty or inheritance tax, will apply to any property comprised in or any income arising under the Issuer, or to the shareholders thereof, in respect of any such property or income.

SUBSCRIPTION AND SALE

The Dealers have, in a dealer agreement (the "**Dealer Agreement**") dated on or about 9 July 2007 as supplemented by a subscription agreement in relation to the relevant Series of Sukuk Certificates, agreed with the Issuer and GFH a basis upon which they or any of them may from time to time agree to purchase Sukuk Certificates. Any such agreement will extend to those matters stated under *"Terms and Conditions of the Sukuk Certificates"*. In the Dealer Agreement, *inter alia*, each of the Issuer and GFH has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Sukuk Certificates under the Programme. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series of Sukuk Certificates.

United States

The Sukuk Certificates have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has offered and sold the Sukuk Certificates, and will offer and sell the Sukuk Certificates (i) as part of its distribution at any time, and (ii) otherwise until 40 days after the completion of the distribution of all Sukuk Certificates of the Series of which such Sukuk Certificates are a part as determined and certified as provided below, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer who purchases Sukuk Certificates of a Series (or in the case of a sale of a Series of Sukuk Certificates issued to or through more than one Dealer, each of such Dealers as to the Sukuk Certificates of such Series to be purchased by or through it or, in the case of a syndicated issue, the relevant Lead Manager) shall determine and certify to the Principal Paying Agent the completion of the distribution of the Sukuk Certificates of such Series. On the basis of such notification or notifications, the Principal Paying Agent has agreed to notify such Dealer/Lead Manager of the end of the distribution compliance period with respect to such Series. Each Dealer has also agreed that, at or prior to confirmation of sale of Sukuk Certificates, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Sukuk Certificates from it during the distribution compliance period a confirmation or notice to substantially the following effect:

> *"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."*

Terms used in this sub-section have the meanings given to them by Regulation S.

Each Dealer has represented and agreed that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Sukuk Certificate, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **"Relevant Member State"**), each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **"Relevant Implementation Date"**) it has not made and will not make an offer of Sukuk Certificates to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Sukuk Certificates to the public in that Relevant Member State:

(a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Sukuk Certificates which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

(b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an **"offer of Sukuk Certificates to the public"** in relation to any Sukuk Certificates in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Sukuk Certificates to be offered so as to enable an investor to decide to purchase or subscribe the Sukuk Certificates, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **"Prospectus Directive"** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Sukuk Certificates having a maturity of less than one year:

    (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

    (ii) it has not offered or sold and will not offer or sell any Sukuk Certificates other than to persons:

        (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

        (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

    where the issue of the Sukuk Certificates would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer or GFH;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Sukuk Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or GFH; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Sukuk Certificates in, from or otherwise involving the United Kingdom.

Federal Republic of Germany

The offering of the Sukuk Certificates is not a public offering in the Federal Republic of Germany. The Sukuk Certificates may be offered and sold in the Federal Republic of Germany only in accordance with the provisions of the Securities Prospectus Act of the Federal Republic of Germany (Wertpapierprospektgesetz) and any other applicable German law. The Issuer has not taken action, nor will it take action to render the public offer of the Sukuk Certificates or their possession, or the distribution of offer documents relating to the Sukuk Certificates, admissible in the Federal Republic of Germany. Accordingly, the Sukuk Certificates may not be offered or sold, directly or indirectly, and none of this Base Prospectus, any advertisement relating to the Sukuk Certificates and any other offering material may be distributed or published in the Federal Republic of Germany. Persons into whose possession this Base Prospectus comes must inform themselves about, and observe, any such restrictions.

Dubai International Financial Centre

This Base Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (**"DFSA"**). It is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this document nor taken steps to verify the information set out in it and has no responsibility for it. The securities to which this document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities. If you do not understand the contents of this document you should consult an authorised financial adviser.

Malaysia

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the offer of Sukuk Certificates in Malaysia can only be made to investors specified in Schedules 2, 3 and 5 of the Securities Commission Act 1993 (i.e. sophisticated investors, e.g. unit trust schemes, licensed dealers, closed-end funds, fund managers, licensed financial institutions, licensed offshore banks, licensed insurance companies, corporations with total net assets exceeding ten million Malaysian ringgit or its equivalent in foreign currencies, statutory bodies and pension funds).

United Arab Emirates

Each Dealer has acknowledged and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) the Sukuk Certificates to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities; and

(b) the information contained in this Base Prospectus does not constitute an offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law

No. 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Base Prospectus is not intended to lead to the conclusions of any contract of whatsoever nature within the territory of the United Arab Emirates.

Kingdom of Saudi Arabia

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to be represent and agree, that:

(a) no action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering or private placement of Sukuk Certificates in the Kingdom of Saudi Arabia or possession or distribution of any offering materials in relation thereto; and

(b) it will not offer or sell any Sukuk Certificates in the Kingdom of Saudi Arabia other than in accordance with Part 5 Exempt Offers; Article 17: **"Conditions for an Exempt Offer"** of the **"Offer of Securities Regulations"** as issued by the board of the Capital Market Authority resolution number 2 11-2004 dated 4 October 2004 and published on 3 December 2004 (the **"Regulations"**) and subject to obtaining any necessary approvals from the Capital Markets Authority.

The total number of offerees in the Kingdom of Saudi Arabia may not exceed in aggregate 60 offerees between all the Dealers, in each case where the amount payable by each offeree is at least SAR 1 million. Article 20 of the Regulations places certain restrictions on secondary market sales of such exempt securities.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Sukuk Certificates other than (i) to persons whose ordinary business is to buy or sell shares on debentures (whether as principal or agent); or (ii) in other circumstances which do not result in the document being an offer to the public within the meaning of the Companies Ordinance (Cap. 32) (the **"CO"**); or (iii) to **"professional investors"** within the meaning of the Securities and Futures Ordinance (Cap. 571) (the **"SFO"**) and any rules made under the SFO; or (iv) in other circumstances which do not result in the document being a **"prospectus"** which do not constitute an offer to the public within the meaning of the CO; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to any Sukuk Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to any Sukuk Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to **"professional investors"**.

Singapore

Each Dealer has represented and agreed that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed that it has not offered or sold any Sukuk Certificates or caused the Sukuk Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell any Sukuk Certificates or cause the Sukuk Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Sukuk Certificates, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the **"SFA"**), (ii) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Sukuk Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor) (as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Sukuk Certificates under Section 275 of the SFA except:

(i) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interests in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law.

Cayman Islands

No invitation to the public in the Cayman Islands to subscribe for any Sukuk Certificates in the Issuer is permitted to be made.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Sukuk Certificates or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Sukuk Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, GFH, the Transaction Administrator, any service provider in connection with the Programme and/or Sukuk Certificates and any other Dealer shall have any responsibility therefor.

None of the Issuer, GFH, the Transaction Administrator, any service provider in connection with the Programme and/or Sukuk Certificates and any of the Dealers represents that Sukuk Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

With regard to each Series, the relevant Dealer will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Sukuk Certificates have been duly authorised by a resolution of the Board of Directors of the Issuer dated on or about 29 June 2007. The Issuer has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the establishment of the Programme and the issue and performance of Sukuk Certificates pursuant thereto. The entry into the Programme Documents and the Transaction Documents to which it is a party (other than any supplemental documents specific to a particular Series) was authorised by the directors of the Issuer and GFH on or about 29 June 2007.

The granting of the Liquidity Facility by GFH together with the entering into each of the Programme Documents and any Transaction Documents to which it is a party has been duly authorised by a resolution of the Board of Executive Directors of GFH passed on or about 27 May 2007.

Listing of Sukuk Certificates

It is expected that each Series of Sukuk Certificates which is to be admitted to the Official List and to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market will be admitted separately as and when issued, subject only to the issue of a Global Sukuk Certificate initially representing the Sukuk Certificates of such Series. Application has been made to the UK Listing Authority for Sukuk Certificates issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Sukuk Certificates to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The listing of the Programme in respect of Sukuk Certificates is expected to be granted on or about 12 July 2007.

Documents Available

For so long as any Sukuk Certificates issued under the Programme remain outstanding, copies of the following documents will be available for inspection for and obtainable free of charge, during normal business hours on any weekday (excluding public holidays) from the specified offices of the Principal Paying Agent:

(a) the constitutional documents of each of the Issuer and GFH;

(b) the most recent publicly available audited annual financial statements of the Issuer (if any);

(c) the consolidated audited financial statements of GFH in respect of the financial years ended 31 December 2005 (including the consolidated restated financial statements for the financial year ended 31 December 2004) and 31 December 2006. GFH currently prepares audited consolidated accounts on an annual basis;

(d) the most recently published consolidated audited annual financial statements of GFH and the most recently published consolidated unaudited interim financial statements (if any) of GFH. GFH currently prepares unaudited consolidated interim accounts on a quarterly basis;

(e) the following Programme Documents, Transaction Documents and other documents:

    (i) the Master Purchase Agreement;

    (ii) the Master Purchase Trust Deed;

    (iii) any Supplemental Purchase Agreement in relation to Sukuk Certificates which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system;

    (iv) the Management Agreement;

(v) the Master Trust Deed and the forms of the Global Sukuk Certificate and the Sukuk Certificates in definitive form;

(vi) any Supplemental Trust Deed in relation to Sukuk Certificates which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system;

(vii) the Transaction Administration Deed;

(viii) the Beneficiary Deed of Power of Attorney;

(ix) the Dealer Agreement;

(x) the Purchase Undertaking Deed, which contains the form of Sale Agreement;

(xi) the Sale Undertaking Deed, which contains the form of the Sale Agreement;

(xii) the Agency Agreement;

(xiii) a copy of this Base Prospectus;

(xiv) the Costs Undertaking Deed;

(xv) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Sukuk Certificate which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Sukuk Certificate and such holder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of Sukuk Certificates and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

(xvi) in the case of each issue of Sukuk Certificates which is listed on the London Stock Exchange subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Copies of any Supplemental Purchase Agreement, any Supplemental Trust Deed, any Final Terms, in respect of Sukuk Certificates which are not admitted to listing, trading and/or quotation on any listing authority, stock exchange or quotation system will only be available for inspection and obtainable free of charge by the relevant Certificateholders.

Clearing Systems

The Sukuk Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Series of Certificates allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Trust Certificates are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, société anonyme, 42 Avenue JF Kennedy L-1885 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of GFH and its subsidiaries since 31 March 2007 and there has been no material adverse change in the financial position or GFH and its subsidiaries since 31 December 2006. There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer, in each case, since the date of its incorporation.

Auditors

The auditors of GFH are KPMG Fakhro, 5th Floor, Chamber of Commerce Building, PO Box 710, Manama, Kingdom of Bahrain, who have audited GFH's consolidated financial statements for the years ended 31 December 2004, 31 December 2005 and 31 December 2006 in accordance with both International Standards on Auditing as issued by the International Federation of Accountants and Auditing Standards issued by the Accounting and Auditing organisation for Islamic Financial Institutions, and have issued unqualified opinion on those consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and Financial Accounting Standards issued by the Accounting and Auditing organisation for Islamic Financial Institutions. The auditors of GFH have no material interest in GFH.

The auditors of the Issuer are KPMG Fakhro, 5th Floor, Chamber of Commerce Building, PO Box 710, Manama, Kingdom of Bahrain. The Issuer has not prepared any financial statement to date. The auditors of the Issuer have no material interests in the Issuer.

Dealers transacting with GFH

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to GFH and its affiliates in the ordinary course of business.

Supplement to this Base Prospectus

The Issuer and GFH will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Sukuk Certificates, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Sukuk Certificates. Each of the Issuer and GFH has undertaken to the Dealers in the Dealer Agreement (as defined in the *"Subscription and Sale"* section in this Base Prospectus that it will comply with section 87G of the Financial Services and Markets Act 2000.

Litigation

None of the Issuer, GFH nor any of their respective subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or GFH is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer, GFH or any of their respective subsidiaries.

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FINANCIAL INFORMATION

GULF FINANCE HOUSE BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
31 March 2007

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an offshore Islamic investment bank).
Office	:	Al Salam Building Diplomatic Area PO Box 10006, Manama, Kingdom of Bahrain
Directors	:	Fuad Abdulla Al-Omar, *Chairman* Hamad A Aziz Al-Shaya, *Vice Chairman* Abdul Latif Abdullah Al-Meer Abdul.Rahman Ali Al-Saeed Adel Dawood Al-Ohali Buti Bin Khalifa Al-Flasi Esam Yousif A. Janahi Khalid Mohamed Najibi Samir Yacoub Al-Nefaisi Waleed A.Rahman Al-Ruwaih Yousif A.Latif Al-Sarkal Yousuf Mohammed Khayat
Chief Executive Officer	:	Esam Yousif A. Janahi
Company secretary	:	Dr Haider Majali
Auditors	:	KPMG

GULF FINANCE HOUSE BSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2007

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KPMG Fakhro
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5th Floor
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Kingdom of Bahrain

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Internet www.kpmg.com.bh

Independent report on review of condensed consolidated interim financial information

To

The Directors
Gulf Finance House BSC
Manama
Kingdom of Bahrain

29 April 2007

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Gulf Finance House BSC (the "Bank") and its subsidiaries (together the "Group") as at 31 March 2007, and the related condensed consolidated statements of income, changes in equity, cash flows and changes in restricted investment accounts for the three-month period then ended (interim financial information). The Directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 – *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

kpmg

CONDENSED CONSOLIDATED BALANCE SHEET
as at 31 March 2007 US$ 000's

	Note	**31 March 2007 (reviewed)**	31 December 2006 (audited)	31 March 2006 (reviewed)
ASSETS				
Cash and bank balances		48,583	15,050	44,704
Due from financial and other institutions		604,009	687,765	800,287
Trading properties		2,960	2,960	8,890
Islamic financing assets		158,759	98,927	20,131
Investment in sukuks		72,967	77,993	47,812
Assets held for sale	5	84,196	24,196	26,333
Investment securities	6	394,415	357,063	262,013
Other assets		259,899	232,496	74,729
Equipment		5,228	4,434	2,395
Total assets		**1,631,016**	1,500,884	1,287,294
LIABILITIES				
Investors' funds		342,532	348,553	219,940
Customers' current accounts		13,103	7,297	1,896
Due to financial and other institutions		564,169	340,916	480,439
Other liabilities		70,757	77,454	31,093
Total liabilities		**990,561**	774,220	733,368
Unrestricted investment accounts		**79,003**	58,920	30,350
EQUITY				
Share capital	4	238,921	212,674	212,674
Advance towards share capital		-	2,708	-
Share premium	4	180,382	178,321	178,322
Treasury shares		(53,663)	(14,127)	-
Subsidiary company share grants		1,833	1,804	-
Statutory reserve		45,470	46,337	24,621
Investments fair value reserve		940	364	528
Retained earnings		147,569	239,663	107,431
Total equity (pages F-7 and F-8)		**561,452**	667,744	523,576
Total liabilities, unrestricted investment accounts and equity		**1,631,016**	1,500,884	1,287,294
Off-balance sheet items				
Restricted investment accounts (pages F-10 and F-11)		**142,877**	123,393	93,683

Fuad Abdulla Al-Omar
Chairman

Esam Yousif A. Janahi
Director and Chief Executive Officer

The Directors approved the condensed consolidated interim financial information consisting of pages F-5 to F-13 on 29 April 2007.

CONSOLIDATED INCOME STATEMENT
for the three months ended 31 March 2007 US$ 000's

	31 March 2007 (reviewed)	31 March 2006 (reviewed)
Income from investment advisory services	88,237	61,724
Placement, arrangement and management fees	4,168	6,118
Income from investment securities	4,456	3,455
Income from short-term murabaha placements	8,041	7,176
Income from investment in sukuks	1,243	920
Income from islamic financing assets	1,746	160
Other income	11	369
Total income	**107,902**	79,922
Staff costs	16,565	12,212
Investment advisory expenses	5,632	4,619
Murabaha expense	9,737	3,994
Other expenses	3,696	2,012
Total expenses	**35,630**	22,837
PROFIT FOR THE PERIOD	**72,272**	57,085
Earnings per share		
Basic earnings per share (US cents)	**10.20**	8.73

The condensed consolidated interim financial information consists of pages F-5 to F-13.

GULF FINANCE HOUSE BSC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 3 months ended 31 March 2007 US$ 000's

31 March 2007 (reviewed)	**Share Capital**	**Advance towards share capital**	**Share premium**	**Treasury Shares**	**Subsidiary company share grants**	**Statutory reserve**	**Invest-ments fair value reserve**	**Retained earnings**	**Total Equity**
Balance at 1 January 2007	212,674	2,708	178,321	(14,127)	1,804	46,337	364	239,663	667,744
Loss on sale of treasury shares	-	-	-	-	-	(867)	-	-	(867)
Net fair value changes during the period	-	-	-	-	-	-	319	-	319
Transfer to income statement on disposal of AFS investments	-	-	-	-	-	-	257	-	257
Net income / expense recognised directly in equity	-	-	-	-	-	(867)	576	-	(291)
Net profit for the period	-	-	-	-	-	-	-	72,272	72,272
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**(867)**	**576**	**72,272**	**71,981**
Issue of bonus shares	25,600	-	-	-	-	-	-	(25,600)	-
Increase in share capital	647	(2,708)	2,061	-	-	-	-	-	-
Share grants vesting expense	-	-	-	-	29	-	-	-	29
Dividend declared for 2006	-	-	-	-	-	-	-	(134,391)	(134,391)
Charity contribution declared for 2006	-	-	-	-	-	-	-	(1,598)	(1,598)
Board remuneration declared for 2006	-	-	-	-	-	-	-	(1,375)	(1,375)
Zakah contribution declared for 2006	-	-	-	-	-	-	-	(1,402)	(1,402)
Purchase of treasury shares	-	-	-	(40,711)	-	-	-	-	(40,711)
Sale of treasury shares	-	-	-	1,175	-		-	-	1,175
Balance at 31 March 2007	**238,921**	**-**	**180,382**	**(53,663)**	**1,833**	**45,470**	**940**	**147,569**	**561,452**

The condensed consolidated interim financial information consists of pages F-5 to F-13.

GULF FINANCE HOUSE BSC

Condensed consolidated statement of changes in equity
for the 3 months ended 31 March 2007 *(continued)* US$ 000's

31 March 2006 (reviewed)	Share Capital	Share premium	Statutory reserve	Investments fair value reserve	Retained earnings	Total Equity
Balance at 1 January 2006	149,771	31,487	24,621	227	146,258	352,364
Net fair value changes during the period	-	-	-	301	-	301
Net income recognised directly in equity	-	-	-	301	-	301
Net profit for the period	-	-	-	-	57,085	57,085
Total recognised income and expense	-	-	-	301	57,085	57,386
Issue of bonus shares	17,972	-	-	-	(17,972)	-
Dividend declared for 2005	-	-	-	-	(71,890)	(71,890)
Charity contribution declared for 2005	-	-	-	-	(1,000)	(1,000)
Board remuneration paid for 2005	-	-	-	-	(1,050)	(1,050)
Increase in Share Capital	44,931	142,963	-	-	-	187,894
Share issue expenses	-	(128)	-	-	-	(128)
Transfer from retained earnings to share premium	-	4,000	-	-	(4,000)	-
Balance at 31 March 2006	212,674	178,322	24,621	528	107,431	523,576

The condensed consolidated interim financial information consists of pages F-5 to F-13.

GULF FINANCE HOUSE BSC

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2007 US$ 000's

	31 March 2007 (reviewed)	31 March 2006 (reviewed)
OPERATING ACTIVITIES		
Cash receipts from investment advisory services	70,005	49,629
Net increase in customers' current accounts	5,806	(3,194)
Islamic financing assets, net	(59,832)	(3,023)
Short term financing of projects	(52,149)	(4,700)
Investors' funds paid, net	(6,021)	(257,712)
Placement, arrangement and management fees received	3,547	6,916
Murabaha profits and income from Islamic financing received	9,739	7,628
Murabaha expense paid	(8,793)	(3,592)
Other income received	-	411
Payments for expenses	(44,698)	(49,344)
Cash flows from operating activities	**(82,396)**	(256,981)
INVESTING ACTIVITIES		
Purchase of investment securities	(51,513)	(31,897)
Proceeds from sale of investment securities	18,987	751
Purchase of assets held for sale	(60,000)	-
Purchase of trading property	-	(230)
Proceeds from sale of trading property	31,872	-
Purchase of sukuks (long term)	(15,900)	(22,000)
Income from sukuks received	450	145
Purchase of equipment	(1,215)	(320)
Cash flows from investing activities	**(77,319)**	(53,551)
FINANCING ACTIVITIES		
Receipts from financial and other institutions, net	223,255	304,171
Acquisition of treasury shares, net	(38,363)	-
Proceeds from increase in share capital	-	187,894
Net receipts to/ (payments from) unrestricted investment accounts	20,083	(5,350)
Cash paid to charitable organisations	(25)	-
Board remuneration paid	(1,375)	(1,050)
Dividends paid	(115,270)	(65,369)
Cash flows from financing activities	**88,305**	420,296
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	(71,410)	109,764
Cash and cash equivalents at 1 January	724,002	745,557
CASH AND CASH EQUIVALENTS AT 31 March	**652,592**	855,321
Cash and cash equivalents comprise:		
Cash and balances with banks	48,583	44,704
Due from financial institutions and other institutions	604,009	800,287
Investments in sukuk (short-term)	-	10,330
	652,592	855,321

The condensed consolidated interim financial information consists of pages F-5 to F-13.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the three months ended 31 March 2007

31 March 2007	**Balance at 1 January 2007**			**Movements during the period**						**Balance 31 March 2007**			
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administra-tion expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's	Total % ownership
Gulf Development Real Estate Company KSCC	10,910	0.35	3,772	-	-	-	-	-	-	10,910	0.35	3,772	7%
Kuwait National Real Estate Investment & Services Co. KSCC	6,870	0.35	2,376	-	-	-	-	-	-	6,870	0.35	2,376	23%
Bayan Holding Company KSCC	18,266	0.35	6,316	-	-	-	-	-	-	18,266	0.35	6,316	2%
Gulf Holding Company	23,919	0.35	8,271	-	-	-	-	-	-	23,919	0.35	8,271	3%
Gulf North Africa Holding Company KSCC	11,500	0.35	3,977	-	-	-	-	-	-	11,500	0.35	3,977	8%
Saudi Real Estate Company	936	13.33	12,472	-	-	-	-	-	-	936	13.33	12,472	31%
Al Basha'er Fund	753	8.97	6,751	(45)	-	394	-	(16)	-	748	9.47	7,084	2%
Pan European Fund	35.85	1,315.40	47,157	-	609	1,177	(1,177)	-	-	35.85	1,332.40	47,766	90%
Al Hareth French Property Fund	24.65	1,310.40	32,301	-	542	821	(780)	(41)	-	24.65	1,332.40	32,843	100%
Energy City Qatar Holding Co.	-	-	-	18,000	-	-	-	-	-	617.90	29.13	18,000	9%
			123,393	**17,955**	**1,151**	**2,392**	**(1,957)**	**(57)**				**142,877**	

The condensed consolidated interim consolidated financial information consists of pages F-5 to F-13.

Condensed consolidated statement of changes in restricted investment accounts for the three months ended 31 March 2007 *(continued)*

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

The condensed consolidated interim financial information consists of pages F-5 to F-13.

for the three months ended 31 March 2007 US$ 000's

1 The condensed consolidated interim financial information has been prepared in summarised form in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

2 The condensed consolidated interim financial information is not audited but has been reviewed by KPMG. The comparatives for the consolidated balance sheet have been extracted from the audited consolidated financial statements for the year ended 31 December 2006 and the comparatives for the condensed consolidated statements of income, cash flows, changes in equity and the consolidated changes in restricted investment accounts have been extracted from the reviewed condensed consolidated interim financial information for the three months ended 31 March 2006.

3 The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2006.

4 During the period, the paid up capital of the Group increased from US$ 212,674 to US$ 238,921 and the share premium increased from US$ 178,321 to US$ 180,382 as follows:

- issue of bonus shares (twelve shares for every hundred shares held) for 2006 amounting to US$ 25,600; and
- issue of share capital of US$ 647 at a premium of US$ 2,061.

5 Assets held for sale comprise of

	31 March 2007	31 December 2006	31 March 2006
Investments in associates	34,196	24,196	26,333
Development in progress	50,000	-	-
	84,196	24,196	26,333

Development in progress represents 100% acquisition of 'Lost Paradise of Dilmun' water park from Al Areen Desert Spa & Resort Holding Company BSC (c). At 31 March 2007, the water park was under development and was substantially completed.

6 Investment securities comprises of:

	31 March 2007	31 December 2006	31 March 2006
Available-for-sale investments	335,416	320,137	230,303
Investments in Associates:			
- Designated at fair value through the income statement	28,885	26,626	21,410
- Equity accounted	30,114	10,300	10,300
	394,415	357,063	262,013

Fair value changes taken to the income statement on 'investments carried at fair value through the income statement' for the three months ended 31 March 2007 amounted to US$ 4,509 (31 March 2006: US$ 3,445).

for the three months ended 31 March 2007 US$ 000's

7 Performance obligations

During the ordinary course of business, the Bank may enter into performance obligations in respect of its development infrastructure projects. It is the practice of the Bank to pass these performance obligations, wherever possible, on to the companies that own the projects. In April 2007, the Bank received a termination notice in respect of a project that had been legally assigned to a project company. The Bank disputes the grounds for the termination notice and has already engaged with the other party to achieve an amicable settlement. In the opinion of the management, at 31 March 2007, no liabilities are expected to materialise on the Bank from the issue of this notice.

8 Due to the effect of cyclical variations, the three month results reported in these condensed interim consolidated financial information may not represent a proportionate share of the overall annual results.

9 Commitments and contingencies

The commitments contracted in the normal course of business of the Group:

	31 March 2007	31 December 2006
Commitments to invest	169,408	136,226
Undrawn commitments to extend finance	27,268	8,050

The Group has exited one of its investment projects during 2005 and has issued a corporate guarantee of up to £ 57 million, securing the buyer against any general indemnity, tax claim or liability that might arise under the terms of the agreement. In the opinion of the management, the possibility of the guarantee being invoked is negligible.

10 During the course of the Group's investment and advisory activities, a significant portion of the income arises from transactions with entities over which the Group exercises influence as well as with other related parties such as major shareholders, directors and executive management of the Group.

For the three months ended 31 March 2007, the Group has recognised income from investment advisory services of US$ 88,237 (31 March 2006: US$ 61,724) arising from transactions with related parties.

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

12 Certain prior year amounts have been reclassified to conform to the current year's presentation. Such reclassifications do not affect previously reported net profit or equity.

GULF FINANCE HOUSE BSC

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2006

Commercial registration	:	44136 (registered with Central Bank of Bahrian as an Islamic investment Bank).
Registered Office	:	Al Salam Building Diplomatic Area PO Box 10006, Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	:	Fuad Abdulla Al-Omar, *Chairman* Hamad A Aziz Al-Shaya, *Vice Chairman* Abdul Latif Abdullah Al-Meer Abdul.Rahman Ali Al-Saeed Adel Dawood Al-Ohali Buti Bin Khalifa Al-Flasi Esam Yousif A. Janahi Khalid Mohamed Najibi Samir Yacoub Al-Nefaisi Waleed A.Rahman Al-Ruwaih Yousif A.Latif Al-Sarkal Yousuf Mohammed Khayat
Chief Executive Officer	:	Esam Yousif A. Janahi
Company Secretary	:	Dr. Haider Majali
Auditors	:	KPMG

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2006

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CHAIRMAN'S REPORT
for the year ended 31 December 2006

Dear Shareholders

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

On behalf of the Board of Directors, it is my privilege to present the annual report of Gulf Finance House (GFH) for the year ended 31 December 2006. GFH is once again riding a wave of success and 2006 has proved to be a most successful and blessed year for our Bank. Innovative measures and a strong value based approach have helped us consolidate and further build on our investment portfolio. The record financial results are a testimony to our sound strategic progress, outstanding operational success and our strengthened institutional and governance capability.

Financial performance
I am pleased to report that GFH enjoyed a truly excellent 2006 fiscal year. Net profits rose by 51 percent to US$212 million, compared to US$ 140 million in 2005. Return on equity was 41 per cent while return on paid up capital was almost 100 per cent.

In view of this exemplary performance, the Bank's shareholders have proposed a total dividend of 75 per cent of paid up capital – 63% in cash and 12% in shares – subject to the Annual General Meeting approval on 18 February 2007.

GFH shares in the second full year of trading have had a mixed performance reflecting the general volatility of the stock markets in Bahrain and Kuwait during 2006. Without any direct exposure to the region's equity capital markets, I am pleased to report that GFH's financial performance was not adversely affected. In May 2006, we took another step forward by listing our shares on the Dubai Financial Market and we are now strategically positioned to list the Bank on an international bourse during 2007 to further expand our shareholder base internationally, subject to market conditions and regulatory approval.

Strategic progress
A strong investment initiative has enabled us to leverage on our strengths and expand our geographic reach within regional economies and international markets. GFH today enjoys strong credibility as a 'partner for progress,' originating, financing and developing infrastructure and economic development projects that make a direct and visible contribution to the economic well-being of the countries in which we invest, such as Morocco, Egypt, Saudi Arabia, India, Jordan, Qatar, UAE and Bahrain.

The way forward now is to reinforce our existing position as the leading Islamic investment Bank in the region, offering broad based investment banking services. Strategic focus will be on emphasizing our presence especially in Saudi Arabia, South East Asia and North Africa, with the objective of further diversifying into investment areas in private equity, asset management as well as infrastructure development.

I am also happy to report that Khaleeji Commercial Bank, formerly known as Gulf Finance House Commercial Bank, has enjoyed a very successful second full year of operations. The Bank today has a new identity and new headquarters and is moving dynamically forward with its participation in several key infrastructure developments in the region.

Operational achievements
GFH is poised on the threshold of marking the completion of its flagship project in Bahrain – the Bahrain Financial Harbour, scheduled to open in April 2007. The Bank's landmark development projects in Qatar and Jordan remain firmly on track with the opening of the Head Office and Sales Centre for Royal Village in Jordan; and the launch of the second phase of Energy City Qatar.

Significant new developments in 2006 also include obtaining approval in principle and raising share capital for Qatar's first Islamic investment bank in the Qatar Financial Centre; the signing of an agreement with the Government of the Arab Republic of Egypt to develop the country's transportation infrastructure; and participation in the US$ 8 billion Prince Abdulaziz bin Mousaed Economic City in the Kingdom of Saudi Arabia.

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

Prudent planning and strong fiscal measures have helped us offer our investors maximised returns with high yields from either an income-generating portfolio or capital appreciation at the time of exit. In 2006, GFH successfully completed several exits, generating excellent short-to-medium term returns for investors, ranging from 10.5 to 34 per cent per annum over periods of between one to four years. These exits include the Gulf Atlantic FZ LLC (France) - GAF, a fund established and managed by GFH, and the exit of the UK income-producing fund, Gulf Atlantic Real Estate (GARE) to Deutsche Bank.

Simultaneously, GFH achieved growing international recognition in 2006 through a number of prestigious awards as well as Standard & Poor's assignment of an investment grade credit rating of BBB-.

Organisational developments
Under the guidance of the Board of Directors, the Bank's promising performance in 2006 is a reflection of our strong corporate governance practices and proactive measures employed to further enhance the Bank's institutional capacity. We continued to set exacting standards in corporate best practices, exceeding benchmarks set by international consultants and ensuring full compliance with the regulatory requirements of the Central Bank of Bahrain.

Focusing on key operational areas such as investment, private equity, real estate development, asset management and compliance, the Bank successfully met its target in further developing its operational capacity by bringing in professionals for placement in strategic operational areas with a strong emphasis on consolidation and team building.

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

Today the bank continues to provide financial support and sponsorship for educational, economic and business initiatives, charitable organisations and sporting events in the region. These include its partnership with Young Arab Leaders and its substantial contributions to the Royal University for Women and the Gifted Students Centre in Bahrain. The centre's aim is to serve the Bahraini society by embracing special abilities and is designed to develop and enhance the various talents of these students for a brighter and promising future.

CHAIRMAN'S REPORT
for the year ended 31 December 2006

Looking ahead
I would like to reiterate that our consolidated financial performance in 2006 shows great promise. The results were achieved against a background of an economic boom in the GCC that was in its fourth year and despite some adverse developments in local equity capital markets. The real estate market continues to remain buoyant, boosted by both public spending on infrastructure development projects and private investment projects initiated by both domestic and foreign investors.

Taking advantage of this scenario, GFH can look forward to positively enhancing its current status within the region as well as seizing opportunities in new emerging markets by actively monitoring market changes and leveraging on opportunities for growth.

Appreciations
As we continue on our way forward in defining new principles of growth and strategic measures to attain desired objectives, on behalf of the Board of Directors, I would like to express my gratitude to the rulers and respective governments of the Kingdom of Bahrain, the State of Kuwait, the Kingdom of Saudi Arabia, the United Arab Emirates, the State of Qatar, the Kingdom of Jordan, the Republic of Egypt, the Kingdom of Morocco and the Republic of India for their sagacity and strong economic policies in furthering our investment initiatives.

I take this opportunity to thank all regulatory bodies of the countries in which we are involved, particularly the Central Bank of Bahrain, for their continued support and prudential guidance.

I would also like to thank the Bank's shareholders, clients and strategic business partners for their continued loyalty and trust in us. Let me also pay tribute to the management and staff of GFH for their dedication and hard work during 2006.

Together, they have contributed to another outstanding year for Gulf Finance House and provided us with renewed confidence to face all future challenges.

Yours truly,

Dr Fuad Abdulla Al-Omar
Chairman

28 January 2007

KPMG

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REPORT OF THE AUDITORS TO THE SHAREHOLDERS 28 January 2007
GULF FINANCE HOUSE BSC
Manama, Kingdom of Bahrain

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of Gulf Finance House B.S.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, the consolidated statement of changes in equity, the consolidated statement of cash flows, the consolidated statement of changes in restricted investment accounts and the consolidated statement of sources and uses of charity and zokah fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the directors for the consolidated financial statements
The directors of the Bank are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatements whether due to fraud or error, selecting and applying appropriate accounting policies: and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial based on our audit. We conducted our audit in accordance with both the Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 our 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, we consider 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 principles 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.

KPMG

Report of the auditors to the shareholders *(continued)*

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006, and of its financial performance, its cash flows, the changes in its equity, charges in restricted investment accounts and sources and uses of charity and zokah fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

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

Report on other legal and regulatory requirements

In addition, in our opinion, the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the terms of the Bank's license or its memorandum and articles of association having occurred during the year ended 31 December 2006 that might have had a material effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

Kpmg

CONSOLIDATED BALANCE SHEET
as at 31 December 2006 US$ 000's

	Note	2006	2005
ASSETS			
Cash and bank balances	3	15,050	13,412
Due from financial and non-financial institutions	4	687,765	685,771
Trading properties		2,960	8,660
Islamic financing assets	5	98,927	17,110
Investment in sukuks	6	77,993	61,374
Assets held-for-sale	7	24,196	25,327
Investment securities	8	357,063	189,235
Other assets	9	232,496	97,184
Equipment	10	4,434	1,694
Total assets		**1,500,884**	1,099,767
LIABILITIES			
Investors' funds	11	348,553	477,775
Customers' current accounts		7,297	5,090
Due to financial and non-financial institutions	12	340,916	176,145
Other liabilities	13	77,454	52,693
Total liabilities		**774,220**	711,703
Unrestricted investment accounts	14	**58,920**	35,700
EQUITY			
Share capital	15	212,674	149,771
Advance towards share capital		2,708	—
Share premium		178,321	31,487
Treasury shares		(14,127)	—
Subsidiary company share grants	19	1,804	—
Statutory reserve		46,337	24,621
Investments fair value reserve		364	227
Retained earnings		239,663	146,258
Total equity (page F-23)		**667,744**	352,364
Total liabilities, unrestricted investment accounts and equity		**1,500,884**	1,099,767
Off-balance sheet items			
Restricted investment accounts (page F-26)		**123,393**	106,393

The consolidated financial statements, which consist of pages F-21 to F-54, were approved by the Board of directors on 28 January 2007 and signed on its behalf by:

Fuad Abdulla Al-Omar	Hamad A Aziz Al-Shaya	Esam Yousif A. Janahi
Chairman	*Vice-Chairman*	*Director and Chief Executive Officer*

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2006 US$ 000's

	Note	**2006**	2005
Income from investment advisory services	16	266,647	167,752
Placement, arrangement and management fees		20,337	27,280
Income from investment securities	17	11,982	12,403
Income from short-term murabaha placements		35,357	13,559
Income from investment in sukuks		3,718	1,234
Income from Islamic financing assets		3,783	150
Other income		3,882	548
Total income		**345,706**	222,926
Staff costs	18	67,248	40,103
Investment advisory expenses		25,055	29,402
Impairment allowances on available-for-sale investments	8 (i)	6,728	-
Murabaha expense		24,322	8,022
Other expenses		10,767	5,015
Total expenses		**134,120**	82,542
PROFIT FOR THE YEAR		**211,586**	**140,384**
Attributable to:			
Shareholders of the parent company		211,586	140,331
Minority interest		-	53
		211,586	140,384
Earnings per share (US cents)			
Basic	28	**33.88**	25.34

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

GULF FINANCE HOUSE BSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2006 US$ 000's

	Attributable to the shareholders of the parent									Minority interest	Total equity
2006	**Share Capital**	**Advance towards share capital**	**Share premium**	**Treasury Shares**	**Subsidiary company share grants**	**Statutory reserve**	**Invest-ments fair value reserve**	**Retained earnings**	**Total**		
Balance at 1 January 2006	149,771	-	31,487	-	-	24,621	227	146,258	352,364	-	352,364
Gain on sale of treasury shares	-	-	-	-	-	508	-	-	508	-	508
Net fair value changes during the year	-	-	-	-	-	-	1,223	-	1,223	-	1,223
Transfer to income statement on disposal of AFS investments	-	-	-	-	-	-	(1,086)	-	(1,086)	-	(1,086)
Net income recognised directly in equity	-	-	-	-	-	508	137	-	645	-	645
Net profit for the year	-	-	-	-	-	-	-	211,586	211,586	-	211,586
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**508**	**137**	**211,586**	**212,231**	**-**	**212,231**
Issue of bonus shares	17,972	-	-	-	-	-	-	(17,972)	-	-	-
Increase in share capital	44,931	2,708	142,963	-	-	-	-	-	190,602	-	190,602
Share issue expenses	-	-	(129)	-	-	-	-	-	(129)	-	(129)
Fair value of share grants issued (note 19)	-	-	-	-	2,056	-	-	-	2,056	-	2,056
Unvested component of share grants issued (note 19)	-	-	-	-	(252)	-	-	-	(252)	-	(252)
Dividend declared for 2005	-	-	-	-	-	-	-	(71,890)	(71,890)	-	(71,890)
Charity contribution declared for 2005	-	-	-	-	-	-	-	(1,000)	(1,000)	-	(1,000)
Board remuneration declared for 2005	-	-	-	-	-	-	-	(1,050)	(1,050)	-	(1,050)
Zakah contribution declared for 2005	-	-	-	-	-	-	-	(1,061)	(1,061)	-	(1,061)
Purchase of treasury shares	-	-	-	(19,987)	-	-	-	-	(19,987)	-	(19,987)
Sale of treasury shares	-	-	-	5,860	-		-	-	5,860	-	5,860
Transfer from retained earnings to share premium	-	-	4,000	-	-	-	-	(4,000)	-	-	-
Transfer to statutory reserve	-	-	-	-	-	21,208	-	(21,208)	-	-	-
Balance at 31 December 2006	**212,674**	**2,708**	**178,321**	**(14,127)**	**1,804**	**46,337**	**364**	**239,663**	**667,744**	**-**	**667,744**

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

GULF FINANCE HOUSE BSC

Consolidated statement of changes in equity
for the year ended 31 December 2006 *(continued)*

US$ 000's

2005	Attributable to the shareholders of the parent							Minority interest	Total equity
	Share Capital	Advance towards share capital	Share premium	Statutory reserve	Invest-ments fair value reserve	Retained earnings	Total		
Balance at 1 January 2005	139,973	-	31,487	10,576	3,899	63,725	249,660	1,246	250,906
Net fair value changes during the year	-	-	-	-	12,520	-	12,520	-	12,520
Transfer to income statement on disposal of AFS investments	-	-	-	-	(16,192)	-	(16,192)	-	(16,192)
Net income recognised directly in equity	-	-	-	-	(3,672)	-	(3,672)	-	(3,672)
Net profit for the year	-	-	-	-	-	140,331	140,331	53	140,384
Total recognised income and expense					(3,672)	140,331	136,659	53	136,712
Issue of bonus shares	9,798	-	-	-	-	(9,798)	-	-	-
Dividend declared for 2004	-	-	-	-	-	(32,194)	(32,194)	-	(32,194)
Charity contribution declared for 2004	-	-	-	-	-	(600)	(600)	-	(600)
Board remuneration declared for 2004	-	-	-	-	-	(585)	(585)	-	(585)
Zakah contribution declared for 2004	-	-	-	-		(576)	(576)		(576)
Transfer to statutory reserve	-	-	-	14,045	-	(14,045)	-	-	-
De-recognition of minority interest on sale of subsidiary	-	-	-	-	-	-	-	(1,299)	(1,299)
Balance at 31 December 2005	149,771	-	31,487	24,621	227	146,258	352,364	-	352,364

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2006 US$ 000's

	Note	**2006**	2005
OPERATING ACTIVITIES			
Cash receipts from investment advisory services	9, 16	140,149	101,821
Net increase in customers' current accounts		2,207	5,090
Islamic financing assets, net		(81,817)	(17,110)
Short term financing of projects		(32,091)	(7,393)
Investors' funds (paid)/ received, net		(129,221)	443,556
Placement, arrangement and management fees received		20,337	21,499
Murabaha profits and income from Islamic financing received		39,140	14,551
Murabaha expense paid		(22,655)	(8,625)
Other income received		-	182
Payments for expenses		(68,113)	(32,055)
Cash flows from operating activities		**(132,064)**	521,516
INVESTING ACTIVITIES			
Purchase of investment securities	8, 16	(134,407)	(130,518)
Proceeds from sale of investment securities	8, 9	41,179	42,607
Purchase of trading property		(45,409)	(12,279)
Proceeds from sale of trading and investment property		-	5,447
Purchase of sukuks (long term)	6	(40,501)	(15,000)
Income from sukuks received		2,413	995
Purchase of equipment	10	(4,036)	(391)
Dividends received	17	628	2,170
Cash flows from investing activities		**(180,133)**	(106,969)
FINANCING ACTIVITIES			
Receipts from financial and non-financial institutions, net		164,771	47,104
Proceeds from issue of ordinary shares		190,602	-
Acquisition of treasury shares, net		(13,619)	-
Net receipts from unrestricted investment accounts		23,220	35,700
Cash paid to charitable organisations		(695)	(1,130)
Board remuneration paid		(1,050)	(585)
Dividends paid		(72,587)	(29,868)
Cash flows from financing activities		**290,642**	51,221
Net (decrease)/ increase in cash and cash equivalents		**(21,555)**	465,768
Cash and cash equivalents at 1 January		745,557	279,789
Cash and cash equivalents at 31 December		**724,002**	745,557
Cash and balances with banks	3	15,050	13,412
Due from financial and non-financial institutions	4	687,765	685,771
Investment in sukuks (short-term)	6	21,187	46,374
		724,002	745,557

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2006

31 December 2006	**Balance at 1 January 2006**			**Movements during the year**						**Balance 31 December 2006**			
Company:	No of units (000)	Average value per share US$	Total US$ 000's	Investment US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's	Total % ownership
Gulf Atlantic Real Estate Company Ltd	500	1.72	860	(922)	-	62	-	-	-	-	-	-	-
Gulf Atlantic FZ LLC	0.02	118,440	2,369	(2,888)	-	519	-	-	-	-	-	-	-
Gulf Development Real Estate Company KSCC	10,910	0.34	3,720	-	55	260	(260)	-	-	10,910	0.35	3,775	7
Menajet Holding SAL	200	10.00	2,000	(2,811)	-	811	-	-	-	-	-	-	-
Kuwait National Real Estate Investment & Services Co. KSCC	6,250	0.37	2,344	32	-	-	-	-	-	6,870	0.35	2,376	23
Bayan Holding Company KSCC	18,266	0.34	6,255	-	61	-	-	-	-	18,266	0.35	6,316	2
Gulf Holding Company	72,749	0.34	24,914	(16,722)	79	-	-	-	-	23,919	0.35	8,271	3
Gulf North Africa Holding Company KSCC	11,500	0.35	4,070	-	(94)	-	-	-	-	11,500	0.35	3,976	8
Saudi Real Estate Company	904	13.33	12,049	420	3	-	-	-	-	936	13.33	12,472	31
Al Basha'er Fund	823	10.00	8,232	(706)	-	(702)	-	(73)	-	753	8.97	6,751	2
Pan European Fund	8.70	1,188.65	10,339	35,713	1,103	2,384	(2,384)	-	-	35.85	1,315.40	47,155	90
Al Hareth French Property Fund	24.65	1,186.25	29,241	-	3,184	3,242	(3,242)	(124)	-	24.65	1,310.40	32,301	100
			106,393	12,116	4,391	6,576	(5,886)	(197)	-			123,393	

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2006 *(continued)*

31 December 2005	Balance at 1 January 2005			Movements during the year						Balance 31 December 2005			
Company:	No of units (000)	Average value per share US$	Total US$ 000's	Investment US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Adminis-tration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's	Total % ownership
Gulf Atlantic Real Estate Company Ltd	500	1.92	959	-	(99)	58	(58)	-	-	500	1.7208	860	1
Gulf Atlantic FZ LLC	0.02	135,580	2,712	-	(343)	178	(178)	-	-	0.02	118,430	2,369	3
Gulf Development Real Estate Company KSCC	9,784	0.340	3,320	386	14	-	-	-	-	10,910	0.34	3,720	7
Menajet Holding SAL	200	10	2000	-	-	-	-	-	-	200	10.00	2,000	3
Kuwait National Real Estate Investment & Services Co. KSCC	13,550	0.373	5,059	(2,736)	21	2,185	(2,185)	-	-	6,250	0.375	2,344	21
Bayan Holding Company KSCC	-	-	-	6,255	-	-	-	-	-	18,266	0.341	6,255	2
Gulf Holding Company	-	-	-	24,914	-	-	-	-	-	72,749	0.341	24,914	10
Gulf North Africa Holding Company KSCC	-	-	-	4,070	-	-	-	-	-	11,500	0.349	4,070	8
Saudi Real Estate Company	-	-	-	12,049	-	-	-	-	-	904	13.33	12,049	30
Al Basha'er Fund	-	-	-	8,232	-	-	-	-	-	823	10.00	8,232	2
Pan European Fund	-	-	-	10,304	-	35	-	-	-	9	1,188.65	10,339	90
Al Hareth French Property Fund	-	-	-	29,195	-	1,412	(1,289)	(77)	-	25	1,186.25	29,241	100
			14,050	92,669	(407)	3,868	(3,710)	(77)	-			106,393	

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND
for the year ended 31 December 2006 US$ 000's

	2006	2005
Sources of charity and zakah fund		
Contributions by the Bank	2,061	1,176
Non-Islamic income (note 24)	301	66
Total sources	**2,362**	1,242
Uses of charity fund and zakah fund		
Contributions to charitable organisations	(695)	(1,130)
Total uses	**(695)**	(1,130)
Excess of sources over uses	**1,667**	112
Undistributed charity and zakah fund at 1 January	967	855
Undistributed charity and zakah fund at 31 December (note 13)	**2,634**	967

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITY

Gulf Finance House BSC ("the Bank") was incorporated in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136. The Bank's shares are listed on the Bahrain, Kuwait and Dubai Financial Market Stock Exchanges. The Bank operates as an Islamic Investment Bank under a license granted by the Central Bank of Bahrain ("CBB").

The consolidated financial statements for the year ended 31 December 2006 comprise the financial statements of the Bank and its subsidiaries (together referred to as "the Group").

The Bank's activities are regulated by the CBB and supervised by a Religious Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association.

The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Bank's Shari'a Board.

Khaleeji Commercial Bank BSC (c) [previously know as Gulf Finance House Commercial Bank BSC (c)], a closed company incorporated in Bahrain, is the Bank's principal wholly owned subsidiary specialising in real estate financing. The subsidiary operates under a Islamic retail banking license granted by the CBB.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with both the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards ('IFRS').

(b) Basis of preparation

The financial statements are presented in US Dollars, being the principal currency of the Group's operations. They are prepared on the historical cost basis except for the measurement at fair value of certain available-for-sale investments and investments in associates at fair value through the income statement.

Financial 'assets held for sale' are carried at fair value in accordance with International Accounting Standard ('IAS') 39 'Financial Instruments: Recognition and Measurement'.

The preparation of financial statements in conformity with the IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 20.

(c) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are those enterprises (including special purpose vehicles) controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its

*2 **Significant accounting policies** (continued)*

*(c) **Basis of consolidation** (continued)*

activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

(ii) *Associates*

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. On initial recognition of investment in each associate, the Bank makes an accounting policy election as to whether the associate shall be equity accounted or designated as an investment at fair value through the income statement in the consolidated financial statements. The Bank, being a venture capital organisation, designates certain of its investments in associates, as allowed by IAS 28 'Investments in Associates', as 'investments carried at fair value through the income statement' in accordance with IAS 39 [refer note 2 (e)].

If the equity accounting method is chosen for an associate, the consolidated financial statements include the Group's share of the associate's total recognised gains and losses. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency transactions

(i) *Functional and presentation currency*

Items included in the consolidated financial statements 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 US dollars, which is the Bank's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items classified as available-for-sale financial assets are included in investments fair value reserve.

(iii) *Group companies*

The other group companies functional currencies are denominated in Bahraini Dinars, which is effectively pegged to the US Dollar. Hence, the translation of financial

2 Significant accounting policies (continued)

(d) Foreign currency transactions (continued)

statements of the group entities that have a functional currency different from the presentation currency do not result in exchange differences.

(e) Investments

(i) Classification

Investments carried at fair value through the income statement are financial assets that are held for trading or which upon initial recognition are designated by the Bank as at fair value through the income statement. These include investment in certain associates [refer note 2 (c) (ii)].

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. These include investment in sukuks.

Available-for-sale investments are financial assets that are not investments carried at fair value through the income statement or held to maturity. These include investments in quoted and unquoted equity securities.

(ii) Recognition

The Group recognises investments when it becomes entitled to ownership. This is determined based on either payments made to acquire stakes in investments or equity stakes received in kind for services rendered.

(iii) Measurement

Financial instruments are measured initially at cost, which is the fair value of the consideration given (in the case of an asset) or received (in the case of a liability), including transaction costs. Subsequent to initial recognition investments at fair value through the income statement and available-for-sale assets are re-measured to fair value. Held-to-maturity investments are measured at cost less any impairment allowances. Available-for-sale investments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values, are stated cost less impairment allowances.

(iv) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of investments carried at fair value through the income statement are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in a separate fair value reserve and when the investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the fair value reserve is transferred to the income statement.

(v) Fair value measurement principles

Unquoted

I. Investments for which there is no quoted market price or other appropriate methods from which to derive reliable fair values, are stated cost less impairment allowances.

2 Significant accounting policies (continued)

***(e) Investments** (continued)*

II. For other unquoted investments, fair value is determined either by reference to the price of the most recent transactions in the shares, or based on recognised valuation models, or based on valuations undertaken by independent external valuers. The Group uses proprietary models, which usually are developed from recognised valuation models, for fair valuation of certain available-for-sale investments and investments in associates designated at fair value through the income statement. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

Quoted investments

III. Fair value for quoted investments is their market bid price.

(f) Due from financial and non-financial institutions

These comprise placements in the form of Murabaha and Mudaraba contracts which are stated at cost less impairment allowances.

(g) Islamic financing assets

Islamic financing assets comprise shari'a compliant commercial financing provided by the Group. These include Murabaha, Mudaraba and Musharaka financing which are stated at cost less impairment allowances.

(h) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for 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 that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

Impairment losses on Islamic financing assets and investment in sukuks are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognised in the income statement and reflected in an allowance account against Islamic financing assets and investment in sukuks. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

*2 **Significant accounting policies** (continued)*

(i) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash, balances with banks and short-term highly liquid assets (including due from financial institutions and investments in certain short-term sukuks) with maturities of three months or less when acquired.

(j) Equipment

Equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 1 to 5 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(k) Trading property

Trading properties are properties held for sale in the ordinary course of business. Trading properties are stated at the lower of cost and net realisable value.

(l) Impairment of other assets

The carrying amount of the Group's assets, other than financial assets (refer note 2 (h)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

(m) Dividends and board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

(n) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

(o) Revenue recognition

Income from investment advisory services is recognised when the services for the transaction are provided and income is earned. This is usually when the Group has performed all significant acts in relation to the transaction and it is highly probable that the economic benefits from the transaction will flow to the Group.

Placement, management and arrangement fees are recognised as income when earned.

Income from Murabaha contracts are recognised on a time-apportioned basis over the period of the contract. **Income from Mudaraba financing contracts** that continue for more than one financial period are recognised to the extent such profits are declared by the Mudarib (agent).

2 Significant accounting policies (continued)

(o) Revenue recognition (continued)

Profit from Musharaka contracts that continue for more than one financial period are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital.

Income from investment in sukuks is recognised on a time-apportioned basis over the term of the sukuk.

Income from investments (**dividend income**) is recognised when the right to receive is established.

(p) Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders.

(q) Unrestricted investment accounts

Unrestricted investment accounts are funds held by the Group, which it can invest at its own discretion. The unrestricted investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Group charges management fee (Mudarib fees) to unrestricted investment account holders. Of the total income from unrestricted investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions and deducting the Group's share of income. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the unrestricted investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts.

(r) Earnings prohibited by Shari'a

The Bank is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Bank uses these funds for charitable means.

(s) Zakah

Pursuant to the decision of the shareholders', the Bank is required to pay Zakah on its undistributed profits. The Bank is also required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Bank's Shari'ah Supervisory Board.

for the year ended 31 December 2006 US$ 000's

*2 **Significant accounting policies** (continued)*

(t) Employees benefits

(i) Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a "defined contribution scheme" in nature under IAS 19 'Employee Benefits', and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis.

(ii) Expatriate employees

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment, , which is a "defined benefit scheme" in nature under IAS 19, has been made by calculating the notional liability had all employees left at the balance sheet date.

(iii) Employee savings scheme

The Group has a voluntary employees saving scheme. The Bank and the employee contribute monthly on a fixed percentage of salaries basis to the scheme. The scheme is managed and administered by a board of trustees.

(u) Compensation benefits

Eligible employees of each of the Group entities are entitled to bonus in accordance with their respective Employee Incentive Schemes ("the schemes"). The Group operates different schemes for the parent Bank and its subsidiaries. Under the various schemes, employees are entitled to receive bonus in the form of cash and/ or shares in ratios determined by the terms of the respective schemes. The cash settled portion of the bonus is recognised as an expense and is included in staff costs in the income statement, with a corresponding increase in liabilities for any unsettled amounts. The liability is remeasured at each reporting date and at settlement date. Any changes in the value of the liability are recognised as staff costs in the income statement. The equity settled share-based payment component of the bonus is recognised at the fair values of the equity instruments at the grant date and is recognised as an expense rateably over the vesting period with a corresponding increase in equity.

(v) Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on trade date, i.e. the date that the Group contracts to purchase or deliver the asset. Regular way purchases or sale are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3 CASH AND BANK BALANCES

	2006	2005
Cash	304	8
Balances with banks	7,446	11,905
Current account with Central Bank	5,788	93
Reserve deposit with Central Bank	1,512	1,406
	15,050	13,412

for the year ended 31 December 2006 US$ 000's

4 DUE FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2006	2005
		-
Gross commodity Murabaha with financial institutions	689,639	642,770
Gross commodity Murabaha with non-financial institutions	-	15,880
Less: Deferred profits	(1,874)	(2,879)
	687,765	655,771
Investments in Mudarba	-	30,000
	687,765	685,771

5 ISLAMIC FINANCING ASSETS

	2006	2005
Murabahas	37,912	12,126
Mudaraba	5,127	3,753
Musharaka	55,888	1,231
	98,927	17,110

Murabaha financing receivables are net of deferred profits of US$ 4,173 thousand (2005: US$ 151 thousand).

6 INVESTMENT IN SUKUKS

	2006	2005
Investment in sukuks		
- Short-term	21,187	46,374
- Long-term	56,806	15,000
	77,993	61,374

7 ASSETS HELD-FOR-SALE

The bank intends to sell certain of its investment securities and is actively seeking a buyer. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', such investments have been reclassified as assets held for sale. When the investment securities do not continue to satisfy the conditions of classification as assets held for sale, they are reclassified into investment securities. Assets held for sale include:

	2006	2005
Investments in associates at fair value through income statement	24,196	17,945
Available-for-sale investments	-	7,382
	24,196	25,327

The carrying amount of investments in associates at fair value through income statement include fair value gain of US$ 7,900 thousand (2005: net fair value loss of US$ 3,825 thousand).

for the year ended 31 December 2006 US$ 000's

8 INVESTMENT SECURITIES

Investment securities comprise of:

	2006	2005
Available-for-sale investments	320,137	158,025
Investments in Associates:		
- Designated at fair value through the income statement	26,626	20,910
- Equity accounted	10,300	10,300
	357,063	189,235

(i) AVAILABLE-FOR-SALE INVESTMENTS

	2006	2005
At 1 January	168,325	84,664
Acquisitions during the year	162,095	142,229
Disposals during the year, at carrying value	(4,778)	(74,006)
Impairment allowances	(6,728)	-
Fair value changes during the year	1,223	12,520
	320,137	165,407
Less: reclassified as assets-held-for sale (note 7)	-	(7,382)
At 31 December	**320,137**	158,025

Investments amounting to US$ 275,310 thousand (2005: US$ 93,173 thousand) in unquoted equity securities are carried at cost less impairment in the absence of a reliable measure of fair value.

(ii) INVESTMENTS IN ASSOCIATES – DESIGNATED AT FAIR VALUE THROUGH THE INCOME STATEMENT

	2006	2005
At 1 January	20,910	30,168
Acquisitions during the year	500	16,718
Disposals during the year, at carrying value	(479)	(4,206)
Fair value changes during the year	3,445	(3,825)
	24,376	38,855
Less: Reclassified as assets-held-for-sale	-	(17,945)
Add: Reclassified from assets-held-for-sale	2,250	-
At 31 December	**26,626**	20,910

(ii) INVESTMENTS IN ASSOCIATES – EQUITY ACCOUNTED

There has been no material change in the equity of the associate at the reporting date as the level of activities were insignificant.

for the year ended 31 December 2006 US$ 000's

9 OTHER ASSETS

	2006	2005
Project costs recoverable	6,873	1,920
Advisory fees receivable	123,404	46,846
Short-term financing	36,288	8,975
Receivable from sale of investment securities	-	30,105
Receivable from sale of trading properties	51,109	1,337
Prepayments and other receivables	6,638	2,138
Others	8,184	5,863
	232,496	97,184

Short-term financing represents amounts advanced to the projects of the Bank recoverable within six months.

10 EQUIPMENT

	Furniture	**Fixtures and equipment**	**Computers**	**2006 Total**	2005 Total
Cost					
At 1 January	1,143	1,127	1,650	3,920	3,577
Additions	156	1,030	2,850	4,036	407
Disposal	-	-	-	-	(64)
At 31 December	1,299	2,157	4,500	7,956	3,920
Depreciation					
At 1 January	533	718	975	2,226	1,488
Disposal	-	-	-	-	(48)
Charge for year	208	307	781	1,296	786
At 31 December	741	1,025	1,756	3,522	2,226
Net book value					
At 31 December	**558**	**1,132**	**2,744**	**4,434**	1,694

11 INVESTORS' FUNDS

These represent funds received from investors to be invested in entities to be set up or promoted by the Group. The funds are invested in Murabaha transactions pending the legal formation of companies for these investments.

12 DUE TO FINANCIAL AND NON-FINANCIAL INSTITUTIONS

These comprise Murabaha payable to financial and non-financial institutions.

for the year ended 31 December 2006 US$ 000's

13 OTHER LIABILITIES

	2006	2005
Employee accruals	62,498	43,602
Unclaimed dividends	1,629	2,326
Provision for employees' leaving indemnities	285	187
Charity and zakah fund (refer page F-28)	2,634	967
Accounts payable	4,485	3,425
Accrued expenses	5,923	2,186
	77,454	52,693

14 UNRESTRICTED INVESTMENT ACCOUNTS

The average gross rate of return in respect of unrestricted investment accounts was 7.53% for 2006 (2005: 4.95%). Approximately 4.73% / USD 1,666 (2005: 4.25% / USD 549) was distributed to investors and the balance was either set aside for provisions and/or retained by the Bank as a Mudarib fee.

Unrestricted investment accounts include profit equalisation reserve of USD 159 thousand (2005: USD 37 thousand) and investment risks reserve of USD 117 thousand (2005: USD 24 thousand).

The funds received from unrestricted investment account holders have been commingled and jointly invested with the Bank in the following assets:

	2006	2005
Due from financial institutions	-	139,000
Investment in sukuks	38,501	15,000
Islamic financing assets	41,525	7,305

15 SHARE CAPITAL

	2006	2005
Authorised: 909,090,909 ordinary shares of US$ 0.33 each	**300,000**	300,000
Issued and fully paid up: 644,467,372 (2005: 453,850,263) shares of US$ 0.33 each	**212,674**	149,771

During the year, the paid up capital of the Bank increased from US$ 149,771 thousand to US$ 212,674 thousand due to issue of bonus shares amounting to US$ 17,972 thousand and a rights issue of US$ 44,931 thousands at a premium of US$ 142,963 thousand.

In 2003, the shareholders' approved the utilisation of US$ 4,000 thousand from the share premium account to fund the issue of shares towards the employee incentive scheme . The shareholders in their annual general meeting held on 19 February 2006 resolved to restate the share premium account by transferring an equivalent amount from retained earnings.

Additional information on shareholding pattern

(i) Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5% or more of outstanding shares.

	Nationality	No. of shares	% holding
Abdul Latif Al Shaya and Abdul Aziz Al Shaya	Kuwait	35,129,798	5.45%

for the year ended 31 December 2006 US$ 000's

15 ***Share capital*** *(continued)*

(ii) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.

(iii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	**Number of Shares**	**Number of Shareholders**	**% of total outstanding shares**
Less than 1%	346,242,608	2,122	53.73
1% up to less than 5%	263,094,966	15	40.82
5% up to less than 10%	35,129,798	1	5.45
	644,467,372	2,138	100

** Expressed as a percentage of total outstanding shares of the Bank.*

16 INCOME FROM INVESTMENT ADVISORY SERVICES

Income from investment advisory services includes US$ 74,426 thousand (2005: US$ 38,729 thousand) which has been received by the Group in kind in exchange for investment advisory services rendered.

17 INCOME FROM INVESTMENT SECURITIES

	2006	2005
Dividend income and income from managed funds	628	1,437
Fair value changes on investments designated at fair value through the income statement	11,354	(3,825)
Gain on disposal of investment securities	-	14,791
	11,982	12,403

18 STAFF COSTS

	2006	2005
Salaries and benefits	65,040	38,623
Social insurance expenses	975	672
Other staff expenses	1,233	808
	67,248	40,103

19 EMPLOYEE INCENTIVE SCHEME

Parent Bank

The Bank operates an employee incentive scheme ('the Scheme') for its employees. As per the terms of the Scheme, eligible employees are entitled to receive bonus in the form of cash and/ or shares in ratios determined by the terms of the Scheme and as approved by the Board of Directors. The Group has incorporated a company, Hawafiz BSC (c), to manage the scheme for the beneficial interest of employees. The entire bonus of the Bank is currently cash settled.

19 Employee incentive scheme (continued)

Subsidiary company
Khaleeji Commercial Bank B.S.C (c) ['KHCB'], a fully owned subsidiary of the Bank operates an equity settled share-based payment scheme for its employees. Under the terms of the scheme KHCB has issued 500,000 share grants to employees of which 100,000 shares grants have vested during the year. The shares vest to employees based on the terms of the scheme. The share grants have been recognised at their fair values, determined by an independent firm of accountants, using a discounted cash flow based valuation model. The fair value of the equity settled share-based payment component amounted to US$ 464 thousand, of which US$ 212 thousand has been charged to the income statement during the year under staff costs. The unvested component has been shown as a reduction from equity.

20 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(i) Fair value of investments

The fair value of investments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

(ii) Impairment on available-for-sale investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment. A significant portion of the Group's available-for-sale investments comprise of investments in long-term real estate infrastructure projects. In making a judgment of impairment, the Group evaluates among other factors, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

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21 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the balance sheet date, the Group had assets under management of US$ 2,111,215 thousand (2005: 2,001,959 thousand).

22 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group.

A significant portions of the Group's income from investment advisory services and placement and arrangement and management fees from entities over which the Group exercises significant influence. Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments.

The related party balances included in these consolidated financial statements are as follows:

	2006	2005
Assets		
Cash and bank balances	416	2,683
Due from financial and non-financial institutions	10,007	15,750
Islamic financing assets	67,656	1,231
Investment in sukuks	-	10,000
Assets held for sale	24,196	25,327
Investment securities	249,433	183,305
Other assets	215,702	100,403
Liabilities		
Investors' funds	348,553	477,775
Customers' current account	5,469	3,194
Due to financial and non-financial institutions	180,956	130,975

	2006	2005
Income		
Income from investment advisory services	266,647	167,752
Placement, arrangement and management fees	11,664	11,320
Income from investment securities	11,354	12,403
Income from short-term murabaha placements	-	450
Income from islamic financing assets	2,940	152
Other income	3,796	439
Expenses		
Investment advisory expenses	-	8,664
Impairment allowances on available-for-sale investments	6,728	-
Murabaha expenses	27,116	6,684
Other expenses	-	636

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22 ***Related party transactions*** *(continued)*

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were :

Categories*	Number of Shares	Number of Directors
Less than 1%	1,073,407	5
1% up to less than 5%	15,483,187	2

* *Expressed as a percentage of total outstanding shares of the Bank.*

Details of material contracts involving directors' include:

	2006	2005
Directors' participation in investments promoted by the Group	3,543	6,700

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation is as follows:-

	2006	2005
Board remuneration	1,050	585
Board member fees	831	405
Salaries and other short-term benefits	28,648	19,661
Post employment benefits	107	57

23 ZAKAH

Based on the computation approved by the Shari'a Board, the Bank has appropriated US$ 1,061 thousand (2005: 576 thousand) from retained earnings towards payment of Zakah which is included in other liabilities.

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders in respect of the proposed distributable profits (refer note 27) for the year ended 31 December 2006 is US cents 0.46 (2005: US cents 0.41) for every share held.

24 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds.

The Group receives interest from deposits placed with the Central Bank of Bahrain and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amounts to US$ 301 thousand (2005: US$ 66 thousand).

25 SHARI'A SUPERVISORY BOARD

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

26 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisations.

27 PROPOSED APPROPRIATIONS

The Board of Directors of the Bank propose a dividend of 75% (2005: 60%) of the paid-up capital and other appropriations, subject to the approval of the shareholders' at the annual general meeting, as follows:

	2006	2005
Proposed dividend*	159,991	89,862
Charity contribution	1,200	1,000
Directors' remuneration	1,200	1,050
Share premium	-	4,000

* Proposed dividend include bonus shares recommended by the Board of Directors at the rate of twelve share for every hundred shares held (2005: twelve share for every hundred shares held).

28 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year ended 31 December 2006 as follows:

	2006	2005
Profit for the year (US$ 000's)	211,586	140,331
Weighted average number of equity shares (Nos. in 000's)	624,533	554,062
Basic earnings per share (in US cents)	**33.88**	25.34

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29 MATURITY PROFILE

2006	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	15,050	-	-	-	-	**15,050**
Due from financial and non-financial institutions	643,080	15,310	29,375	-	-	**687,765**
Trading properties	-	-	-	2,960	-	**2,960**
Islamic financing assets	48,385	2,480	12,085	19,981	15,996	**98,927**
Investment in sukuks	21,187	-	-	38,308	18,498	**77,993**
Assets held for sale	24,196	-	-	-	-	**24,196**
Investment securities	-	-	154,936	202,127	-	**357,063**
Other assets	226,128	-	3,000	3,368	-	**232,496**
Equipment	-	-	-	2,281	2,153	**4,434**
Total assets	**978,026**	**17,790**	**199,396**	**269,025**	**36,647**	**1,500,884**
2005	858,174	11,109	88,430	123,677	18,377	**1,099,767**
Liabilities						
Investors' funds	348,553	-	-	-	-	**348,553**
Customers' current account	7,297	-	-	-	-	**7,297**
Due to financial and non-financial institutions	244,721	91,573	4,622	-	-	**340,916**
Other liabilities	72,982	1,209	780	2,197	286	**77,454**
Total liabilities	**673,553**	**92,782**	**5,402**	**2,197**	**286**	**774,220**
2005	581,020	129,082	-	1,414	187	711,703
Unrestricted investment accounts	**39,753**	**-**	**19,167**	**-**	**-**	**58,920**
2005	24,048	11,053	599	-	-	35,700
Off-balance sheet items						
Restricted investment accounts	**-**	**2,376**	**-**	**114,266**	**6,751**	**123,393**
2005	-	2,343	-	95,818	8,232	106,393

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30 CONCENTRATION OF ASSETS, LIABILITIES, UNRESTRICTED AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

2006	Trading and manufacturing	Banks and financial institutions	Real estate	Technology	Others	Total
Assets						
Cash and bank balances	-	15,050	-	-	-	**15,050**
Due from financial institutions and non-financial institutions	-	687,765	-	-	-	**687,765**
Trading properties	-	-	2,960	-	-	**2,960**
Islamic financing assets	-	5,676	86,118	-	7,133	**98,927**
Investment in sukuks	-	21,341	36,003	-	20,649	**77,993**
Assets held-for-sale	24,196	-	-	-	-	**24,196**
Investment securities	-	13,250	264,170	15,967	63,676	**357,063**
Other assets	-	7,389	214,989	423	9,695	**232,496**
Equipment	-	-	-	-	4,434	**4,434**
Total assets	**24,196**	**750,471**	**604,240**	**16,390**	**105,587**	**1,500,884**
Liabilities						
Investors' funds	1,582	49,243	47,049	-	250,679	**348,553**
Customers' current accounts	-	-	7,297	-	-	**7,297**
Due to financial and non-financial institutions	-	166,852	158,450	-	15,614	**340,916**
Other liabilities	2	164	4,462	-	72,826	**77,454**
Total liabilities	**1,584**	**216,259**	**217,258**	**-**	**339,119**	**774,220**
Unrestricted investment accounts	-	13,271	8,393	-	37,256	58,920
Off-Balance sheet items						
Restricted investment accounts	-	-	116,642	-	6,751	**123,393**

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30 Concentration of assets, liabilities, unrestricted and restricted investment accounts (continued)

***(a) Industry sector** (continued)*

2005	Trading and manufacturing	Banks and financial institutions	Real estate	Technology	Others	Total
Assets						
Cash and bank balances	-	13,412	-	-	-	13,412
Due from financial and non-financial institutions	-	685,771	-	-	-	685,771
Trading properties	-	-	8,660	-	-	8,660
Islamic financing assets			14,044	-	3,066	17,110
Investment in sukuks	-	46,136	16,469	-	-	61,374
Assets held-for-sale	15,695	2,250	7,382	-	-	25,327
Investment securities	-	1,928	157,858	12,500	16,949	189,235
Other assets	35	87	62,227	19	34,816	97,184
Equipment	-	-	-	-	1,694	1,694
Total assets	15,730	749,584	266,640	12,519	56,525	1,099,767
Liabilities						
Investors' funds	84	32	477,557	-	103	477,775
Customers' current accounts	-	-	-	-	5,090	5,090
Due to financial and non-financial institutions	-	12,058	126,960	-	37,127	176,145
Other liabilities	-	62	-	-	52,631	52,693
Total liabilities	84	12,152	604,517	-	94,951	711,703
Unrestricted investment accounts	11,053	24,048	599	-	-	35,700
Off-Balance sheet items						
Restricted investment accounts	-	-	98,161	-	8,232	106,393

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30 Concentration of assets, liabilities, unrestricted and restricted investment accounts (continued)
(b) Geographic region

2006	**GCC countries**	**Other MENA and Asia**	**UK**	**Europe (excluding UK)**	**USA**	**Total**
Assets						
Cash and balances with financial institutions	11,506	1,941	665	-	938	**15,050**
Due from financial and non-financial institutions	613,613	-	35,006	39,146	-	**687,765**
Trading properties	2,960	-	-	-	-	**2,960**
Islamic financing assets	98,927	-	-	-	-	**98,927**
Investment in sukuks	77,993	-	-	-	-	**77,993**
Assets held-for-sale	24,196	-	-	-	-	**24,196**
Investment securities	322,509	16,186	-	18,368	-	**357,063**
Other assets	114,787	114,589	186	2,002	932	**232,496**
Equipment	4,434	-	-	-	-	**4,434**
Total assets	**1,270,925**	**132,716**	**35,857**	**59,516**	**1,870**	**1,500,884**
Liabilities						
Investors' funds	338,442	1,797	859	7,455	-	**348,553**
Customers' current accounts	7,297	-	-	-	-	**7,297**
Due to financial and non-financial institutions	192,327	60,729	87,860	-	-	**340,916**
Other liabilities	77,454	-	-	-	-	**77,454**
Total liabilities	**615,520**	**62,526**	**88,719**	**7,455**	**-**	**774,220**
Unrestricted investment accounts	**58,920**	**-**	**-**	**-**	**-**	**58,920**
Off-Balance sheet items						
Restricted investment accounts	25,372	18,563	-	79,458	-	123,393

for the year ended 31 December 2006 US$ 000's

30 Concentration of assets, liabilities, unrestricted and restricted investment accounts *(continued)*
(b) Geographic region *(continued)*

2005	GCC countries	Other MENA and Asia	UK	Europe (excluding UK)	USA	Total
Assets						
Cash and bank balances	12,329	584	255	-	244	13,412
Due from financial and non-financial institutions	424,678	-	106,053	155,040	-	685,771
Trading properties	8,660	-	-	-	-	8,660
Islamic financing assets	17,110					17,110
Investment in sukuks	61,374	-	-	-	-	61,374
Assets held for sale	17,945	-	7,382	-	-	25,327
Investment securities	159,494	20,530	-	9,100	111	189,235
Other assets	65,810	31,364	-	10	-	97,184
Equipment	1,694	-	-	-	-	1,694
Total assets	769,094	52,478	113,690	164,150	355	1,099,767
Liabilities						
Investors' funds	380,216	3	79,308	18,248	-	477,775
Customers' current accounts	5,090	-	-	-	-	5,090
Due to financial and non-financial institutions	57,852	118,293	-	-	-	176,145
Other liabilities	52,693	-	-	-	-	52,693
Total liabilities	495,851	118,296	79,308	18,248	-	711,703
Unrestricted investment accounts	24,048	11,053	599	-	-	35,700
Off-Balance sheet items						
Restricted investment accounts	25,780	41,033	-	39,580	-	106,393

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31 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group had the following significant net exposures denominated in foreign currency as of 31 December:

	2006 US$ Equivalent	2005 US$ Equivalent
Sterling Pounds	1,111	10,875
Euros	4,297	8,211
Lebanese Pounds	-	-
Jordanian Dinar	1,944	584
Kuwaiti Dinars	73,163	53,990
Other GCC Currencies (*)	345,448	110,928

(*) These currencies are pegged to the US Dollar.

32 LARGE EXPOSURES

Exposures to Banks and non-Banks which exceed 15% of the Bank's capital and reserves are as follows:

Bank exposures	% of Tier I capital	**2006**	% of Tier I capital	2005
National Bank of Kuwait	26	173,314		-
Calyon Corporate Investment Bank	18	119,946		-
HSBC		-	30	106,703
BNP Paribas	17	115,819	34	120,261
Citibank N.A.		-	15	53,911

The above exposures are in relation to commodity Murabahas with these banks.

33 COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group:

	2006	2005
Commitments to invest	136,226	507
Undrawn commitments to extend finance	8,050	2,573

The Group has exited one of its investment projects during 2005 and has issued a corporate guarantee of up to £ 57 million, securing the buyer against any general indemnity, tax claim or liability that might arise under the terms of the agreement. In the opinion of the management, the possibility of the guarantee being invoked is negligible.

The Group has issued a guarantee to a financial institution to secure credit facility arrangement of US$ 3,440 thousand (2005: US$ 12,200 thousand) for a project promoted by the Group.

34 FAIR VALUE

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

***34 Fair value** (continued)*

Other than certain available-for-sale investments (note 8), investment in sukuks and islamic financing assets that are carried at cost, the estimated fair values of the Group's other financial instruments are not significantly different from their book values.

35 RISK MANAGEMENT

The Group's exposure to risks and its approach to managing these risks are discussed below.

a) Credit risk

Credit risk is the risk that a counterparty to a financial transaction does not discharge its obligations on due dates and cause the other party to incur a financial loss. The Group's credit risk arises mainly from the advisory fee and other receivables, short-term financing, due from financial and non-financial institutions, islamic financing assets and investment in sukuks.

The Group has well defined policies for managing credit risks that ensure that risks are accurately assessed, properly approved and regularly monitored. Formal credit limits are applied at counterparty and single obligor level. Overall exposures are also evaluated to ensure a broad diversification of risk by setting concentration limits by geography and industry.

b) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic 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. The group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The geographical and industry wise distribution of assets and liabilities are set out in note 30.

c) Liquidity risk

Liquidity risk is defined as the risk that the Group will not have funds will not be available to meet liabilities as they fall due. The Group uses a maturity ladder approach for managing and monitoring the liquidity risk. It is the Group's policy to keep a significant part of its assets in highly liquid assets such as short term Murabahas and Sukuks.

The maturity profile of assets and liabilities is set out in note 29.

d) Currency risk

The Group is exposed to currency risks on certain Murabaha receivables and available-for-sale investments. The Group seeks to manage currency risk by continually monitoring exchange rates.

e) Profit rate risk

Profit rate risk arises due to different timing of re-pricing of the Group's assets and liabilities. The Group's profit rate sensitive assets are mainly due from financial and non-financial institutions, Islamic financing assets and investment in sukuks. The profit

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35 Risk management (continued)

rate sensitive liabilities include investors' funds, due to financial and non-financial institutions and unrestricted investment accounts. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. The effective profit rates on these assets, liabilities and unrestricted investment accounts are as follows:

	2006	2005
Due from financial and non-financial institutions	4.98%	3.36%
Islamic financing assets	5.69%	3.51%
Investment in sukuks	6.69%	3.86%
Investors' funds	3.02%	2.04%
Due to financial and non-financial institutions	4.60%	3.25%
Unrestricted investments	4.73%	4.25%

36 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

During the year the following new/ amended IFRS's standards and interpretations have been issued which are not yet mandatory for adoption by the Group:

IFRS 7 Financial instruments: Disclosures
IAS 1 Presentation of Financial Statements (amended)
IFRIC 8 Scope of IFRS 2 Share-based Payment
IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 10 Interim Financial Reporting and Impairment

The adoption of these standards and interpretations are not expected to have a material impact on the consolidated financial statements.

37 COMPARATIVES

Certain prior year amounts have been reclassified to conform to the current year's presentation. Such reclassifications do not affect previously reported net profit or equity.

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38 SEPARATE SUMMARISED FINANCIAL STATEMENTS OF GULF FINANCE HOUSE BSC, THE PARENT COMPANY

(i) Balance sheet

	2006	2005
ASSETS		
Cash and bank balances	6,336	11,616
Due from financial and non-financial institutions	687,749	685,754
Islamic financing assets	57,402	9,805
Investment in sukuks	39,492	46,136
Assets held-for-sale	24,196	25,327
Investment securities	319,233	175,508
Investments in subsidiaries, at cost	80,003	80,003
Other assets	196,598	94,302
Equipment	2,153	1,694
Total assets	**1,413,162**	1,130,145
LIABILITIES		
Investors' funds	334,715	420,717
Due to financial and non-financial institutions	368,999	315,145
Other liabilities	74,152	51,874
Total liabilities	**777,866**	787,736
EQUITY		
Share capital	212,674	149,771
Advance towards share capital	2,708	-
Share premium	178,321	31,487
Treasury shares	(14,127)	-
Statutory reserve	24,135	23,626
Investments fair value reserve	364	227
Retained earnings	231,221	137,298
Total equity	**635,296**	342,409
Total liabilities and equity	**1,413,162**	1,130,145
OFF-BALANCE SHEET ITEMS		
Restricted investment accounts	**91,092**	77,152

for the year ended 31 December 2006 US$ 000's

38 Separate summarised financial statements of Gulf Finance House BSC, the parent company (continued)

(ii) Income statement

	2006	2005
Income from investment advisory services	243,191	157,691
Placement, arrangement and management fees	19,509	25,590
Income from investment securities, net	11,982	12,403
Income from short-term murabaha placements	35,680	12,989
Income from investment in sukuks	1,986	839
Income from Islamic financing assets	2,502	6
Other income	1,840	2,994
Total income	**316,690**	212,512
Staff costs	61,068	38,950
Investment advisory expenses	23,278	28,647
Impairment allowances on available-for-sale investments	6,728	-
Murabaha expense	25,034	9,926
Other expenses	9,688	4,490
Total expenses	**125,796**	82,013
PROFIT FOR THE YEAR	**190,894**	130,499
Earnings per share (US cents)		
Basic	**30.57**	23.55

GULF FINANCE HOUSE BSC

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2005

Commercial registration	:	44136 (registered with Bahrain Monetary Agency as an Islamic investment Bank).
Registered Office	:	Al Salam Building Diplomatic Area PO Box 10006, Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	:	Fuad Abdulla Al-Omar, *Chairman* Waleed A Rahman Al-Rowaih, *Vice Chairman* Abdul Latif Abdullah Al-Meer Abdul Latif A Rahim Janahi Adel Dawood Al-Ohali Abdul Rahman A. Al Saeed Bader Jassim Bu-Rashid Buti Khalifa Al-Flasi Esam Yousif A. Janahi Hamad A Aziz Al-Shaya Osama Ebrahim Al-Saleh Samir Yaqoob Al-Nafisi Yousif A Latif Al-Serkal Yousif Mohammed Khayat
Chief Executive Officer	:	Esam Yousif A. Janahi
Company Secretary	:	Dr. Haider Majali
Auditors	:	KPMG

GULF FINANCE HOUSE BSC

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CHAIRMAN'S REPORT
for the year ended 31 December 2005

Dear Shareholders

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

On behalf of the Board of Directors, it is my privilege to present the annual report of Gulf Finance House (GFH) for the year ended 31 December 2005. This proved to be a most successful and blessed year for your Bank, during which we posted record financial results, made sound strategic progress, achieved outstanding operational success, and further strengthened our institutional and governance capability.

Financial performance
I am pleased to report that GFH enjoyed a truly excellent 2005 fiscal year. Net profits rose by 147 per cent to US$ 140 million, compared to US$ 57 million in 2004. Return on equity was 47 per cent while return on paid up capital was 94 per cent. In view of this exemplary performance, the Board of Directors is recommending a total dividend of US$ 90 million, equivalent to 60 per cent of paid up capital. This record dividend distribution will be paid as 48 per cent in cash and 12 per cent in stock.

In order to support our regional expansion plans, the Board of Directors has recommended a 30 per cent increase in the Bank's capital. This will be submitted for approval by the shareholders in the first quarter of 2006. The full impact of this premium rights issue will be to bring in new equity of US$ 189 million.

I am also delighted to report that in the first full year of trading on the Bahrain and Kuwait stock exchanges, the share price of GFH rose steadily. We plan to list the Bank on other GCC bourses during 2006 to further expand our regional shareholder base, subject to market conditions and regulatory approval.

Strategic progress
Throughout 2005, we successfully pursued our strategy of geographic expansion and involvement in regional economies and international markets. In the six years since our inception, GFH has successfully established a leading position in the Middle East for originating and financing infrastructure and economic development projects that make a direct and visible contribution to the economic well-being of the countries in which we invest, such as Jordan, Qatar, UAE, and Bahrain.

We now intend to position GFH as a leading bank in the provision of other investment banking services. We will continue to expand our geographic reach in key markets of the Middle East, especially in Saudi Arabia, Oman, and North Africa (Libya), in order to diversify the Bank's income stream and asset base. This will enable GFH to take advantage of new opportunities in capital markets, private equity, asset management and infrastructure development.

It also gives me great pleasure to report that our sister commercial institution – Gulf Finance House Commercial Bank – enjoyed a very successful first full year of operations. The Bank achieved excellent financial results and was actively involved in financing several key infrastructure developments in the region, as well as launching three new innovative investment funds.

Operational achievements
The Bank's landmark development projects in Bahrain, Dubai and Jordan remained firmly on track during 2005. Highlights include the topping-out of Bahrain Financial Harbour; the excellent take-up by investors of development parcels in Al Areen Desert Spa and Resort in Bahrain; the start of construction work for Dubailand Legends and Jordan Gate; and the laying of the foundation stone for Royal Village in Jordan. Significant new developments in 2005 include the unveiling of the Royal Resort and Spa in Jordan, and Energy City-Qatar.

In addition, a number of new investment vehicles were successfully introduced. A significant development was the successful launch of the Al Basha'er Equity Fund, the largest of its kind in the GCC, and which represents the first step by GFH towards building a world class asset management business. Other new funds include the Al Hareth French Property Fund, the Eqarat Al-Khaleej Fund, and the Al Marfa'a Al Mali Sukuk. These constitute a major part of the Bank's investment placements during 2005, which amounted to over US$ 1.4 billion.

GFH has consistently maximised returns to shareholders and investors, with high yields from either an income-generating portfolio or capital appreciation at the time of exit. In 2005, GFH successfully completed four exits, generating excellent short-to-medium returns for investors, ranging from 65 to 55 per cent over periods of between two to three years.

These exits include the sale of the Bank's proprietary private equity portfolio, Gulf Coffee House (Costa Coffee) and the reclamation phase of Bahrain Financial Harbour.

Simultaneously, GFH achieved growing international recognition 2005 through a number of prestigious awards.

Organisational developments
During 2005, we continued to build the Bank's institutional capacity and corporate governance framework. Our existing corporate governance practices were benchmarked by international consultants against international best practice, and were further enhanced to ensure full compliance with the new regulatory requirements of the Bahrain Monetary Agency and other regional regulatory bodies.

We also focused on developing our human capital and support functions by recruiting additional qualified professionals for key areas such as real estate development, asset management, private equity, compliance, economic research, human resources and operations. We also strengthened our risk management framework and improved the efficiency of our information and communication technology systems.

Corporate social responsibility
As an Islamic financial institution, GFH takes very seriously its responsibility to support the economic and social well-being of the communities in which we operate. During 2005, the Bank provided financial support and sponsorship for a large number of economic, business and educational initiatives, charitable organisations, and sporting events in the region. These include construction of the Centre for the Gifted in Bahrain and the Centre for Autism in Kuwait.

Looking ahead
The impressive achievements of GFH in 2005 took place against the continued recovery of the global economy, together with robust growth in all GCC economies, which was fuelled by high oil prices and increased liquidity. This boosted public spending in major regional infrastructure and industrial projects, and also increased investment by the private sector – both domestic and foreign – in the equity markets and real estate, tourism and industrial sectors of the GCC. These developments positively impacted GFH's regional and international activities during the year. The promising outlook for the global and regional economies during 2006 will continue to provide GFH with excellent opportunities for successfully pursuing its strategy of geographic expansion and income diversification.

CHAIRMAN'S REPORT
for the year ended 31 December 2005

Appreciations
On behalf of the Board of Directors, I would like to express my gratitude to the rulers, governments and regulatory authorities of Bahrain, Kuwait, the UAE, Qatar and Jordan for their wise political and economic leadership, and continued prudential guidance.

I would also like to take this opportunity to thank the Bank's shareholders, clients and business partners for their continued loyalty, and to pay tribute to the management and staff of GFH for their dedication and hard work during 2005.

Together, they have contributed to another outstanding year for Gulf Finance House, and provided us with renewed confidence to face all future challenges.

Yours truly,

Dr Fuad Abdulla Al-Omar
Chairman

KPMG

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REPORT OF THE AUDITORS TO THE SHAREHOLDERS 29 January 2006
GULF FINANCE HOUSE BSC
Manama, Kingdom of Bahrain

We have audited the accompanying consolidated financial statements of Gulf Finance House BSC ("the Bank") and its subsidiaries (together referred to as "the Group") as at, and for the year ended, 31 December 2005 as set out on pages F-61 to F-93.

Respective responsibilities of directors and auditors
These consolidated financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, the results of its operations, the changes in its cash flows, equity, restricted investment accounts and sources and uses of charity and zakah fund for the year than ended, in accordance with financial accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, International Financial Reporting Standards and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Other regulatory matters
In addition, in our opinion, the Bank has maintained proper accounting records and the financial statements are in agreement therewith. We have reviewed the accompanying report of the chairman and confirm that the information contained therein is consistent with the consolidated financial statements. To the best of our knowledge and belief, no violations of the Bahrain Commercial Companies Law 2001, the Bahrain Monetary Agency law 1973 (as amended) or the terms of the Bank's licence or its memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

GULF FINANCE HOUSE BSC

CONSOLIDATED BALANCE SHEET
as at 31 December 2005 US$ 000's

	Note	**2005**	2004 (restated)
ASSETS			
Cash and balances with financial institutions	3	13,412	4,295
Due from financial and non-financial institutions	4	701,650	264,339
Investment securities	5	189,235	114,832
Other investments	6	62,605	11,155
Assets held for sale	7	25,327	-
Trading properties		8,660	-
Other assets	8	97,184	26,043
Equipment	9	1,694	2,089
Total assets		**1,099,767**	422,753
LIABILITIES			
Investors' funds	10	477,775	34,219
Customers' current accounts		5,090	-
Due to financial and non-financial institutions	11	176,145	130,157
Other liabilities	12	52,693	7,471
Total liabilities		**711,703**	171,847
Unrestricted investment accounts		**35,700**	-
EQUITY			
Share capital	13	149,771	139,973
Share premium		31,487	31,487
Statutory reserve		24,621	10,576
Investments fair value reserve		227	3,899
Retained earnings		146,258	63,725
Total equity attributable to shareholders of the parent company		**352,364**	249,660
Minority interest		**-**	1,246
Total equity (page F-63)		**352,364**	250,906
Total liabilities, unrestricted investment accounts and equity		**1,099,767**	422,753
Off-balance sheet items			
Restricted investment accounts (page F-66)		57,326	14,050

The consolidated financial statements, which consist of pages F-61 to F-93, were approved by the Board of directors on 29 January 2006 and signed on its behalf by:

Fuad Abdulla Al-Omar	Waleed A Rahman Al-Rowaih	Esam Yousif A. Janahi
Chairman	*Vice-Chairman*	*Director and Chief Executive Officer*

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2005 US$ 000's

	Note	**2005**	2004 (restated)
Income from investment advisory services	14	167,752	81,307
Placement, arrangement and management fees		27,280	2,777
Commission income from sale of land		-	9,472
Income from investment securities	15	16,228	1,662
Income from Murabaha receivables		14,943	4,144
Other income	16	548	166
Total income		**226,751**	99,528
Staff costs	17	40,103	12,981
Investment advisory expenses		29,402	12,995
Net fair value losses on investments	5 (i)	3,825	2,869
Impairment allowances on investments	5 (ii)	-	7,287
Murabaha expense		8,022	2,102
Other expenses	18	4,229	4,014
Depreciation	9	786	544
Total expenses		**86,367**	42,792
PROFIT FOR THE YEAR		**140,384**	56,736
Attributable to:			
Shareholders of the parent company		140,331	56,671
Minority interest		53	65
		140,384	56,736
Earnings per share (US cents)			
Basic	34	30.92	13.00

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

GULF FINANCE HOUSE BSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2005

US$ 000's

	Attributable to the shareholders of the parent							Minority interest	Total equity
2005	**Share Capital**	**Proposed increase in share capital**	**Share premium**	**Statutory reserve**	**Invest-ments fair value reserve**	**Retained earnings**	**Total**		
Balance at 1 January 2005 (restated – refer note 2 (c))	139,973	-	31,487	10,576	3,899	63,725	249,660	1,246	250,906
Issue of bonus shares	9,798	-	-	-	-	(9,798)	-	-	-
Dividend declared for 2004	-	-	-	-	-	(32,194)	(32,194)	-	(32,194)
Charity contribution declared for 2004	-	-	-	-	-	(600)	(600)	-	(600)
Board remuneration declared for 2004	-	-	-	-	-	(585)	(585)	-	(585)
Zakah contribution declared for 2004	-	-	-	-		(576)	(576)		(576)
Net fair value changes during the year	-	-	-	-	12,520	-	12,520	-	12,520
Net profit for the year	-	-	-	-		140,331	140,331	53	140,384
Transfer to income statement on disposal of AFS investments	-	-	-	-	(16,192)	-	(16,192)	-	(16,192)
Transfer to statutory reserve	-	-	-	14,045	-	(14,045)	-	-	-
De-recognition of minority interest on sale of subsidiary	-	-	-	-	-	-	-	(1,299)	(1,299)
Balance at 31 December 2005	**149,771**	**-**	**31,487**	**24,621**	**227**	**146,258**	**352,364**	**-**	**352,364**

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

GULF FINANCE HOUSE BSC

Consolidated statement of changes in equity
for the year ended 31 December 2005 *(continued)*

US$ 000's

2004	Share Capital	Proposed increase in share capital	Share premium	Statutory reserve	Invest-ments fair value reserve	Retained earnings	Total	Minority interest	Total equity
	Attributable to the shareholders of the parent company								
Balance at 1 January 2004 – as previously reported	65,198	9,802	-	4,792	1,440	24,154	105,386	-	105,386
Effect of adopting revised IFRS's (refer note 2 (c))	-	-	-	-	(180)	744	564	1,181	1,745
Balance at 1 January 2004 (restated)	65,198	9,802	-	4,792	1,260	24,898	105,950	1,181	107,131
Issue of bonus shares	7,275	(7,275)	-	-	-	-	-	-	-
Shares Issued to Management Incentive Programme for 2001 and 2002	2,527	(2,527)	-	-	-	-	-	-	-
Issue of new shares	60,000	-	31,487	-	-	-	91,487	-	91,487
Shares issued to Management Incentive Programme for 2003 and 2004	4,973	-	-	-	-	-	4,973	-	4,973
Dividend declared for 2003	-	-	-	-	-	(11,250)	(11,250)	-	(11,250)
Charity contribution declared for 2003	-	-	-	-	-	(450)	(450)	-	(450)
Board remuneration declared for 2003	-	-	-	-	-	(360)	(360)	-	(360)
Transfer to income statement on disposal of AFS investments	-	-	-	-	(458)	-	(458)	-	(458)
Net fair value changes during the year	-	-	-	-	3,097	-	3,097	-	3,097
Net profit for the year	-	-	-	-	-	56,671	56,671	65	56,736
Transfer to statutory reserve	-	-	-	5,784	-	(5,784)	-	-	-
Balance at 31 December 2004	139,973	-	31,487	10,576	3,899	63,725	249,660	1,246	250,906

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

GULF FINANCE HOUSE BSC

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2005 US$ 000's

	Note	**2005**	2004
OPERATING ACTIVITIES			
Cash receipts from investment advisory services	14, 8	101,821	44,112
Net increase in customers' current accounts		5,090	-
Musharaka financing	6	(1,231)	-
Placement, arrangement and management fees received		21,499	2,777
Commissions received		-	9,472
Murabaha profits received		15,546	4,144
Murabaha expense paid		(8,625)	(2,102)
Other income received		182	166
Payments for operating expenses		(32,055)	(20,804)
Cash flows from operating activities		**102,227**	37,765
INVESTING ACTIVITIES			
Purchase of investment securities	5, 14	(130,518)	(30,927)
Proceeds from sale of investment securities	5. 8	42,607	10,673
Purchase of trading property		(12,279)	-
Proceeds from sale of trading and investment property		5,447	4,126
Purchase of sukuks (long term)	6	(15,000)	-
Investors' funds received/ (paid), net	10	443,556	(60,648)
Purchase of equipment	9	(391)	(1,806)
Dividends received	15, 8	2,170	1,313
Cash flows from investing activities		**335,592**	(77,269)
FINANCING ACTIVITIES			
Receipts from financial and non-financial institutions, net	11	47,104	79,306
Short term financing and project costs paid, net	8	(7,393)	(2,652)
Proceeds from issue of ordinary shares	13	-	88,576
Receipts from unrestricted investment account holders		35,700	-
Cash paid to charitable organisations		(1,130)	(104)
Board remuneration paid		(585)	(360)
Dividends paid	12	(29,868)	(11,250)
Cash flows from financing activities		**43,828**	153,516
Net increase in cash and cash equivalents		**481,647**	114,012
Cash and cash equivalents at 1 January		279,789	165,777
Cash and cash equivalents at 31 December		**761,436**	279,789
Cash and balances with banks	3	13,412	4,295
Due from financial and non-financial institutions	4	701,650	264,339
Investments in Sukuk (short-term)	6	46,374	11,155
		761,436	279,789

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2005

31 December 2005	**Balance at 1 January 2005**			**Movements during the year**						**Balance 31 December 2005**			
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's	Total % ownership
Gulf Atlantic Real Estate Company Ltd	500	1.92	959	-	(99)	58	(58)	-	-	500	1.7208	860	1.04
Gulf Atlantic FZ LLC	0.02	135,580	2,712	-	(343)	178	(178)	-	-	0.02	118,440	2,369	2.90
Gulf Development Real Estate Company KSCC	9,784	0.340	3,320	384	14	-	-	-	-	10,910	0.341	3,718	7.27
Menajet Holding SAL	200	10	2000	-	-	-	-	-	-	200	10.00	2,000	2.91
Kuwait National Real Estate Investment & Services Co. KSCC	13,550	0.373	5,059	(2,736)	21	2,185	(2,185)	-	-	6,250	0.375	2,344	3.85
Bayan Holding Company KSCC	-	-	-	2,385	-	-	-	-	-	7,000	0.341	2,385	1.00
Gulf North Africa Holding Company KSCC	-	-	-	4,070	-	-	-	-	-	11,650	0.349	4,070	8.00
Pan European Fund	-	-	-	10,304	-	35	-	-	-	9	1,188.65	10,339	90
Al Hareth French Property Fund	-	-	-	29,195	-	1,412	(1,289)	(77)	-	25	1,186.25	29,241	100
			14,050	**43,602**	**(407)**	**3,868**	**(3,710)**	**(77)**	**-**			**57,326**	

Revaluation changes represent exchange gain/ loss on translation at year end rates.

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

Consolidated statement of changes in restricted investment accounts
for the year ended 31 December 2005 *(continued)*

31 December 2004	Balance at 1 January 2004			Movements during the year						Balance 31 December 2004			
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's	Total % ownership
Gulf Atlantic Real Estate Company Ltd	500	1.782	891	-	68	86	(86)	-	-	500	1.92	959	1.04
Gulf Atlantic FZ LLC	-	-	-	2,522	190	178	(178)	-	-	0.02	135,580	2,712	2.90
Gulf Development Real Estate Company KSCC	-	-	-	3,320	-	-	-	-	-	9,784	0.340	3,320	6.52
Menajet Holding SAL	-	-	-	2,000	-	-	-	-	-	200	10.00	2,000	2.91
Kuwait National Real Estate Investment & Services Co. KSCC	-	-	-	5,058	-	-	-	-	-	13,550	0.373	5,059	4.52
			891	12,900	258	264	(264)	-	-			14,050	

Revaluation changes represent exchange gain/ loss on translation at year end rates.

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND
for the year ended 31 December 2005 US$ 000's

	2005	2004
Sources of charity and zakah fund		
Contributions by the Bank	1,176	450
Non-Islamic income (note 24)	66	34
Total sources	**1,242**	484
Uses of charity fund and zakah fund		
Contributions to charitable organisations	(1,130)	(104)
Total uses	**(1,130)**	(104)
Excess of sources over uses	112	380
Undistributed charity and zakah fund at 1 January	855	475
Undistributed charity and zakah fund at 31 December (note 12)	**967**	855

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

for the year ended 31 December 2005 US$ 000's

1 INCORPORATION AND PRINCIPAL ACTIVITY

Gulf Finance House BSC ("the Bank") was incorporated in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 as an "Exempt Company". In 2004, the Bank's legal status was changed to a stockholding company and its shares were listed on both the Bahrain and Kuwait Stock Exchanges. The Bank operates as an Islamic Investment Bank under a license granted by the Bahrain Monetary Agency ("BMA").

The consolidated financial statements for the year ended 31 December 2005 comprise the financial statements of the Bank and its subsidiaries (together referred to as "the Group").

The Bank's activities are regulated by the BMA and supervised by a Religious Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association.

The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Bank's Shari'a Board.

The Bank's principal subsidiary companies are as follows:

Name	Country of incorporation	% holding		Nature of business
		2005	2004	
Gulf Finance House Commercial Bank BSC(c)	Bahrain	100%	100%	A commercial bank specialising in real estate financing.
Hawafiz BSC(c)	Bahrain	100%	100%	A SPV set up to administer the Management Incentive Programme on behalf of the employees (note 19).
Al-Sharq Limited	Cayman Islands	-	84%	A special purpose vehicle (SPV) set up to hold the Bank's investment in the equity of Halcore Group, Inc. a US leading manufacturer of ambulances and other medical transport and emergency.
Menajet Investment Company Limited	Cayman Islands	-	66%	A special purpose vehicle (SPV) set up to hold the Bank's investment in Menajet Holding SAL, Lebanon, an airline and cargo services company operating in the Middle East and North African region.

During the year, the Bank has disposed its investments in Al-Sharq Limited and Menajet Investment Company Limited. For details of sale on disposal of subsidiaries, refer note 16.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year, except for changes resulting from adoption of revised International Financial Reporting Standards which are explained in more detail below in note 2 (c).

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with both the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards ('IFRS').

2 Significant accounting policies (continued)

(b) Basis of preparation

The financial statements are presented in US Dollars, being the principal currency of the Group's operations. They are prepared on the historical cost basis except for the measurement at fair value of available-for-sale investments and investments at fair value through the income statement.

Financial 'assets held for sale' are carried at fair value in accordance with International Accounting Standard ('IAS') 39 'Financial Instruments: Recognition and Measurement'.

The preparation of financial statements in conformity with the IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 20.

(c) Adoption of revised IFRS and changes in accounting policies

The Group has adopted the revised IFRS effective 1 January 2005. The IFRS's which have resulted in changes in accounting policies and have a material impact on the Group's consolidated financial statements are as follows:

IAS 27 on Consolidated and Separate Financial Statements

Up to 31 December 2004, subsidiaries formed or acquired and held exclusively with the view to their subsequent disposal in the near future were not consolidated and instead accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement as "available-for-sale investments" and carried at fair value with fair value changes taken to a separate investments fair value reserve.

Following the adoption of the revised IAS 27 on 1 January 2005, all principal subsidiaries are now consolidated. The standard has been applied retrospectively in accordance with the requirements of IAS 8 on Accounting Policies, Changes in Accounting Estimates and Errors to ensure that they are applied within each period presented. Consequently, the opening balance of retained earnings at 1 January 2004, being the earliest reported period, has been restated.

IAS 28 on Investments in Associates

Up to 31 December 2004, the Bank accounted for investment in associate companies formed or acquired and held exclusively with the view to their subsequent disposal in the near future as "available-for-sale investments" and carried at fair value with fair value changes taken to a separate investments fair value reserve in accordance with IAS 39.

Following the adoption of the revised IAS 28 on 1 January 2005, the Bank avails the exemption in IAS 28 for Venture capital organisations and now accounts for such associate companies as "investments at fair value through the income statement" in accordance with the revised IAS 39. The standard has been applied retrospectively in accordance with the requirements of IAS 8 on Accounting Policies, Changes in Accounting Estimates and Errors to ensure that they are applied within each period presented. Consequently, the opening balance of retained earnings at 1 January 2004, being the earliest reported period, has been restated.

2 ***Significant accounting policies*** *(continued)*

(d) Basis of consolidation

(i) *Subsidiaries*
Subsidiaries are those enterprises (including special purpose vehicles) controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

(ii) *Associates*
Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. The Bank, being a venture capital organisation, designates its investments in associates as 'investments at fair value through the income statement' in accordance with IAS 39.

(iii) *Transactions eliminated on consolidation*
Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency transactions

(i) *Functional and presentation currency*
Items included in the consolidated financial statements 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 US dollars, which is the Bank's functional and presentation currency.

(ii) *Transactions and balances*
Foreign currency transactions are translated into the functional currency 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items classified as available-for-sale financial assets are included in investments fair value reserve.

(iii) *Group companies*
The other group companies functional currencies are denominated either in US dollars or in Bahraini Dinars, which is effectively pegged to the US Dollar. Hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in exchange differences.

2 Significant accounting policies (continued)

(f) Financial instruments

(i) Classification

Investments at fair value through the income statement are financial assets that are held for trading or which upon initial recognition are designated by the Bank as at fair value through the income statement. These include investment in associates. (refer note 2 (d)).

Available-for-sale investments are financial assets that are not investments at fair value through the income statement or held to maturity. These include investments in quoted and unquoted equity investments.

(ii) Recognition

The Group recognises investments at fair value through the income statement and available-for-sale investments when it becomes entitled to ownership. This is determined based on either payments made to acquire stakes in investments or equity stakes received in kind for services rendered. From this date any gains and losses arising from changes in fair value of the assets are recognised. Held-to-maturity investments are recognised on the day they are transferred to the Bank.

(iii) Measurement

Financial instruments are measured initially at cost, which is the fair value of the consideration given (in the case of an asset) or received (in the case of a liability), including transaction costs. Subsequent to initial recognition investments at fair value through the income statement and available-for-sale assets are re-measured to fair value. Held-to-maturity investments are measured at cost less any impairment allowances.

(iv) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of investments at fair value through the income statement are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of available-for-sale investments are recognised in a separate fair value reserve and when the investments are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the fair value reserve is transferred to the income statement.

(v) Fair value measurement principles

Unquoted

I. Investments for which there is no quoted market price or other appropriate methods from which to derive reliable fair values, are stated cost less impairment allowances.

II. For other unquoted investments, fair value is determined either by reference to price of the most recent transactions in the shares, or based on management's assessment of the present value of future cash flows, or based on valuations undertaken by independent external valuers.

Quoted investments

III. Fair value for quoted investments is their market bid price.

*2 **Significant accounting policies** (continued)*

*(f) **Financial instruments** (continued)*

*(vi) **Impairment of available-for-sale investments:***

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for 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 that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with financial institutions and short-term highly liquid investments (including due from financial institutions and investments in Sukuk) with maturities of three months or less when acquired.

(h) Impairment

The carrying amount of the Group's assets other than for available-for-sale investment securities (refer note 2 (f)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

(i) Murabaha receivables

Murabaha receivables are stated at cost less impairment allowances.

(j) Investment in Mudaraba

Investment in Mudaraba is stated at cost less impairment allowances.

(k) Investments in Sukuk

Investments in Sukuk are stated at cost less impairment allowances.

(l) Equipment

Equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 3 to 5 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(m) Trading property

Trading properties are properties held for sale in the ordinary course of business. Trading properties are stated at lower of cost and net realisable value.

2 Significant accounting policies (continued)

(n) Dividends and Board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

(o) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

(p) Revenue recognition

Income from investment advisory services is recognised when the services for the transaction are provided and income is earned. This is usually when the Group obtains from investors a legally binding and irrevocable commitment to subscribe for shares in an investment promoted by the Group. The Group then recognises revenue based on the pro rata amount of such signed subscription agreements as of the reporting date.

Income from investment advisory services is either received in cash or in kind (i.e. equity shares of the investment being promoted). Income received in kind is measured at the fair value of the consideration received.

Placement, management and arrangement fees and commissions are recognised as income when earned.

Income from Murabaha contracts are recognised on a time-apportioned basis over the period of the contract.

Profit from Musharaka contracts that continue for more than one financial period are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital.

Income from Sukuk is recognised on a time-apportioned basis over the term of the Sukuk.

Income from investments (dividend income) is recognised when the right to receive is established.

(q) Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders.

(r) Unrestricted investment accounts

Unrestricted investment accounts are funds held by the Bank, which it can invest at its own discretion. The bank charges management fee (Mudarib) to unrestricted investment account holders.

2 Significant accounting policies (continued)

(s) Employees benefits

(i) Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis.

(ii) Expatriate employees

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the balance sheet date.

(iii) Employee savings scheme

The Group has a voluntary employees saving scheme. The Bank and the employee contribute monthly on a fixed percentage of salaries basis to the scheme. The scheme is managed and administered by a board of trustees.

(t) Compensation benefits

Eligible employees are entitled to bonus in accordance with the Management Incentive Programme ("the Programme"). The total amount of the bonus is based on a percentage of the Bank's net profit in excess of a predetermined hurdle rate stated in the Bank's Articles of Association. Under the Programme, employees are entitled to receive bonus in the form of cash and shares in ratios determined by the terms of the Programme. The cash settled portion of the incentive is recognised as an expense and included in staff costs in the income statement. The equity settled portion of the incentive is recognised at the fair values of the equity instruments at the grant date and is recognised as an expense rateably over the vesting period with a corresponding increase in equity.

(u) Zakah

Pursuant to the decision of the shareholders', the Bank is required to pay Zakah on its undistributed profits. The Bank is also required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Bank's Shari'ah Supervisory Board.

(v) Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on trade date, i.e. the date that the Group contracts to purchase or deliver the asset. Regular way purchases or sale are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3 CASH AND BALANCES WITH FINANCIAL INSTITUTIONS

	2005	2004
Cash on hand and balances with banks	11,913	4,242
Deposit with BMA	1,499	53
	13,412	4,295

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4 DUE FROM FINANCIAL AND NON-FINANCIAL INSTITUTIONS

	2005	2004
Gross Commodity Murabaha with financial institutions	658,649	259,753
Gross Commodity Murabaha with non-financial institutions	15,880	-
Less: Deferred profits	(2,879)	(414)
	671,650	259,339
Investments in Mudaraba	30,000	5,000
	701,650	264,339

The average profit rate on Murabaha receivables as of 31 December 2005 was 3.36% per annum (2004: 1.68% per annum).

5 INVESTMENT SECURITIES

Investment securities comprise of:

	2005	2004
Investments at fair value through the income statement	20,910	30,168
Available-for-sale investments	168,325	84,664
	189,235	114,832

(i) INVESTMENTS AT FAIR VALUE THROUGH THE INCOME STATEMENT

	2005	2004 (restated)
At 1 January	30,168	28,202
Acquisitions during the year	16,718	4,835
Disposals during the year, at carrying value	(4,206)	-
Fair value changes during the year	(3,825)	(2,869)
	38,855	30,168
Less: reclassified as assets-held-for-sale (note 7)	(17,945)	-
At 31 December	**20,910**	30,168

(ii) AVAILABLE-FOR-SALE INVESTMENTS

	2005	2004 (restated)
At 1 January	84,664	45,750
Acquisitions during the year	152,529	53,886
Disposals during the year, at carrying value	(74,006)	(10,326)
Impairment allowances	-	(7,287)
Fair value changes during the year	12,520	2,641
	175,707	84,664
Less: reclassified as assets-held-for sale (note 7)	(7,382)	-
At 31 December	**168,325**	84,664

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6 OTHER INVESTMENTS

	2005	2004
Investments in Sukuk		
- Short-term	46,374	-
- Long-term	15,000	11,155
Musharaka	1,231	-
	62,605	11,155

The average profit rate on Sukuks as of 31 December 2005 was 3.86% per annum (2004: 2.2%).

7 ASSETS HELD-FOR-SALE

The bank intends to sell certain of its investment securities and is actively seeking a buyer. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', such investments have been reclassified as assets held for sale. Assets held for sale include:

	2005	2004
Investments at fair value through income statement	17,945	-
Available-for-sale investments	7,382	-
	25,327	-

8 OTHER ASSETS

	2005	2004
Project costs recoverable	1,920	850
Advisory fees receivable	46,846	19,644
Short-term financing	8,975	2,861
Employee receivables	82	117
Dividends and placement fee receivable	5,781	733
Receivable from sale of investment securities	31,442	-
Prepayments and other receivables	2,138	1,838
	97,184	26,043

Short term financing represents amounts advanced to the projects of the Bank recoverable within six months.

Subsequent to the year end, the Bank has received US$ 29,765 thousand of advisory fees receivable and US$ 31,442 thousand of receivable from sale of investment securities.

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9 EQUIPMENT

	Furniture	Fixtures and equipment	Computers	Vehicles	2005 Total	2004 Total
Cost						
At 1 January	1,104	1,001	1,408	64	3,577	1,771
Additions	39	125	243	-	407	1,806
Disposal	-	-	-	(64)	(64)	-
At 31 December	1,143	1,126	1,651	-	3,920	3,577
Depreciation						
At 1 January	322	529	598	39	1,488	944
Disposal	-	-	-	(48)	(48)	-
Charge for year	211	189	377	9	786	544
At 31 December	533	718	975	-	2,226	1,488
Net book value						
At 31 December	**610**	**408**	**676**	**-**	**1,694**	2,089

10 INVESTORS' FUNDS

These represent funds received from investors to be invested in entities to be set up or promoted by the Group. The funds are invested in Murabaha transactions pending the legal formation of companies for these investments.

11 DUE TO FINANCIAL AND NON-FINANCIAL INSTITUTIONS

These comprise Murabaha payable to financial and non-financial institutions.

12 OTHER LIABILITIES

	2005	2004
Management Incentive Programme (note 19)	32,247	2,051
Unclaimed dividends	2,326	-
Employee accruals	11,355	650
Provision for employees' leaving indemnities	187	45
Charity and zakah fund (refer page F-68)	967	855
Accounts payable	3,425	2,961
Accrued expenses	2,186	909
	52,693	7,471

13 SHARE CAPITAL

	2005	2004
Authorised:		
909,090,909 ordinary shares of US$ 0.33 each	**300,000**	300,000
Issued and fully paid up:		
453,850,263 (2004: 424,159,124) shares of US$ 0.33 each	**149,771**	139,973

During 2005, the paid up capital of the Bank increased from US$ 139,973 thousand to US$ 149,771 thousand due to issue of bonus shares amounting to US$ 9,798 thousand. The bonus shares were approved by the shareholders in the annual general meeting held on 22 February 2005.

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13 *Share capital* *(continued)*

Additional information on shareholding pattern

(i) Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5% or more of outstanding shares.

	Nationality	No. of shares	% holding
Kuwait Finance and Investment Company	Kuwait	36,072,156	7.95
Abdul Latif Al Shaya & Abdul Aziz Al Shaya	Kuwait	24,721,120	5.45
Bahrain Islamic Bank	Bahrain	23,917,909	5.27

(ii) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.

(iii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	Number of Shares	Number of shareholders	% of total outstanding shares
Less than 1%	202,164,117	310	44.54
1% up to less than 5%	190,892,870	18	42.06
5% up to less than 10%	60,793,276	2	13.40
	453,850,263	330	100

** Expressed as a percentage of total outstanding shares of the Bank.*

14 INCOME FROM INVESTMENT ADVISORY SERVICES

Income from investment advisory services includes US$ 38,729 thousand (2004: US$ 27,795 thousand) which has been received by the Group in kind in exchange for investment advisory services rendered.

15 INCOME FROM INVESTMENT SECURITIES

	2005	2004
Dividend income and income from managed funds	1,437	1,313
Gain on disposal of investment securities	14,791	349
	16,228	1,662

16 OTHER INCOME

	2005	2004
Gain on disposal of trading properties	1,828	-
Loss on sale of subsidiaries	(1,462)	-
Miscellaneous income	182	166
	548	166

During the year, the Bank disposed of investments in subsidiaries, Al-Sharq Limited and Menajet Investment Company Limited. The subsidiaries did not contribute significant income for 2005.

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17 STAFF COSTS

	2005	2004
Salaries and related expenses	9,753	6,188
Social insurance expenses	672	380
Management Incentive Programme (note 19)	26,922	5,426
Other staff expenses	2,756	987
	40,103	12,981

18 OTHER EXPENSES

	2005	2004
Premises	938	994
Telecommunication	313	143
Postage and courier	584	148
Printing and stationery	609	455
Professional fees	465	822
Shari'a Committee expenses	151	137
Board member fees	405	606
Others	764	709
	4,229	4,014

19 MANAGEMENT INCENTIVE PROGRAMME

In accordance with its Articles of Association, the Bank has established a Management Incentive Programme ("the Programme"), which has been approved by the Bahrain Monetary Agency.

The annual amount of the bonus is based on a percentage of the Bank's net profit in excess of a predetermined hurdle rate as set out in the Bank's Articles of Association. As per the terms of the Programme, employees are entitled to receive bonus in the form of cash and shares in ratios determined by the terms of the Programme and as approved by the Board of Directors. Under the programme, maximum shares of US$ 11,500 thousand are to be issued and vested to the employees at stages in accordance with a pre-determined formula specified in the Programme.

The Group has incorporated a company, Hawafiz BSC (c) to hold the shares for the beneficial interest of the Programme until they vest. All shares under the scheme approved by the Shareholders' were issued and vested in favour of eligible employees in settlement of the incentive up to 31 December 2004.

20 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES

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

(i) Fair value of investments

The fair value of investments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are

20 Critical accounting estimates and judgements in applying accounting estimates (continued)

used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

(ii) Impairment on available-for-sale investments

The Group determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment. In making this judgment, the Group evaluates among other factors, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

21 FIDUCIARY ACTIVITIES

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date, the Group had assets under management of US$ 2,001,959 thousand (2004: 602,212 thousand).

22 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group.

A significant portions of the Group's income from investment advisory services and placement and arrangement and management fees from entities over which the Group exercises significant influence.

Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. Consequently, the true nature of the Group's transactions with these entities is effectively conducted at commercial terms and conditions. The terms and conditions for these transactions are approved by the Board of Directors of the Group.

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22 *Related party transactions (continued)*

The related party balances included in these consolidated financial statements are as follows:

	2005	2004
Assets		
Cash and balances with financial institutions	2,683	2,037
Due from financial and non-financial institutions	15,750	8,436
Investment securities	183,305	112,225
Assets held for sale	25,327	-
Other investments	11,231	-
Other assets	100,403	24,517
Liabilities		
Investors' funds	477,775	35,925
Customers' current account	3,194	-
Due to financial and non-financial institutions	130,975	23,285
Other liabilities	45,759	4,568

	2005	2004
Income		
Income from investment advisory services	167,752	81,307
Placement and arrangement fees	11,320	-
Commission on sale of land	-	9,472
Income from investment securities	16,228	1,274
Murabaha income	450	172
Other income	439	-
Expenses		
Investment related expenses	8,664	2,598
Net fair value losses on investments	3,825	2,869
Impairment allowances on available-for-sale investments	-	7,287
Murabaha expenses	6,684	1,480
Other operating expenses	636	912

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were :

Categories*	Number of Shares	Number of Directors
Less than 1%	3,173524	3
1% up to less than 5%	18,343,869	2

* *Expressed as a percentage of total outstanding shares of the Bank.*

Details of material contracts involving directors' include:

	2005	2004
Directors' participation in investments promoted by the Group	6,700	421

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22 ***Related party transactions*** *(continued)*

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel compensation is as follows:-

	2005	2004
Board remuneration	585	360
Board member fees	405	606
Salaries and other short-term benefits	19,661	1,919
Post employment benefits	57	47
Share based payment	-	4,800

23 ZAKAH

The shareholders' in their annual general meeting held on 22 February 2005 approved the payment of Zakah on undistributed profits as at 31 December 2004. Accordingly, based on the computation approved by the Shari'a Board, the Bank has appropriated US$ 576 thousand from retained earnings towards payment of Zakah which is included in other liabilities.

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders in respect of the proposed distributable profits (refer note 26) for the year ended 31 December 2005 is US cents 0.41 (2004: US cents 0.20) for every share held.

24 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds.

The Group receives interest from deposits placed with the Bahrain Monetary Agency and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amounts to US$ 66 thousand (2004: US$ 34 thousand).

25 SHARI'A SUPERVISORY BOARD

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

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26 PROPOSED APPROPRIATIONS

The Board of Directors of the Bank propose a dividend of 60% (2004: 30%) of the paid-up capital and other appropriations, subject to the approval of the shareholders' at the annual general meeting, as follows:

	2005	2004
Proposed dividend *	89,862	32,194
Charity contribution	1,000	600
Directors' remuneration	1,050	585
Share premium **	4,000	-

* Proposed dividend include bonus shares recommended by the Board of Directors at the rate of twelve share for every hundred shares held (2004: fifteen share for every hundred shares held). This is subject to approval by shareholders at the annual general meeting.

** In 2003, the shareholders' approved the utilisation of the share premium account for issue of shares towards the management incentive programme amounting to USD $ 4,000 thousand. It is now proposed to restate share premium account by transferring an equivalent amount from retained earnings.

27 MATURITY PROFILE

2005	**Up to 3 months**	**3 to 6 months**	**6 months- 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets						
Cash and balances with financial institutions	11,913	-	-	-	1,499	13,412
Due from financial and non-financial institutions	697,285	-	4,365	-	-	701,650
Investment securities	-	-	55,374	123,677	10,184	189,235
Other investments	46,374	804	10,427	-	5,000	62,605
Assets held for sale	7,382	-	17,945	-	-	25,327
Trading properties	-	8,660	-	-	-	8,660
Other assets	95,220	1,645	319	-	-	97,184
Equipment	-	-	-	-	1,694	1,694
Total assets	**858,174**	**11,109**	**88,430**	**123,677**	**18,377**	**1,099,767**
2004	306,886	1,798	22,337	55,490	36,242	422,753
Liabilities						
Investors' funds	477,775	-	-	-	-	477,775
Customers' current account	5,090	-	-	-	-	5,090
Due to financial and non-financial institutions	47,454	128,691	-	-	-	176,145
Other liabilities	50,701	391	-	1,414	187	52,693
Total liabilities	**581,020**	**129,082**	**-**	**1,414**	**187**	**711,703**
2004	53,156	46,346	71,944	401	-	171,847
Unrestricted investment accounts	**24,048**	**11,053**	**599**	**-**	**-**	**35,700**
2004	-	-	-	-	-	-
Restricted investment accounts	860	2,343	-	54,123	-	**57,326**
2004	-	-	5,058	8,992	-	14,050

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28 CONCENTRATION OF ASSETS, LIABILITIES, UNRESTRCITED AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

2005	Trading and manufacturing	Banks and financial institutions	Real estate	Technology	Others	Total
Assets						
Cash and balances with financial institutions	-	13,412	-	-	-	13,412
Due from financial and non-financial institutions	-	685,770	13,240	-	2,640	701,650
Investment securities	-	1,928	157,858	12,500	16,949	189,235
Other investments	-	46,136	16,469	-	-	62,605
Assets held for sale	15,695	2,250	7,382	-	-	25,327
Trading properties	-	-	8,660	-	-	8,660
Other assets	35	87	62,227	19	34,816	97,184
Equipment	-	-	-	-	1,694	1,694
Total assets	**15,730**	**749,583**	**265,836**	**12,519**	**56,099**	**1,099,767**
Liabilities						
Investors' funds	84	32	477,557	-	102	477,775
Customers' current accounts	-	-	-	-	5,090	5,090
Due to financial and non-financial institutions	-	12,058	126,960	-	37,128	176,145
Other liabilities	-	62	-	-	52,631	52,693
Total liabilities	**84**	**12,152**	**604,517**	**-**	**94,951**	**711,703**
Unrestricted investment accounts	**11,053**	**24,048**	**599**	**-**	**-**	**35,700**
Off-Balance sheet items						
Restricted investment accounts	-	-	55,326	-	2,000	**57,326**

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28 *Concentration of assets, liabilities, unrestricted and restricted investment accounts* (continued)
(a) *Industry sector* (continued)

2004	Trading and manufacturing	Banks and financial institutions	Real estate	Technology	Others	Total
Assets						
Cash and balances with financial institutions	-	4,295	-	-	-	4,295
Due from financial and non-financial institutions	-	264,339	-	-	-	264,339
Investment securities	19,902	15,281	65,280	8,823	4,439	114,832
Other investments	-	11,155	-	-	-	11,155
Other assets	1,266	1,479	21,935	77	1,286	26,043
Equipment	-	-	-	-	2,089	2,089
Total assets	21,168	296,549	87,215	8,900	7,814	422,753
Liabilities						
Investors' funds	115	199	33,098	-	807	34,219
Due to financial and non-financial institutions	-	23,359	75,880	-	30,918	130,157
Other liabilities	1,428	348	-	-	5,695	7,471
Total liabilities	1,543	23,906	108,978	-	37,420	171,847
Off-Balance sheet items						
Restricted investment accounts	-	-	12,050	-	2,000	14,050

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28 ***Concentration of assets, liabilities, unrestricted and restricted investment accounts*** *(continued)*
(b) ***Geographic region***

2005	GCC countries	Other MENA countries	UK	Europe (excluding UK)	USA	Total
Assets						
Cash and balances with financial institutions	12,329	584	255	-	244	13,412
Due from financial and non-financial institutions	440,557	-	106,053	155,040	-	701,650
Investment securities	159,494	20,530	-	9,100	111	189,235
Other investments	62,605	-	-	-	-	62,605
Assets held for sale	17,945	-	7,382	-	-	25,327
Trading properties	8,660	-	-	-	-	8,660
Other assets	65,810	31,364	-	10	-	97,184
Equipment	1,694	-	-	-	-	1,694
Total assets	**769,094**	**52,478**	**113,690**	**164,150**	**355**	**1,099,767**
Liabilities						
Investors' funds	380,216	3	79,308	18,248	-	477,775
Customers' current accounts	5,090	-	-	-	-	5,090
Due to financial and non-financial institutions	57,852	118,293	-	-	-	176,145
Other liabilities	52,693	-	-	-	-	52,693
Total liabilities	**495,851**	**118,296**	**79,308**	**18,248**	**-**	**711,703**
Unrestricted investment accounts	**24,048**	**11,053**	**599**	**-**	**-**	**35,700**
Off-Balance sheet items						
Restricted investment accounts	6,060	8,455	860	41,951	-	57,326

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28 Concentration of assets, liabilities, unrestricted and restricted investment accounts *(continued)*

(b) Geographic region *(continued)*

2004	GCC countries	Other MENA countries	UK	Europe (excluding UK)	USA	Total
Assets						
Cash and balances with financial institutions	3,345	-	179	185	586	4,295
Due from financial institutions	206,911	-	-	26,705	30,723	264,339
Investment securities	82,914	9,000	8,230	3,915	10,773	114,832
Other investments	11,155	-	-	-	-	11,155
Other assets	19,026	1,293	2,114	2,410	1,200	26,043
Equipment	2,089	-	-	-	-	2,089
Total assets	325,440	10,293	10,523	33,215	43,282	422,753
Liabilities						
Investors' funds	31,312	551	-	2,356	-	34,219
Due to financial institutions	126,152	4,005	-	-	-	130,157
Other liabilities	7,471	-	-	-	-	7,471
Total liabilities	164,935	4,556	-	2,356	-	171,847
Off-Balance sheet items						
Restricted investment accounts	8,378	2,000	960	2,712	-	14,050

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29 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group had the following significant net exposures denominated in foreign currency as of 31 December:

	2005 US$ Equivalent	2004 US$ Equivalent
Sterling Pounds	10,875	10,078
Euros	8,211	4,928
Lebanese Pounds	-	9,000
Jordanian Dinar	584	
Kuwaiti Dinars	53,990	13,362
Other GCC Currencies (*)	110,928	70,739

(*) These currencies are pegged to the US Dollar.

30 LARGE EXPOSURES

Exposures to Banks and non-Banks which exceed 15% of the Bank's capital and reserves are as follows:

Bank exposures	% of Tier I capital	**2005**	% of Tier I capital	2004
Gulf International Bank BSC	-	-	16	40,618
HSBC	30	106,703	-	-
BNP Paribas	34	120,261	-	-
Citibank N.A.	15	53,911	-	-

The above exposures are in relation to commodity Murabahas placed with these banks.

31 COMMITMENTS AND CONTINGENCIES

The Group has secured exit for one of its investment project at the year end and has issued a corporate guarantee securing the buyer against any general indemnity, tax claim or liability that might arise under the terms of the agreement. In the opinion of the management, the possibility of the guarantee being invoked is negligible.

The commitments contracted in the normal course of business of the Group:

	2005	2004
Commitments to invest	507	3,125
Undrawn commitments to extend finance	2,573	-

The Group has issued a guarantee to a financial institution to secure credit facility arrangement of US$ 9,200 thousand for a project promoted by the Group.

32 FAIR VALUE

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Other than certain available-for-sale investments carried at cost of US$ 93,173 thousand (2003: US$ US$ 47,389 thousand), the estimated fair values of the Group's other financial instruments are not significantly different from their book values.

33 RISK MANAGEMENT

The Group's exposure to risks and its approach to managing these risks are discussed below.

a) Credit risk

Credit risk is the risk that a counterparty to a financial transaction does not discharge its obligations on due dates and cause the other party to incur a financial loss. The Group's credit risk arises mainly from the advisory fee and other receivables, due from financial institutions and investments in Sukuk.

The Group has well defined policies for managing credit risks that ensure that risks are accurately assessed, properly approved and regularly monitored. Formal credit limits are applied at counterparty and single obligor level. Overall exposures are also evaluated to ensure a broad diversification of risk by setting concentration limits by geography and industry.

b) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic 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. The group seeks to manage its concentration risk by establishing geographic and industry wise concentration limits.

The geographical and industry wise distribution of assets and liabilities are set out in note 28.

c) Liquidity risk

Liquidity risk is defined as the risk that the Group will not have funds will not be available to meet liabilities as they fall due. The Group uses a maturity ladder approach for managing and monitoring the liquidity risk. It is the Group's policy to keep a significant part of its assets in highly liquid assets such as short term Murabahas and Sukuks.

The maturity profile of assets and liabilities is set out in note 27.

d) Profit rate risk

Profit rate risk arises due to different timing of re-pricing of the Group's assets and liabilities. The Group's profit rate sensitive assets are mainly "due from financial institutions". The Group's exposure to profit rate risk is limited due the short-term nature of "due from financial institutions".

e) Currency risk

The Group is exposed to currency risks on certain Murabaha receivables and available-for-sale investments. The Group seeks to manage currency risk by continually monitoring exchange rates.

34 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year ended 31 December 2005 as follows:

	2005	2004
Profit for the year (US$ 000's)	140,330	56,671
Weighted average number of equity shares (Nos. in 000's)	453,852	435,876
Basic earnings per share (in US cents)	**30.92**	13.00

35 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisations.

36 COMPARATIVES

Except for restatement of financial statements as stated in note 2 (c), certain prior year amounts have been reclassified to conform to the presentation in the current year. Such reclassifications do not affect previously reported net profit or equity.

for the year ended 31 December 2005 US$ 000's

37 SEPARATE SUMMARISED FINANCIAL STATEMENTS OF GULF FINANCE HOUSE BSC, THE PARENT COMPANY

(i) Balance sheet

	2005	2004
ASSETS		
Cash and balances with banks	11,616	4,287
Due from financial and non-financial institutions	695,559	264,339
Investment securities	175,508	103,800
Other investments	46,136	11,155
Assets held for sale	25,327	-
Investments in subsidiaries, at cost	80,003	89,928
Other assets	94,302	25,956
Equipment	1,694	2,089
Total assets	**1,130,145**	501,554
LIABILITIES		
Investors' funds	420,717	34,219
Due to financial and non-financial institutions	315,145	210,339
Other liabilities	51,874	7,459
Total liabilities	**787,736**	252,017
SHAREHOLDERS' EQUITY		
Share capital	149,771	139,973
Share premium	31,487	31,487
Statutory reserve	23,626	10,576
Investments fair value reserve	227	3,347
Retained earnings	137,298	64,154
Total shareholders' equity	**342,409**	249,537
Total liabilities and shareholders' equity	**1,130,145**	501,554
OFF-BALANCE SHEET ITEMS		
Restricted investment accounts	**28,085**	14,049

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37 *Separate summarised financial statements of Gulf Finance House BSC, the parent company (continued)*

(ii) Income statement

	2005	2004
Income from investment advisory services	157,691	81,307
Placement, management and arrangement fees	25,590	2,777
Commission income from sale of land	—	9,472
Income from Murabaha receivables	13,834	3,577
Income from investment securities	16,228	1,662
Other income	2,994	271
Total income	**216,337**	99,066
Staff costs	38,950	12,853
Investment advisory expenses	28,647	12,215
Net fair value losses on investments	3,825	2,869
Impairment allowances on available-for-sale investments	—	7,287
Murabaha expense	9,926	2,283
Other operating expenses	3,704	3,902
Depreciation	786	545
Total expenses	**85,838**	41,954
PROFIT FOR THE YEAR	**130,499**	57,112
Earnings per share (US cents)		
Basic	**28.75**	13.10

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Printed RR Donnelley, 20516