



CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005



TAIB

Consolidated balance sheet as at 31 December 2005

(Expressed in thousands of United States Dollars)

	Notes	2005	2004 (Restated)
ASSETS			
Cash and balances with central banks		23,546	23,455
Placements with banks	3	166,064	94,232
Trading securities	4	30,061	14,713
Loans and advances	5, 6, 7	14,522	22,833
Investment securities	6, 8	170,629	195,311
Property and equipment	9	14,811	13,234
Other assets	6, 10	15,418	24,012
Total assets		435,051	387,790
EQUITY			
Shareholders' equity			
Share capital	11	101,916	101,916
Less: Treasury shares	11	(9,367)	(9,107)
Reserves	12	50,421	50,769
		142,970	143,578
Minority interest		6,483	16
Total equity		149,453	143,594
LIABILITIES			
Deposits from banks		111,264	46,181
Deposits from customers	7, 13	144,958	150,471
Securities sold under agreements to repurchase	4, 8	3,911	5,609
Other liabilities	14	25,465	37,592
Long term debt		-	4,343
Total liabilities		285,598	244,196
Total equity and liabilities		435,051	387,790

These consolidated financial statements have been approved for issue by the Board of Directors and signed on its behalf on 19 January 2006 by:



Abdulaziz R. Alrashed
Chairman



Iqbal G. Mamdani
Vice Chairman and Chief Executive Officer

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

Consolidated statement of income for the year ended 31 December 2005

(Expressed in thousands of United States Dollars)

	Notes	2005	2004 (Restated)
Interest and similar income	15	12,392	9,096
Interest expense	16	(4,723)	(8,289)
		7,669	807
Income/(loss) from FVTPL financial instruments	17	2,417	(2,062)
Fair value (loss)/gain on investment properties	18	(11,752)	20,115
Income/(loss) from sale of investment securities	19	29,829	(9,319)
Foreign exchange income		929	150
Fees and commission	20	13,272	15,804
Other operating income		1,267	1,258
Total operating income		43,631	26,753
Staff costs	21	(11,528)	(8,721)
Other operating costs	22	(7,395)	(7,143)
Provisions – impairment of loans, investments and other assets	6	(5,971)	(1,131)
– other	6	-	(1,000)
Income before taxation		18,737	8,758
Overseas taxation		(73)	(338)
Income for the year		18,664	8,420
Attributable to:			
Equity holders of the Bank		17,758	8,475
Minority interest		906	(55)
		18,664	8,420
Earnings per share for net income attributable to the equity holders of the Bank during the year - Basic	23	\$0.192	\$0.091

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Consolidated statement of changes in equity for the year ended 31 December 2005

(Expressed in thousands of United States Dollars)

	Attributable to equity holders of the Bank										Minority interest	Total
	Share Capital	Treasury shares	Reserves							Total		
			Share premium	Capital reserve	Statutory reserve	Revaluation reserve	General reserve	Fair value reserve	Retained earnings			
At 1 January 2005 as restated	101,916	(9,107)	290	476	16,545	2,842	6,201	17,801	6,614	50,769	16	143,594
Movement in fair value of available-for-sale investments	-	-	-	-	-	-	-	5,854	-	5,854	-	5,854
Revaluation of property and equipment	-	-	-	-	-	438	-	-	-	438	-	438
Available-for-sale investments sold	-	-	-	-	-	-	-	(23,559)	-	(23,559)	-	(23,559)
Currency translation adjustment	-	-	-	-	137	-	-	-	(267)	(130)	-	(130)
Net income (expense) recognized directly in equity	-	-	-	-	137	438	-	(17,705)	(267)	(17,397)	-	(17,397)
Net income for the year ended 31 December 2005	-	-	-	-	-	-	-	-	17,758	17,758	906	18,664
Total recognised income (expense)	-	-	-	-	137	438	-	(17,705)	17,491	361	906	1,267
Transfer to statutory reserve	-	-	-	-	1,872	-	-	-	(1,872)	-	-	-
Movement in treasury shares	-	(260)	-	-	-	-	(30)	-	-	(30)	-	(290)
Movement in minority interest	-	-	-	-	-	-	-	-	(679)	(679)	5,561	4,882
At 31 December 2005	101,916	(9,367)	290	476	18,554	3,280	6,171	96	21,554	50,421	6,483	149,453

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2004

(Expressed in thousands of United States Dollars)

	Attributable to equity holders of the Bank										Minority interest	Total (Restated)
	Share Capital	Treasury shares	Reserves							Total		
			Share premium	Capital reserve	Statutory reserve	Revaluation reserve	General reserve	Fair value reserve	Retained earnings (Restated)			
At 1 January 2004 as reported	101,916	(8,996)	692	476	15,579	-	6,201	(3,604)	12,973	32,317	69	125,306
Adjustment to recognize changes in fair value of derivative financial instruments	-	-	-	-	-	-	-	-	(15,296)	(15,296)	-	(15,296)
At 1 January 2004 as restated	101,916	(8,996)	692	476	15,579	-	6,201	(3,604)	(2,323)	17,021	69	110,010
Movement in fair value of available-for-sale investments	-	-	-	-	-	-	-	13,556	-	13,556	-	13,556
Revaluation of property and equipment	-	-	-	-	-	2,934	-	-	-	2,934	-	2,934
Available-for-sale investments sold	-	-	-	-	-	-	-	7,849	-	7,849	-	7,849
Currency translation adjustment	-	-	-	-	-	-	-	-	1,336	1,336	2	1,338
Net income (expense) recognised directly in equity	-	-	-	-	-	2,934	-	21,405	1,336	25,675	2	25,677
Net income for the year ended 31 December 2004 restated	-	-	-	-	-	-	-	-	8,475	8,475	(55)	8,420
Total recognised income (expense) restated	-	-	-	-	-	2,934	-	21,405	9,811	34,150	(53)	34,097
Transfer from revaluation reserve to retained earnings	-	-	-	-	-	(92)	-	-	92	-	-	-
Transfer to statutory reserve	-	-	-	-	527	-	-	-	(527)	-	-	-
Additional transfer to statutory reserve due to restatement	-	-	-	-	439	-	-	-	(439)	-	-	-
Treasury shares	-	(111)	-	-	-	-	-	-	-	-	-	(111)
Reduction of capital	(48,760)	-	-	-	-	-	-	-	-	-	-	(48,760)
Rights issue/private placement	48,760	-	-	-	-	-	-	-	-	-	-	48,760
Rights issue - expenses	-	-	(402)	-	-	-	-	-	-	(402)	-	(402)
At 31 December 2004 restated	101,916	(9,107)	290	476	16,545	2,842	6,201	17,801	6,614	50,769	16	143,594

The accompanying notes form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2005

(Expressed in thousands of United States Dollars)

	2005	2004 (Restated)
Cash flows from operating activities:		
Net income for the year before taxation and minority interest	18,737	8,758
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealised (gains)/losses in trading securities	(672)	2,192
Changes in fair value of derivative financial instruments	(6,398)	(4,394)
Fair value loss/(gain) on investment properties	11,752	(20,115)
Provision for impairment	5,971	2,131
Depreciation	924	938
Movements in operating assets and liabilities		
Trading securities	(14,676)	18,052
Loans and advances	6,495	1,342
Other assets	8,565	(1,501)
Deposits from banks	65,083	(13,286)
Deposits from customers	(5,513)	39,158
Other liabilities	(939)	12,035
Securities sold under agreements to repurchase	(1,698)	(8,771)
Currency translation adjustment	(130)	1,336
Net cash provided by operating activities	87,501	37,875
Cash flows from investing activities		
Net acquisition of investment securities	(8,912)	(5,014)
Net acquisition of property and equipment	(2,063)	(943)
Net cash used in investing activities	(10,975)	(5,957)
Cash flows from financing activities:		
Purchase of treasury shares	(260)	(111)
Repayment of long term debt	(4,343)	(9,789)
Proceeds from rights issue	-	48,760
Rights Issue expenses	-	(402)
Net cash (used in)/ provided by financing activities	(4,603)	38,458
Net increase in cash and cash equivalents	71,923	70,376
Cash and cash equivalents at beginning of the year	117,687	47,311
Cash and cash equivalents at end of the year	189,610	117,687

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of preparation

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

During the year, Bank has implemented revised versions of IFRS effective from 1 January 2005.

Critical accounting estimates and judgments in applying accounting policies

International Accounting Standard (IAS) 1 (revised) requires the disclosures of judgments, apart from those involving estimations, which management has made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed as well. Refer to Note 6 to these consolidated financial statements for management's assessment of these estimates and judgments.

Financial instruments: recognition and measurement

The revised IAS 39, Financial Instruments: Recognition and Measurement, has introduced a new classification "Fair value through profit or loss (FVTPL)", under which financial assets and liabilities, except for investment in equity instruments that may not have quoted market price and whose fair value cannot be measured, can be classified and carried at fair value with the changes in fair value recognised in consolidated statement of income. This new classification includes financial assets and liabilities held for trading and items that are designated as FVTPL at the time of initial recognition. Following initial recognition, transfers between the various classifications of financial assets or liabilities are not ordinarily permissible.

Certain investments previously classified as trading securities are now classified as FVTPL (held for trading) and originated debt securities are now classified as available-for-sale investments.

Related party disclosures

IAS 24 provides additional guidance and expands the definitions and the disclosures for related parties, the objective being to clarify that the entity's financial statements should contain the disclosures necessary to draw attention to the possibility that the financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with them. The Group's transactions and balances with related parties are disclosed in Note 7 to these consolidated financial statements.

There was no impact on opening retained earnings as at 1 January 2004 from the adoption of the above-mentioned standards.

The adoption of revised IFRS's has had no impact on retained earnings at 31 December 2004 and 31 December 2005.

New International Financial Reporting Standards

As of the date of these consolidated financial statements the Group has not early adopted any amendments to IFRS which were issued but were not yet effective.

The functional currency in the Kingdom of Bahrain is Bahrain Dinars. In view of the international nature of the Group's operations, these consolidated financial statements are presented in United States Dollars.

Accounting policies (continued)

(b) Basis of consolidation

Subsidiary undertakings, being companies and other entities including special purpose entities in which the Bank has power to exercise control over operations, have been consolidated. Undertakings in which the Bank has power to exercise control over operations and which are intended to be temporary because the undertakings have been acquired and are held exclusively with a view to resale in the near future are not consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal.

Unconsolidated subsidiaries are accounted for and disclosed as available-for-sale investments and are included in investments securities.

All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank. Separate disclosure is made of minority interests.

(c) Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Gains and losses from the translation of foreign currency non monetary assets and liabilities held for trading are recognised in the income statement and non monetary assets held as available for sale assets are included in the fair value reserve in equity.

Income statements and cash flows of subsidiaries reporting in foreign currency are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the exchange rates at the reporting dates except for subsidiaries operating in hyper-inflationary economies where the closing rate method of translation is used. The gains or losses arising on translation are dealt with in the shareholders' equity.

(d) Cash and cash equivalents

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

(e) Trading securities

The Group considers a financial asset as held for trading if it was acquired principally for the purpose of generating a profit from short-term fluctuations in price or where a pattern of short term profit taking exists or is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking. Trading securities are measured at fair value.

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

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

(f) Loans and advances

Loans and advances by the Group are stated net of impairment provisions which are charged to the income statement.

Interest income in respect of loans and advances placed on non-accrual status and all unpaid interest income is reversed from the statement of income when any element of a loan or an advance, whether principal or interest, becomes past due and management believes that the ultimate collection of past due amount is doubtful.

Accounting policies (continued)

(g) Investment securities

Available-for-sale investments

Non-trading financial investments not falling within the definition of held to maturity or loans and receivables are classified as available-for-sale. Accordingly, investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are included within the available-for-sale category. These are measured at fair value, unless fair value cannot be reliably measured and any changes in fair values of such assets subsequent to initial recognition are reported as movements in fair value reserve in equity until the investment is sold, collected or otherwise disposed of, or the financial assets are considered impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income.

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

Investment properties

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

Property held for rental yields, which is not occupied by the entities in the Group, is also classified as investment property.

In accordance with IAS 40 – Investment Property, changes in fair values are recorded in the income statement as “fair value gain/(loss) on investment properties”.

(h) Provision for impairment

A provision for impairment is made in respect of a financial asset that is impaired, if its carrying amount is greater than its estimated recoverable amount. Provision for a financial asset carried at amortised cost is calculated as the difference between the assets carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. By comparison, the recoverable amount of a financial asset measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

(i) Trade date accounting

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

(j) Derivative financial instruments

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

Derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealized gains and losses reported in income statement.

Accounting policies (continued)

(k) Financial liabilities

Financial liabilities are classified as either held for trading or other than held for trading. Liabilities that are held for trading are those that were incurred principally for the purpose of generating a profit from short-term fluctuations in price.

(l) Securities sold under agreements to repurchase

Securities sold under agreements to repurchase are treated as financing transactions and are stated at the amounts at which the securities will subsequently be repurchased as specified in the respective agreements as adjusted for accrued interest.

(m) Overseas taxation

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

(n) Employee compensation costs

Group employee benefits and entitlements to annual leave, holiday, air passage and other short term benefits are recognized as they accrue to the employees. The Group's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

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

(o) Treasury shares

Own shares of the Bank held at the balance sheet date are designated as treasury shares. These shares are treated as a deduction from the Bank's equity. Gains and losses on purchase and sale of own shares are transferred to general reserve.

(p) Dividends on capital

Dividends on capital are accounted for in shareholders' equity in the period in which they are approved by the shareholders.

(q) Interest income and expense

Interest and similar income and expense are recognized in the income statement on an accrual basis using the effective yield method. Interest and similar income includes coupons earned on fixed income investments and trading securities.

(r) Fees and commission

Fees and commission are recognised on an accrual basis when the service has been provided.

Accounting policies (continued)

(s) Property and equipment

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

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

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

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

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

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

(t) Segmental reporting

A segment is a distinguishable component of the Group, that is engaged in either providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenues or assets which are 10% or more of all the segments are reported separately.

Notes to the consolidated financial statements for the year ended 31 December 2005

1 Incorporation and principal activity

TAIB Bank B.S.C. (c) (the "Bank") is incorporated in Bahrain as an Exempt Company and holds an investment banking license issued by the Bahrain Monetary Agency. The Bank has its registered office at TAIB Tower, Diplomatic Area, Manama, the Kingdom of Bahrain. Its shares are listed on the Bahrain Stock Exchange.

Pursuant to an amendment of Bahrain Commercial Companies law (BCCL), an Extraordinary General Meeting of the shareholders of the Bank was held on 10 October 2004 to incorporate the provisions of BCCL which included the change in status of the Bank from "Exempt Company" to "Bahrain Closed Joint Stock Company" and the consequential change in the name of the Bank from TAIB Bank E.C. to TAIB Bank B.S.C. (c). The Memorandum and Articles of Association of the Bank were also amended to give effect to all the required amendments in the BCCL.

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

2 Consolidated subsidiaries

The Bank's subsidiaries at 31 December 2005 are set out below:

Subsidiary	Country of Incorporation	Ownership/ control 2005	Ownership/ control 2004	Principal activity
TAIB Yatirim Bank A.S.	Turkey	100%	100%	Investment banking
TAIB Yatirim A.S.	Turkey	100%	100%	Securities brokerage services
TAIB Asset Management Company E.C.	Kingdom of Bahrain	100%	100%	Investment advisory services
TAIB Capital Corporation Limited	India	74%	74%	Merchant banking
TAIB Securities (India) Limited*	India	74%	74%	Securities brokerage services
TAIB Securities Mauritius Limited	Mauritius	100%	100%	Holding investments
TAIB Investments N.V.	Netherlands Antilles	100%	100%	Real estate investments
TAM Investment Company	USA	100%	100%	Real estate investments
TAIB Securities W.L.L.	Bahrain	100%	100%	Securities brokerage services
TAIB Securities Inc.	USA	100%	100%	Securities advisory services
TAIB Securities Limited	United Kingdom	100%	100%	Securities advisory services
TAIB Asia Limited	Hong Kong	100%	100%	Financial services
TAIB (Suisse) S.A.	Switzerland	100%	100%	Financial services
TAIB Kazak Bank	Kazakhstan	100%	100%	Commercial banking
TAIB Invest Inc.	Cayman Islands	100%	100%	Holding investments
TAIB Explorer Fund	Cayman Islands	61%	-	Asset management
TAIB Crescent Global Fund	Cayman Islands	87%	-	Asset management
TAIB Health Sciences Fund	Cayman Islands	79%	-	Asset management
Everest Fund	Luxembourg	63%	-	Asset management
TAIB Income Fund	British Virgin Islands	78%	-	Asset management

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

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

3 Placements with banks

Placements with banks include placements held as collateral and margin amounting to US\$6.4 million (2004: US\$12.2 million).

4 Trading securities

	2005	2004
	US\$'000	US\$'000
Investments in funds	28,753	6,097
Government Agency Bonds (U.S. Government guaranteed/sponsored agencies)	1,023	1,605
Guaranteed notes	-	6,832
Equity securities	285	179
	30,061	14,713

Guaranteed notes at 31 December 2004 are principal protected by a AA rated European bank.

Government Agency Bonds are primarily financed by repurchase agreements against which they are secured.

5 Loans and advances

	2005	2004
	US\$'000	US\$'000
Term loans	22,807	29,794
Less: Provisions for impairment	(13,680)	(11,863)
	9,127	17,931
Advance to a shareholder	5,395	4,902
	14,522	22,833

Term loans include non-performing exposures aggregating US\$3.4 million (2004: US\$9.6 million), which are stated net of provisions for impairment of US\$13.7 million (2004: US\$11.9 million).

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

6 Provisions

Impairment of investments securities, loans and advances and other assets are as follows:

	Investment securities US\$'000	Loans and advances US\$'000	Other assets US\$'000	Total US\$'000
At 1 January 2004	3,198	11,863	4,019	19,080
Charge for the year	-	-	1,131	1,131
Provisions utilised during the year	-	-	(3,937)	(3,937)
Other movements	107	-	-	107
At 31 December 2004	3,305	11,863	1,213	16,381
Charge for the year	4,137	1,817	17	5,971
Provisions utilised during the year	(1,900)	-	(1,157)	(3,057)
Other movements	(14)	-	(17)	(31)
At 31 December 2005	5,528	13,680	56	19,264

Other

Other provisions in 2004 represented provisions towards a claim from revenue authorities in a country where one of the subsidiaries is located. This provision has been paid in 2005.

Critical accounting estimates and judgments in applying accounting policies*Impairment losses on loans and advances*

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

Impairment of available-for-sale investment securities

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

Income taxes

The Group is subject to tax in certain jurisdictions. Estimates are required in determining the provisions required for income taxes. The Group recognizes liabilities for anticipated tax issues based on estimates whether additional taxes will be due.

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

7 Transactions with related parties

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

JAMBA SA, incorporated in Luxembourg, holds 18.71% (2004: 19.72%) of the Bank's shares. The Bank has advanced funds to JAMBA SA for the purpose of financing JAMBA SA's operations. Advances, net of deposits, at 31 December 2005 were US\$5.4 million (2004: US\$4.9 million). Interest is charged on these advances at market rates. The Bank has not specified repayment terms and cash repayments are made from time to time. The interest income relating to these advances amounted to US\$0.2 million (2004: US\$0.1 million) during the year.

At 31 December 2005, loans and advances included unsecured loans due from subsidiaries of JAMBA SA of US\$0.01 million (2004: US\$3.6 million) for which repayment terms have not been specified. Interest is charged on these advances at market rates of interest and amounted to US\$0.3 million (2004: US\$0.3 million) during the year.

Customer deposits include US\$1.9 million (2004: US\$4.2 million) placed by directors, major shareholders and by companies in which directors and major shareholders have a significant interest. These deposits are accepted on market rates offered by the Bank and related interest amounted to US\$0.08 million (2004: US\$0.02 million) during the year.

Key management compensation

	2005	2004
	US\$'000	US\$'000
Salaries and other short-term employee benefits	2,269	941
Termination benefits	58	55
	2,327	996

Loans to related shareholders' and it's subsidiaries

	2005	2004
	US\$'000	US\$'000
At 1 January	8,488	10,520
Movement in demand account	286	(1)
Loan repayments received	(2,145)	(897)
Provisions for impairment	(1,015)	(2,000)
Interest charged	465	399
Exchange rate difference	(633)	467
At 31 December	5,446	8,488

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

8 Investment securities

	2005	2004
	US\$'000	US\$'000
Available-for-sale investments		
Government Agency Bonds	6,115	12,053
Property interests held for sale – equity	47,695	62,445
Property interests held for sale – debt securities	43,780	33,762
Private equity investments	13,082	13,048
Investments in funds	28,231	27,643
Other	5,186	8,068
	144,089	157,019
Investment properties	26,540	38,292
	170,629	195,311
	2005	2004
	US\$'000	US\$'000
Government Agency Bonds – fair value	6,115	12,053
Property interests held for sale		
Equity – unlisted – fair value	47,695	62,445
Debt securities – unlisted – cost	43,780	33,762
Private equity investments		
Listed – fair value	4,422	4,514
Unlisted – fair value	583	583
Unlisted – cost	13,605	11,256
Less: Provisions for impairment	(5,528)	(3,305)
	13,082	13,048
Investment in funds – unlisted – fair value	28,231	27,643
Other – unlisted – fair value		
Euro bonds/T-Bills	2,190	5,101
Turkish lira denominated bonds	1,992	2,030
US treasury strips	1,004	937
	5,186	8,068

Government Agency Bonds

Government Agency Bonds comprise the Group's investments in US Government guaranteed/sponsored agency bonds. Of these bonds, US\$3.9 million (2004: US\$5.6 million) are financed by repurchase agreements against which the bonds are secured.

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

8 Investment securities (continued)Property interests held for sale

Property interests held for sale represent the Bank's share of the net assets of the special purpose companies acquired in conjunction with other investors. The Bank's average interest in these special purpose companies as at 31 December 2005 was 22% (31 December 2004: 27%). The aggregate total assets of these companies amounted to US\$1,050.2 million (2004: US\$917.9 million). The liabilities of these companies, principally representing borrowings from financial institutions in connection with these property investments amounted to US\$773.9 million (2004: US\$670.0 million). These borrowings are secured by the underlying properties, and the lenders have no recourse to the Bank.

In addition to the Bank's investment, funds provided by other investors to these special purpose companies amounted to US\$160.3 million (2004: US\$116.5 million).

Investment properties

	2005	2004
	US\$'000	US\$'000
At 1 January	38,292	-
Additions during the year	-	13,333
Transfer from property and equipment (Note 9)	-	3,389
Fair value (loss)/ gain	(11,752)	21,570
At 31 December	26,540	38,292

The Bank's investment properties were revalued in December 2005 by independent professionally qualified valuers on an open market basis.

The movement in investment securities may be summarized as follows:

	US\$'000
At 1 January 2005	195,311
Exchange difference on monetary assets	(1,484)
Additions	57,411
Disposals (sale and redemption)	(47,015)
Fair value reserve movement on sale of investments from equity to income statement	(23,559)
Net (losses) from changes in fair value	(5,898)
Provision for impairment of investments	(4,137)
At 31 December 2005	170,629

The Bank alongside its co-investors, acquired an interest in a land in a country in the Middle East. In relation to this transaction, the Bank has an obligation to provide a return to its co-investors, equivalent to 20% of the participation amount. This amount has been accounted for as an expense in 2004 and has been classified under other liabilities.

The Bank has rented out a portion of TAIB Tower and accordingly, reclassified the let out portion from property and equipment to investment property. The rental income from this investment property amounted to US\$0.1 million (2004: US\$0.1 million) and included in other income.

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

9 Property and equipment

	2005	2004
	US\$'000	US\$'000
Cost	20,543	21,976
Accumulated depreciation	(5,732)	(5,353)
Transfer to investment properties (Note 8)	-	(3,389)
Net book amount	14,811	13,234

Included in accumulated depreciation is an amount of US\$0.9 million (2004: US\$0.9 million) representing depreciation charged during the year.

10 Other assets

	2005	2004
	US\$'000	US\$'000
Interest receivable	2,689	2,896
Prepaid expenses and security deposits	953	1,755
Derivative financial instruments	402	-
Other accounts receivable	11,430	20,574
Less: Provision for impairment	(56)	(1,213)
	15,418	24,012

11 Share capital

	2005	2004
	US\$'000	US\$'000
<u>Authorised</u> 200 million (2004: 200 million) ordinary shares of US\$1 each	200,000	200,000
<u>Issued and fully paid</u> 101.916 million (2004: 101.916 million) ordinary shares of US\$1 each	101,916	101,916

In the course of its investment activities, the Bank sometimes buys and sells its own shares. These shares are treated as treasury shares and deducted from shareholders' equity. Gains and losses on purchase and sale of own shares are transferred to the general reserve. The total number of treasury shares at 31 December 2005 was 9.4 million shares (31 December 2004: 9.1 million shares).

Following the approval of the repositioning plan in 2003 by the shareholders of the Bank and the statutory regulatory authorities, the Bank reduced its share capital amounting to US\$48.8 million against transfer of certain assets for the corresponding amount. It also issued shares by way of rights/private placement and allotted US\$48.8 million shares on 10 April 2004.

12 ReservesCapital reserve

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

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

12 Reserves (continued)

Statutory reserve

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

Revaluation reserve

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

General reserve

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

Fair value reserve

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

Retained earnings

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

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

Included in retained earnings and statutory reserve at 31 December 2005 is a cumulative negative currency translation adjustment of US\$12.7 million (2004: US\$12.6 million) in respect of the Bank's subsidiaries in India, Turkey and Kazakhstan.

13 Deposits from customers

	2005	2004
	US\$'000	US\$'000
Deposits	116,802	105,699
Current accounts	28,156	44,772
	144,958	150,471

Customer deposits include deposits of US\$50.0 million (2004: US\$50.0 million) in aggregate, with an original maturity of 5 years, falling due between June 2006 and January 2007. The deposits carry a fixed coupon and a participation of 25% in the profits of the underlying investments in excess of the coupon, the underlying investments being certain of the Bank's cash and available-for-sale investments (Note 8) amounting to US\$48.5 million (31 December 2004: US\$50.5 million). The right to participate in the surplus in the realisation at the time of maturity is an embedded derivative and has no value at 31 December 2005 (31 December 2004: Nil).

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

14 Other liabilities

	2005	2004
	US\$'000	US\$'000 (Restated)
Interest payable	1,254	510
Accrued expenses	5,707	2,943
Derivative financial instruments	4,503	12,336
Other accounts payable	14,001	21,803
	25,465	37,592

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

	2005		2004 (Restated)	
	Fair value	Contract/ notional amount	Fair value	Contract/ notional amount
	US\$'000	US\$'000	US\$'000	US\$'000
Currency forwards	402	55,655	(1,434)	91,546
Index options	-	3,775	-	3,775
	402		(1,434)	
Interest rate caps purchased	-	127,000	-	129,000
Interest rate written floors related to caps purchased	(4,503)	130,000	(10,902)	130,000
	(4,503)		(10,902)	

15 Interest and similar income

	2005	2004
	US\$'000	US\$'000
Interest income on placements with banks	4,022	1,398
Interest and similar income from investments	6,920	5,869
Other interest income	1,450	1,829
	12,392	9,096

16 Interest expense

	2005	2004
	US\$'000	US\$'000 (Restated)
Interest expense on customer deposits	4,026	3,849
Interest expense on deposits received from banks and others	697	4,440
	4,723	8,289

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

17 Income/ (loss) from FVTPL financial instruments

	2005	2004
	US\$'000	US\$'000
Gain/ (loss) on investments in funds and equities	2,968	(357)
Fair value loss on investments in Government Agency Bonds	(551)	(1,705)
	2,417	(2,062)

18 Fair value (loss)/ gain on investment property

	2005	2004
	US\$'000	US\$'000
Fair value (loss)/ gain on land	(12,000)	18,507
Fair value gain on building	248	1,608
	(11,752)	20,115

19 Income/ (loss) from sale of investment securities

	2005	2004
	US\$'000	US\$'000
Income/ (loss) from sale of investments	29,829	(1,298)
Less: Cumulative net loss removed from equity and recognized in the income statement	-	(8,021)
	29,829	(9,319)

20 Fees and commission

	2005	2004
	US\$'000	US\$'000
Investment banking and structuring fees	7,255	6,626
Placement fees	3,065	7,812
Brokerage commission	2,952	1,366
	13,272	15,804

21 Staff costs

	2005	2004
	US\$'000	US\$'000
Salaries and short term employee benefits	11,184	8,186
Termination benefits	344	535
	11,528	8,721

Employee retirement and terminal benefits

The costs associated with contributions made by the Group in relation to defined contribution pension schemes amounted to US\$0.3 million (2004: US\$0.5 million). In relation to these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

22 Other operating costs

	2005	2004
	US\$'000	US\$'000
Premises and equipment costs	1,297	1,578
Depreciation	924	938
Other costs	5,174	4,627
	7,395	7,143

23 Earnings per share (Basic)

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

	2005	2004 (Restated)
Net income attributable to shareholders (US\$'000)	17,758	8,475
Weighted average number of issued and outstanding fully paid up ordinary shares	92,672	92,924
Earnings per share – Basic	\$ 0.192	\$ 0.091

The Directors propose to recommend to the Annual General Meeting to pay a cash dividend of 5% and a share dividend of 5% for the year ended 31 December 2005 (2004: Nil).

24 Other off balance sheet items**Capital commitments**

	2005	2004
	US\$'000	US\$'000
Letters of credit	-	99
Guarantees	1,425	2,023
Undrawn loan commitments	48	1,968
	1,473	4,090
Other:		
Notional leverage for the purposes of calculation of return on guaranteed notes (Note 4)	-	33,000

At 31 December 2005, all of the Group's letters of credit, guarantee and commitments are due to expire within one year.

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

24 Other off balance sheet items (continued)

Funds under management

	2005	2004
	US\$'000	US\$'000
Discretionary accounts	47,784	24,025
Non-discretionary accounts	552,688	289,965
	600,472	313,990

Name of the Fund	Country of Incorporation	Legal Status
Golden Horn Fund	British Virgin Islands	Limited Liability Company
TAIB Funds Company	Kingdom of Bahrain	Bahrain Closed Joint Stock Company
- TAIB GCC Blue Chip Fund		
- TAIB Islamic GCC Index Fund		
TAIB Islamic UK Equities Index Fund	Cayman Islands	Limited Liability Company

All the above funds are open-ended investment companies.

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

Contingencies - Legal Proceedings

At 31 December 2005 and 31 December 2004, there were certain claims outstanding against the Group. Based on the legal opinions received, the Directors believe and that no provision is required as these claims are without merit and will not result in any significant loss to the Group.

25 Interest rate risk management

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

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

25 Interest rate risk management (continued)

	2005						
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non interest bearing	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cash and balances with central banks	23,546	-	-	-	-	-	23,546
Placements with banks	157,716	5,000	2,348	1,000	-	-	166,064
Trading securities	1,023	-	457	-	-	28,581	30,061
Loans and advances	9,261	1,790	2,294	1,177	-	-	14,522
Investment securities	26,242	-	11,169	61,122	-	72,096	170,629
Property and equipment	-	-	-	-	-	14,811	14,811
Other assets	4,810	-	-	-	-	10,608	15,418
Total assets	222,598	6,790	16,268	63,299	-	126,096	435,051
Deposits from banks	104,500	4,062	2,338	-	-	364	111,264
Deposits from customers	48,364	646	10,854	51,793	-	33,301	144,958
Securities sold under Agreements to repurchase	3,911	-	-	-	-	-	3,911
Other liabilities	-	-	-	-	-	25,465	25,465
Total liabilities	156,775	4,708	13,192	51,793	-	59,130	285,598
Shareholders' equity						142,970	142,970
Minority interest						6,483	6,483
Total liabilities, shareholders' equity minority interest	156,775	4,708	13,192	51,793	-	208,583	435,051
On balance sheet interest rate sensitivity gap	65,823	2,082	3,076	11,506			
On balance sheet interest cumulative interest rate sensitivity gap	65,823	67,905	70,981	82,427			

Off balance sheet interest rate risk

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

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

25 Interest rate risk management (continued)

	2004						
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non interest bearing	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000 (Restated)
Cash and balances with Central banks	23,455	-	-	-	-	-	23,455
Placements with banks	83,925	10,307	-	-	-	-	94,232
Trading securities	8,438	-	-	-	-	6,275	14,713
Loans and advances	13,374	2,248	7,211	-	-	-	22,833
Investment securities	14,082	6,351	937	101,611	-	72,330	195,311
Property and equipment	-	-	-	-	-	13,234	13,234
Other assets	-	-	-	-	-	24,012	24,012
Total assets	143,274	18,906	8,148	101,611	-	115,851	387,790
Deposits from banks	45,267	850	-	-	-	64	46,181
Deposits from customers	37,092	8,963	1,809	57,835	-	44,772	150,471
Securities sold under Agreements to repurchase	5,609	-	-	-	-	-	5,609
Other liabilities	-	-	-	-	-	37,592	37,592
Long term debt	-	-	-	4,343	-	-	4,343
Total liabilities	87,968	9,813	1,809	62,178	-	82,428	244,196
Shareholders' equity						143,578	143,578
Minority interest						16	16
Total liabilities, shareholders' equity and minority interest	87,968	9,813	1,809	62,178	-	226,022	387,790
On balance sheet interest rate sensitivity gap	55,306	9,093	6,339	39,433			
On balance sheet interest cumulative interest rate sensitivity gap	55,306	64,399	70,738	110,171			

Off balance sheet interest rate risk

As at 31 December 2004 the Bank has one outstanding interest rate derivative contract maturing 2010. Under the terms of this contract if the monthly Libor is less than 5.5%, the Bank will pay to the counterparty, difference between the monthly Libor interest rate and 5.5% until the monthly Libor reaches 5.5%, on notional amount of US\$130 million. Under the terms of this contract, the Bank will receive interest from the counterparty when the monthly Libor is in excess of 6%, i.e. the difference between 6% and monthly Libor, subject to a cap of 8.0% monthly Libor rate, on a notional amount of US\$129 million. During 2004 the Bank was a payer under this contract.

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

25 Interest rate risk management (continued)

The tables above include floating rate instruments as follows:

	2005			2004		
	Up to 1 month US\$'000	3 - 12 months US\$'000	Total US\$'000	Up to 1 month US\$'000	3 - 12 months US\$'000	Total US\$'000
Trading securities	1,023	-	1,023	1,605	-	1,605
Investment securities	6,115	-	6,115	12,053	-	12,053
	7,138	-	7,138	13,658	-	13,658
Interest rate cap – notional amounts	127,000	-	127,000	129,000	-	129,000
Interest rate floors – notional amounts	(130,000)	-	(130,000)	(130,000)	-	(130,000)

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

	2005			2004		
	USD %	GBP %	TL %	USD %	GBP %	TL %
Assets						
Placement with banks	3.27	4.47	14.60	1.83	4.46	22.18
Loans and advances	4.25	-	-	2.97	-	-
Investments						
Treasury bills	-	-	19.09	4.35	-	21.75
Eurobonds	5.53	-	-	6.50	-	-
Liabilities						
Deposits from banks	3.43	-	-	1.60	4.45	-
Deposits from customers	4.05	4.28	-	2.31	4.29	17.06
Securities sold under agreements to repurchase	3.30	-	-	1.33	-	-
Long term debt	3.18	-	-	3.65	-	-

26 Credit risk and concentrations of credit risk

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

The Group had no significant concentrations of credit risk as at 31 December 2005 or at 31 December 2004.

Geographical and industrial distribution of assets, liabilities and off balance sheet items are shown in Note 29.

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

27 Significant net open foreign currency positions

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

	2005	2004
	US\$'000	US\$'000
Euro	-	4,628
Indian Rupees	-	648
United Arab Emirates Dirhams	5,055	-
Kuwaiti Dinars	2,494	-
Saudi Riyals	4,735	-
Omani Riyals	922	-

28 Maturity profile

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

	2005			2004		
	Assets US\$'000	Liabilities US\$'000	Net US\$'000	Assets US\$'000	Liabilities US\$'000	Net US\$'000 (Restated)
Up to 1 month	225,321	195,985	29,336	156,999	145,433	11,566
From 1 to 3 months	28,972	7,934	21,038	13,723	9,813	3,910
From 3 months to 1 year	47,359	29,886	17,473	59,802	26,771	33,031
From 1 year to 5 years	118,587	51,793	66,794	146,148	62,179	83,969
From 5 years and over	14,812	-	14,812	11,118	-	11,118
	435,051	285,598	149,453	387,790	244,196	143,594
Shareholders' equity	-	142,970	(142,970)	-	143,578	(143,578)
Minority interest	-	6,483	(6,483)	-	16	(16)
	435,051	435,051	-	387,790	387,790	-

29 Segmental reporting and concentration of assets, liabilities and off balance sheet items

(a) Geographical segments

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

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

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

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

	2005				
	North America US\$'000	Europe US\$'000	Middle East US\$'000	Rest of Asia US\$'000	Total US\$'000
Segmental income					
Operating income/(loss)	5,691	43,140	(10,164)	4,964	43,631
Segmental result					
Income/(loss) before tax	2,128	29,842	(14,049)	816	18,737
Overseas taxation					(73)
Income after tax					18,664
Minority interest					(906)
Net income for the year attributable to equity holders					17,758
<u>Other information</u>					
Segmental assets	89,163	145,695	147,485	52,708	435,051
Segmental liabilities	40,743	9,953	225,614	9,288	285,598
Off balance sheet items	257,000	34,723	76,586	1,473	369,782
Capital expenditure	-	1,464	598	-	2,062
Depreciation	35	193	527	169	924
Provisions for impairment	1,304	2,699	-	1,968	5,971
					2004
	North America US\$'000	Europe US\$'000	Middle East US\$'000	Rest of Asia US\$'000	Total US\$'000 (Restated)
Segmental income					
Operating income/(loss)	(13,038)	15,269	21,292	3,230	26,753
Segmental result					
Income/(loss) before tax	(18,199)	8,739	17,392	826	8,758
Overseas taxation					(338)
Income after tax					8,420
Minority interest					55
Net income for the year attributable to equity holders					8,475
<u>Other information</u>					
Segmental assets	127,155	121,855	107,178	31,602	387,790
Segmental liabilities	31,924	18,709	176,098	17,465	244,196
Off balance sheet items	384,777	55,895	-	3,910	444,582
Capital expenditure	-	32	879	32	943
Depreciation	49	93	549	247	938
Provisions for impairment	-	1,000	-	1,131	2,131

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

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

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

(b) Business segments

The Group is organised into three main business segments:

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

	2005			
	Asset management US\$'000	Private banking US\$'000	Brokerage US\$'000	Total US\$'000
<u>Segmental income</u>				
Operating income	7,401	32,570	3,660	43,631
<u>Segmental result</u>				
Income before taxation	1,683	16,593	461	18,737
Overseas taxation				(73)
Income after taxation				18,664
Minority interest				(906)
Net Income for the year				17,758
<u>Other information</u>				
Segmental assets	257,728	176,885	438	435,051
Segmental liabilities	247,586	37,131	881	285,598
Capital expenditure	1,250	810	2	2,062
Depreciation	433	372	119	924
Provisions for impairment	18	5,953	-	5,971

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

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

(b) Business segments (continued)

	2004			
	Asset management US\$'000	Private banking US\$'000	Brokerage US\$'000	Total US\$'000 (Restated)
<u>Segmental income</u>				
Operating income/(loss)	(14,806)	40,345	1,214	26,753
<u>Segmental result</u>				
Income/(loss) before taxation	(21,678)	31,049	(613)	8,758
Overseas taxation				(338)
Income after taxation				8,420
Minority interest				55
Net Income for the year				8,475
<u>Other information</u>				
Segmental assets	166,862	214,703	6,225	387,790
Segmental liabilities	190,391	52,326	1,479	244,196
Capital expenditure	406	522	15	943
Depreciation	403	457	78	938
Provisions for impairment	1,000	1,131	-	2,131

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

Industry sector	2005			2004 (Restated)		
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off Balance Sheet Items
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Trading and manufacturing	148,926	165,640	-	204,340	96,722	11,116
Banks and financial institutions	286,125	119,958	369,782	183,450	147,474	433,466
	435,051	285,598	369,782	387,790	244,196	444,582

Notes to the consolidated financial statements for the year ended 31 December 2005 (continued)

30 Restatement of comparatives

The restatement of certain comparatives for 2004 arises due to the recognition of changes in fair value of derivative financial instruments not previously recognized.

The effect on retained earning is disclosed in the consolidated statement of changes in shareholders' equity. The following table illustrates the effect on the other relevant components of the financial statements comparatives as at 31 December 2005

	US\$'000	US\$'000	US\$'000
	As previously stated	Adjustment	Restated
Other liabilities	26,690	10,902	37,592
Interest expense	(12,683)	4,394	(8,289)
Income for the year attributable to equity holders of the Bank	4,081	4,394	8,475
	US\$	US\$	US\$
	As previously stated	Adjustment	Restated
Earnings per share for net income attributable to the equity holders of the Bank during the year – Basic	0.04	0.05	0.09