

INVESTORS BANK E.C.
FINANCIAL STATEMENTS
31 DECEMBER 2004

Commercial registration	:	39646 (registered with Bahrain Monetary Agency as an offshore Islamic investment bank).
Registered Office	:	P O Box 11818 Al Salam Tower 13 th Floor Manama Kingdom of Bahrain
Directors	:	Mr. Sami Al Bader, <i>Chairman and Managing Director</i> Mr. Abdul Mohsen Mohamed Al Othman, <i>Vice Chairman</i> Mr. Ghassan Fahad Al-Sultan Sheikh Salman Dawood Al-Salman Al-Sabah Mr. Bader Sulaiman Al Jarrallah Mr. Abdul Malik Yousif Al-Hammar Dr. Basheer Saleh Al-Rashidi (up to 5 August 2004) Mr. Amed Shabeeb Al Dhaheri (from 5 August 2004)
Auditors	:	KPMG

INVESTORS BANK E.C.

FINANCIAL STATEMENTS for the year ended 31 December 2004

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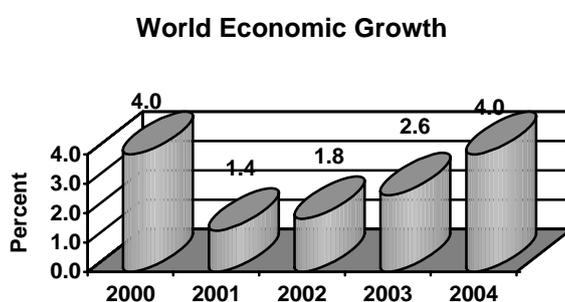
CHAIRMAN'S REPORT for the year ended 31 December 2004

"In the name of Allah, the Compassionate, the most Merciful. Praise be to Allah and peace and blessing be upon the Messenger".

Dear Shareholders,

I am pleased to present to you, on behalf of the Board of Directors, the annual report of the Investors Bank ("the Bank") for the year ended December 31, 2004.

2004 was a year of widespread recovery that witnessed a remarkable turnaround in the international as well as regional economic and financial fields following the quick political and economic disruption caused by the war in Iraq in March 2003. The global economic recovery strengthened and broadened further in 2004. While the pace and nature varied significantly between one region and the other, the global growth was the test over 20 years. It was strong in industrial countries and exceptionally rapid in emerging markets, notably China. It was generally propelled by a sharp pick up in industrial production and a strong rebound in international trade flows. Solidly positive investment growth in almost all regions as well as strengthened business and consumer confidence also played a role in world economic growth, which is estimated to have averaged 4.0 per cent in 2004 compared with 2.6 per cent in 2003 and 1.8 per cent in 2002.



The rapid global economic recovery, combined with currency developments, and accompanied increasingly by a variety of supply-side factors led to a strong pick-up in commodity prices. In the oil market, prices have risen sharply underpinned by a combination of surging demand and supply side concerns in several oil exporting countries, including Iraq, Russia and Venezuela. This has been exacerbated by low excess capacity and speculative activity. Brent crude oil prices increased to exceed US\$50 per barrel in 2004 and to average US\$39 per barrel for the year compared with US\$28.8 in 2003. Metal commodities prices have also rallied, with food and agricultural raw materials experiencing the largest gains.

From an international perspective and looking at different countries, industrial countries growth continued to be led by the United States with GDP growth averaging 4.4 per cent in 2004 against 3.3 per cent in 2003. There has also been a recovery in the euro area in 2004, but it has been much slower than in the US and Asia, reflecting weak domestic demand in some countries, especially Germany. The European Union overall growth is estimated to have averaged 2.3 per cent in 2004 compared with 1.1 per cent in 2003; average GDP growth for the year was 2.9 per cent in 2004 compared with 1.3 per cent in 2003. In Japan, average GDP growth for the year was 2.9 per cent in 2004 compared with 1.3 per cent in 2003.

CHAIRMAN'S REPORT
for the year ended 31 December 2004

Emerging markets have also experienced further economic growth in 2004 with strong activity in emerging Asia, where GDP rate of growth is estimated to have averaged 4.6 per cent compared with 3.7 per cent in 2003. Continued buoyant growth in China, propelled by strong increases in investment and exports, is estimated to have averaged 9.5 per cent in 2004 compared with 9.3 per cent and 8.0 per cent in 2003 and 2002 respectively.

As for the Arab World, despite continued fragile security situation, economic activity remained strong in oil and non-oil producing economies, averaging 5.4 per cent in 2004 against 4.4 per cent in 2003 and 1.9 per cent in 2002. Higher oil production and prices boosted growth in 2004 and have led many oil exporting countries being awash with liquidity. Non-oil producing Middle Eastern economies including Jordan, Lebanon and to a certain extent Egypt have also experienced difficulties and complications which made its growth ratio less than that of the other Arab Oil States.

The Bank continued to be active in Bahrain which is emerging as an International Islamic Banking Centre & in other GCC countries. In addition to the infrastructural set-up already in situ, the BMA is actively looking at adopting regulatory measures and guidelines to streamline and regulate Islamic Banking activities. With this in mind, BMA could be considered the only regulatory authority in Muslim countries that strive to provide Islamic financial institutions with an umbrella well accepted by international regulators and thus allows these institutions to actively participate in international transactions complying with the Shari'a without any hindrance or complication. Bahrain is the home for many Islamic organizations accepted and recognized by many international supervisory authorities worldwide including Muslim Countries. Such organizations include The Auditing Organization for Islamic Financial Institutions (AAOIFI), Liquidity Management Centre (LMC), International Islamic Financial Market (IIFM), The International Islamic Rating Agency (IIRA) and the High Council for Islamic and Banking Finance. With the presence of these Islamic Banking organizations, it is hoped that a primary as well as a secondary market for Islamic Financial Instruments could be developed so as to make Bahrain a truly Islamic Financial Market.

Brothers Shareholders

It is worth noting that the Bank underwent important developments and changes by restructuring its marketing & management strategy especially after completing the new organization structure of the Bank. That resulted in the recruitment of experienced and qualified staff in Islamic Banking. Normally such changes take time until they bear fruit, but regardless, steps and measures have been taken to effectively implement it. It is hoped that the Bank will witness its positive effect in the near future.

On the business strategy level, the Bank has strengthened its investments in Bahrain Islamic Bank and Al Takaful International. Takaful International has seen a radical transformation in its business approach & profile since it changed management control in year 2002 when the bank & its affiliates helped in the formation of a new board of directors in addition to selecting new executive management enjoying wide experience and efficiency. This has resulted in remarkable improvement and better performance of the company; thus playing a major role in Islamic Insurance Market. In view of the growing demand for Takaful Insurance and its expanding market in the region, the bank is targeting at establishing a holding company and a Takaful Insurance Company in every state of the GCC as a first phase to be then followed by aiming at neighbouring markets that are also showing positive responses to this kind of insurance.

CHAIRMAN'S REPORT
for the year ended 31 December 2004

Another aspect adopted by the marketing strategy of the bank and presently under implementation is the promotion of a new product namely consumer's credit which meets the demand of a large portion of fixed income group. This is being implemented through the proposed creation of "Ajal Holding Company". The Bank is also planning to form companies for consumer's credit to be implemented in phases in the GCC States with the intention of promoting and expanding this sort of a newly introduced product. In addition, the various investments of the Bank witnessed remarkable growth which reflected outstanding performance attributed to the long-term strategy which was designed by the Board of Directors. It aims carefully and prudently at selecting investments offering value over a medium to long term.

It is worth mentioning that the Bank does not miss any opportunity for seizing rewarding investment. This was manifested in its actual investments in various establishments in the GCC countries. The Bank in cooperation with associate companies participates in investment and real estate projects as to broaden its investment horizon and to serve GCC as well as regional economies. With this background the Bank is planning to launch initiatives for various developmental projects that benefit Gulf citizens and increase the rate of economic growth and consequently creating new job opportunities.

As the Bank is truly a Gulf bank it becomes natural for it to consider GCC countries as its home and make that as its cornerstone in attending to the requirements of the regional market which recently witnessed continued growth and expansion.

Respected brothers,

It is our belief that in order for the Bank strategy to succeed in the long run, important changes should be introduced in the organizational and management structures. This has been done during the year as the Bank appointed a new management led by highly experienced executives in Islamic Banking. The new management has strengthened the administrative set-up through the addition of highly qualified staff creating a team suitable to run the new business and to implement the strategy designed by the Board and to effectively monitor it. It is heartening to see that the Bahraini staff of the bank constitutes 99% of the total. This shows that Bahrain talents are available in the growing Bahrain financial market, which is rightly considered as the only regional financial centre in the Arab World; and being thoroughly capitalized by the Bank.

For the year, the performance of the Bank could be considered as a landmark for continued growth, net profit stood at US\$6,005,568 an increase of US\$1,659,454 i.e. 38% over the previous year. Total assets amounted to US\$60,997,404 at the end of 2004 increasing by US\$17,630,278 i.e. 41% over 2003, shareholders equity totalled US\$42,421,231 showing an increase of US\$9,445,894 i.e. 29% over last year.

In the light of these results we look forward with optimism and confidence for a better future as the Bank continues applying its new marketing and management strategy and also promoting new products. We pray to His Almighty God to grant management success in its endeavours.

CHAIRMAN'S REPORT
for the year ended 31 December 2004

I would like to seize the opportunity to thank members of the Board of Directors for their valuable guidance and look forward to work together in realizing the planned objective in building a strong investment bank. My thanks are also extended to our shareholders and clients for their patience and understanding. I would not miss to present my deepest condolences and sympathies to the family of the Late Abdul Malik Yusuf Al Hamar, our director of the Board, who passed away this year. I also thank our executive management and staff for their dedication and hard work.

In conclusion I wish to express our gratitude and appreciation to His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain, to His Highness Sheikh Khalifa Bin Salman Al Khalifa, the Prime Minister and His Highness Sheikh Salman Bin Hamad Al Khalifa, the Crown Prince and Commander-in-Chief of the Bahrain Defence Force and to all Government Ministries and Institutions especially the Bahrain Monetary Agency, Ministry of Industry and Commerce and Bahrain Stock Exchange for their cooperation, guidance and support.

Sami Al Bader
Chairman and Managing Director

5 May 2005

REPORT OF THE AUDITORS TO THE SHAREHOLDERS
INVESTORS BANK E.C.
Manama, Kingdom of Bahrain

5 May 2005

We have audited the accompanying financial statements of Investors Bank E.C. ("the Bank") as at, and for the year ended, 31 December 2004 as set out on pages 6 to 23.

Respective responsibilities of directors and auditors

These 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 financial statements based on our audit. The financial statements of the Bank as of 31 December 2003 were audited by another auditor whose report dated 20 July 2004 expressed an unqualified opinion on those financial statements.

Basis of opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2004, the results of its operations, the changes in its cash flows, shareholders' equity, restricted investment accounts and sources and uses of charity 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.

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 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 license or its memorandum and articles of association have 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.

BALANCE SHEET
as at 31 December 2004

US\$

	Note	2004	2003
ASSETS			
Cash and balances with banks		316,019	154,764
Murabaha receivables		-	1,036,856
Deferred payment sale receivables	19	6,287,703	2,801,874
Trading investments	3	28,234,982	-
Available-for-sale investments	4	24,359,483	36,090,649
Other assets	5	1,602,167	3,154,556
Fixed assets	6	197,050	128,427
Total assets		60,997,404	43,367,126
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to financial institutions	7	15,274,390	7,554,930
Due to a related party	16	3,117,150	1,214,961
Other liabilities	8	184,633	121,910
Total liabilities		18,576,173	8,891,801
Unrestricted investment accounts	16	-	1,499,988
Shareholders' equity			
Share capital	9	32,913,333	32,913,333
Share premium	9	77,000	77,000
Statutory reserve	9	983,490	802,763
General reserve	9	479,382	479,382
Investments fair value reserve		6,885,368	2,901,154
Accumulated profits/(losses)		1,082,658	(4,198,295)
Total shareholders' equity (pages 8 and 9)		42,421,231	32,975,337
Total liabilities, unrestricted investment accounts and shareholders' equity		60,997,404	43,367,126
OFF-BALANCE SHEET ITEMS			
Restricted investment accounts (pages 11 and 12)		16,525,475	317,689

The financial statements, which consist of pages 3 to 23, were approved by the Board of directors on 5 May 2005 and signed on its behalf by:

 Sami Al Bader
 Chairman and Managing Director

 Ghassan Fahad Al-Sultan
 Director

The accompanying notes 1 to 20 form an integral part of these financial statements.

INCOME STATEMENT
for the year ended 31 December 2004

US\$

	Note	2004	2003
Management and advisory fees		760,289	575,000
Profit on deferred payment sale of investments		256,826	-
Unrealised re-measurement gains on trading investments	3	6,699,826	-
Net unrealised re-measurement gains on available-for-sale investments		38,524	4,280,910
Income from available-for-sale investments	10	1,117,551	1,815,740
Income from Murabaha receivables		4,241	26,197
Total income		8,877,257	6,697,847
Staff costs		(1,111,706)	(1,018,380)
Murabaha expenses		(419,661)	(425,853)
Expenses relating to deferred payment purchase of investments		(141,755)	-
Administrative and general expenses	11	(1,115,090)	(646,582)
Provision for impairment of available-for-sale investments		-	(250,000)
Amortisation of goodwill	12	-	(8,503)
Depreciation		(83,477)	(67,677)
Operating profit		6,005,568	4,280,852
Share of the profit of associate		-	65,262
Profit for the year		6,005,568	4,346,114

 Sami Al Bader
 Chairman and Managing Director

 Ghassan Fahad Al-Sultan
 Director

The accompanying notes 1 to 20 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the year ended 31 December 2004

US\$

	Share Capital	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total
2004							
Balance at 1 January 2004	32,913,333	77,000	802,763	479,382	2,901,154	(4,198,295)	32,975,337
Profit for the year	-	-	-	-	-	6,005,568	6,005,568
Transfer to statutory reserve	-	-	180,727	-	-	(180,727)	-
Transfer of unrealised gains on available-for-sale investments previously recognised in retained earnings on adoption of FAS 17 to available-for-sale investment fair value reserve	-	-	-	-	543,888	(543,888)	-
Unrealised re-measurement gains during the year on available-for-sale investments	-	-	-	-	3,440,326	-	3,440,326
At 31 December 2004	32,913,333	77,000	983,490	479,382	6,885,368	1,082,658	42,421,231

The accompanying notes 1 to 20 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the year ended 31 December 2004

US\$

	Share Capital	Share premium	General reserve	Statutory reserve	Investments fair value reserve	Retained earnings	Total
2003							
Balance at 1 January 2003	32,913,333	77,000	479,382	368,152	-	(7,144,348)	26,693,519
Prior period adjustment (refer note 20)	-	-	-	-	-	(965,450)	(965,450)
Balance at 1 January 2003 (restated)	32,913,333	77,000	479,382	368,152	-	(8,109,798)	25,728,069
Profit for the year	-	-	-	-	-	4,346,114	4,346,114
Unrealised re-measurement gains during the year on available-for-sale investments	-	-	-	-	2,901,154	-	2,901,154
Transfer to statutory reserve	-	-	-	434,611	-	(434,611)	-
At 31 December 2003	32,913,333	77,000	479,382	802,763	2,901,154	(4,198,295)	32,975,337

The accompanying notes 1 to 20 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2004

US\$

	2004	2003
OPERATING ACTIVITIES		
Management and advisory fees received	519,648	-
Profit received on deferred payment sale of investments	256,826	-
Dividends received	1,108,885	1,235,992
Income from Murabaha receivables received	4,241	26,197
Payments for operating expenses	(1,869,985)	(1,608,198)
Murabaha expenses paid	(546,232)	(579,148)
Payments for expenses relating to deferred payment purchase of investments	(141,755)	-
Cash flows from operating activities	(668,372)	(925,156)
INVESTING ACTIVITIES		
Purchase of available-for-sale investments	(6,573,376)	(301,351)
Sale of available-for-sale investments	256,902	3,342,208
Deferred payment sale receivables , net	(3,485,829)	(2,801,874)
Net proceeds from sale of associate company	-	506,757
Purchase of fixed assets	(152,100)	(37,079)
Cash flows from investing activities	(9,954,403)	708,661
FINANCING ACTIVITIES		
Receipts from/ (payments to) a related party, net	1,924,572	(543,056)
Receipts from/ (payments to) financial institutions, net	7,823,648	(228,626)
Payments to charities (page 13)	(1,046)	(57,432)
Cash flows from financing activities	9,747,174	(829,115)
Net decrease in cash and cash equivalents	(875,601)	(1,045,610)
Cash and cash equivalents at beginning of the year	1,191,620	2,237,230
Cash and cash equivalents at end of the year	316,019	1,191,620
Cash and cash equivalents comprise:		
Cash and balances with banks	316,019	154,764
Murabaha receivables	-	1,036,856
	316,019	1,191,620

The accompanying notes 1 to 20 form an integral part of these financial statements.

STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2004

US\$

2004	Balance at 1 January 2004			Movements during the year				Balance at 31 December 2004			
	No of units (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	revaluations US\$	Investment profit/ (loss) US\$	Bank's fees as an agent US\$	Administration expenses US\$	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd	-	-	317,689	-	-	-	-	-	-	-	317,689
Shares in Bahrain Family Leisure Company BSC	-	-	-	734,576	(168,703)	-	(2,844)	-	2,385	0.24	563,029
Investment in International Investment Group K.S.C.C. (note 2 below)	-	-	-	5,680,202	-	-	(10,000)	-	12,887	0.44	5,670,202
Portfolio managed by the bank	-	-	-	9,974,555	-	-	-	-	2,940	3.39	9,974,555
			317,689	16,389,333	(168,703)	-	(12,844)	-			16,525,475

- 1 Restricted investment accounts represent amounts received from and transactions entered on behalf of related parties. The restricted investment accounts at 31 December 2004 are carried net of a provision for impairment amounting to US\$ 282,311 (2003: US\$ 282,311).
- 2 On the instructions of a restricted investment account holder, a related party, the Bank has entered into a deferred payment purchase agreement with a financial institution to acquire shares of International Investment Group K.S.C.C ('IIG'). The Bank then entered into a deferred payment sale agreement with the restricted investment account holder for sale of the these shares. However, due to a legal dispute with the financial institution, the Bank could not effect the transfer of the IIG shares to the restricted investment account holder (note 19).

The accompanying notes 1 to 20 form an integral part of these financial statements.

STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2004 (continued)

US\$

2003	Balance at 1 January 2003			Movements during the year				Balance at 31 December 2003			
	No of units (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	Revaluation -ns US\$	Investment profit/ (loss) US\$	Bank's fees as an agent US\$	Administration expenses US\$	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd	-	-	317,689	-	-	-	-	-	-	-	317,689
			317,689	-	-	-	-	-			317,689

Restricted investment accounts represent amounts received from a related party. The restricted investment accounts at 31 December 2003 are carried net of a provision for impairment amounting to US\$ 282,311.

The accompanying notes 1 to 20 form an integral part of these financial statements.

STATEMENT OF SOURCES AND USES OF CHARITY FUND
for the year ended 31 December 2004

US\$

	2004	2003
Sources of charity fund		
Non-Islamic income	78	165
Total sources	78	165
Uses of charity fund		
Contributions to charitable organisations	1,046	57,432
Total uses	1,046	57,432
Excess of uses over sources	(968)	(57,267)
Undistributed charity fund at 1 January	968	58,235
Undistributed charity fund at 31 December (note 8)	-	968

The accompanying notes 1 to 20 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2004

US\$

1 INCORPORATION AND ACTIVITIES

Investors Bank E.C. (the "Bank") was established in the Kingdom of Bahrain as an exempt company on 26 October 1997 and operates under an investment banking license granted by the Bahrain Monetary Agency (the "BMA") on 3 September 1997. The Bank commenced commercial operations on 15 June 1998.

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 and the Religious Supervisory Board Report.

The principal activities of the Bank include investment banking and financial activities, investment transactions, participating in equity investments in projects in conformity with the Islamic Sharia'a. The Bank may, in particular, carry on the following business activities:

- (a) Providing investment account facilities;
- (b) Accepting restricted or unrestricted investment funds commingling the same with those of the Bank and investing them in accordance with the Sharia'a;
- (c) Managing the investment of third party funds as an agent for a fixed fee or as a Mudarib and any other banking activities not contravening the provisions of the Sharia'a;
- (d) Industrial, commercial and agricultural business activities, either directly or through companies which the Bank may establish, or in which the Bank may acquire shares; and
- (e) Purchasing, leasing and constructing buildings, and the renting thereof.

2 SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

The financial statements have been prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

(b) Basis of preparation

The financial statements are presented in US Dollars, being the principal currency of the Bank's operations. They are prepared on the historical cost basis except for the measurement at fair value of trading investments and certain available-for-sale investments. The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year, except for the accounting for dividend income (refer note 20).

(c) Revenues recognition

Management and advisory fees are recognised when the services for the transaction are provided and income is earned.

Income from **Murabaha contracts and deferred payment sale contracts** are recognised on a time-apportioned basis over the period of the contract.

Profits and losses resulting from **Mudaraba contracts** are recognised when the Mudarib declares profits.

Income from investments (**dividend income**) is recognised when the right to receive is established (refer note 20).

(d) Murabaha receivables

Murabaha receivables are stated at cost less provision for impairment.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2004

US\$

2 *Significant accounting policies (continued)***(e) Investments****(i) Classification**

Held-for-trading investments are financial assets which are held principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin 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. These comprise quoted shares.

Available-for-sale investments are financial assets that are not held-for-trading purposes, originated by the Bank or held-to-maturity. These include investments in quoted and unquoted shares and managed funds.

(ii) Recognition

Held-for-trading and available-for-sale investments are recognised/derecognised by the Bank on the date it commits to purchase/sell the investments.

(iii) Measurement

Held-for-trading investments are measured initially at cost including transaction costs. Subsequent to initial recognition, Held-for trading investments are re-measured to fair value and the resulting unrealised gains or losses are recognised in the income statement in the period in which they arise.

Available-for-sale investments are measured initially at cost including transaction costs. Subsequent to initial recognition available-for-sale investments are re-measured to fair value and the resulting unrealised gains or losses are recognised in an "investment fair value reserve" as a separate component in shareholders' equity provided that unrealised losses are recognised in equity to the extent of the available balance. In case losses exceed the available balance, the unrealised losses are recognised in the income statement under "Unrealised re-measurement gains or losses on investments". In case there are unrealised losses that have been previously recognised in the income statement, then the unrealised gains for the year are recognised to the extent of previously recognised losses in the income statement. Any excess of such gains over previously recognised losses is taken to the "Investments fair value reserve".

(iv) Fair value measurement principles**(a) Quoted investment**

1. Fair value for quoted equity shares is their market bid price assuming an active market.

(b) Unquoted available-for-sale investments

- i) Fair value for unquoted equity shares has been determined by reference to the price of the most recent transactions in the shares.
- ii) Equity shares for which there is no quoted market price or other appropriate methods from which to derive fair values, are stated at cost less impairment allowances, if any.
- (iii) Fair value for unquoted managed funds is the fund's net assets value as reported by the fund manager.

(f) Investment in associates

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. Investment in associates is accounted for under the equity method.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2004

US\$

2 *Significant accounting policies (continued)***(g) Deferred payment sale receivables**

Receivables arising from deferred payment sale are recognised at the time of contracting and stated at their cost less impairment allowances.

(h) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Bank's share of the net assets acquired at the date of acquisition. Goodwill is amortised using the straight-line method over its estimated useful life of 20 years.

(i) Fixed assets

Fixed assets are 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.

(j) Impairment

The carrying amount of the Bank's assets 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.

(k) 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. Movements in non-Islamic funds are shown in the statement of sources and uses of charity fund.

(l) Restricted investment accounts

Restricted investment accounts represents assets held in trust or in a fiduciary capacity by the Bank for the benefit of the investment accounts holders. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders.

Restricted investments in quoted securities are valued at their market bid price. Restricted investments in securities for which there are no quoted market price or other appropriate methods from which to derive fair values, are stated at cost less impairment allowances, if any.

(m) Transactions and balances in foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date, are translated at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the exchange rates ruling at the dates that the values are determined.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with financial institutions and Murabaha receivables with maturities of three months or less when acquired.

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for the year ended 31 December 2004

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3 TRADING INVESTMENTS

On 1 January 2004, and following a change in the Bank's intention, part of the Bank's investment in the shares of Bahrain Islamic Bank BSC were transferred from available-for-sale category to held-for-trading category. The transfer was at fair value on 1 January 2004.

	2004 US\$	2003 US\$
Transferred from available for-sale category at fair value	21,535,156	-
Unrealised re-measurement gains during the year	6,699,826	-
At 31 December 2004	28,234,982	-

Certain of these shares with a carrying value of US\$ 23,609,631 are pledged as collateral against amounts due to financial institutions (note 7).

4 AVAILABLE-FOR-SALE INVESTMENTS

	2004 US\$	2003 US\$
<i>Investment in equity shares</i>		
i) At fair value		
- Quoted	12,421,959	32,639,540
- Unquoted	8,259,114	-
	20,681,073	32,639,540
ii) At cost – unquoted	732,100	568,750
<i>Investments in managed funds</i>	2,946,310	2,882,359
	24,359,483	36,090,649

Material available-for-sale investments are as follows:

	Country of incorporation	% ownership	Nature of main activities
Quoted shares at fair value			
Bahrain Islamic Bank BSC	Bahrain	2.75	Commercial banking in accordance with Islamic Sharia.
Takaful International BSC	Bahrain	18.03	Takaful - insurance according to the Islamic Shari'a.
Unquoted shares at fair value			
Gulf Petroleum Investment Company K.S.C.C.	Kuwait	9.74	Focuses on oilfield services, oil drilling and petroleum consulting.

Certain investments in quoted equity shares amounting to US\$ 11,125,632 are pledged as collateral against amounts due to financial institutions (note 7).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2004

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5 OTHER ASSETS

	2004 US\$	2003 US\$
Statutory deposit with BMA	13,263	13,263
Management and advisory fees receivable	240,641	575,000
Prepaid expenses	84,897	38,154
Current account with related parties	719,715	549,240
Investors' funds - unrestricted investment accounts	-	1,499,988
Qard Hassan	57,429	2,476
Other	886,222	876,435
	2,002,167	3,554,556
Less: impairment allowances	(400,000)	(400,000)
	1,602,167	3,154,556

6 FIXED ASSETS

Fixed assets comprising furniture and equipment at 31 December were as follows:

	2004 US\$	2003 US\$
Cost	572,568	425,900
Accumulated depreciation	(375,518)	(297,473)
Net book value	197,050	128,427

7 DUE TO FINANCIAL INSTITUTIONS

Due to financial institutions comprises long-term and short-term Murabaha payables which are secured by pledge over certain equity investments included in both trading and available-for-sale investments (notes 3 and 4).

8 OTHER LIABILITIES

	2004 US\$	2003 US\$
Payable to a related party (note 16)	55,110	-
Charity fund (page 13)	-	968
Accrued expenses	129,523	120,942
	184,633	121,910

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2004

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9 SHAREHOLDERS' EQUITY

Share capital

The authorised share capital of the Bank is US\$100,000,000 comprising of 100,000,000 shares of US\$1.00 each of which 32,913,333 shares were issued and fully paid.

The paid up capital according to the Bank's articles of association is US\$ 30,000,000. The Bank is in the process of updating their memorandum and articles of association.

Share premium

Share premium represents the net amount received in excess of the par value of share capital and this amount is not distributable to shareholders as dividend.

Statutory reserve

In accordance with the requirements of the Bahrain Commercial Companies Law 2001, 10% of the net profit for the year (after adjusting against the accumulated losses) is transferred to a statutory reserve until such time as that reserve represents 50% of the paid up capital. This reserve is normally not available for distribution.

General reserve

General reserve represents appropriations from the Bank's net profit as approved by the shareholders and can only be distributed with the approval of the shareholders.

Investments fair value reserve

This represents fair value changes arising from re-measurement of available-for-sale investments. It also includes cumulative fair value changes on certain available-for-sale investments upto 1 January 2004, the date on which these investments were reclassified as trading investments (refer note 3). Such cumulative fair value changes will be transferred to the income statement in the year in which these investments are disposed of, impaired or derecognised.

10 INCOME FROM AVAILABLE-FOR-SALE INVESTMENTS

	2004 US\$	2003 US\$
Dividend income	1,108,885	1,235,992
Income from sale of available-for-sale investments	8,666	579,748
	1,117,551	1,815,740

11 ADMINISTRATIVE AND GENERAL EXPENSES

	2004 US\$	2003 US\$
Consultancy and legal expenses	546,085	120,151
Rent	91,432	91,432
Advertising and promotion	25,839	2,748
Professional fees	43,854	48,776
License and registration	47,745	47,745
Communication	30,656	36,344
Business development	134,093	158,499
Others	195,386	140,887
	1,115,090	646,582

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2004

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12 GOODWILL

	2004 US\$	2003 US\$
At 1 January	-	166,968
Amortisation charge for the year	-	(8,503)
Adjusted on sale of investment in associated company	-	(158,465)
At 31 December	-	-

This represents the difference between the cost of acquiring 50% equity stake in Healey & Baker and Associates W.L.L., a company incorporated in Kuwait and the Bank's share of the fair value of the net assets of Healey & Baker and Associates W.L.L. at the date of acquisition. The investment was accounted for as an associate. In 2003, the bank sold its investment in the associate to a related party.

13 ZAKAH

Zakah is directly borne by the shareholder and, accordingly, no provision is made by the Bank for Zakah. The Bank computes the Zakah payable by the shareholder on the net invested funds method. The basis of computation is approved by the Shari'a Board and the amounts payable are notified to the shareholders.

14 MATURITY PROFILE

The maturity profile of the Bank's assets, liabilities and unrestricted investment accounts is as follows:

	2004		
	Assets US\$	Liabilities US\$	Net US\$
Up to 1 month	5,922,500	11,236,916	(5,314,416)
From 1 month to 3 months	-	-	-
From 3 months to 1 year	20,119,377	7,303,058	12,816,319
From 1 year to 3 years	34,745,214	36,199	34,709,015
Over 3 years	210,313	-	210,313
	60,997,404	18,576,173	42,421,231

	2003		
	Assets US\$	Liabilities and unrestricted investment account US\$	Net US\$
Up to 1 month	1,191,620	7,563,833	(6,372,213)
From 1 month to 3 months	22,894	15,000	7,894
From 3 months to 1 year	35,256,869	2,783,754	32,473,115
From 1 year to 3 years	6,867,961	29,202	6,838,759
Over 3 years	27,782	-	27,782
	43,367,126	10,391,789	32,975,337

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2004

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15 CONCENTRATION OF ASSETS AND LIABILITIES

The Bank's assets, liabilities and unrestricted investments accounts are distributed over the following industry sectors and geographical area:

<i>Industry sectors</i>	2004		2003	
	Assets US\$	Liabilities US\$	Assets US\$	Liabilities and Unrestricted investment account US\$
Trading and Manufacturing	732,100	-	568,750	-
Banks and financial institutions	41,281,595	18,446,650	34,993,291	7,554,930
Investment companies	9,366,045	-	5,716,169	2,714,949
Oil and Gas	8,259,114	-	-	-
Others	1,358,550	129,523	2,088,916	121,910
	60,997,404	18,576,173	43,367,126	10,391,789

Geographical concentration

All assets and liabilities of the Bank as at 31 December 2004 and 31 December 2003 are concentrated in the Middle East region.

16 RELATED PARTY TRANSACTIONS AND BALANCES

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 also include directors and shareholders of the Bank and companies in which they have an ownership interest.

A significant portion of the Bank's income arises from transactions with related parties. Transactions with related parties are undertaken on terms agreed between the parties.

Significant balances with related parties at 31 December comprise:

	2004 US\$	2003 US\$
Assets		
Deferred payment sale receivables	6,287,703	2,801,874
Available-for-sale investments	14,409,752	6,061,479
Other assets	1,435,356	1,599,240
Liabilities		
Due to a related party	3,117,150	1,214,961
Other liabilities	55,110	-
Unrestricted investment account	-	1,499,988

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16 *RELATED PARTY TRANSACTIONS AND BALANCES (continued)*

Certain of the investments in which the Bank has invested, are managed by a related party.

The Bank has investments in the shares of certain shareholders' companies. The carrying amounts of such investments at 31 December 2004 were US\$ 42,318 (2003: US\$ 37,191).

Significant transactions with related parties include:

	2004 US\$	2003 US\$
Income		
Management and advisory fees	556,727	575,000
Profit on deferred payment sale of investments	256,826	-
Profit on sale of available-for-sale investments	-	579,748
Dividend income	143,435	-
Expenses		
Murabaha expenses	46,016	97,152
Consultancy and legal expenses	191,050	-

17 RISK MANAGMNET

The Bank'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 Bank's credit risk arises mainly from cash and balances with banks, deferred payment sale receivables and other assets.

The Bank 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) Liquidity risk

Liquidity risk is defined as the risk that funds will not be available to meet liabilities as they fall due.

It is the Bank's policy to keep a significant part of its assets in liquid assets such as trading securities and quoted available-for-sale investments. The short term liabilities of the bank mainly represent short-term murabaha payables which are secured by pledge of certain investments and are normally rolled over on maturity.

c) Profit rate risk

Profit rate risk arises from the possibility that changes in the profit rate will affect the value of financial instruments.

The Bank's exposure to profit rate risk is limited due to the short-term nature of "due to financial institutions".

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for the year ended 31 December 2004

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17 RISK MANAGEMENT (continued)**d) Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Bank transactions are either in US Dollars or Bahraini Dinars. The Bahraini Dinar is effectively pegged to the US Dollar and hence the Bank's exposure to currency risk is limited.

18 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. Differences can therefore arise between the book values under the historical cost method and fair value estimates.

Other than certain available-for-sale investments carried at cost of US\$ 732,100 (2003: US\$ 568,750), the estimated fair values of the Bank's other financial instruments are not significantly different from their book values.

19 LITIGATION AND CLAIMS

In 2004, the bank entered into a sale and purchase agreement with a local financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution amounted to US\$ 3,670,202. In accordance with the terms of the agreement, the bank pledged certain of its investments with a carrying value of US\$ 5,913,762 as of 31 December 2004. The agreement was terminated by the financial institution due to disputes with the bank and the pledged investments have been retained by the financial institution. The bank's lawyers and management are of the opinion that the agreement has been wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the Bahrain courts against the financial institution for wrongful possession of the investments.

The related party on whose behalf the transactions was entered has provided a manager's cheque equal to the amount due to the financial institution which has been deposited with the court. Further, the court has also taken custody of the shares under dispute until final resolution of the case.

The related party on whose behalf the transaction was entered into has also agreed to reimburse the bank for legal expenses and any losses arising on final settlement with the financial institution. In the opinion of the directors, no provision is required to be made in the financial statements against the investments pledged with the financial institution or for contingent claims that might arise on final settlement.

20 PRIOR PERIOD ADJUSTMENTS

The Bank's accounting policy in respect of dividend income is to recognise it when the right to receive is established, which is when it is declared by the investee companies. However, up to 31 December 2003, the bank had been accruing for dividend income before it was declared by the investee companies. In 2004, this accounting policy was changed and as a result, the opening balance of retained earnings of the earliest accounting period, being 1 January 2004, has been decreased by US\$ 965,450 and correspondingly other assets decreased by the same amount. There was no impact on the 2003 income statement.

Further to the adjustment referred to above, certain comparative figures have been reclassified in order to conform with the current year's presentation. Such reclassifications did not affect previously reported net profit or shareholders' equity.