

Delivering more...



بنك البحرين الإسلامي
Bahrain Islamic Bank

Annual Report 2004



In the name of Allah,
most Gracious, most Merciful

Profile

Established in the Kingdom of Bahrain as the first Islamic commercial bank, Bahrain Islamic Bank has grown steadily since 1979 to become a leading Islamic institution with shareholders' funds of approximately BD 53 million and total assets in excess of BD 250 million at year-end 2004.

The Bank has established leadership in the application of Islamic modes of investment and financing and excelled in the provision of a diversified range of products and services for retail customers, commercial businesses and financial institutions.

Publicly listed on the Bahrain Stock Exchange, the Bank is owned largely by prominent local and regional financial institutions and is regulated by the Bahrain Monetary Agency.

With a strong and growing network of branches, currently numbered at 12, the Bank is well positioned to meet strong and growing demand in the market for banking, financing and investment opportunities on behalf of individuals and institutions with the highest ethical standards and an unwavering commitment to the principles of Islamic Shari'a.

Vision

To be a leading and diversified domestic and regional Islamic financial institution that drives innovation in the industry and effectively meets the fast evolving needs of the markets we serve.

Mission

To provide value and superior returns to shareholders, investors and customers through the continuous development of our assets and resources including the introduction of value-added retail, investment and corporate banking products and the achievement of the highest levels of service and customer satisfaction.

... innovation and excellence
to all those we serve



His Highness Shaikh Khalifa
bin Salman Al Khalifa

The Prime Minister



His Majesty King Hamad
bin Isa Al Khalifa

The King of Bahrain



His Highness Shaikh Salman
bin Hamad Al Khalifa

The Crown Prince &
Commander in Chief of the
Bahrain Defence Force



Financial Highlights

...value for
our shareholders

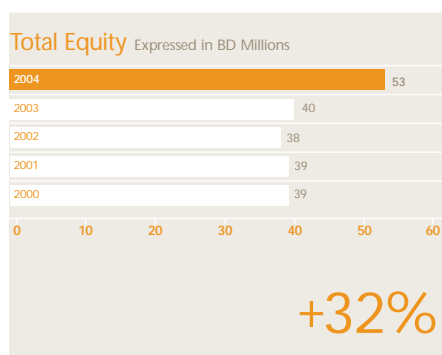
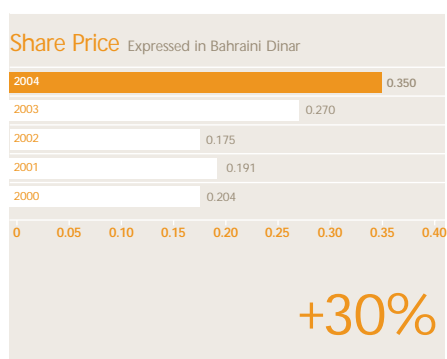
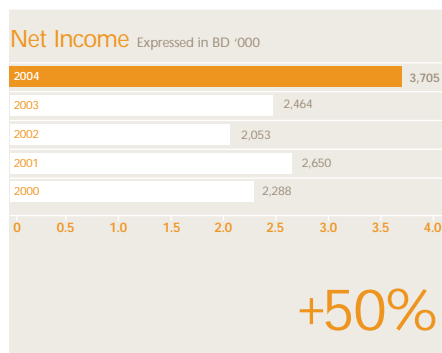
Net Income Summary

(in BD millions)	2004	2003	% change
Total operating income	10.8	8.9	22
Return on investment accounts	2.1	1.6	33
Bank's share in operating income	8.7	7.3	19
Expenses, provisions and zakah	5.0	4.9	4
Net income for the year	3.7	2.5	50

Balance Sheet Summary

(in BD millions)	2004	2003	% change
Murabaha receivables	155	141	10
Investments	80	71	13
Other assets	20	19	5
Total Assets	255	231	10
Current accounts	30	29	3
Investment accounts	169	159	6
Other liabilities	3	3	0
Total Liabilities	202	191	6
Shareholders' equity	53	40	33
Total Liabilities and Equity	255	231	10

	2004	2003	2002	2001	2000
Net Income (BD '000)	3,705	2,464	2,053	2,650	2,288
Total Assets (BD '000)	254,775	231,480	209,740	191,182	194,333
Total Equity (BD '000)	52,750	39,989	38,290	38,610	39,122
Return on Average Equity(%)	7.9%	6.2%	5.4%	6.9%	5.9%
Return on Average Assets (%)	1.5%	1.1%	1.0%	1.4%	1.2%
Book Value per share (BD)	0.229	0.174	0.166	0.168	0.170
Number of Employees	186	181	175	151	148
Distribution - cash dividend	12%	10%	10%	10%	10%
bonus shares	10%	0	0	0	0
Share Price (BD)	0.350	0.270	0.175	0.191	0.204



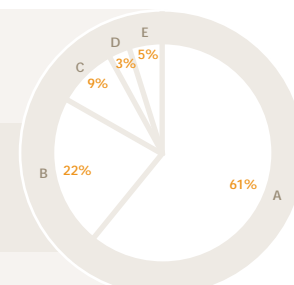
Composition of Assets (2004)

Expressed in Percentages

Expressed in Bahraini Dinar's

- A** Murabaha Receivables (155 million)
- B** Non-Trading Investments (56 million)
- C** Other Investments (23 million)
- D** Other Islamic Financing (8 million)
- E** Cash and Other Assets (13 million)

Total (255 million)



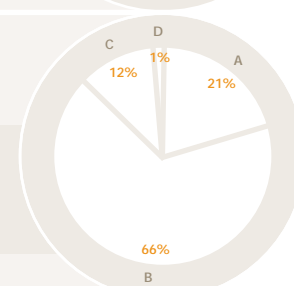
Composition of Liabilities and Equity (2004)

Expressed in Percentages

Expressed in Bahraini Dinar's

- A** Equity (53 million)
- B** Investment Accounts (169 million)
- C** Current Accounts (30 million)
- D** Other (3 million)

Total (255 million)



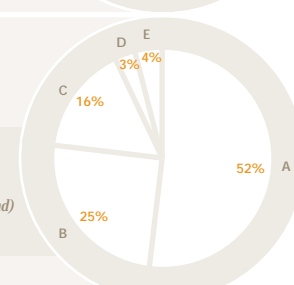
Composition of Operating Income (2004)

Expressed in Percentages

Expressed in Bahraini Dinar's

- A** Murabaha Receivables (5,590 thousand)
- B** Non-Trading Investments (2,786 thousand)
- C** Other Investments (1,680 thousand)
- D** Other Islamic Financing (318 thousand)
- E** Other (448 thousand)

Total (10,822 thousands)



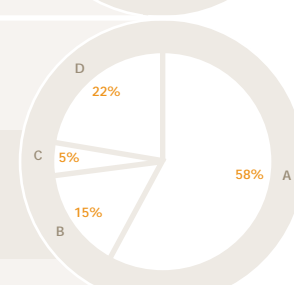
Composition of Operating Expenses (2004)

Expressed in Percentages

Expressed in Bahraini Dinar's

- A** Staff Costs (2,771 thousand)
- B** Depreciation (725 thousand)
- C** Expenses on Premises & Equipment (216 thousand)
- D** Other (1,025 thousand)

Total (4,737 thousand)



The Board of Directors



Mohammed Abdullah Al-Zamil
Chairman

Chairman A.H. Al-Zamil Group of Companies
Vice Chairman Gulf Union Insurance
& Reinsurance Co.
Director Investcorp Bank
Director First Islamic Investment Bank
Director General Organization for Social Insurance
Director Saudi Cement Co.
Director International Insulation Material Co.
Director S.A.E. Cairo
Director IFB Banque S.A., Paris

Khalid Rashid Al-Zayani
Vice Chairman*

Chairman Al-Zayani Investment
Director Investcorp Bank
Director Bahrain Commercial Facilities Company
Director Al-Takaful International
Director Bahrain Chamber of Commerce

A. Latif A. Rahim Janahi
Director*

Chairman Safwa International Consultation Co.
Chairman Al-Khaleej Finance & Investment Co.
Executive Committee Member for the General
Council for Islamic Financial Institution

Ali Moh'd Ali Al-Olaimi
Director**

Deputy GM for Minor Affairs Directorate, Kuwait
Director Reem Real Estate Co.

Samir Yaqub Yousif Al-Nafesi
Director*

General Manager Al-Nafesi Co.
Chairman I. T. S.
Vice Chairman Kuwait Finance House
Director Gulf Investment House
Director Gulf Finance House
Director Alkhaleej Development

Adnan Ahmed Yousif
Director**

CEO Al Baraka Banking Group
Chairman Al-Baraka Bank - Lebanon
Chairman Al-Baraka Bank - Algeria
Director Bahrain Stock Exchange

Yousif Mohammed Saleh Al-Awadhi
Director*

Assistant Under Secretary
Ministry of Waqf, Kuwait
Director Kuwait Representative in
Islamic Guaranteed Fund, Jeddah

Yousif Ali Fadil Bin Fadil
Director**

Executive Director Planning & Project
Management Dubai Islamic Bank
Director Bosna Bank International

Esam Yousif Janahi
Director**

CEO Gulf Finance House
Chairman Bahrain Aluminium Extrusion Co.
Chairman Injazat Technology Fund
Chairman Bahrain Financial Harbour
Vice Chairman Al-Khaleej Development

Dr. Omar Zuhair Hafiz
Director*

Senior Economist at the Islamic Research and
Training Institute of IDB
Director Tawfeeq Investment Bank
Director Albanian International Investment Co.

* Member of the Executive Committee
** Member of the Audit Committee

...service to
our customers



Chairman's Statement

In the Name of Allah,
most Gracious, most Merciful.
Praise be to Allah and peace and
Blessings be upon His Messenger.

Dear Shareholders,

On behalf of the Board of Directors, it is with great pleasure that I present to you the 2004 Annual Report of Bahrain Islamic Bank. This has been a momentous year for us as we celebrated our Silver Jubilee, an event that not only marked 25 years of progress and partnership with those we serve but, importantly, signalled the start of a new era for our Bank, one in which we are committed to delivering more growth, opportunity and value for our shareholders and our customers alike. This is our strategy and vision for the future.

More demand and greater competition have given way to innovation in our industry and challenged institutions such as ours to

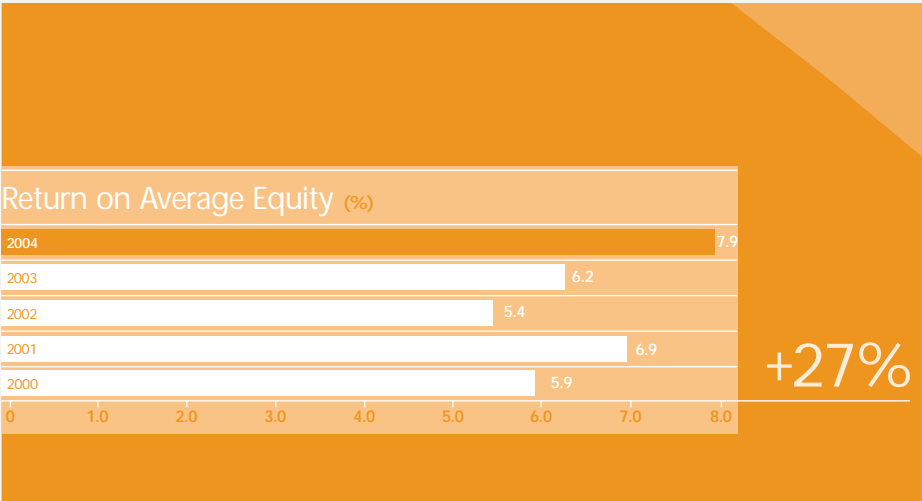
further enhance our performance in order to meet the needs of a fast-evolving market and customers who increasingly seek superior products, service and returns – in addition to the ability to bank according to their Islamic values.

Whilst our mission and our principles remained as strong as ever during 2004, we recommitted ourselves to meeting this challenge and taking every necessary step to build an organisation that is capable of introducing even higher levels of innovation, customer service and international financial and corporate governance best-practices.

We believe that these are prerequisites for our Bank's ability and that of our industry to further develop and compete as well as the basis upon which we can effectively introduce products and deliver service that is on par with any leading financial institution – be it Islamic or conventional – the world over.

We are pleased to have made important strides in this direction over the past year as we implemented a number of strategic initiatives that have helped us to strengthen our foundation and infrastructure and better position us to leverage our strong brand, loyal customer base and long heritage of innovation, which started when we established ourselves in Bahrain as the Kingdom's first Islamic banking institution.

Specifically, during 2004, we embarked upon a process of restructuring our business units in line with growth opportunities in the market and our plans to further expand and take market share, invested greater time and resources in identifying and adopting new technologies and systems and took decisive measures to further develop and enhance our human resources and staffing across all key functions of the Bank.



2004 signalled the start of a new era for our Bank, one in which we are committed to delivering more growth, opportunity and value for our shareholders and our customers alike. This is our strategy and vision for the future.

We have been pleased with the impact of these efforts thus far both in terms of our performance and results for the year, but also with regard to the significantly increased customer, shareholder and investor confidence these actions have elicited in our Bank.

Supported by positive economic fundamentals in the Bahrain market and surrounding GCC economies including strong levels of liquidity and growing investor confidence in the region, we reported improvements in our financial position during 2004.

For the year, the Bank recorded a net income of BD 3.70 million representing an increase of 50 percent as compared to BD 2.46 million in 2003. This performance is clear evidence of the Bank's ability to produce superior returns and provides a stronger platform for sustained earnings and continued growth.

In addition, during 2004, the capital base of the Bank was also reinforced by the significant unrealised gains on the revaluation of certain quoted corporate investments. This resulted in shareholders' equity increasing by 32 percent to BD 53 million at the year end.

These strong results have also enabled the Bank to take steps towards rewarding our shareholders, with the Board having recommended the largest dividend payout since our inception, equalling 12% of the Bank's paid up capital or 12 fils per share. In addition, the issuance of bonus shares has also been recommended, for the first time in the Bank's history, consisting of 10 percent of paid-up capital.

We are pleased with our progress on each of these important fronts and view these accomplishments as affirmation of our strong future prospects in terms of our ability to innovate new products and services, further penetrate the market,

foster partnerships with key institutional investors and, ultimately, enhance customer and shareholder satisfaction. This is the way forward for our Bank and we will continue to prioritise these objectives and work towards achieving them through determination and strategic action.

With regard to our financial performance, we will aim to deliver superior returns in the year ahead. Specifically, our strategy will be to restructure our balance sheet by diversifying our asset mix away from the current concentration of our portfolio on short-term, low-yield investments, move gradually to increase the leverage of our balance sheet over time and work to generate significantly higher levels of non-asset based income.

There also a number of operational enhancements and areas on which we will continue to concentrate as part of our efforts to strengthen our performance. In the year ahead, we will focus on



Celebrations marked 25 years of service and commitment to customers and shareholders of the Bank.



Chairman's Statement continued

developing a more dynamic decision making structure, enhancing our financial controls and risk management framework and adopting a more disciplined approach to marketing and business development combined with ongoing investments in our operating platforms, advanced technologies and human capital.

As we do so, we would like to express our gratitude for the positive contributions made to the Bank by Mr. Adnan Ahmed Yousif, our outgoing Chief Executive Officer, who for three years worked diligently to further these goals.

At the same time, we welcome Mr. Yousif Saleh Khalaf, who assumed the leadership of the Bank in September, 2004. An industry veteran, he brings with him a strong track record, wealth of experience and a history of success that is as long as our own. We have great faith in our future under his leadership and in his ability to guide our Bank during this unique time of opportunity.

As we enter 2005, we move ahead with renewed confidence and focus. With a stronger foundation and the progress we have made in 2004, we are better positioned than ever to fully maximise our strengths and those of our industry and the market in which we operate.

In closing, we extend our appreciation to the leadership and the Government of the Kingdom of Bahrain, the Ministry of Finance and National Economy and the Bahrain Monetary Agency. The growth in our market and ever increasing confidence in the future of our industry is a direct result of their vision and dedication to advancement and progress.

Further, we would like to acknowledge our Shari'a Supervisory Board for their guidance and direction. In addition, we pay tribute to the great efforts of our management team and each of our employees as well as the loyalty and commitment of our customers, investors and shareholders. We continue to draw our strength from your ongoing support and dedication to our Bank.



Mohammed Abdullah Al-Zamil
Chairman



Strategically located branches ensure we are well represented throughout the market.

...ways to save
for your future



Shari'a Supervisory Board



Dr. Shaikh A. Latif Mahmood Al Mahmood
Chairman of Shari'a Supervisory Board

Head of Arabic & Islamic Studies
University of Bahrain
Member Shari'a Supervisory Board
Takaful International
Member Shari'a Supervisory Board
ABC Islamic Bank
Member Joint Shari'a Supervisory Board
AlBaraka Group

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman of Shari'a Supervisory Board

Formerly Judge High Shari'a Court of Appeal
and Designated President of the High Shari'a Court
Ministry of Justice
Formerly Member Zakah Committee
Ministry of Islamic Affairs

Shaikh Adnan Abdullah Al Qattan
Member of Shari'a Supervisory Board

Puisne Justice of the High Shari'a Court,
Ministry of Justice
Chairman Al Sanabel Orphans Care
Chairman Orphans and Widows Welfare
Committee of the Royal Court
President Kingdom of Bahrain Hajj Mission

Shaikh Nedham M. Saleh Yacoubi
Member of Shari'a Supervisory Board

Businessman
Member Shari'a Supervisory Board
Abu Dhabi Islamic Bank
Member Shari'a Supervisory Board
National Islamic Bank of Sharjah
Member Shari'a Supervisory Board
Shamil Bank
Member Shari'a Supervisory Board
First Islamic Investment Bank
Member Shari'a Supervisory Board
Gulf Finance House
Member Shari'a Supervisory Board
ABC Islamic Bank

...support for
the community



Executive Management



Yousif Saleh Khalaf
Chief Executive Officer

CORPORATE & INVESTMENT BANKING

Jihad A. Hameed Al Alawi
Director

Mohammed Elgioushy Mohammed
First Manager

A. Aziz Mohammed Al Abbasi
First Manager

Salman Falah Al Jumairi
First Manager

CENTRAL OPERATIONS

A. Rahman Shihab Ahmed
Director

A. Razaq A. Khalik Abdulla
Senior Manager

CREDIT & RISK MANAGEMENT

Salah Addeen A. Qader M. Saeed
Director

Khalid Abdulla Sharif
Manager

Nasreen Hasan Al Qaseer
Manager

RETAIL BANKING

Jamal Hassan Naqi
Senior Manager

Yaqoub Yousif Al Asiri
First Manager

INTERNAL AUDIT

Adnan Abdulla Al Bassam
Senior Manager

Hani Al Sayed Zaki
Manager

SHARI'A AUDIT

A. Nasser Omer Al Mahmood
Manager

INFORMATION TECHNOLOGY

Hood Hashim Ahmed
Senior Manager

Ashraf Saad Aldin Shokry
Senior Manager

HUMAN RESOURCES & SERVICES

A. Hameed Y. Bucheeri
Senior Manager

Saad Mustafa Al Aadhami
Manager

FINANCIAL CONTROL

Khalid Mohammed Al Dossari
First Manager

SECRETARY TO THE BOARD

Ramadan Ali Ramadan
Manager

...specialised products
& services



Executive Management Report

In the Name of Allah,
most Gracious, most Merciful.
Praise be to Allah and peace and
Blessings be upon His Messenger.

Business Overview

During 2004, we continued to focus on laying the foundation for our further development and growth so that we may fulfil our promise of delivering more value to our customers and our shareholders. This was pursued through a number of key initiatives, throughout the year, that focused on our physical expansion, the reorganisation of our operating structure and broad based investments in our technologies, systems and processes as well as our human resources.

While we believe the results of these efforts will be even more significant over time, we have been pleased with the progress that has been achieved during 2004 as reflected by enhanced perceptions about our Bank and strong support from our customers and shareholders.

Indicators such as a 50 percent increase in our share price during the year and an upgrade in the Bank's Outlook credit rating from Stable to Positive by Capital Intelligence further serve as recognition of our strengthened financial position and enhanced prospects for delivering stronger results and performance going forward.

Financial Review

For the year 2004, the Bank recorded a net income of BD 3.70 million representing an increase of 50 percent as compared to BD 2.46 million posted in 2003. These enhanced results are attributed to an increase of 22 percent in total operating income, which grew from BD 8.9 million in 2003 to BD 10.8 million in 2004.

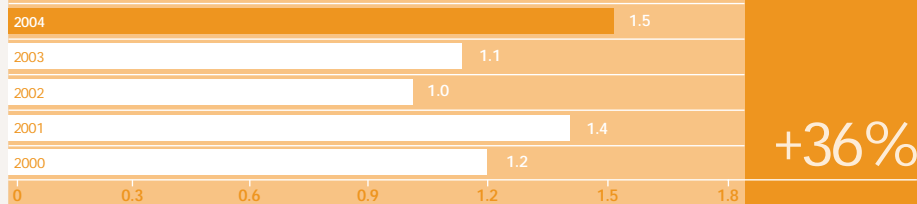
This rise in total income contributed to an increase in the Bank's share of operating income, which improved by 19 percent to BD 8.75 million for 2004. At the same time, the return on investment accounts increased by 33 percent to BD 2.1 million for the same period.

The growth in operating income resulted mainly from strong performance of the investment portfolio, which included a significant profit generated from the disposal of a listed equity during the year. The overall growth in the balance sheet and the gradual increase in market rates also had a positive impact on the Bank's earnings in 2004.

Total operating expenses increased by eight percent for the year as a result of the Bank's efforts to restructure and investments made in new technologies and human resources. In 2004, costs related to staffing and related expenditures rose by seven percent whilst those resulting from general operating costs increased by nine percent.

The capital base of the Bank was also reinforced during the year by significant unrealised gains on the revaluation of certain quoted corporate investments, which resulted in shareholders' equity increasing by 32 percent to BD 53 million for the year as well as continued strength in the Bank's capital adequacy ratios.

Return on Average Assets (%)



We have been pleased with the progress that has been achieved during 2004 as reflected by enhanced perceptions about our Bank and strong support from our customers and shareholders.

Furthermore, total assets of the Bank rose by 10 percent during 2004, with the most significant levels of growth reported for non-trading investments, which increased by 35 percent for the year due primarily to an increase in the fair value of listed securities held by the Bank. A rise in Murabaha receivables of 10 percent during 2004 from BD 141 million to BD 155 million also contributed to the steady growth in total assets.

A Foundation for Growth

Providing customers with easy and convenient access to our Bank and our growing offer is critical to our growth. As such, we have continually evaluated the market to ensure that we are well positioned to capitalise on its ongoing development and increased demands on the part of consumers for new Shari'a compliant banking and financing products and services.

In doing so, during 2004, we opened three new branches in strategic locations throughout Bahrain, bringing our total branch count to 12, as well as the addition of three new stand alone ATMs.

Having started an expansion plan some two years ago, we are now satisfied that we have built a strong foundation for growth and that our Bank is well represented in all key areas throughout the market. This is measured by our proximity to the customers we serve and those we hope to reach in the coming years as well as our ability to effectively compete against new entrants and others seeking to build their presence.

Further, with the launch of our ladies branch in September, we are also focused on better positioning the bank to meet the varied needs of multiple customer segments. With this dedicated branch now in place, we will look to further develop products and services that specifically address their needs and similarly evaluate opportunities to establish additional branches and or units to meet the needs of other unique customer segments.

A New Operating Structure

Another key component of our strategy and our efforts to support development has

been a reorganisation of the Bank and the structure under which we operate. In order to grow each area of our business more effectively, we realigned our operating units during 2004.

Today, our Bank is structured across three distinct business divisions, which are now focused exclusively on retail banking, commercial and corporate banking and business development and investments. Whilst we have historically had units engaged in retail and commercial banking and investments, our business development unit was only introduced this past year with the specific task of supporting the Bank's efforts to better capitalise on market opportunities and leverage its strong brand to further grow market share.

Having reorganised our operating structure along these lines, we are in the process of recruiting senior officers that are highly experienced in each of these areas so that we may further drive the development of each division in the year ahead.



BIB's customers enjoying the enhanced facilities at one of the recently renovated branches.



Executive Management Report continued

Retail Banking

With regard to consumer banking and finance, we have already begun to take important steps to make the Bank more competitive. In 2004, we put in place the necessary platforms to introduce service enhancements such as Internet Banking as well as other electronic channels going forward so as to enhance convenience and access for all of our customers. In today's increasingly connected and global world, we want to ensure that our Bank can work for our customers and provide them the access they need to our representatives and information, wherever they may be.

Further, we have concentrated our efforts towards assessing the evolving needs of our customers and the market in order to extend the range of our offering through the introduction of new products and services that both enable us to meet demands and simultaneously raise the bar in terms of innovation and flexibility.

Areas on which we have focused in 2004 and will continue to do so in the year ahead

include the further expansion of our financing portfolio through the creation of new products. Specifically, we have looked at real estate and home financing in line with strong demand in the market and the rapid growth of the real estate sector in Bahrain over the past several years. We fully expect that this trend will continue and we are taking the necessary measures to grow our product offering in step with the needs of our customers and expansion in the market.

Commercial & Corporate Banking

Our Commercial and Corporate Banking division also saw improvements in 2004 as we moved to strengthen our ability to meet the needs of our customers and to further expand our client base.

It is our aim to continue to provide support to Bahrain's business community and help drive growth in the economy. As such, while the focus of this division has largely remained on meeting the needs of small to medium size businesses and high net worth clients, we also acted to further broaden the scope of our corporate finance activities.

We are currently focused on engaging the Bank in a greater number of secure and profitable corporate transactions, albeit on a selective basis. There is substantial growth across numerous industry sectors in Bahrain and the region and we will actively seek to participate in those opportunities that will enable us to generate strong returns.

Business Developments & Investments

In 2004, we also established a new division that combined our already existing investment unit with a newly created business development function.

With regard to investments, during the year, we began the development of new products that will enable us to concentrate our investments in specific areas of the economy. In the year ahead, we will look to launch a number of restricted investment funds in areas such as real estate and equipment leasing. Additionally, our investment team has begun to look at increasing our participation in other promising funds and investment

...diversified investment opportunities



Executive Management Report continued

opportunities in the market through greater focus on Mudarabah transactions.

At the same time, the Bank's business development unit began to lay the foundation upon which it will work to accomplish key functions including the creation and launch of new products and services, the introduction of a more pro-active approach to consumer marketing and ongoing communications with customers and shareholders.

With this division now in place and activity well under way, we believe we are better positioned than ever to communicate the progress of our Bank and more effectively reach out to both current and new customers as we move forward.

Enhanced Efficiency

Along with our reorganisation and efforts to grow each of our business units, we also focused our efforts in 2004 on streamlining our internal systems and processes so as to further enhance our operating performance

but, importantly, as a means by which to heighten customer satisfaction and the level and quality of service we can provide.

During the year, we evaluated and made necessary changes in a number of areas including improvements in our back office as well as enhancements to our financial controls and operating standards, customer service functions, technologies and systems and, importantly, in our human resources.

We have acted to standardise our processes and decision-making structure across all lines of operation in order to maximise time efficiency whilst simultaneously enhancing our quality of service. This has made a significant contribution to our ability to strengthen our relationships with our customers and ensure they are receiving the level of service and quality they both demand and deserve.

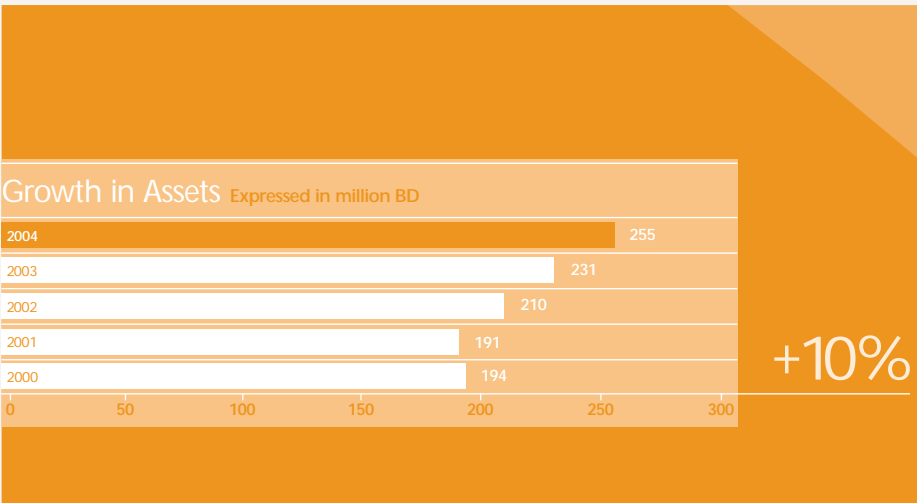
We will continue to look at new and innovative ways to evaluate our internal progress along all of these lines and put in place appropriate measures that will help

us to raise our performance on an ongoing basis and our ability to deliver even stronger products and services to our customers and the market.

Investments for a stronger Future

As part of our broader efforts to achieve greater efficiencies, further strengthen our operations and better position the Bank for growth, we made strategic investments during 2004 in our infrastructure both in terms of our systems and technologies as well as our people.

In 2004, we completed our efforts to identify and procure a new and highly advanced Core Banking System, which we intend to roll out in 2005. We believe that it is critical to our success to adopt and leverage the latest technological advancements and our new system effectively supports our objectives of enhancing efficiency across all of our operating lines. In addition, it also provides us with improved customer relationship management tools and other support capabilities in areas we are actively seeking



We have closely examined each and every aspect of our operations and taken extensive steps to ensure we are well positioned to enter 2005 a stronger organisation capable of delivering more innovation and more value to those we serve.

to enhance as part of our strategy to extend our market share and build our customer base.

We have also strived to strengthen our human resources. The success of every aspect of our business depends on our people and we are taking active measures to ensure that they and our Bank have every necessary resource to excel.

During the year, we put in place a well skilled human resources team that has effectively evaluated the strengths of our organisation as well as identified those areas in which we will work to introduce improvements. With the increasingly competitive nature of our industry, we need to ensure we are actively recruiting and maintaining our top-tier talent.

We are currently in the process of launching a new recruitment effort after having realigned our pay scale and structure to reflect the high calibre individuals and commitment we seek. Further, we are focused on introducing a

comprehensive employee training and development scheme that we intend to implement in 2005.

Supporting the community that supports us

Bahrain Islamic Bank remains committed to giving back to the community that has supported our presence and growth over the past 25 years. Our success and growth are linked with that of this market and we are dedicated to investing in its future through support for numerous community programmes.

We remain particularly dedicated to promoting the development of Bahrain's youth through backing for educational institutions and those organisations and funds that are geared towards providing the new generation with the skills and tools to succeed.

The Year Ahead

The coming year holds great prospects for our Bank, our customers and investors as well as our shareholders. Over the past year, we have closely examined each and every aspect of our operations and taken extensive steps to ensure we are well positioned to enter 2005 a stronger organisation capable of delivering more innovation and more value to those we serve. We look forward to reporting to you on our progress over the coming year.



Yousif Saleh Khalaf
Chief Executive Officer



BIB employs the highest calibre individuals, who strive to excel in their service to the Bank and our customers.



Contacts & Information

Head Office
Bahrain Islamic Bank B.S.C
P.O. Box 5240
Al Salam Tower
Diplomatic Area
Manama
Kingdom of Bahrain

Telephone
General: 1754 6111 / 1754 6222
Fax: 1753 5808 / 1753 5707

Call Centre: 1754 6222

Telex
9388 / 9390 BESMEH BN

Investment
Tel: 1754 6182
Fax: 1753 3486
Telex: 9390 BESMEH BN

Cable
Bank Islami

S.W.I.F.T.
BIBBBHBM

Email
bahisl@batelco.com.bh

Website
www.bahisl.com.bh

Branches	Tel	Fax
Main Office	1754 6222	1753 5656
Manama	1722 3936	1722 3933
Muharraq	1734 2796	1734 6795
Gudaibiya	1724 5446	1726 2178
Riffa	1777 8362	1777 7510
Jidhaff	1755 3983	1755 3139
Isa Town	1768 0044	1768 2289
Sitra	1745 8008	1773 7610
Hidd	1735 8555	1746 7030
Al-Dana	1782 8000	1772 0585
Hamad Town	1741 8111	1741 4533
Budaiya	1759 8555	1759 2667

Delivering more...



بنك البحرين الإسلامي
Bahrain Islamic Bank



...financial
performance

103.84	1.2397	↑	1.2397	1.2397	1.2397
58	0.57703	↓	0.57703	0.57703	0.57703
723	3.6721	↓	3.6721	3.6721	3.6721
57698	0.37703	↓	0.37703	0.37703	0.37703
0.29191	0.29211	↑	0.29211	0.29211	0.29211
0.38497	0.38502	↓	0.38502	0.38502	0.38502
3.6390	3.6400	↓	3.6395	3.6395	3.6395
3.7500	3.7504	↓	3.7502	3.7502	3.7502
1.2362	↑	1.2301	1.2301	1.2301	1.2301
1514.00	↓	1507.50	1507.50	1507.50	1507.50

Shari'a Supervisory Board's Report

To the shareholders of
Bahrain Islamic Bank B.S.C.

In The Name of Allah, most Gracious, most Merciful
Blessings Be Upon His Messenger

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh

Pursuant to the powers entitled to the Shari'a Supervisory Board to supervise over the Bank's activities and investments, we hereby submit the following report:

The Shari'a Supervisory Board monitored the principles and contracts related to transactions and applications carried out by the Bank throughout the year, to express opinion on the Bank's commitment to the provisions and principles of Islamic Shari'a in its activities and investments in accordance to the guidelines and decisions issued by the Supervisory Board. The Shari'a Supervisory Board believes that ensuring the conformity of the Bank's activities and investments with provisions of Islamic Shari'a is the sole responsibility of the Bank's Management, while the Shari'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report thereabout.

The Shari'a Supervisory Board's monitoring functions included the checking of the Bank's documents and procedures to scrutinize each single operation carried out by the Bank, whether directly or through Shari'a Internal Audit. We planned with Shari'a Internal Audit Department to carry out monitoring functions through the acquisition of all information and clarifications that are deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Shari'a. The Shari'a Internal Audit Department carried out its functions of auditing the Bank's transactions and submitting a report to the Shari'a Supervisory Board, which indicated the Bank's commitment and conformity to the Shari'a Supervisory Board's opinions.

The Shari'a Supervisory Board obtained data and clarifications that it deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Shari'a. The Shari'a Supervisory

Board held several meetings throughout the year and replied to inquiries, in addition to approving a number of new products presented by the Management. The Shari'a Supervisory Board discussed with the Bank's officials all transactions and applications carried out by the Management throughout the year ending 31st December 2004, and reviewed the Bank's conformity with the provisions and principles of Islamic Shari'a, as well as the resolutions and guidelines of the Shari'a Supervisory Board.

The Shari'a Supervisory Board believes that:

- 1- Contracts, operations, and transactions conducted by the Bank throughout the year, ending 31st December 2004 were made in accordance to the standard contracts pre-approved by the Supervisory Board.
- 2- Distribution of profits and losses on investment accounts was in line with the basis approved by the Supervisory Board in accordance with the provisions and principles of Islamic Shari'a.
- 3- No gains resulted from sources or by means prohibited by the provisions and principles of Islamic Shari'a.
- 4- Zakah was calculated according to the provisions and principles of Islamic Shari'a. The Bank distributed Zakah on the statutory reserve, general reserve and retained earnings. The Shareholder should pay his proportion of Zakah on his/her shares as stated in the financial report.
- 5- The Bank was committed to the Shari'a standards issued by the Accounting & Auditing Organisation for Islamic Financial Institutions.

We pray that Allah may Grant all of us Further Success and Prosperity.

4 Muharram 1426,
13th February 2005

Shari'a Supervisory Board Members:

Dr. Shaikh A. Latif Mahmood Al Mahmood
Chairman of Shari'a Supervisory Board

Shaikh Mohammad Jaffar Al Juffairi
Vice Chairman of Shari'a Supervisory Board

Shaikh Adnan Abdullah Al Qattan
Member of Shari'a Supervisory Board

Shaikh Nedham M. Saleh Yacoubi
Member of Shari'a Supervisory Board



Auditors' Report

To the shareholders of
Bahrain Islamic Bank B.S.C.

We have audited the accompanying consolidated balance sheet of Bahrain Islamic Bank B.S.C ("the Bank") and its subsidiary ("the Group") as of 31 December 2004, and the related consolidated statements of income, cash flows, changes in equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended. These consolidated financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2004, the results of its operations, its cash flows, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Group.

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Bahrain Monetary Agency Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2004 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking licence. We obtained all the information and explanations which we required for the purpose of our audit.

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

Ernst & Young
15 February 2005
Kingdom of Bahrain

Consolidated Balance Sheet

31 December 2004

	Note	2004 Bahraini Dinars	2003 Bahraini Dinars
Assets			
Cash and balances with the BMA and other banks	3	9,406,612	10,629,857
Murabaha Receivables	4	155,476,587	141,422,189
Mudaraba Investments	5	11,819,116	17,118,157
Musharaka Investments	6	2,721,396	2,832,999
Non-trading investments	7	55,770,049	41,325,281
Investments in associates	8	2,951,431	2,870,057
Investments in Ijarah assets	9	4,959,195	5,366,954
Ijarah Muntahia Bittamleek	10	5,116,228	3,340,977
Investments in properties	11	4,208,932	4,806,441
Other assets	12	2,345,318	1,767,245
Total Assets		254,774,864	231,480,157
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
Liabilities			
Customers' current accounts		30,367,929	28,878,182
Other liabilities	13	2,827,070	3,083,539
Total Liabilities		33,194,999	31,961,721
Unrestricted Investment Accounts	14	168,829,498	159,529,878
Equity			
Share capital	15	23,000,000	23,000,000
Share premium	15	5,761,604	8,061,604
Reserves	15	18,928,763	6,626,954
Proposed appropriations	20	5,060,000	2,300,000
Total Equity		52,750,367	39,988,558
Total Liabilities, Unrestricted Investment Accounts and Equity		254,774,864	231,480,157
Commitments and Contingent Liabilities	21	5,560,428	6,379,692

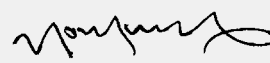
These consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 15 February 2005



Mohammed Abdullah Al Zamil
Chairman



Khalid Rashid Al Zayani
Vice Chairman



Yousif Saleh Khalaf
Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Income

Year Ended 31 December 2004

	Note	2004 Bahraini Dinars	2003 Bahraini Dinars
Income from Murabaha receivables		5,589,947	4,727,611
Income from Mudaraba investments		673,882	719,168
Income from Musharaka investments		74,223	179,382
Income from investments in securities		2,786,088	1,445,779
Ijarah income		567,044	562,415
Ijarah Muntahia Bittamleek income		243,744	201,870
Gain on fair value adjustment for investments in properties		232,211	136,996
Bank's share in the profit of associates		114,815	15,060
Net fee, commission and other income		541,034	905,131
Operating Income		10,822,988	8,893,412
Return on unrestricted investment accounts before			
Bank's share as a Mudarib		2,417,400	1,957,068
Bank's share as a Mudarib		(342,918)	(397,258)
Return on unrestricted investment accounts		2,074,482	1,559,810
Bank's share in operating income (as a Mudarib and Rabalmal)		8,748,506	7,333,602
Staff costs		2,770,763	2,586,035
Depreciation		544,560	634,855
Expenses on Ijarah assets		180,375	202,027
Expenses on premises and equipment		215,800	144,411
Other operating expenses	16	1,025,127	817,148
Operating Expenses		4,736,625	4,384,476
Operating Profit Before Provisions and Zakah		4,011,881	2,949,126
Provisions - net	17	(184,440)	(359,905)
Zakah	18	(122,826)	(124,958)
Net profit for the year		3,704,615	2,464,263
Basic earnings per share (fils)	19	16.11	10.71



Mohammed Abdullah Al Zamil
Chairman



Khalid Rashid Al Zayani
Vice Chairman



Yousif Saleh Khalaf
Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year Ended 31 December 2004

	2004 Bahraini Dinars	2003 Bahraini Dinars
Operating Activities		
Net profit for the year	3,704,615	2,464,263
Adjustments for non-cash items:		
Depreciation	544,560	634,855
Provisions – net	184,440	359,905
Bank's share in the profit of associate	(114,815)	(15,060)
Gain on fair value adjustment for investments in properties	(232,211)	(136,996)
Operating profit before changes in operating assets and liabilities	4,086,589	3,306,967
Changes in:		
Mandatory reserve with BMA	357,245	(295,000)
Murabaha receivables	(14,527,398)	(2,681,283)
Mudaraba investments	5,299,041	4,566,363
Musharaka investments	484,603	541,417
Other assets	(318,184)	(94,380)
Other liabilities	(306,469)	424,025
Customers' current accounts	1,489,747	7,537,161
Net cash (used in) from operating activities	(3,434,826)	13,305,270
Investing Activities		
Income received from associates	33,441	-
Purchase of Ijara Muntahia Bittamleek	(2,630,894)	(1,963,977)
Disposal of investment in properties and Ijara assets	2,541,210	1,417,101
Purchase of non-trading investments	(3,012,014)	(19,169,091)
Purchase of investments properties	(846,686)	(1,710,275)
Purchase of equipment	(405,851)	(214,873)
Net cash used in investing activities	(4,320,794)	(21,641,115)
Financing Activities		
Increase in unrestricted investment accounts	9,299,620	12,081,225
Dividends paid	(2,300,000)	(2,319,831)
Directors remuneration	(70,000)	(70,000)
Charitable contributions	(40,000)	(40,000)
Net cash from financing activities	6,889,620	9,651,394
Net (Decrease) Increase in cash and cash equivalents	(866,000)	1,315,549
Cash and cash equivalents at 1 January	4,134,857	2,819,308
Cash and Cash Equivalents at 31 December (Note 3)	3,268,857	4,134,857

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year Ended 31 December 2004

	Share capital BD	Share premium BD	Reserves				Retained earnings BD	Proposed appropriations BD	Total equity BD
			Statutory reserve BD	General reserve BD	Investments fair value reserve BD	Cummulative changes in fair value BD			
Balance at 31 December 2002	23,000,000	8,061,604	2,872,359	1,000,000	-	80,788	975,690	2,300,000	38,290,441
Dividends paid	-	-	-	-	-	-	-	(2,300,000)	(2,300,000)
Net profit for the year	-	-	-	-	-	-	2,464,263	-	2,464,263
Transfer to statutory reserve	-	-	246,426	-	-	-	(246,426)	-	-
Unrealized gain on investments in properties	-	-	-	-	136,996	-	(136,996)	-	-
Net movement in cumulative changes in fair values	-	-	-	-	-	1,643,854	-	-	1,643,854
Directors' remuneration	-	-	-	-	-	-	(70,000)	-	(70,000)
Charitable contributions	-	-	-	-	-	-	(40,000)	-	(40,000)
Proposed appropriations (note 20)	-	-	-	-	-	-	(2,300,000)	2,300,000	-
Balance at 31 December 2003	23,000,000	8,061,604	3,118,785	1,000,000	136,996	1,724,642	646,531	2,300,000	39,988,558
Dividends paid	-	-	-	-	-	-	-	(2,300,000)	(2,300,000)
Net profit for the year	-	-	-	-	-	-	3,704,615	-	3,704,615
Transfer to statutory reserve	-	-	370,462	-	-	-	(370,462)	-	-
Unrealized gain on investments in properties	-	-	-	-	232,211	-	(232,211)	-	-
Net movement in cumulative changes in fair values	-	-	-	-	-	11,517,194	-	-	11,517,194
Directors' remuneration	-	-	-	-	-	-	(100,000)	-	(100,000)
Charitable contributions	-	-	-	-	-	-	(60,000)	-	(60,000)
Proposed appropriations (note 20)	-	(2,300,000)*	-	-	-	-	(2,760,000)	5,060,000	-
Balance at 31 December 2004	23,000,000	5,761,604	3,489,247	1,000,000	369,207	13,241,836	828,473	5,060,000	52,750,367

* In the Board of Directors' meeting held on 15 February 2005, it was decided to issue bonus shares at one bonus share for each ten shares held. This is subject to relevant approval from the Ministry of Industry and Commerce, Bahrain Monetary Agency and shareholders' meeting.

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Sources and Uses of Good Faith Qard Fund

Year Ended 31 December 2004

	2004 Bahraini Dinars	2003 Bahraini Dinars
Original sources of qard fund		
Contribution by the Bank (Note 4)	125,000	125,000
Donation	3,010	3,010
	128,010	128,010
Movement of funds		
Cash balance at the beginning of the year	91,017	93,739
Instalments received	32,954	36,368
	123,971	130,107
Uses of qard fund		
Marriage	7,900	12,100
Refurbishment	3,500	8,500
Medical treatment	1,000	5,040
Education	-	5,500
Others	2,100	7,950
Total uses	14,500	39,090
Cash balance at the end of the year	109,471	91,017
Qard Hasan instalments outstanding as at end of the year	18,539	36,993
	128,010	128,010

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Sources and Uses of Zakah and Charity Fund

Year Ended 31 December 2004

	2004 Bahraini Dinars	2003 Bahraini Dinars
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the year	125,558	134,185
Zakah due from the Bank for the year (Note 18)	122,826	124,958
Total sources of funds during the year	248,384	259,143
Uses of zakah and charity funds		
University and school students	10,000	46,350
Philanthropic societies	69,900	81,650
Aid to needy families	21,981	5,585
Total uses of funds during the year	101,881	133,585
Undistributed zakah and charity funds at end of the year (Note 13)	146,503	125,558

The attached notes 1 to 32 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2004

1. Incorporation and Activities

Bahrain Islamic Bank B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain by Amiri Decree No. 2 of 1979, under Commercial Registration (CR) No. 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under a commercial banking licence issued by the Bahrain Monetary Agency. The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities.

The Bank participated in 100% of the share capital in Al Emar Real-Estate Company B.S.C. ("subsidiary"), a newly formed company. Al Emar was incorporated on 8th April 2003 and has an authorized share capital of BD 10,000,000 of which BD 1,000,000 is paid-up.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has twelve branches (2003: 8 branches), all operating in the Kingdom of Bahrain, and employed 186 staff as of 31 December 2004 (31 December 2003: 181 employees).

2. Significant Accounting Policies

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

Basis of preparation

These consolidated financial statements have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and the Bahrain Commercial Companies Law. For matters for which no AAOIFI standards exist, the Bank uses the relevant International Financial Reporting Standards issued by the International Accounting Standards Board.

These consolidated financial statements are prepared in Bahraini Dinars, being the principal currency of the Group's operations.

Accounting convention

The consolidated financial statements are prepared under the historical cost convention as modified for the re-measurement at fair value of investment in properties and certain non-trading investments "available for sale".

Basis of Consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiary. A subsidiary is an entity over which the Bank has power to control which is other than fiduciary in nature. The subsidiary is consolidated from the date it was incorporated and was included in the consolidated financial statements using the purchase method of accounting. All intercompany balances, transactions and income have been eliminated on consolidation.

Use of estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements. The use of estimates is principally limited to the determination of impairment provisions for non-trading investments and financial contracts.

Financial contracts

Financial contracts consist of Murabaha receivables (net of deferred profit), Mudaraba investments and Musharaka investments. Balances relating to these contracts are stated net of provisions for impairment.

Non-trading investments

These are classified as either held-to-maturity or available-for-sale.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. Premiums and discounts are amortised on a systematic basis to maturity.

Notes to the Consolidated Financial Statements

31 December 2004

2. Significant Accounting Policies (continued)

Held-to-maturity

Investments that have fixed or determinable payments, which are intended to be held-to-maturity, are carried at amortised cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in consolidated statement of income when the investment is derecognised or impaired.

Available-for-sale

After initial recognition, investments that are classified "available-for-sale" are re-measured at fair value. The fair value changes of investments available for sale is reported in equity until such time as the investments are sold, realized or deemed to be impaired at which time the realized gain or loss is reported in the consolidated statement of income.

Investments in associates

Associates are enterprises in which the Group has a long-term investment of between 20% and 50% in the voting power or over which it exercises significant influence. Investments in associates are accounted for using the equity method of accounting based on the latest financial statements.

Ijarah assets, Ijarah Muntahia Bittamleek

These are initially recorded at cost. Ijarah assets and Ijarah Muntahia Bittamleek comprise of land, buildings and equipments.

Depreciation is provided on a straight-line basis on all equipment, Ijarah assets and Ijarah Muntahia Bittamleek, other than land (which is deemed to have indefinite life), at rates calculated to write off the cost of each asset over its expected useful life.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Ijarah assets and Ijarah Muntahia Bittamleek -Buildings	10 to 35 years
Equipment	3 to 5 years

Investments in properties

All properties held for rental or for capital appreciation purposes or both are classified as investments in properties. All investments in properties are initially recorded at cost, being the fair value of the consideration given and including acquisition charges associated with the property. Subsequent to initial recognition, all investments in properties are measured at fair value and changes in fair value are recognized in the consolidated income statement. The fair value of the investments in properties is based on independent valuation made by real estate agents at regular intervals.

Unrestricted investment account holders

All unrestricted investment accounts are carried at cost less amounts repaid.

Zakah

Zakah is calculated on the Zakah base of the Group in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions using the net invested funds method. Zakah is paid by the Group based on statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on unrestricted investment and other accounts is the responsibility of investment account holders.

Employees' end of service benefits

Provision is made for amounts payable under the Bahrain Labour Law applicable to non-Bahraini employees' accumulated periods of service at the balance sheet date. Bahraini employees are covered under the General Organisation for Social Insurance scheme.

Fair values

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on an assessment of the value of future cash flows. For financial contracts, future cash flows are determined by the Group at current profit rates for financing contracts with similar terms and risk characteristics.

Notes to the Consolidated Financial Statements

31 December 2004

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition

Murabaha receivables

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable, it is recognised when realised. Income that is 90 days or more overdue is excluded from income.

Musharaka investments

Income is recognised on the due dates of the instalments or when received in case of sale Musharaka. Income that is 90 days or more overdue is excluded from income.

Mudaraba investments

Income is recognised when it is quantifiable or on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Dividends

Dividends from investments in equities are recognised when the right to receive payment is established.

Ijarah and Ijarah Muntahia Bittamleek

Ijarah income and income from Ijarah Muntahia Bittamleek is recognised on a time-apportioned basis over the lease term.

Bank's share as a Mudarib

The Bank's share as a Mudarib for managing unrestricted investment accounts is accrued based on the terms and conditions of the related management agreements.

Fee and commission income

Fee and commission income is recognised when earned.

Income allocation

Income is allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year.

The provisions for investment risks are charged to both the shareholders and the holders of the unrestricted investment accounts.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Bahraini dinars at the rates of exchange ruling at the balance sheet date. Any resultant gains or losses are taken to the consolidated income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with Bahrain Monetary Agency and other banks maturing within 91 days of the date of acquisition.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Bank of the cash equivalent value to it of anticipated future cash flows, is recognised in the consolidated income statement. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

Notes to the Consolidated Financial Statements

31 December 2004

2. Significant Accounting Policies (continued)

Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3. Cash and Balances with the BMA and Other Banks

	2004 Bahraini Dinars	2003 Bahraini Dinars
Cash and balances with BMA, excluding mandatory reserve deposits	1,938,812	2,904,412
Balances with other banks	1,330,045	1,230,445
Cash and cash equivalents	3,268,857	4,134,857
Mandatory reserve with BMA	6,137,755	6,495,000
	9,406,612	10,629,857

The mandatory reserve with BMA is not available for use in the day-to-day operations.

4. Murabaha Receivables

	2004 Bahraini Dinars	2003 Bahraini Dinars
Murabahas with banks:		
International commodities	111,957,229	96,616,309
Other Murabahas:		
Tawaroq	1,044,000	1,219,300
Land	12,010,485	11,037,105
Buildings	5,843,751	7,291,206
Letters of credit	14,300,034	13,876,856
Motor vehicles	6,558,296	7,912,733
Building materials	12,565,950	11,818,258
Furniture	481,670	612,002
Others	1,421,896	1,327,743
	54,226,082	55,095,203
Qard fund	125,000	125,000
	54,351,082	55,220,203
	165,948,311	151,836,512
Deferred profits	(8,664,534)	(9,074,323)
Provision (note 17)	(1,807,190)	(1,340,000)
	155,476,587	141,422,189

Non-performing Murabaha receivables outstanding as of 31 December 2004 amounted to 2,841,679 (2003: BD 1,861,398). The Bank considers the promise made in the Murabaha to the purchase order as obligatory.

Notes to the Consolidated Financial Statements

31 December 2004

4. Murabaha Receivables (continued)

The composition of the Murabaha transaction portfolio is as follows:

	Europe BD	Arab World BD	Asia BD	Total 2004 BD	Total 2003 BD
Commercial	-	14,300,034	-	14,300,034	13,876,856
Financial institutions	7,454,432	104,142,797	-	111,597,229	96,616,309
Secured by real estate	-	17,854,236	-	17,854,236	18,328,311
Others	-	22,196,812	-	22,196,812	23,015,036
31 December 2004	7,454,432	158,493,879	-	165,948,311	
31 December 2003	4,156,000	146,511,512	1,169,000	-	151,836,512

5. Mudaraba Investments

	2004 Bahraini Dinars	2003 Bahraini Dinars
Mudaraba investments	11,979,116	17,278,157
Provision (note 17)	(160,000)	(160,000)
	11,819,116	17,118,157

The Bank's Mudaraba investments transactions consist of investment in funds operated by other banks and financial institutions and participation in the financing transactions through other banks and financial institutions.

Non-performing Mudaraba investments outstanding as of 31 December 2004 amounted to BD 166,014 (2003: BD 166,014).

6. Musharaka Investments

	2004 Bahraini Dinars	2003 Bahraini Dinars
Real estate financing	2,771,396	3,255,999
Provision (note 17)	(50,000)	(423,000)
	2,721,396	2,832,999

Non-performing Musharaka investments outstanding as of 31 December 2004 amounted to BD 764,267 (2003: BD 1,558,341).

The Bank's ownership in Musharaka varies according to contractual arrangements.

Notes to the Consolidated Financial Statements

31 December 2004

7. Non-Trading Investments

	Available-for-sale BD	Held-to-maturity BD	Total 2004 BD	Total 2003 BD
<i>Quoted investments</i>				
Equity shares	17,072,116	-	17,072,116	2,953,999
<i>Unquoted investments</i>				
Sukooks (Islamic Bonds)	-	36,315,166	36,315,166	32,993,908
Equity shares	2,710,491	-	2,710,491	5,620,658
	2,710,491	36,315,166	39,025,657	38,614,566
Total	19,782,607	36,315,166	56,097,773	41,568,565
Less: Provisions (Note 17)	(327,724)	-	(327,724)	(243,284)
	19,454,883	36,315,166	55,770,049	-
31 December 2003	8,331,373	32,993,908	-	41,325,281

Included under above investments are unquoted investments amounting to BD 39,025,657 (2003: BD 38,614,566) which are carried at cost. This is due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable fair value. However, in management's opinion the fair value of the investments are at least equal to the carrying amount.

8. Investments in Associates

The Bank has the following investments in associates:

	Country of incorporation	Ownership	
		2004	2003
Takaful International Company B.S.C.	Kingdom of Bahrain	22.75%	22.75%
Liquidity Management Centre B.S.C. (c)	Kingdom of Bahrain	25.00%	25.00%

Takaful International Company B.S.C. (incorporated in 1989) carries out takaful and retakaful activities in accordance with the teachings of Islamic Shari'a.

Liquidity Management Centre B.S.C. (c) was set up in 2002 to facilitate creation of an Islamic inter-bank market that will allow Islamic financial services institutions to effectively manage their assets and liabilities.

9. Investments in Ijarah Assets

	Land BD	Buildings BD	2004 BD	2003 BD
Cost:				
At 1 January	1,029,339	5,717,971	6,747,310	6,747,310
Disposals/Re-classifications	(40,369)	(77,630)	(117,999)	-
At 31 December	988,970	5,640,341	6,629,311	6,747,310
Depreciation:				
At 1 January	-	1,380,356	1,380,356	1,211,301
Provided during the year	-	306,383	306,383	169,055
Disposals	-	(16,623)	(16,623)	-
At 31 December	-	1,670,116	1,670,116	1,380,356
Net book value as at 31 December	988,970	3,970,225	4,959,195	5,366,954

Notes to the Consolidated Financial Statements

31 December 2004

10. Ijarah Muntahia Bittamleek

	Land BD	Buildings BD	Equipment BD	2004 BD	2003 BD
Cost:					
At 1 January	1,330,176	1,717,132	416,669	3,463,977	1,500,000
Additions	687,051	1,943,843	-	2,630,894	1,963,977
Disposal	(387,974)	-	(416,669)	(804,643)	-
At 31 December	1,629,253	3,660,975	-	5,290,228	3,463,977
Depreciation:					
At 1 January	-	81,785	41,215	123,000	-
Provided during the year	-	92,215	-	92,215	123,000
Relating to disposed assets	-	-	(41,215)	(41,215)	-
At 31 December	-	174,000	-	174,000	123,000
Net book value as at 31 December	1,629,253	3,486,975	-	5,116,228	3,340,977

11. Investments in Properties

	2004 Bahraini Dinars	2003 Bahraini Dinars
Carrying value	4,839,445	4,546,271
Additions	846,686	1,710,275
Disposals	(1,676,406)	(1,417,101)
	4,009,725	4,839,445
Fair value adjustment	369,207	136,996
Provision	(170,000)	(170,000)
Balance at the end of the year	4,208,932	4,806,441

12. Other Assets

	2004 Bahraini Dinars	2003 Bahraini Dinars
Equipment	1,165,380	905,491
Receivables under letter of credit	715,247	440,256
Profit earned not received	97,652	149,834
Others	367,039	271,664
	2,345,318	1,767,245

Notes to the Consolidated Financial Statements

31 December 2004

13. Other Liabilities

	2004 Bahraini Dinars	2003 Bahraini Dinars
Margin on letters of credit	971,705	1,246,354
Managers' cheques	466,360	578,893
Accrued expenses	313,908	300,000
Murabaha bills payable	106,913	148,834
Provision for employees' end of service benefits and leave	51,533	176,893
Dividends payable	135,758	133,828
Zakah	146,503	125,558
Directors' remuneration	100,000	70,000
Donations	60,000	40,000
Others	474,390	263,179
	2,827,070	3,083,539

14. Unrestricted Investment Accounts

	2004 Bahraini Dinars	2003 Bahraini Dinars
Customers' investment accounts	128,567,957	121,621,685
Investments by banks and other financial institutions	40,261,541	37,908,193
	168,829,498	159,529,878

The Bank's share, as Mudarib, in the profits of unrestricted investment accounts amounted to 25%, same as the previous year.

	2004 Percentage of funds invested	2004 Percentage distribution for December	2003 Percentage of funds invested	2003 Percentage distribution for December
Defined deposits	75	1.80	75	1.25
Specific investment deposits	100	1.6-1.9	100	0.75-1
Continuous deposits	80	2.05	80	1.40
Investment certificates	90	2.15	90	1.45
Savings accounts	50	0.75	50	0.75
Education and shifa	90	2.15	90	1.45

15. Equity

	2004 Bahraini Dinars	2003 Bahraini Dinars
(i) Share capital		
a) Authorised		
500,000,000 shares of BD 0.100 each	50,000,000	50,000,000
b) Issued and fully paid up		
At the beginning and the end of the year:		
230,000,000 shares of BD 0.100 each	23,000,000	23,000,000

Notes to the Consolidated Financial Statements

31 December 2004

15. Equity (continued)

(ii) Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated by the Bahrain Commercial Companies Law.

(iii) Reserves

Statutory reserve

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Bahrain Monetary Agency.

General reserve

The general reserve is established in accordance with the article of association of the Bank, is distributable following a resolution of shareholders at a general meeting and the approval of the Bahrain Monetary Agency.

Investments fair value reserve

This represents unrealised revaluation gains on investments in properties. This reserve is distributable upon sale of the investments in properties.

Cumulative changes in fair value

This represents the net unrealised gains on available-for-sale investments.

16. Other Operating Expenses

	2004 Bahraini Dinars	2003 Bahraini Dinars
Computer maintenance	204,165	194,859
Communication expenses	158,002	110,497
Advertisements and subscriptions	187,300	105,461
Registration fees	67,217	63,317
Stationary expenses	61,373	54,771
Professional fees	73,014	48,534
Shari'a committee remuneration	27,200	35,400
Miscellaneous	246,856	204,309
	1,025,127	817,148

17. Movement in Provisions

	Murabaha Receivables 2004 BD	Mudaraba Investments 2004 BD	Musharaka Investments 2004 BD	Non-Trading Investments 2004 BD	Total 2004 BD	Total 2003 BD
Provision at beginning of the year	1,340,000	160,000	423,000	243,284	2,166,284	1,931,956
Written off during the year	(5,810)	-	-	-	(5,810)	(368,861)
	1,334,190	160,000	423,000	243,284	2,160,474	1,563,095
Provided during the year	100,000	-	-	84,440	184,440	480,315
Reclassifications	373,000	-	(373,000)	-	-	-
Written back during the year	-	-	-	-	-	(120,410)
Provisions (write back) - net	473,000	-	(373,000)	84,440	184,440	359,905
Provision at end of the year	1,807,190	160,000	50,000	327,724	2,344,914	1,923,000
	Note 4	Note 5	Note 6	Note 7		

Notes to the Consolidated Financial Statements

31 December 2004

18. Zakah

Zakah payable amounted to BD 847,440 for the year ended 31 December 2004 (2003: BD 822,295). The amount that will be paid by the Group is BD 122,826 (2003: BD 124,958) which represents the Zakah on the statutory reserve, general reserve and retained earnings. The remaining Zakah balance amounting to BD 724,614 (2003: BD 697,337) being due and payable by the shareholders at 3.2 fils per share (2003: 3 fils per share).

19. Earnings per Share

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2004 Bahraini Dinars	2003 Bahraini Dinars
Net profit for the year	3,704,615	2,464,263
Weighted average number of shares outstanding	230,000,000	230,000,000
Basic earnings per share (fils)	16.11	10.71

20. Proposed Appropriations

	2004 Bahraini Dinars	2003 Bahraini Dinars
Proposed dividend -12 fils per share (2003: 10 fils)	2,760,000	2,300,000
Bonus shares	2,300,000	0
	5,060,000	2,300,000

The directors have proposed a cash dividend of 12 fils per share (2003: 10 fils per share). This will be submitted for formal approval at the Annual General Meeting.

The dividend of BD 2,300,000 proposed for the year 2003 was approved at Annual General Meeting in 2004 and was paid in 2004 following that approval.

In the Board of Directors' meeting held on 15th February 2005, it was decided to issue bonus shares at one bonus share for each ten shares held. This is subject to relevant approval from the Ministry of Industry and Commerce, Bahrain Monetary Agency and shareholders' meeting.

21. Commitments and Contingent Liabilities

Credit related commitments

These include commitments to enter into financing contracts which are designed to meet the requirements of the Bank's customers.

Commitments represent contractual commitments under Murabaha receivables, Mudaraba investments, Musharaka investments and Ijarah Muntahia Bittamleek contracts. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash flow requirements.

Letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	2004 Bahraini Dinars	2003 Bahraini Dinars
Letters of credit	4,584,629	4,617,407
Guarantees	975,799	1,762,285
	5,560,428	6,379,692

Notes to the Consolidated Financial Statements

31 December 2004

21. Commitments and Contingent Liabilities (continued)

Operating lease commitments

The Bank has entered into commercial leases for certain branches. These leases have an average life of between 5 and 10 years with renewal terms in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2004 BD	2003 BD
Within one year	77,718	77,718
After one year but not more than five years	189,852	259,170
More than five years	27,300	35,700
	294,870	372,588

22. Related Party Transactions

The Group enters into transactions with major shareholders, directors, management and companies of which they are principal owners in the ordinary course of business at commercial rates. All the financing contracts with related parties are performing and are free of any provision for possible impairment. The balances and values of major transactions with the related parties are as follows:

Name of related party	Transaction	Income (expense) 2004 BD	2003 BD	Balance at 2004 BD	2003 BD
Board of Directors	Murabaha receivables	44,468	107,562	1,499,077	3,321,584
Management	Murabaha receivables	8,601	20,664	106,223	358,866

23. Credit Risk

Type of credit risk

Various contracts entered into by the Group comprise Murabaha receivables, Musharaka investments, Mudaraba investments and Ijarah Muntahia Bittamleek contracts. Murabaha receivables contracts cover land and properties, building materials, furniture, motor vehicles and others. Musharaka investments finance joint investments with individuals and commercial entities. Mudaraba investments consist of financing transactions entered through other Islamic banks and financial institutions.

Murabaha receivables

These are basically sales on deferred terms.

The Bank arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then sells this commodity to the Murabeh (beneficiary) after adding a margin of profit over the cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

Musharaka investments

Musharaka is a form of partnership between the Bank and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, whereby each of the parties becomes an owner of the capital on a permanent or declining basis. Profits are shared in an agreed ratio, but losses are shared in proportion to the amount of capital contributed. In a declining Musharaka the partner buys the Bank's share over an agreed period.

Mudaraba investments

Mudaraba investments is a partnership where the Bank ("rabbalmaal") gives money to another ("Mudarib") for investing in a commercial enterprise for a definite period of time.

Notes to the Consolidated Financial Statements

31 December 2004

Ijarah Muntahia Bittamleek

The legal title of the leased asset under Ijarah Muntahia Bittamleek passes to the lessee at the end of the Ijarah term, provided that all Ijarah instalments are settled and the lessee purchases the asset.

Risk Management

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

24. Concentrations of Assets, Liabilities, Unrestricted Investment Accounts, Equity and Commitments and Contingent Liabilities

The distribution by geographic region and industry sector was as follows:

	Assets BD '000		Liabilities, unrestricted investment accounts and equity BD '000		Commitments and contingent liabilities BD '000	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003
Geographical region						
North America	2,357	4,175	-	-	310	200
Europe	8,503	5,882	-	-	1,200	3,300
Middle East	243,866	219,917	254,775	231,480	2,400	2,500
Asia	49	1,506	-	-	1,650	380
	254,775	231,480	254,775	231,480	5,560	6,380
Industry sector						
Trading and manufacturing	32,153	30,878	91,830	83,248	5,560	6,380
Banks and financial institutions	170,001	148,213	40,262	38,275	-	-
Others	52,621	52,389	122,683	109,957	-	-
	254,775	231,480	254,775	231,480	5,560	6,380

25. Currency Risk

The Group had no significant foreign currency exposures.

26. Profit Share Risk

The Group is not exposed to interest rate risk of its financial assets as no interest is charged.

However, the fair value of financial assets may be affected by current market forces including interest rates. The Group recognises income on certain of its financial assets on a time-apportioned basis. The following table indicates the profit rates on these at the balance sheet date based on the annualised income to be recognised, expressed as a percentage of the principal outstanding.

	2004 %	2003 %
Murabaha with Banks	1.5	1.1
Other Murabaha	8.5	8.0
Mudaraba investments	4.5	4.2
Musharaka investments	3.5	4.0

Notes to the Consolidated Financial Statements

31 December 2004

27. Liquidity Risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and international commodity Murabahas.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds.

The maturity profile of assets, liabilities, unrestricted investment accounts and equity at 31 December 2004 was as follows:

	Up to 1 month BD	1 to 3 months BD	3 to 6 months BD	6 months to 1 year BD	1 to 3 years BD	Over 3 years BD	Total BD
Assets							
Cash and balances with the							
BMA and other banks	3,268,857	-	-	-	-	6,137,755	9,406,612
Murabaha receivables	64,308,420	40,605,965	7,309,128	373,348	636,573	42,243,153	155,476,587
Mudaraba investments	767,708	3,070,496	1,432,169	-	-	6,548,743	11,819,116
Musharaka investments	140,904	187,872	328,775	587,099	939,358	537,388	2,721,396
Non-trading investments	-	17,072,116	-	-	2,382,767	36,315,166	55,770,049
Investments in associates	-	-	-	-	-	2,951,431	2,951,431
Investments in Ijarah assets	-	-	-	-	-	4,959,195	4,959,195
Ijarah Muntahia Bittamleek	-	-	652,888	935,138	-	3,528,202	5,116,228
Investments in properties	-	-	-	-	-	4,208,932	4,208,932
Other assets	-	1,179,938	-	-	-	1,165,380	2,345,318
Total assets	68,485,889	62,116,387	9,722,960	1,895,585	3,958,698	108,595,345	254,774,864
Liabilities, Unrestricted Investment Accounts and Equity							
Customers' current accounts	30,367,929	-	-	-	-	-	30,367,929
Other liabilities	2,667,070	160,000	-	-	-	-	2,827,070
Unrestricted investment accounts	124,638,716	4,811,683	3,039,646	18,277,796	17,349,050	712,607	168,829,498
Equity	-	2,760,000	-	-	-	49,990,367	52,750,367
Total liabilities, unrestricted investment accounts and equity	157,673,715	7,731,683	3,039,646	18,277,796	17,349,050	50,702,974	254,774,864

Notes to the Consolidated Financial Statements

31 December 2004

27. Liquidity Risk (continued)

The maturity profile of assets, liabilities, unrestricted investment accounts and equity at 31 December 2003 was as follows:

	Up to 1 month BD	1 to 3 months BD	3 to 6 months BD	6 months to 1 year BD	1 to 3 years BD	Over 3 years BD	Total BD
Assets							
Cash and balances with the							
BMA and other banks	4,134,857	-	-	-	-	6,495,000	10,629,857
Murabaha receivables	66,550,274	30,577,110	21,730,410	7,977,503	12,829,244	1,757,648	141,422,189
Mudaraba investments	3,928,722	5,448,826	952,742	-	-	6,787,867	17,118,157
Musharaka investments	182,162	234,572	397,753	713,632	1,147,648	157,232	2,832,999
Non-trading investments	-	4,020,789	-	-	-	37,304,492	41,325,281
Investments in associates	-	-	-	-	-	2,870,057	2,870,057
Investments in Ijarah assets	-	-	-	-	-	5,366,954	5,366,954
Ijarah Muntahia Bittamleek	39,774	79,547	119,321	238,641	954,565	1,909,129	3,340,977
Investments in properties	-	-	-	-	-	4,806,441	4,806,441
Other assets	-	861,754	-	-	-	905,491	1,767,245
Total assets	74,835,789	41,222,598	23,200,226	8,929,776	14,931,457	68,360,311	231,480,157
Liabilities, Unrestricted Investment Accounts and Equity							
Customers' current accounts	28,878,182	-	-	-	-	-	28,878,182
Other liabilities	3,083,539	-	-	-	-	-	3,083,539
Unrestricted investment accounts	102,650,428	2,855,761	16,402,176	31,433,216	5,472,044	716,253	159,529,878
Equity	-	2,300,000	-	-	-	37,688,558	39,988,558
Total liabilities, unrestricted investment accounts and equity	134,612,149	5,155,761	16,402,176	31,433,216	5,472,044	38,404,811	231,480,157

28. Segmental Information

The activities of the Group are performed on an integrated basis. Therefore, any segmentation of operating income, expenses, assets and liabilities is not relevant. As such, operating income, expenses, assets and liabilities are not segmented.

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

29. Fair Value of Financial Instruments

The estimated fair value of the Group's financial instruments are not significantly different from their book values as at the consolidated balance sheet other than the reported in note7. The directors believe that these investments either approximate fair value or the variability in the range of reasonable fair value estimates is so great that disclosure of the resultant fair values would be misleading.

30. Earnings and Expenses Prohibited by Shari'a

The Group did not receive income or incur any expense prohibited by the Shari'a.

31. Social Responsibility

The Group discharges its social responsibilities through donations to good faith qard fund for marriage, refurbishment, medical treatments, etc.

32. Comparative Figures

Certain comparative figures have been reclassified to conform to current year classification. Such reclassification did not affect previously reported net income or shareholder's equity.