PRICEWATERHOUSECOOPERS

AUDITORS' REPORT TO THE SHAREHOLDERS OF
BAHRAIN MIDDLE EAST BANK (E.C.)

We have audited the accompanying consolidated balance sheet of Bahrain Middle East Bank (E.C.) (the "Bank") and its subsidiaries (the "Group") as at 31 December 2004 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Directors of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw attention to note 2 to the financial statements, which indicates that the Group made a net profit of US$ 0.6 million for the year ended 31 December 2004 (2003: loss US$ 12.8 million), and as of that date, the Group's total liabilities exceeded its total assets by US$ 27.8 million (2003: US$ 28.1 million). These conditions, along with other matters set out in note 2, indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern.

As set out in note 17 to the financial statements, the Bank has not complied with the minimum regulatory capital adequacy ratio requirement of the Bahrain Monetary Agency.

Except for the matter referred to in the preceding paragraph, in the case of the Bank, as required by the Bahrain Commercial Companies Law and the Bahrain Monetary Agency Law, we report that we have obtained all the information that we considered necessary for the purpose of our audit; the Bank has maintained proper books of account and the consolidated financial statements and the financial information contained in the Directors' and Chief Executive's report are in agreement therewith; and nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the Bahrain Commercial Companies Law, the Bahrain Monetary Agency Law, the terms of its banking license or its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2004.

PricewaterhouseCoopers

Manama, Bahrain
22 March, 2005

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2004
(Expressed in thousands of United States Dollars)

	2004	2003
ASSETS		
Cash and deposits with banks (Note 3)	3,196	815
Trading equities and funds (Note 4)	4,622	11,695
Other equities and funds (Note 5)	100,415	97,102
Other bonds (Note 6)	23,154	22,392
Loans and advances (Note 7)	9,428	11,601
Installment sale receivable (Note 8)	22,485	22,993
Fixed assets (Note 9)	11,511	7,046
Other assets (Note 10)	7,193	7,051
TOTAL ASSETS	182,004	180,695
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Customer deposits (Note 11)	73,376	79,745
Securities sold under repurchase agreements (Note 12)	8,700	3,905
Medium term loan (Note 13)	75,000	75,000
Revolving loan facility (Note 14)	13,600	12,100
Other liabilities (Note 15)	9,105	8,030
Subordinated loans (Note 16)	30,000	30,000
TOTAL LIABILITIES	209,781	208,780
Shareholders' equity		
Share capital (Note 17)	90,809	90,809
Fair value reserve (Note 18)	(12,973)	(8,320)
Fixed asset revaluation reserve (Note 18)	5,056	-
Other reserves (Note 18)	(84,318)	(84,223)
Treasury shares (Note 17)	(26,351)	(26,351)
TOTAL SHAREHOLDERS' EQUITY	(27,777)	(28,085)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	182,004	180,695

These financial statements were approved by the Board of Directors on 22 March 2005 and signed on its behalf by:

Sheikh Ali Jarrah Al Sabah
Chairman

Wilson S. Benjamin
Director

Albert I. Kittaneh
Chief Executive

The notes on pages 21 to 50 form an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in thousands of United States Dollars unless otherwise stated)

	2004	2003
Interest income	2,047	2,591
Interest expense	(6,765)	(6,730)
NET INTEREST (EXPENSE)	(4,718)	(4,139)
Income from investments (Note 19)	7,933	953
Foreign exchange trading income (Note 20)	3,544	1,784
Other income (Note 21)	1,960	1,494
TOTAL INCOME FROM OPERATIONS	8,719	92
Impairment provisions released/(charged) (Note 22)	854	(2,232)
General and administrative expenses (Note 23)	(8,979)	(10,613)
Donations	-	(1)
TOTAL OPERATING EXPENSES	(8,125)	(12,846)
NET INCOME/(LOSS) FOR THE YEAR	594	(12,754)
EARNINGS/(LOSS) PER SHARE (Note 17)		
Basic	US$ 0.00	US$ (0.04)
Diluted	US$ 0.00	US$ (0.04)

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in thousands of United States Dollars)

				Other reserves					
	Share capital	Fixed asset revaluation reserve	Fair value reserve	Retained earnings	Legal reserve	General reserve	Total other reserves	Treasury shares	Total
At 1 January 2003	90,809	-	(14,790)	(90,749)	10,960	9,361	(70,428)	(26,465)	(20,874)
Exchange translation adjustment	-	-	814	(1,041)	-	-	(1,041)	-	(227)
Net fair value gain on available-for-sale investments	-	-	5,303	-	-	-	-	-	5,303
Fair value reserve transferred to income statement	-	-	353	-	-	-	-	-	353
Stock grants distributed to employees	-	-	-	-	-	-	-	114	114
Net (loss) for the year	-	-	-	(12,754)	-	-	(12,754)	-	(12,754)
At 1 January 2004	90,809	-	(8,320)	(104,544)	10,960	9,361	(84,223)	(26,351)	(28,085)
Exchange translation adjustment	-	-	1,074	(689)	-	-	(689)	-	385
Fixed asset revaluation (note 9)	-	5,056	-	-	-	-	-	-	5,056
Net fair value (loss) on available-for- sale investments	-	-	(740)	-	-	-	-	-	(740)
Fair value reserve transferred to income statement	-	-	(4,987)	-	-	-	-	-	(4,987)
Net profit for the year	-	-	-	594	-	-	594	-	594
At 31 December 2004	90,809	5,056	(12,973)	(104,639)	10,960	9,361	(84,318)	(26,351)	(27,777)

The notes on pages 21 to 50 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in thousands of United States Dollars)

	2004	2003
CASHFLOWS FROM OPERATING ACTIVITIES		
NET INCOME/(LOSS) FOR THE YEAR	594	(12,754)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Impairment provisions (released)/charged (Note 22)	(854)	2,232
Depreciation and amortisation	(445)	(281)
Net changes in**:**		
Trading equities and funds	7,073	9,947
Other equities and funds	(7,967)	(9,261)
Government and Government Agency bonds	-	6,069
Other bonds	(188)	661
Loans and advances	2,173	6
Accrued interest receivable	523	137
Accrued interest payable	77	(3,105)
Derivative financial instruments	-	(2,327)
Other assets	(667)	5
Other liabilities	1,066	(1,176)
Taxation	-	(522)
Change in exchange rates related to retained earnings of overseas subsidiaries	690	1,041
Foreign exchange movements on investments and others	8	43
NET CASH PROVIDED/(USED IN) BY OPERATING ACTIVITIES	2,083	(9,285)
CASH FLOWS FROM INVESTING ACTIVITIES		
Amount received against installment sale receivable	508	482
Purchase of fixed assets (Note 9)	(59)	(22)
NET CASH PROVIDED BY INVESTING ACTIVITIES	449	460

The notes on pages 21 to 50 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASHFLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2004
(Expressed in thousands of United States Dollars)

	2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES		
Net changes in:		
Customer deposits	(6,369)	700
Securities sold under repurchase agreements	4,795	(8,115)
Revolving loan facility	1,500	12,100
Prior year dividends claimed and paid	(69)	(61)
NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES	(143)	4,624
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(8)	(43)
Net increase/(decrease) in cash and cash equivalents	2,381	(4,244)
Cash and cash equivalents at the beginning of the year	815	5,059
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 3)	3,196	815

The notes on pages 21 to 50 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2004

1 INCORPORATION AND PRINCIPAL ACTIVITY

Bahrain Middle East Bank (E.C.) (the "Bank" or "BMB") was formed in the Kingdom of Bahrain as an exempt joint stock company, pursuant to the notarisation of its Articles and Memorandum of Association on 21 March 1982. Formalities in respect of the registration of the Bank were completed on 5 July 1982, the Bank's date of incorporation. Effective 10 April 2000, the Bank launched a new brand identity and is now known as BMB Investment Bank. The legal name of the Bank continues to be Bahrain Middle East Bank (E.C.) which has its registered office at BMB Centre, Diplomatic Area, Manama, Bahrain.

The Group comprises the Bank and its subsidiaries.

The principal activities of the Group are the provision of investment banking, private banking and treasury services.

With the approval of the Bahrain Monetary Agency and the Ministry of Industry and Commerce, the Bank has withheld the filing with the Ministry of Industry and Commerce and the publication of its audited financial statements for the years 2002 and 2003 pending (a) the signing of the refinancing agreement for the US$ 75 million medium term facility and (b) finalising the US$ 20 million revolving facility.

The Annual General Meeting ("AGM") of the shareholders required to be held in accordance with Bahrain Commercial Companies Law of 2001, for the years 2003 and 2004 have been deferred pending the signing of the refinancing agreement for the US$ 75,000,000 medium term facility as well as publication of its audited financial statements (note 2). Following the approval from the Ministry of Industry and Commerce, the AGM will be held during the first half of 2005.

2 SIGNIFICANT ACCOUNTING POLICIES

Preparation of financial statements

The consolidated financial statements are prepared in accordance with and comply with International Financial Reporting Standards as promulgated by the International Accounting Standards Board ("IASB"). The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of land and building, available-for-sale financial assets, all derivative contracts and financial assets and financial liabilities held for trading.

The United States Dollar is the functional currency of the Bank and also the currency in which the Bank's share capital is denominated. Accordingly, the financial statements have been prepared in United States Dollars.

Going concern

The Group has made a net profit of US$ 0.6 million for the year ended 31 December 2004 (2003: loss US$ 12.8 million) and, as of that date, the Group's total liabilities exceeded its total assets by US$ 27.8 million (2003: US$ 28.1 million). This situation makes it critical for the Bank to successfully conclude the refinancing of its US$ 75 million medium term facility which, as set out in note 13, is subject to the Bank satisfying a number of conditions precedent, whose final outcome cannot presently be determined. These matters indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern.

The board of directors of the Bank are taking the necessary steps to manage these uncertainties.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of the operations of the Group. Subsidiary companies, which are those companies (and other entities) in which the Group, directly or indirectly, has power to exercise control over financial and operating policies, have been consolidated, except for companies that have been acquired for a temporary period and are held exclusively with a view to resale in the near future are not consolidated. These companies are accounted for and disclosed as available-for-sale assets and are included in other equities and funds.

All intra-group balances and transactions have been eliminated.

Foreign currencies

The assets and liabilities of foreign subsidiaries are translated into United States dollars at the rates of exchange prevailing at the balance sheet date. The income statement of foreign subsidiaries are translated into United States dollars at the rates of exchange prevailing on the dates of the transactions or at the average rate of exchange for the year. The exchange differences arising on translation are dealt with in shareholders' equity.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Income and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

All translation differences on revaluation of debt securities and other monetary financial assets measured at fair value are included in foreign exchange income and losses, whereas translation differences on revaluation of non-monetary items such as equities and funds held for trading are reported as part of the trading income or loss. Thus, underlying translation differences on revaluation of available-for-sale equities and funds are included in the fair value reserve in equity.

Financial instruments - recognition and measurement

Financial assets

IAS 39 requires classification of financial assets into the following four categories:

(i) held for trading;
(ii) held-to-maturity;
(iii) originated loans and receivables; and
(iv) available-for-sale.

The accounting policies for each category are as follows:

Held for trading

The Group considers a financial asset as held for trading if it was acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin or is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking. Held for trading financial assets are initially recognised at cost (which include transaction costs) and subsequently re-measured at fair value. All related realised and unrealised gains and losses are included in net trading income.

Held-to-maturity

Fixed maturity investments having fixed or determinable payments and where the Group has both the intent and the ability to hold such investments to maturity are classified as held-to-maturity. Such investments are carried at amortised cost less provision for impairment in value. Amortised cost is calculated using the effective interest rate method.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Originated loans and receivables

Loans and receivables originated by the Group by providing money directly to the borrower or to a sub-participation agent at drawdown are categorised as loans originated by the Group and are carried at amortised cost using the effective interest rate method.

Available-for-sale

Non-trading financial assets not falling within the definition of held-to-maturity or originated loans and receivables are classified as available-for-sale assets. Such assets are initially recognised at cost and remeasured at fair value, unless fair value cannot be reliably measured and any changes in fair values of such assets subsequent to initial recognition are reported as movements in fair value reserve until the investment is sold, collected or otherwise disposed of, or the financial assets are considered impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement.

Financial liabilities

Financial liabilities are classified either as held for trading or other than held for trading. Liabilities held for trading are those that are held principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin and are carried at fair value. Liabilities held other than for trading are carried at amortised cost.

Derivative financial instruments and hedging

Derivative instruments are measured at fair value and are deemed held for trading unless they are highly effective hedging instruments and are designated as such. Changes in the fair values of derivatives that do not qualify as hedging instruments are measured at fair value and are recorded in the income statement.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cashflow hedges are recognised as a separate component of equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the income or loss previously deferred in equity is included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement when the hedged firm commitment or forecasted transaction affects the income statement.

Provisions for impairment

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

2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Trading equities and funds

Trading equities are stated at market value and realised and unrealised income or losses are included in the income statement.

Trading funds are stated at the year-end market valuation supplied by the investment managers. Unrealised income or losses and profits or losses on sale of investments in trading funds are included in income or loss from investments.

Income from trading equities, funds and quoted equities held by private equity funds is taken to income after deducting the cost of funding of such investments.

Dividend income is recognised in the income statement when declared by the investee company.

Other equities and funds

Unquoted equity investments held as available-for-sale are stated at fair value or at cost if the fair value cannot be reliably measured. The fair value is determined after examining various factors including the future prospects of the investee companies.

Unquoted equity fund investments held as available-for-sale are stated at their fair values, based upon the net asset values of the funds provided by the fund managers, expected repayment of management fees (where applicable) and the future prospects for the underlying investments.

Dividend income is recognised in the income statement when declared by the investee company.

Government and Government Agency bonds

Government and Government Agency bonds held for trading purposes are stated at market value. Realised and unrealised income or losses are recorded as income or losses from sovereign debt and bonds and included in the income statement.

Government and Government Agency bonds acquired on the date of their issue are considered originated loans and are carried at amortised cost using the effective interest rate method. Income or losses are recognised upon sale and recorded as income or losses from sovereign debt and bonds and included in the income statement.

Available-for-sale Government and Government Agency bonds are stated at market value as adjusted for unamortised premiums or discounts. The premium paid or discount received are amortised over the remaining period to maturity of the assets acquired using the effective interest rate method and reflected in the income statement. Unrealised income or losses from changes in fair value are recorded in the fair value reserve in equity. Upon sale or disposal of a Government or Government Agency bond, the related accumulated fair value adjustments in equity are recorded as income or losses from sovereign debt and bonds included in income or loss from investments.

Interest on Government and Government Agency bonds is accrued based on the effective interest rate method.

Other bonds

Other bonds held for trading purposes are recorded at market value. Realised and unrealised income and losses are included in the income statement.

Other bonds held-to-maturity are stated at amortised cost. The premium paid or discount received are amortised over the remaining period to maturity of the bonds using the effective interest rate method.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other bonds acquired at the date of issue are classified as originated loans and carried at amortised cost using the effective interest rate method. Income or losses are recognised upon the sale of the bonds.

Interest income on other bonds is accrued based on the effective interest rate method.

Loans and advances

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

Interest income is accrued based on contractual interest rates. Fees and commissions received are amortised over the period of the loan.

Installment sale receivable

The installment sale receivable is an originated receivable and is carried at amortised cost. The interest income on the installment sale receivable is recognised on an accruals basis based on the effective interest rate method.

Fixed assets

Fixed assets are stated at cost as modified by revaluation less accumulated depreciation. Fixed assets, with the exception of freehold land, are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	25 years
Other fixed assets	2-8 years

Effective 30 September 2004, the Bank adopted a new policy to revalue its freehold land and buildings based on periodic, but at least once in every three years, valuations by an external independent valuer. Previously, land and building were carried at cost. Effective 30 September 2004, the estimated remaining useful life of the building is 20 years and the revalued amount is being depreciated over this period.

The net impact of revaluation is recognised in the fixed assets revaluation reserve included in shareholders' equity.

Securities purchased/ sold under agreements to resell/ repurchase ("Repo agreements")

Repo agreements involve the buying or selling of Government securities, Government Agency bonds, other bonds and trading funds under agreements to resell or repurchase these securities. Repo agreements are treated as financing transactions and are stated at the amounts at which the securities, bonds and funds will subsequently be resold or repurchased as specified in the respective agreements as adjusted for accrued interest using the effective interest rate method.

Provision for restructuring expenses

Provision for restructuring expenses is recognised when the Board of Directors has approved a restructuring and the Bank can reliably estimate the amount of currently existing obligations related to the restructuring.

Dividends

Dividends are recognised as a liability when approved.

Directors' remuneration

Directors' remuneration is recognised as a liability when approved.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Treasury shares

Own shares reacquired by the Bank and held at the balance sheet date are designated as treasury shares. These shares are shown as a one line deduction from the Bank's shareholders' equity. The income and losses on the sale of treasury shares are recognised in shareholders' equity.

Fees and commissions

Fees and commissions are recognised in the income statement on an accrual basis. Fees received upon prepayment of loans are taken to income when received. Underwriting, performance, structuring and placement fees are taken to income when earned.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Employee compensation costs

Employee benefits

Employee benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay the future benefits. In respect of end of service benefits, to which certain employees of the Group are eligible, provisions are made in accordance with the labour law requirements of the applicable jurisdiction.

Employee equity compensation

Employee equity compensation expense for stock options is the fair value of the option at the date of grant, calculated using an option-pricing model. Employee equity compensation expense for stock grants is the cost of these shares to the Bank. These expenses are recognised in the income statement over the vesting period.

Taxation

Liability toward taxation is calculated in accordance with the tax laws of the applicable country and recognised using the liability method. Currently, there is no corporate taxation in Bahrain.

Use of estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the year. The estimation process involves judgement and is based on the latest information available. Actual results could differ from those estimates.

Segmental reporting

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

2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term funds and deposits with banks.

Subordinated loans

Subordinated loans are carried at cost. Interest expense is accrued based on contractual interest rates.

Medium term loan

The medium term loan is carried at cost; the front fees paid on the loan are amortised over the life of the loan.

3 **CASH AND DEPOSITS WITH BANKS**

Cash and deposits with banks comprise:

	2004 US$000	2003 US$000
Money at call	3,130	749
Balances with Central Bank	66	66
Total cash and deposits with banks	3,196	815

4 **TRADING EQUITIES AND FUNDS**

Trading equities and funds comprise:

	2004 US$000	2003 US$000
Quoted equities	4,590	11,612
Managed funds	32	83
Total trading equities and funds	4,622	11,695

5 **OTHER EQUITIES AND FUNDS**

Other equities and funds comprise:

	2004 US$000	2003 US$000
Available-for-sale		
Unquoted equity fund investments - at fair value	87,680	83,356
Unquoted equity investments - at fair value	8,178	9,154
Unquoted equity investments - at cost	4,557	4,592
Total other equities and funds	100,415	97,102

The fair values in respect of unquoted equity investments carried at an amount of US$ 4,557,000 could not be reliably determined. These unquoted equity investments are measured at cost less provisions for impairment.

At 31 December 2004, the Bank had undrawn investment commitments to private equity funds of US$ 39,100,000 (31 December 2003: US$53,443,000) [note 26]. Under the terms of the agreements with these equity fund managers, the Group is irrevocably committed to invest funds upon notice from investment managers, except for certain excused investments. Excused investments include those prohibited by local law, and in certain cases, investments contrary to Shari'ah principles where the Bank is a co-investor with its clients who apply Shari'ah principles to their investment activity. Under contractual agreements with certain fund managers, failure to honour a non-excused investment drawdown request from a fund manager can result in the forfeiture of existing investments with that fund manager.

5 OTHER EQUITIES AND FUNDS (CONTINUED)

As disclosed in note 14, certain of the Bank's private equity investments are pledged against the revolving loan facility.

Unquoted equity investments are stated at cost less specific impairment provisions as follows:

	2004 US$000	2003 US$000
Unquoted equity investments - at cost		
At 1 January	1,818	11,030
Adjustment of impairment provisions on consolidation	-	(9,404)
Amounts written back during the year (note 22)	(280)	-
Foreign exchange movements	76	192
At 31 December	1,614	1,818

6 OTHER BONDS

Other bonds comprise:	2004 US$000	2003 US$000
Held-to-maturity – at amortised cost		
Structured products	17,190	16,501
Originated securities – at amortised cost		
Structured products	5,964	5,891
Total other bonds	23,154	22,392

Other bonds classified as held-to-maturity and originated securities had a fair value of US$ 17,085,000 and US$ 4,734,000 respectively (31 December 2003: US$ 16,450,000 and US$ 4,511,000 respectively).

Although the Bank is currently experiencing liquidity constraints, management is confident that it has the ability to hold these securities to maturity.

Structured products primarily comprise the Group's investments in asset securitisation programmes.

In the normal course of banking business, certain bonds are pledged to parties under Repo agreements for settlement purposes (note 12).

Other bonds are stated after deducting impairment provisions as follows:

	2004 US$000	2003 US$000
At 1 January	25,238	18,809
Amounts written-off during the year	-	(780)
(Release)/charge for the year (note 22)	(575)	7,209
At 31 December	24,663	25,238

7 LOANS AND ADVANCES

(a) Composition

The composition of the loans and advances portfolio is as follows:

	Commercial		Government		Total	
	2004	2003	2004	2003	2004	2003
	US$000	US$000	US$000	US$000	US$000	US$000
Americas	-	-	620	417	620	417
Rest of the world	276	2,626	8,532	8,558	8,808	11,184
Total loans and advances	276	2,626	9,152	8,975	9,428	11,601

Commercial loans are stated at cost less impairment provisions. Government loans include US$ 658,000 (31 December 2003: US$ 480,000) which are held for trading and carried at market value.

(b) Provisions for impairment on loans and advances

Loans and advances are stated after deducting provisions for impairment, which are as follows:

	Specific	
	2004	2003
	US$000	US$000
At 1 January	29,898	48,990
Adjustment of provisions on consolidation	-	(17,593)
Amount (released) during the year (note 22)	-	(4,977)
Foreign exchange movement	1,519	3,478
At 31 December	31,417	29,898

The foreign exchange movement relates to the year-end revaluation of provisions against foreign currency denominated loans and is matched by a corresponding movement in the carrying amounts of such loans and advances.

(c) Non-accrual loans

	Over 3 years	
	2004	2003
	US$000	US$000
Government		
Americas	620	417
Rest of the world	8,532	8,558
Total non-accrual loans	9,152	8,975

(d) Interest in suspense

	2004	2003
	US$000	US$000
At 1 January	17,378	15,387
Amounts suspended within the year	450	442
Foreign exchange movement	701	1,549
At 31 December	18,529	17,378

8 INSTALLMENT SALE RECEIVABLE

During 1995, the Bank entered into an agreement to sell its investment in land in the State of Kuwait on an installment sale basis for US$ 43,200,000. As security, the Bank had taken a first mortgage on the land and any subsequent enhancements to the property. Under the terms of the installment sale transaction, the Bank has no liability with regard to any future costs. During 1998, the Bank entered into a revised agreement with the customer to release the first mortgage on the land and replace it with a guarantee from a bank in Kuwait.

In June 2001, the Bank released the guarantee from the bank in Kuwait that secured the installment sale receivable. In consideration for the release of the guarantee, the Bank obtained the right to set off the interest and principal amounts due under the US$ 20,000,000 subordinated debt agreement dated 20 June 2001 (note 16).

As set out in note 13, the Bank, under the terms of the refinancing of its US$ 75,000,000 medium term loan facility, is required to undertake a rights issue upto US$ 50,000,000 and raise a minimum of US$ 43,500,000 in new equity. Under applicable Bahraini laws, such an offering is to be made by way of a rights issue to the existing shareholders. In order to ensure the success of this rights issue, the Bank's major shareholder, Al Fawares Construction and Development Company (KSC) (closed), (Al Fawares), has provided an underwriting commitment in the amount of US$ 33,000,000 for the rights issue as follows: (a) US$ 13,000,000 in cash and (b) US$ 20,000,000 from the conversion of the existing US$ 20,000,000 subordinated loan to equity. If the Al Fawares underwriting commitment is called and the US$ 20,000,000 subordinated loan (note 16) is converted to equity, the Bank is required to obtain other appropriate collateral to secure this receivable.

9 FIXED ASSETS

Fixed assets comprise:

2004

	Freehold land and building US$000	Other fixed assets US$000	Total US$000
At 1 January 2004			
Cost	16,179	6,688	22,867
Accumulated depreciation	(9,458)	(6,363)	(15,821)
Net book amount	6,721	325	7,046
Year ended 31 December 2004			
Opening net book amount	6,721	325	7,046
Exchange rate adjustments	-	11	11
Revaluation reserve	5,056	-	5,056
Additions	29	30	59
Depreciation charge	(497)	(164)	(661)
Closing net book amount	11,309	202	11,511
At 31 December 2004			
Cost or valuation	11,406	6,739	18,145
Accumulated depreciation	(97)	(6,537)	(6,634)
Net book amount	11,309	202	11,511

9 **FIXED ASSETS (CONTINUED)**

2003

	Freehold land and building	Other fixed assets	Total
	US$000	US$000	US$000
At 1 January 2003			
Cost	16,168	6,490	22,658
Accumulated depreciation	8,888	6,097	14,985
Net book amount	7,280	393	7,673
Year ended 31 December 2003			
Opening net book amount	7,280	393	7,673
Effect of consolidating subsidiary	-	179	179
Exchange rate adjustments	-	19	19
Additions	11	11	22
Disposals	-	(1)	(1)
Depreciation charge	(570)	(276)	(846)
Net book amount	6,721	325	7,046
At 31 December 2003			
Cost	16,179	6,688	22,867
Accumulated depreciation	(9,458)	(6,363)	(15,821)
Net book amount	6,721	325	7,046

10 **OTHER ASSETS**

Other assets comprise:

	2004	2003
	US$000	US$000
Accrued interest receivable	2,545	3,069
Management fees receivable	295	307
Receivable from investment fund managers	897	1,489
Prepayments	321	357
Other	3,135	1,829
Total other assets	7,193	7,051

Other assets are stated after deducting impairment provisions as follows:

	2004	2003
	US$000	US$000
At 1 January	-	3,589
Adjustment on consolidation	-	(3,342)
Amounts written off during the year	-	(247)
At 31 December	-	-

11 CUSTOMER DEPOSITS

Customer deposits comprise:

	2004 US$000	2003 US$000
Customers’ participation in funds	36,268	47,195
Government entities, corporates and individuals	37,108	32,550
Total customer deposits	73,376	79,745

Customers’ participation in funds represent amounts received from customers to be invested in private equity funds marketed by BMB and amounts from private equity realisations received by the Bank and not distributed to customers. These funds, although treated as part of customer deposits, are retained by the Bank until drawdowns made by private equity fund managers or are paid to the customers as part of realised distributions. Customer deposits carry market rates of interest for the period until drawdown or payment. Customer participation in funds include US$ 21,791,000 (31 December 2003: US$ 30,255,000) in deposits held on behalf of BMB Technology and Telecommunications Fund (note 26).

Related party transactions

Included in deposits from government entities, corporates and individuals is a deposit of US$ 3,300,000 (2003: US$ nil) from Al Fawares Construction and Development Company (KSC) (closed) (“Al Fawares”), as part of their underwriting commitment for the Bank’s rights issue (notes 8 and 17).

The deposit is being rolled over on a weekly basis at US$ Libor interest rate. The interest is being capitalised and the accumulated balance will be adjusted against Al Fawares’s commitment towards the Bank’s rights issue.

12 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements ("Repos") comprise the following:

	2004 US$000	2003 US$000
Repos on other bonds (note 6)	8,700	3,905
Total securities sold under repurchase agreements	8,700	3,905

13 MEDIUM TERM LOAN

The Bank raised an unsecured medium term loan facility of US$ 75,000,000 on 21 December 1999, which was drawn on 18 January 2000. This loan carried interest at Libor plus 100 basis points and was repayable with a bullet repayment on 23 December 2002. The front-end fee paid on the medium term loan was 145 basis points. The fees together with all costs associated with this facility were amortised over the life of the loan facility.

In early 2002, the Bank advised the lenders of the medium term loan facility of its intent to seek a new loan facility to enable it to repay the medium term loan facility maturing 23 December 2002. Negotiations with the lenders commenced but were not concluded prior to the maturity date of the facility. As a result, BMB was unable to repay the medium term facility on its maturity date and the lenders called the Bank into default. Negotiations with the lenders continued during 2003 and 2004.

13 MEDIUM TERM LOAN (CONTINUED)

On 14 December 2004, the Bank and the lenders signed an agreement to refinance the US$ 75,000,000 medium term facility dated 21 December 1999. The refinancing agreement will become effective on 14 June 2005, after certain conditions have been met. Among these conditions are the following: (a) the raising of at least US $43,500,000 in new equity, (b) a US$ 5,000,000 principal downpayment (note 35), (c) a mortgage in favour of the lenders on the Bank's head office building (note 9), (d) establishment of a pledged account in connection with mechanism under which 50% of the Bank's excess operating cashflow over a minimum cash balance threshold will be dedicated to debt service, and (e) extension of the maturity of the US $10,000,000 subordinated loan (note 16) to December 2008. The Bank's planned rights issue is to take place no later than 14 June 2005 in order to allow sufficient time for the completion of the legal and shareholder approvals. Under the terms of the refinancing, the Bank is required to maintain a minimum 13% capital adequacy ratio.

The refinancing bears interest at a rate of Libor plus 150 basis points with repayments of US$12,500,000 (June 2006), US$20,000,000 (June 2007) and US$37,500,000 (June 2008).

14 REVOLVING LOAN FACILITY

	2004 US$000	2003 US$000
Revolving loan facility	13,600	12,100

On 30 December 2003, the Bank signed a new US$ 20,000,000 three-year revolving facility secured by certain of the Bank's investments in private equity funds/investments (note 5). This facility is designed to provide liquidity to the Bank and bears interest at floating US$ Libor.

15 OTHER LIABILITIES

Other liabilities comprise:

	2004 US$000	2003 US$000
Accrued interest payable	1,679	1,602
Unclaimed dividends	3,492	3,561
Employee leaving indemnity (note 24)	647	513
Accrued expenses	980	971
Provision for restructuring expenses	-	105
Other	2,307	1,278
Total other liabilities	9,105	8,030

16 SUBORDINATED LOANS

On 20 June 2001, the Bank raised a subordinated debt facility of US$ 20,000,000 repayable in 2015. The debt carried interest at 13% per annum, 8% payable annually and the difference payable when realisation of profits on certain private equity investments of the Bank takes place.

On 29 June 2001, the Bank raised a separate subordinated debt facility of US$ 10,000,000 repayable on 29 December 2006. The debt carried interest at 13% per annum, 8% payable annually and the difference payable when realisation of profits on certain private equity investments of the Bank takes place (notes 5 and 19).

On 1 November 2001, the interest payable on both the above subordinated facilities was amended to 8% per annum, 5% payable annually and the difference payable when realisation of profits on certain private equity investments of the Bank takes place (notes 5 and 19).

16 **SUBORDINATED LOANS (CONTINUED)**

Under the terms of the refinancing of its US$75,000,000 medium term facility (note 13), the Bank is required to arrange the extension of the maturity on the US$10,000,000 subordinated loan until December 2008. The Bank is currently in discussions with the provider of this facility to secure this extension.

Further as set out in note 8, the US$ 20,000,000 subordinated debt facility, which currently secures the installment sale receivable, may require conversion, wholly or in part, to equity if the existing shareholders fail to fully exercise their subscription rights under the Bank's planned rights issue.

17 **SHARE CAPITAL**

Share capital comprises:

	2004		2003	
	Number 000	Amount US$000	Number 000	Amount US$000
Authorised				
Ordinary shares of US$0.25 each	2,000,000	500,000	2,000,000	500,000
Issued and fully paid				
Ordinary shares of US$0.25 each				
At 1 January and 31 December	363,238	90,809	363,238	90,809
Treasury shares	(54,156)	(13,539)	(54,156)	(13,539)

Effective 1 June 2004, trading of the Bank's shares on the Bahrain Stock Exchange was suspended pursuant to a request by the Bank made in view of the ongoing negotiations over the refinancing of its US$ 75 million medium term facility and the planned rights issue.

Treasury shares

The Ministry of Commerce of Bahrain granted an approval for the Bank to reacquire its own shares upto 54,485,000 (15%) of its issued and paid up capital. At 31 December 2004, the Bank owned 54,156,000 of its own shares (31 December 2003: 54,156,000 shares). These shares are accounted for as treasury shares and in accordance with Interpretation 16 of the Standing Interpretation Committee of the International Accounting Standards Board, the cost of the reacquired shares has been shown as a one-line adjustment to shareholders' equity.

New capital – Rights issue

In 2003, the Board approved a rights issue of US$ 33,000,000, and in September 2004, it approved the increase of the rights issue to US$ 50,000,000. As outlined in note 8, the Bank's major shareholder, Al Fawares, has provided a US $33,000,000 underwriting commitment in respect of this rights issue. Formalities for the required regulatory and shareholder approvals are in process.

The guiding principle of the Bank is to maintain risk based capital ratios in excess of the prescribed minimum of 12% by the Bahrain Monetary Agency. However, due to continuing losses, the Bank's Tier 1 Capital was further reduced by US$ 4,748,000 and the Bank, due to its negative capital base, was unable to utilise its US$ 30,000,000 in subordinated loans (Tier 2 capital). Despite a reduction in risk weighted assets, the Bank's capital adequacy ratio fell below the required minimum. The Board has developed a plan to restore its capital adequacy ratio through a rights issue (as outlined in the Directors' and Chief Executive's Report to the Shareholders). The Bank anticipates conducting the rights issue during the second quarter of 2005 but no later than 14 June 2005. At 31 December 2004, the capital ratio using the standardised approach was (13.11%) compared to (10.01%) as at 31 December 2003.

The risk based capital ratios of the Bank include market risk weighted assets using the standardised approach and the credit risk weighted assets based on the 1988 capital accord.

17 **SHARE CAPITAL (CONTINUED)**

Earnings per share

The earnings per share is computed as below:

	Basic		Diluted	
	2004	2003	2004	2003
Net income/(loss)	US$ 594,000	US$ (12,754,000)	US$ 594,000	US$ (12,754,000)
Average number of shares	309,081,352	309,081,352	309,081,352	309,081,352
Earning/(loss) per share	US$ 0.00	US$ (0.04)	US$ 0.00	US$ (0.04)

18 **RESERVES**

The Group's reserves analysed in the consolidated statement of changes in equity comprise:

Legal reserve

Legal reserve comprises amounts set aside in accordance with the Bahrain Commercial Companies Law 2001, which requires that the Bank should make an annual transfer equal to 10% of net profit for the year to a non-distributable legal reserve until such reserve equals 50% of its paid up share capital.

General reserve

General reserve comprises amounts set aside in accordance with the Bank's Articles of Association, which require that the Bank should make an annual transfer equal to 10% of net profit for the year to a general reserve. This reserve is available for distribution.

Retained earnings

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

Fair value reserve

Fair value reserve represents investment securities classified as available-for-sale. Income and losses arising from changes in the fair value of available-for-sale assets are recognised in the fair value reserve in equity.

Fixed asset revaluation reserve

Effective 30 September 2004, the Bank adopted a policy to revalue its land and buildings once in every three years. Such revaluation is to be undertaken by an external independent valuer. In accordance with International Financial Reporting Standards, depreciation is provided on a straight-line basis over the remaining estimated useful life of the building calculated on the revalued amount. The assets are presented in the financial statements at their revalued amounts, being the fair value at the revaluation date less any subsequent accumulated depreciation. Land is not subject to depreciation.

At 30 September 2004, the land and building were fair valued based on open market valuation method, at US$ 11,405,836 by a firm of an independent professional valuers. The net impact of revaluation US$ 5,056,000 has been credited to a fixed asset revaluation reserve, being part of shareholders’ equity. The building is being depreciated over its estimated useful life of 20 years from 1 October 2004.

19 INCOME FROM INVESTMENTS

Income from investments comprises:

	2004 US$000	2003 US$000
(Loss) from managed funds – trading	(53)	(92)
(Loss)/income from quoted equities – trading	(2,201)	991
Income from sovereign debt and bonds – trading	150	44
Income from sovereign debt and bonds – available-for-sale	-	153
Income from other equities and funds – available-for-sale	9,761	46
(Loss) from sovereign debt and bonds – originated loans receivable	-	(2)
(Loss) from derivative financial instruments	-	(810)
Dividend income	276	623
Total income from investments	7,933	953

20 FOREIGN EXCHANGE TRADING INCOME

Foreign exchange trading income comprises:

	2004 US$000	2003 US$000
Foreign exchange trading income	3,544	1,784
Total foreign exchange trading income	3,544	1,784

21 OTHER INCOME

Other income comprises:	2004 US$000	2003 US$000
Fees and commissions	1,333	1,206
Rental income	809	749
Other (loss)	(182)	(461)
Total other income	1,960	1,494

22 IMPAIRMENT PROVISIONS

The specific provision charge/(release) comprises:

	2004 US$000	2003 US$000
(Release) for loans and advances (note 7)	-	(4,977)
Net (release)/charge for other bonds (note 6)	(574)	7,209
(Release) for other equities and funds (note 5)	(280)	-
Total (release)/charge for impairment provisions	(854)	2,232

23 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprise:

	2004 US$000	2003 US$000
Salaries and other personnel expenses (note 24)	3,938	5,050
Occupancy and equipment	1,292	1,748
Other	3,749	3,815
Total general and administrative expenses	8,979	10,613

24 EMPLOYEE BENEFITS

Employee retirement benefits

The costs associated with contributions made by the Bank towards the pension scheme for Bahraini nationals administered by the Government of the Kingdom of Bahrain amounted to US$ 74,000 (31 December 2003: US$ 122,022). The Kingdom of Bahrain pension scheme is a defined contribution plan, and accordingly the Bank has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay the future benefits.

The expatriate employees of the Group based in Bahrain are paid leaving indemnity in accordance with the Kingdom of Bahrain labour laws. The movement in leaving indemnity liability is summarised below:

	2004 US$000	2003 US$000
At 1 January	513	585
Accruals for the year	134	149
Payments during the year	-	(221)
At 31 December (note 15)	647	513

	2004 Number	2003 Number
Employees at 31 December	63	65

25 INVESTMENTS IN SUBSIDIARIES

Listing of subsidiaries

The principal subsidiaries of the Bank at 31 December were as follows:

Subsidiaries	Ownership interest 2004	Ownership interest 2003	Country of Incorporation	Nature of business
BMB SP Holdings Limited	100%	100%	Jersey	Investment banking
BMB Investment Company (Jersey) Limited	100%	100%	Jersey	Investment holding
Adhari Limited	100%	100%	Cayman Islands	Investment holding
T&T Beverages Limited (T&T)	93.9%	93.9%	United Kingdom	Softdrinks

At 31 December 2004, all subsidiary companies have been consolidated in the financial statements.

26 OFF-BALANCE SHEET ITEMS

Credit-related financial instruments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Bank's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Undrawn investment commitments comprise contractual commitments to make investments in quoted equities and in other equities and funds as amounts are called by fund managers. Commitments to other equities and funds are generally for a period of between four and six years.

The outstanding off balance sheet items at 31 December were as follows:

	2004 US$000	2003 US$000
Undrawn loan commitments	-	358
Undrawn investment commitments in other equities and funds (note 5)	39,100	53,443
Funds under management	47,790	53,189
Discretionary accounts	77,990	78,738
Non-cancellable operating lease (over 5 years)	89	83

BMB Technology and Telecommunications Investment Company was the only fund under management as at 31 December 2004. Discretionary accounts include funds managed on behalf of customers pertaining to sub-participation in other private equity funds, unquoted equities and other debt instruments.

Undrawn investment commitments in other equities and funds include US$ 8,577,000 (31 December 2003: US$12,383,000), which the Bank has sold to clients and for which it has received binding commitments from them, the majority of which are secured by deposits with the Bank.

27 LEGAL CLAIM

The Bank and the Bank of Bahrain and Kuwait were co-defendants in a litigation in Kuwait arising in connection with the issuance of the original shares of BMB in 1982. In May 2002, the Court of First Instance in Kuwait ruled in favour of the Bank and its co-defendant. In April 2003, the Appellate Court upheld the judgement of the Court of First Instance ruling in the Bank’s favour. The Kuwaiti litigant had the right to appeal to the Court of Cassation, but did not file a challenge within the stipulated time, and hence, the litigation in Kuwait has come to a final conclusion in the Bank’s favour.

On 10 August 2003, the Kuwaiti litigant filed a suit in Bahrain. The case is pending in the courts of Bahrain having been adjourned several times, the latest being 2 April 2005. Based on the nature of this action and a previous favourable decision in its favour in a similar case in Bahrain, the Bank believes that this case will be decided in its favour and accordingly, no provision has been made in the financial statements.

28 CREDIT RISK AND CONCENTRATIONS OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk both on and off-balance sheet by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group’s risk grading system assigns a risk grade under a ten grade scale, with one being the highest grade having least chances of default. The risk grading is based on quantitative and qualitative risk characteristics and employs an objective measure in determining a risk grade for an exposure. Quantitative factors focus on the historical and prospective financial strengths such as cash flow, capital adequacy, profitability, asset quality, tenor of risk and qualitative factors include management quality, market share, industry risk, sovereign risk and operating efficiency. All obligors and countries are risk graded.

In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures.

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 attempts to manage its credit risk exposure through diversification of its equity investments, capital markets and lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

The Group controls the credit risk arising from derivative and foreign exchange contracts through its credit approval process and the use of risk control limits and monitoring procedures. The Group uses the same credit procedures when entering into derivative and foreign exchange transactions as it does for traditional lending products.

Overall, Bank management believes that its policies and procedures for managing credit risk in the activities that it undertakes represent a reasonable and prudent approach.

28 CREDIT RISK AND CONCENTRATIONS OF CREDIT RISK (CONTINUED)

The Group's assets, liabilities, off-balance sheet items are summarised by geographical area as follows:

	North America		Europe		Rest of the world		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Assets								
Cash and deposits with banks	1,994	277	1,020	353	182	185	3,196	815
Trading equities and funds	372	5,133	3,571	5,435	679	1,127	4,622	11,695
Other equities and funds	45,929	40,442	48,275	50,654	6,211	6,006	100,415	97,102
Other bonds	22,190	21,501	964	891	-	-	23,154	22,392
Loans and advances	620	417	-	-	8,808	11,184	9,428	11,601
Installment sale receivable	-	-	-	-	22,485	22,993	22,485	22,993
	71,105	67,770	53,830	57,333	38,365	41,495	163,300	166,598
Other assets							18,704	14,097
Total assets							182,004	180,695
Liabilities								
Customer deposits	-	-	649	923	72,727	78,822	73,376	79,745
Securities sold under repurchase agreements	-	-	-	3,905	8,700	-	8,700	3,905
Medium term loan	8,000	8,000	18,000	18,000	49,000	49,000	75,000	75,000
Revolving loan facility	-	-	-	-	13,600	12,100	13,600	12,100
Subordinated loans	-	-	-	-	30,000	30,000	30,000	30,000
	8,000	8,000	18,649	22,828	174,027	169,922	200,676	200,750
Other liabilities							9,105	8,030
Shareholders' equity							(27,777)	(28,085)
Total liabilities and shareholders' equity							182,004	180,695
Off-balance sheet credit and investment instruments	12,760	24,063	26,429	29,463	-	358	39,189	53,884

29 **INTEREST RATE RISK**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through a variety of means. The Bank's interest rate sensitivity position, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

2004

	Up to 1 month US$000	1 – 3 months US$000	3 - 6 months US$000	6 - 12 months US$000	1 – 3 years US$000	Fixed rate US$000	Non-interest bearing US$000	Total US$000
Cash and deposits with banks	66	-	-	-	-	-	3,130	3,196
Trading equities and funds	-	-	-	-	-	-	4,622	4,622
Other equities and funds	-	-	-	-	-	-	100,415	100,415
Other bonds	964	-	-	-	-	22,190	-	23,154
Loans and advances	-	-	-	-	-	-	9,428	9,428
Installment sale receivable	-	-	-	-	-	22,485	-	22,485
Fixed assets	-	-	-	-	-	-	11,511	11,511
Other assets	-	-	-	-	-	-	7,193	7,193
Total assets	1,030	-	-	-	-	43,243	136,299	182,004
Customer deposits	36,268	-	-	-	-	36,314	794	73,376
Securities sold under repurchase agreements	8,700	-	-	-	-	-	-	8,700
Medium term loan	75,000	-	-	-	-	-	-	75,000
Revolving loan facility	13,600	-	-	-	-	-	-	13,600
Other liabilities	-	-	-	-	-	-	9,105	9,105
Subordinated loans	-	-	-	-	-	30,000	-	30,000
Shareholders' equity	-	-	-	-	-	-	(27,777)	(27,777)
Total liabilities and shareholders' equity	133,568	-	-	-	-	66,314	(17,878)	182,004
Total interest rate sensitivity gap	(132,538)	-	-	-	-			
Cumulative interest rate sensitivity gap	(132,538)	(132,538)	(132,538)	(132,538)	(132,538)			

29 **INTEREST RATE RISK (CONTINUED)**

2003

	Up to 1 month US$000	1 - 3 months US$000	3 - 6 months US$000	6 - 12 months US$000	1 – 3 years US$000	Fixed rate US$000	Non-interest bearing US$000	Total US$000
Cash and deposits with banks	66	-	-	-	-	-	749	815
Trading equities and funds	-	-	-	-	-	-	11,695	11,695
Other equities and funds	-	-	-	-	-	-	97,102	97,102
Other bonds	891	-	-	-	-	21,501	-	22,392
Loans and advances	-	-	-	-	-	2,142	9,459	11,601
Installment sale receivable	-	-	-	-	-	22,993	-	22,993
Fixed assets	-	-	-	-	-	-	7,046	7,046
Other assets	-	-	-	-	-	-	7,051	7,051
Total assets	957	-	-	-	-	46,636	133,102	180,695
Customer deposits	47,195	-	-	-	-	31,843	707	79,745
Securities sold under repurchase agreements	3,905	-	-	-	-	-	-	3,905
Medium term loan	-	-	-	-	-	75,000	-	75,000
Revolving loan facility	12,100	-	-	-	-	-	-	12,100
Other liabilities	-	-	-	-	-	-	8,030	8,030
Subordinated loans	-	-	-	-	-	30,000	-	30,000
Shareholders' equity	-	-	-	-	-	-	(28,085)	(28,085)
Total liabilities and shareholders' equity	63,200	-	-	-	-	136,843	(19,348)	180,695
Total interest rate sensitivity gap	(62,243)	-	-	-	-			
Cumulative interest rate sensitivity gap	(62,243)	(62,243)	(62,243)	(62,243)	(62,243)			

29 INTEREST RATE RISK (CONTINUED)

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at fair value. The effective interest rate by major currencies for each of the monetary financial instruments which bear interest is as follows:

2004	Effective interest rate %		
	US$	GBP	EUR
Assets			
Other bonds	2.3%	5.6%	-
Installment sale receivable	4.8%	-	-
Liabilities			
Customer deposits	2.3%	4.7%	1.9%
Securities sold under repurchase agreements	2.4%	-	-
Medium term loan	4.4%	-	-
Revolving loan facility	2.4%	-	-
Subordinated loans	8.0%	-	-

2003	Effective interest rate %		
	US$	GBP	EUR
Assets			
Other bonds	1.3%	4.7%	-
Loans and advances	17.0%	-	-
Installment sale receivable	4.8%	-	-
Liabilities			
Customer deposits	1.1%	3.9%	1.9%
Securities sold under repurchase agreements	1.2%	-	-
Medium term loan	3.2%	-	-
Revolving loan facility	1.2%	-	-
Subordinated loans	8.0%	-	-

(a) The effective interest rates are disclosed based upon average rates applicable to several individual instruments held at 31 December.
(b) The effective interest rate for loans and advances has been computed excluding net non-accrual loans totalling US$ 9,152,000 (31 December 2003: US$ 8,975,000).
(c) The effective interest rate for customer deposits has been computed excluding non-interest bearing accounts of US$ 794,000 (31 December 2003: US$ 707,000).
(d) Statutory deposit held at the BMA is not included in the above.

Key to currencies:

US$ - United States Dollar
GBP - Great Britain Pound
EUR - Euro

30 **LIQUIDITY RISK**

Liquidity risk is the possibility of the Group being unable to settle its present and future financial obligations. It includes the risk of being unable to fund the portfolio of assets at appropriate maturities and the risk of being unable to realise the stock of liquid assets at desired prices in an unfavourable market. The Group manages its liquidity risk through the avoidance of maturity mismatches and appropriate diversification of its financial assets and liabilities.

As outlined in note 13, in December 2004, the Bank signed an agreement with its lenders for refinancing of the US$ 75,000,000 medium term facility which matured in December 2002. This development accompanied by a proposed rights issue of new equity in an amount of US$50,000,000 and a US$20,000,000 secured revolving term liquidity facility will significantly improve the liquidity position of the Bank and enable it to execute its business plan.

The maturity profile of the Group's assets and liabilities is shown below:

2004

	Within 1 month US$000	1 - 3 months US$000	3 - 6 months US$000	6 - 12 months US$000	1-5 years US$000	5-10 years US$000	10-20 years US$000	Over 20 years US$000	Total US$000
Assets									
Deposits with banks	3,196	-	-	-	-	-	-	-	3,196
Trading equities and funds	4,622	-	-	-	-	-	-	-	4,622
Other equities and funds	-	176	1,648	18,519	74,049	6,023	-	-	100,415
Other bonds	-	-	-	-	-	22,190	-	964	23,154
Loans and advances	9,152	276	-	-	-	-	-	-	9,428
Installment sale receivable	-	-	531	-	-	-	21,954	-	22,485
	16,970	452	2,179	18,519	74,049	28,213	21,954	964	163,300
Other assets									18,704
Total assets									182,004
Liabilities									
Customer deposits	3,071	8,775	26,789	-	-	34,741	-	-	73,376
Securities sold under repurchase agreements	8,700	-	-	-	-	-	-	-	8,700
Medium term loan	-	-	75,000	-	-	-	-	-	75,000
Revolving loan facility	-	-	-	-	13,600	-	-	-	13,600
Subordinated loans	-	-	-	-	10,000	-	20,000	-	30,000
	11,771	8,775	101,789	-	23,600	34,741	20,000	-	200,676
Other liabilities									9,105
Shareholders' equity									(27,777)
Total liabilities and shareholders' equity									182,004

Structured products (originated loans), included in Other bonds, of US$5,000,000 classified within the maturity band of 5 years to 10 years is a marketable security readily convertible to cash.

30 LIQUIDITY RISK (CONTINUED)

2003

	Within 1 month US$000	1 - 3 months US$000	3 - 6 Months US$000	6 - 12 months US$000	1-5 years US$000	5-10 years US$000	10-20 years US$000	Over 20 years US$000	Total US$000
Assets									
Deposits with banks	815	-	-	-	-	-	-	-	815
Trading equities and funds	11,695	-	-	-	-	-	-	-	11,695
Other equities and funds	-	2,655	4,655	7,310	74,678	7,804	-	-	97,102
Other bonds	-	-	-	-	-	21,501	-	891	22,392
Loans and advances	8,974	485	-	-	2,142	-	-	-	11,601
Installment sale receivable	-	-	-	508	-	-	22,485	-	22,993
	21,484	3,140	4,655	7,818	76,820	29,305	22,485	891	166,598
Other assets									14,097
Total assets									180,695
Liabilities									
Customer deposits	26,264	-	10,211	-	-	43,270	-	-	79,745
Securities sold under repurchase agreements	3,905				-	-	-	-	3,905
Medium term loan	75,000	-	-	-	-	-	-	-	75,000
Revolving loan facility	-	-	-	-	12,100	-	-	-	12,100
Subordinated loans	-	-	-	-	10,000	-	20,000	-	30,000
	105,169	-	10,211	-	22,100	43,270	20,000	-	200,750
Other liabilities									8,030
Shareholders' equity									(28,085)
Total liabilities and shareholders' equity									180,695

Structured products (originated loans), included in Other bonds, of US$ 5,000,000 classified within the maturity band of 5-10 years is a marketable security readily convertible to cash.

31 MARKET RISK

Market risk is defined as the potential adverse changes in the value of a portfolio of financial instruments resulting from the movement of market rates, prices and volatilities. The Bank uses the standardised approach to measure the market risk-weighted assets for regulatory purposes. Additionally, the Bank employs a sophisticated risk management model that uses the RiskMetrics™ methodology to calculate market risk for internal risk measurement and management purposes. Market Risk is measured as "Value at Risk" (VaR) using probability analysis based upon a common confidence interval and time horizon. The VaR number is a statistical risk measure, which quantifies, within a given confidence level, the maximum fluctuation in portfolio value within a specified time period.

The Group's policy is to manage its exposure to market risk on an aggregate basis combining the effects of cash instruments and derivative contracts. The Group develops and refines hedging strategies that correlate price and currency movements of assets and liabilities and related hedges. In certain instances, derivative financial instruments are used to hedge other on and off balance sheet transactions.

Due to the lack of trading lines, the Bank was unable to undertake market risk mitigation activities.

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below compares the estimated fair values of on and off-balance sheet financial instruments with their respective book amounts as of 31 December 2004 and 31 December 2003. As set out in note 2 to the financial statements, certain of the bank's financial instruments are accounted for under the historical cost convention as modified by the revaluation of available-for-sale financial assets, all derivative contracts and financial assets and financial liabilities held for trading which may differ from the fair value for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently differences can arise between book amounts and the fair value estimates.

At 31 December 2004	Book amount	Fair value	Over/(under) book amount
	US$000	US$000	US$000
Assets			
Other bonds carried at amortised cost	23,154	21,819	(1,335)
Loans and advances	8,770	8,770	-
Installment sale receivable	22,485	22,485	-
Net shortfall of fair value over book amount			(1,335)

At 31 December 2003	Book amount	Fair value	Over/(under) book amount
	US$000	US$000	US$000
Assets			
Other bonds carried at amortised cost	22,392	20,961	(1,431)
Loans and advances	11,121	11,121	-
Installment sale receivable	22,993	22,993	-
Net shortfall of fair value over book amount			(1,431)

The total shortfall in fair value of US$ 1,335,000 (2003: US$ 1,431,000) is not relevant except in a forced sale situation and the Bank has the intention to hold these bonds to maturity when it would recover the nominal amounts. These transactions were carried out to generate long-term net interest income.

The total fair value of other bonds is based on quoted market prices at the balance sheet date.

The fair value of loans and advances, excluding loans held for trading purposes, is based on amounts estimated to be received upon maturity.

32 **FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The fair value of the installment sale receivable is shown at cost which approximates the value calculated using discounted cash flow method.

No fair value adjustment is appropriate for off-balance sheet financial instruments with contractual amounts representing credit risk as specific provisions are made in respect of individual transactions where a potential loss, if any, has been identified.

The estimated fair value of the following assets and liabilities is not significantly different from the corresponding book amounts as the items are short term in nature:

- Cash and deposits with banks
- Other assets
- Bank deposits
- Customer deposits
- Securities sold under repurchase agreements
- Other liabilities

The estimated fair values of the medium term loan and the revolving loan facility are not significantly different from book amounts as the major proportion of these liabilities are repriced on a monthly basis.

33 **SEGMENTAL INFORMATION**

(a) **Business Segments**

The Group is organised into two business segments, namely, banking and manufacturing. The banking segment has three sub-segments, trading, investment activity and other operations.

Trading activity - current investments in bonds, equities and funds and other derivative instruments.
Investing activity - investments in bonds, other equities and funds and hedging activity.
Other operations include investor marketing, building rental, etc.

Manufacturing: softdrinks

Transactions between business subsegments are on normal terms and conditions. The allocation of costs for each business segment is based on estimated time and relevant measurement criteria for each business segment.

	Banking					
	Trading activity	Investing activity	Other operations	Total Banking	Manufacturing	Total
	US$000	US$000	US$000	US$000	US$000	US$000
2004						
OPERATIONAL INCOME						
Segmental income/(loss)	1,772	6,530	2,190	10,492	(1,773)	8,719
RESULT						
Segmental result	1,336	3,406	850	5,592	(4,998)	594
NET INCOME/(LOSS)				5,592	(4,998)	594
OTHER INFORMATION						
Segmental assets	4,622	158,471	-	163,093	2,436	165,529
Unallocated corporate assets	-	-	-	16,475	-	16,475
CONSOLIDATED TOTAL ASSETS	4,622	158,471	-	179,568	2,436	182,004
Segmental liabilities	-	200,676	-	200,676	2,097	202,773
Unallocated corporate liabilities	-	-	-	7,008	-	7,008
	-	200,676	-	207,684	2,097	209,781
Shareholders' equity						(27,777)
CONSOLIDATED TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY						182,004

33 SEGMENTAL INFORMATION (CONTINUED)

	Banking					
	Trading activity	Investing activity	Other operations	Total Banking	Manufacturing	Total
	US$000	US$000	US$000		US$000	US$000
2003						
OPERATIONAL INCOME/(LOSS)						
Segmental (loss)/income	2,506	(2,782)	2,038	1,762	(1,670)	92
RESULT						
Segmental result	1,590	(9,941)	316	(8,035)	(4,718)	(12,753)
Unallocated corporate expenses				(1)	-	(1)
NET (LOSS)				(8,036)	(4,718)	(12,754)
OTHER INFORMATION						
Segmental assets	12,175	154,423	-	166,598	1,247	167,845
Unallocated corporate assets	-	-	-	12,850	-	12,850
CONSOLIDATED TOTAL ASSETS	12,175	154,423	-	179,498	1,247	180,695
Segmental liabilities	-	200,750		200,750	1,030	201,780
Unallocated corporate liabilities	-	-	-	7,000	-	7,000
	-	200,750	-	207,750	1,030	208,780
Shareholders' equity						(28,085)
CONSOLIDATED TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY						180,695

(b) **Geographical Segments**

	North America		Europe		Rest of the world		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Income								
Total operating (loss)/income	5,971	3,475	7,010	(671)	(4,262)	(2,712)	8,719	92
Assets								
Total assets	71,105	67,770	56,266	58,850	54,633	54,075	182,004	180,695

Although the Group's two main business segments are managed on a worldwide basis, they operate in two main geographical areas. The Group's exposure to credit risk is concentrated in these areas:

North America - United States of America and Canada
Europe - United Kingdom, Germany and France

34 **CONSOLIDATED AVERAGE BALANCE SHEET**

CONSOLIDATED AVERAGE BALANCE SHEET
AT 31 DECEMBER 2004
(Expressed in thousands of United States Dollars)

	2004	2003
Assets		
Cash and deposits with banks	4,098	1,018
Trading equities and funds	5,345	13,317
Other equities and funds	100,130	89,700
Government and Government Agency bonds	-	1,084
Other bonds	22,603	28,293
Loans and advances	8,275	7,801
Derivative financial instruments	-	144
Installment sale receivable	22,612	23,114
Fixed assets	9,127	7,218
Other assets	6,943	8,933
Total assets	179,133	180,622
Liabilities and shareholders' equity		
Liabilities		
Customer deposits	77,212	77,216
Securities sold under repurchase agreements	5,032	10,606
Derivative financial instruments	-	364
Medium term loan	75,000	75,000
Revolving term loan	13,600	3,025
Other liabilities	7,958	11,125
Subordinated loans	30,000	30,000
Total liabilities	208,802	207,336
Shareholders’ equity	(29,669)	(26,714)
Total liabilities and shareholders’ equity	179,133	180,622

35 **SUBSEQUENT EVENTS**

On 11 February 2005, the Bank received US$ 5,000,000 from Al Fawares Construction and Development Company (KSC) (closed) as an additional deposit to be utilised against their commitment to the rights issue.

On 14 February 2005, the Bank made the US$ 5,000,000 principal repayment to its lenders as required under the terms of the refinancing agreement.