BMB INVESTMENT BANK

ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2004

The legal name of BMB Investment Bank is Bahrain Middle East Bank (E.C.)

A brief history of Bahrain Middle East Bank (E.C.)

BMB was established as an exempt joint stock company on 21 March 1982 to engage in offshore banking under a licence granted by the Bahrain Monetary Agency.

The Bank is principally engaged in investment banking, asset management and trading for both clients and on a proprietary basis.

Originally the Bank was incorporated for a fixed term of 25 years ending in 2007, which was subsequently extended to 2032 pursuant to a resolution of the shareholders and the approval of Bahrain’s Ministry of Commerce.

BMB's shares are listed on the Bahrain Stock Exchange under Reuters code BMEB.BH.

Until July 1999, the Bank's principal shareholder was Burgan Bank SAK of Kuwait, which held a 28.6% stake. Burgan Bank sold its shareholding in BMB late in 1999 with UGB retaining approximately 8%. The principal shareholder is now Al-Fawares Construction and Development ("Al Fawares"), a private Kuwaiti company, with a stake of about 18%. Apart from Al-Fawares and UGB, only one other shareholder owns more than 5% of the Bank’s share capital. The balance of BMB’s shares is held by almost 14,000 shareholders throughout the Gulf region.

From 1982 to 1992, the Bank focussed on international commercial banking activities with overseas operations in the USA, UK, Netherlands, Switzerland and Hong Kong. A new management team was appointed in 1993, which implemented a new strategic direction of transforming BMB into a niche investment bank serving selected clients in the Gulf Co-operation Council (“GCC”) countries and the Arab world. Determined to compete only in markets where it had a competitive edge, the Bank divested activities that did not meet with its focus on investment banking, treasury products and investor marketing.

BMB has a wide range of business alliances with leading investment banks, commercial banks and private equity asset managers throughout the G-7 countries. It works with these partners to develop innovative investment banking products which add value for its clients and shareholders.

In April 2000, the Bank launched a rebranding campaign and is now known as BMB Investment Bank. BMB’s legal name remains Bahrain Middle East Bank (E.C.).

DIRECTORS' AND CHIEF EXECUTIVE'S REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors, we are pleased to submit the Bank's annual report for the year ended 31 December 2004.

The past several years have been difficult ones for BMB. It is no exaggeration to say that our business franchise and our staff have been severely tested.

During this period, we have had to conduct our business without interbank and trading lines, a most difficult position for a bank. As a result, we have been forced to sell assets, often under the most inopportune market conditions, to meet liquidity needs. Additionally, we have laboured under a cloud of uncertainty arising from the continuing negotiations for the refinancing of our US$ 75 million medium term facility.

While these have indeed been trying times, we believe we have passed this test. Despite all of the above, we have continued to operate our business, albeit at lower levels than we would prefer. Had BMB been a weaker institution, we would have not weathered these storms of adversity.

For 2004 we reported a consolidated net profit of US$ 0.6 million, a significant improvement over the previous year's net loss of US$ 12.8 million. Earnings from private equity funds played a key role in this turnaround. We expect continued strong results from these investments as macroeconomic trends in Europe and North America continue to improve.

Since 2003, the Group has consolidated its investment in T&T Beverages Ltd. However, we do not consider T&T to be part of our core business, as we hold it for sale. We consider it more rational to look at the results of the operations of our banking segment, which we consider our core franchise. In 2004, the banking segment, which does not include T&T, earned US$ 7.8 million in profits. We believe this result better reflects the performance and future prospects of the Group.

2004 also witnessed the conclusion of negotiations on our US$ 75 million medium term facility and the signing of a refinancing agreement in December. With our US$ 50 million planned rights issue and the US$ 20 million medium term liquidity facility we secured in 2003, we have set a solid base upon which to rebuild our business.

But much remains to be done.

Our first priority is to fulfill the conditions precedent to the refinancing, the most critical of which is the conclusion of our rights issue. As this is accomplished and over the next twelve months, we will focus on re-establishing stability in our business operations and restoring relations with correspondents and other professional counterparties.

Going forward, the Bank will maintain its focus on private equity fund investments and its client business, which have served us well in the past and which we expect to do so in the future. On a more limited basis, we will also engage in proprietary trading of foreign exchange, equities, bonds and other interest rate sensitive instruments. As well, we will review entering new, less market sensitive areas to reduce volatility in our earnings.

All this will require hard work.

Our experience over the past few years has demonstrated the fundamental soundness of our assets and the dedication and competence of our staff. Frankly, we would not be here today without either.

Accordingly, we are both determined and confident. Determined to move forward and regain our former position among the premier investment banks in the region; and confident in our ability to do so.

As in previous years, our efforts in 2004 did not take place in a vacuum. There are many parties who contribute to our success. It is appropriate that we take time to acknowledge and thank them.

We would like to thank His Majesty the King and the Government of Bahrain for their patronage and support. We would also like to express our very sincere appreciation to the Bahrain Monetary Agency for its wise counsel and its constant support during these difficult times.

Finally, we would like to express appreciation to our other business partners – investment and commercial banks, fund managers, other finance industry professionals and our clients – as well as our shareholders, Board of Directors and all of our staff for standing with us during this challenging period. We look forward to continuing our working relationships with all of them in 2005 and beyond.

Sheikh Ali Jarrah Al Sabah	Albert I. Kittaneh
Chairman	Chief Executive

22 March 2005

BMB Board of Directors and Board Committees

Board of Directors

Sheikh Ali Jarrah Al Sabah: Chairman
Sheikh Humoud Sabah Al-Salem Al Sabah : Member
Sheikh Mohammed Bin Khalifa A. Al-Khalifa : Member
Sheikh Ali Khalifa A. Al Sabah : Member
Dr. Awadh Kh. Al-Enezi : Member
Mr. Wilson S. Benjamin : Member

Audit Committee

Mr. Wilson S. Benjamin : Chairman
Sheikh Mohamed Bin Khalifa A. Al Khalifa : Vice Chairman
Dr. Awadh Kh. Al- Enezi : Member

Executive Committee

Sheikh Ali Jarrah Al Sabah: Vice Chairman
Sheikh Ali Khalifa A. Al Sabah : Member
Mr. Albert I. Kittaneh : Member (non voting)

Sheikh Ali Jarrah Al Sabah
Chairman of the Board of Directors and Member of the Executive Committee

A member of the Ruling Family of the State of Kuwait, Sheikh Ali is a member of the Higher Planning Council in Kuwait. He was also the Chairman of the International Bank of Asia in Hong Kong and a board member of Arab Banking Corporation (B.S.C.) and Banco Atlantico.

Sheikh Ali Khalifa Al Sabah
Director and Member of the Executive Committee

A member of the Ruling Family of the State of Kuwait, Sheikh Ali was the Minister of Oil from 1978 to 1983, Minister of Oil and Finance from 1983 to 1985, Minister of Oil from 1985 to 1990 and Minister of Finance from 1990 to 1991. For the period 1980 to 1991 he was also the Chairman of Kuwait Petroleum Corporation. Sheikh Ali was also Chairman and Managing Director of Kuwait Real Estate Bank from 1998 to 2000.

Sheikh Humoud Sabah Al-Salem Al Sabah
Director

Sheikh Humoud Sabah Al-Salem Al Sabah is the Chairman of Kuwait's Al Watan daily newspaper, Deputy Chairman of Mobile Telecommunications Company and board member of Burgan Bank, Kuwait.

Dr. Awadh Kh. Al-Enezi
Director and Member of the Audit Committee

A PhD graduate of Bath University in 1991 and the University of New York in 1995, Dr. Awadh is a lecturer at the University of Kuwait. As a recipient of numerous awards he has published several studies dealing with the socio-economic culture in Kuwait. Dr. Awadh is an active board member of several institutions.

Mr. Wilson S. Benjamin
Director and Chairman of the Audit Committee

Mr. Wilson Benjamin is the CEO of Al Fawares Company, an investment group based in Kuwait as well as the Chairman of the Arab Commercial T.V. Company based in the Palestinian Authority Area. He is also a board member of Entropin Inc.-an American pharmaceutical company traded on the Nasdaq. A Business Administration graduate from Al-Hikma University-American Jesuit University in Baghdad, Mr. Benjamin has also been Financial Controller of Al-Khalifa Group, Kuwait since 1980; Deputy Chairman of Al-Jazira Investment Co., Egypt; and Managing Director of Econchoice Development Company, London.

Sheikh Mohamed Bin Khalifa A. Al-Khalifa
Director and Member of the Audit Committee

A recipient of the International Baccalaureate Diploma in Geneva in 1993, Sheikh Mohamed continued his studies at the King Fahd University of Petroleum and Minerals graduating with honors in Computer Engineering. He earned his post-graduate diploma at the University of Cambridge majoring in Computer Science followed by an advanced MSc in Computing at the Imperial College of Science, Technology and Medicine. He is currently at Bahrain’s Ministry of Finance.

Mr. Albert I. Kittaneh
Chief Executive

Mr. Kittaneh has over 29 years of experience in investment and commercial banking with The Bank of New York, Manufacturers Hanover Trust, Chemical Bank, and BMB. He is also the Vice Chairman of Securities Investment Company (SICO) and Board Member of Oryx Capital International Ltd. and MAK Holdings (Lebanon). He has a BA in Economics from Fordham University and an MBA from Columbia University.

SUMMARY OF FINANCIAL PERFORMANCE 1994 - 2004

The key financial ratios from 1994 -2004 are summarised as follows:

ILLUSTRATION 1
SUMMARY OF FINANCIAL DATA 1994-2004
(all figures in thousands of US dollars)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Net income/(loss) - as reported	594	(12,754)	(50,786)	(15,647)	(56,985)	30,085	13,711	18,658	9,493	5,582	2,829
Add/(deduct):loss/(profit) from discontinued operations	-	-	-	-	-	-	9,951	(5,081)	(2,597)	(2,542)	(769)
Net income/(loss) from continuing operations	594	(12,754)	(50,786)	(15,647)	(56,985)	30,085	23,662	13,577	6,896	3,040	2,060
Growth/(decline) in net income (%)	105%	75%	(224%)	73%	(289%)	27%	74%	97%	127%	48%	(61%)
Total shareholders’ equity	(27,777)	(28,085)	(20,874)	43,170	65,455	131,488	108,741	102,121	105,822	96,310	90,886
Total assets	182,004	180,695	190,548	512,833	622,620	655,579	739,195	751,533	645,036	452,215	486,049
Return on average shareholders’ equity (%)	N/A	N/A	(455%)	(28.8%)	(57.9%)	25.1%	23.7%	14.2%	7.1%	3.3%	2.4%
Return on average assets (%)	0.3%	(6.9%)	(14.4%)	(2.8%)	(8.9%)	4.4%	3.2%	2.0%	1.3%	0.7%	0.4%
Operating expenses/total income (%)	N/A	N/A	N/A	N/A	N/A	28%	28%	41%	40%	60%	75%
Average net (loss)/income per employee	9	(196)	(794)	(216)	(712)	421	376	238	134	68	52
Financial leverage (times)	N/A	N/A	N/A	10.6:1	8.3:1	3.9:1	5.7:1	6.9:1	5.3:1	3.7:1	4.2:1
Selected Balance Sheet indicator											
Net liquid position (US$ mill.)	(107)	(98)	(77)	(47)	45	64	70	51	(36)	(98)	(164)

Effective 1 January 2001, BMB adopted IAS 39 which requires application of the new accounting policies only on a prospective basis. While the balance sheet for 2000 has been restated to retrospectively apply IAS 39, the balance sheets for prior periods have not been restated.

The consolidated financial statements for 2004 have been prepared on a going concern basis (note 2).

FINANCIAL REVIEW

The following section provides an overview on the Bank's internal policies and procedures. As well, it analyses BMB's financial performance for the year ended 31 December 2004 compared to 2003.

REGULATION AND SUPERVISION

BMB is regulated by the Bahrain Monetary Agency (BMA or the Agency).

The approval of the BMA is required for major changes to strategy, changes to senior management, the establishment of new subsidiaries and branches and the appointment/election of members of the Board of Directors.

The Agency's inspection team carries out periodic reviews of BMB and submits reports of their findings directly to the Bank's Board of Directors.

Due to the reduced level of activity at the Bank and the absence of any trading activity, the Bank has been granted an exemption by the Bahrain Monetary Agency ("BMA") from certain disclosures required by Chapter PD–A of Module PD of the BMA's Rulebook (Volume 1), and accordingly, allowed to present certain information on risk management policies and procedures in an abridged form in its financial statements for 2004.

COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

BMB's accounting policies are set out in note 2 to the financial statements and are in conformity with International Financial Reporting Standards.

INTERNAL FINANCIAL CONTROL AND CORPORATE GOVERNANCE

The Bank has designed and implemented procedures for the safeguarding of assets against unauthorised use or disposition, the maintenance of proper accounting records and the integrity of financial information both for internal use and external publication and to provide effective internal financial control and appropriate segregation of incompatible duties within the Bank, and has implemented the following practices:

- Authority to operate the Bank and its various subsidiaries is delegated to the Chief Executive of the Bank within limits set by the Executive Committee and approved by the Board of Directors. Any transactions exceeding these limits require the concurrence of first, the Executive Committee and, then the Board of Directors. The appointment and removal of executives to and from the most senior positions (Senior Vice President and above) within the Bank requires the formal approval of the Board of Directors. Functional operating and financial reporting standards have to be approved by the Board of Directors.

- The Bank manages its credit and market risks primarily through its Risk Management Committee ("RMC"). The RMC is composed of the Chief Executive, the Chief Operating Officer, the Head of the Risk Management Department, and the Group Treasurer.

  The Bank's Management Committee is composed of members of the RMC and the functional division heads. The Management Committee serves as a forum for the discussion of the Bank's overall strategy, product development, marketing, and other significant business issues. As such, for issues identified, working groups composed of Management Committee members are tasked with studying specific issues and recommending actions for executive management approval.

- The Bank's Internal Audit function, which was outsourced for part of 2004, monitors compliance with policies and procedures and the effectiveness of internal controls. The work of internal audit is focussed on the areas of risks determined through a risk assessment approach. The internal audit reports are submitted directly to the Audit Committee of the Board and the internal auditors conduct their work independently of the Bank's senior management. The Bank is in the process of re-establishing an internal audit department.

- To oversee and administer its anti-money laundering and anti-terrorism finance policies and procedures, the Bank has designated a member of senior management to serve as the Bank's Money Laundering Reporting Officer.

- In March 2001, the Board established an Audit Committee comprised of three Directors. The Committee assists the Board through the review of the Bank's financial information, internal control systems, financial risk management process and internal audit functions. In addition, the Committee is charged with ensuring the Bank's compliance with applicable laws and regulations.

- The Bank's independent auditors, PricewaterhouseCoopers, have unhindered access to the Audit Committee, the Executive Committee and the Board of Directors, with or without members of management being present, to discuss their audit findings as to the integrity of the Bank's annual financial statements or reports, the adequacy of internal controls and any other matter which they believe should be brought to the attention of the Audit Committee, the Executive Committee and/or the Board of Directors.

Market risk

Market risk is defined as potential adverse changes in the value of a trading position or portfolio of financial instruments resulting from the movement of market variables, such as interest rates, foreign exchange rates, equity and commodity prices, market indices as well as volatilities and correlations between markets.

The Bank employs a sophisticated risk management model that uses the RiskMetrics™ methodology to assist in measuring market risks. Market risk is measured as "Value at Risk" (VaR) using probability analysis based upon a common confidence interval and time horizon. In other words, the VaR number is a statistical risk measure, which quantifies, within a given confidence level, the maximum fluctuation in portfolio values within a specified time period.

The total one-day VaR at 99% confidence level for the Bank's trading portfolio, segregated by the sources of risk at 31 December were as follows:

ILLUSTRATION 2
VaR by source of risk

Sources of risk	2004 US$000	2003 US$000
Equity price risk	75	441
Interest rate risk	123	162
Foreign exchange rate risk	715	677
Less: Diversification benefit	(247)	(608)
Total VaR	666	672

The total VaR is less than the sum of the VaR of the individual risk components due to diversification benefits arising from correlation within and across the risk classes.

INCOME STATEMENT

OVERVIEW OF FINANCIAL RESULTS

The main points of BMB's 2004 financial performance were as follows:

- The net profit for the year was US$ 0.6 million compared to a loss of US$ 12.8 million in 2003.
- Net interest expense stood at US$ 4.7 million against US$ 4.1 million in 2003.
- Income from investments totalled US$ 7.9 million as compared to US$ 1.0 million in 2003.
- Income from foreign exchange totalled US$ 3.5 million as compared to US$ 1.8 million in 2003.
- Operating expenses (general and administrative) totalled US$ 9.0 million (2003: US$ 10.6 million) of which US$ 3.2 million (2003: US$ 3.0 million) resulted from consolidation of T&T Beverages Limited.
- Net writeback of other bonds portfolio totalled US$ 0.6 million compared to impairment provisions of US$ 7.2 million in 2003.

Net profit

The net profit for the year 2004 amounted to US$ 0.6 million. The three main contributors to this profit were: income from our unquoted equity investments US$ 9.7 million (2003: US$ 46 thousand) and unrealised foreign exchange gains of US$ 3.5 million (2003: US$ 1.8 million), in addition to writebacks on certain investments amounting to US$ 0.9 million.

The above profit was offset by consolidating operations of T&T Beverages Limited at a loss of US$ 5 million (2003: a loss of US$ 4.7 million); the increase in net interest expense by US$ 0.7 million mainly due to lower average earning assets and an additional 1% per annum penal interest on the medium term loan.

Income from investments

The income from investments amounted to US$ 7.9 million compared to US$ 1.0 million in 2003. This is summarised by the Bank's various investment activities in the table below:

ILLUSTRATION 3
ANALYSIS OF INCOME FROM INVESTMENTS

Detail	2004 US$000	2003 US$000
(Loss)/income from trading equities	(2,032)	1,349
(Loss) from trading funds	(53)	(92)
Income from other equities and funds	9,868	311
Income from sovereign debt and bonds	150	197
(Loss) from other bonds	-	(2)
(Loss) from derivatives	-	(810)
Total income from investments	7,933	953

Foreign exchange trading

Foreign exchange trading income was US$ 3.5 million compared to US$ 1.8 million in 2003. As the Bank's foreign exchange trading and swap lines were cancelled during 2003, it was compelled to carry unhedged long sterling pound and euro currency positions in its books. These positions are revalued against the Bank's US$ based currency on a daily basis and the resultant income or loss taken to the income statement. At 31 December 2004, the foreign exchange income resulted from revaluation of these positions.

Other income

Other income which mainly comprises fees, commissions and rental income amounted to US$ 2.0 million compared to US$ 1.5 million in 2003, an increase of US$ 0.5 million, or 31%. This is summarised in the following table:

ILLUSTRATION 4
ANALYSIS OF OTHER INCOME

Detail	2004 US$000	2003 US$000	Increase/ (decrease) US$000	Increase/ (decrease) %
Marketing related fees	1,333	1,206	127	11%
Rental income	809	749	60	8%
Other (loss)	(182)	(461)	279	61%
Total other income	1,960	1,494	466	31%

Operating expenses (general and administrative)

Operating expenses amounted to US$ 9.0 million for 2004 compared to US$ 10.6 million in 2003, a decrease of US$ 1.6 million, or 15%. This is summarised in the following table:

ILLUSTRATION 5
ANALYSIS OF OPERATING EXPENSES (General and Administrative)

Detail	2004 US$000	2003 US$000	(Increase)/ decrease US$000	(Increase)/ Decrease %
Staff costs	3,938	5,050	1,112	22%
Occupancy and equipment expense	1,292	1,748	456	26%
Other costs	3,749	3,815	66	2%
Total operating expenses	8,979	10,613	1,634	15%

Of the US$ 9.0 million (2003: US$ 10.6 million) in operating expenses, T&T's expenses were US$ 3.2 million (2003: US$ 3.0 million), which are included primarily in other costs. T&T Beverages Limited excluded, the Bank reduced its operating expenses from US$ 7.6 million in 2003 to US$ 5.8 million in 2004, a reduction of 23.7%.

Provisions for impairment

BMB takes provisions if a financial asset is impaired, that is, 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 rate of interest for a similar financial asset.

The required levels of investment provisions are determined after a careful review of the underlying economic factors and the investee company's past and future forecasted financial performance which may eventually impact the recoverable amount of the investment portfolio. In 2004, an amount of US$ 0.6 million was written back compared to provisions totalling US$ 7.2 million taken in 2003.

BALANCE SHEET

Total assets

Total assets at 31 December 2004 were US$ 182 million which virtually remained unchanged from 31 December 2003.

ILLUSTRATION 6
Summary of Major Balance Sheet Items

Detail	2004 US$000	2003 US$000
Trading equities and funds	4,622	11,695
Other equities and funds	100,415	97,102
Other bonds	23,154	22,392
Loans and advances	9,428	11,601

Trading equities and funds

Trading equities and funds dropped to US$ 4.6 million from US$ 11.7 million in 2003, a decrease of US$ 7.1 million, or 61%. This was mainly due to transfers to available-for-sale portfolio.

Other equities and funds

Other equities and funds (private equity) increased to US$ 100.4 million from US$ 97.1 million in 2003, an increase of US$ 3.3 million, or 3.4%. This increase resulted mainly from fair value adjustments to our private equity fund investments and transfers from trading equities and funds.

Undrawn other equity fund investment commitments decreased to US$ 39.1 million in 2004 from US$ 53.4 million in 2003, a decrease of US$ 14.3 million, or 27%, as the Bank funded previous undrawn commitments. These unfunded investment commitments will be funded over the next 3-6 years.

Other bonds

The Bank's portfolio of other bonds increased to US$ 23.2 million from US$ 22.4 million in 2003. This increase was due to net writeback of US$ 0.6 million in 2004.

An analysis of the other bonds portfolio is given below:

Summary of portfolio of other bonds

	Student Loans		CDOs		Total	
Other bonds comprise:	2004 US$000	2003 US$000	2004 US$000	2003 US$000	2004 US$000	2003 US$000
Held-to-maturity – at amortised cost						
Structured products	-	-	17,190	16,501	17,190	16,501
Originated securities – at amortised cost						
Structured products	964	891	5,000	5,000	5,964	5,891
Total other bonds	964	891	22,190	21,501	23,154	22,392

Loans and advances

Loans and advances at 31 December 2004 amounted to US$ 9.4 million compared to US$ 11.6 million in 2003, a decrease of US$ 2.2 million, or 19%. This decrease is due to repayment of a loan.

Revolving loan facility

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

On 30 December 2003, the Bank signed a new US$ 20 million three-year revolving facility secured by certain of the Bank's private equity investments. This facility is designed to provide liquidity to the Bank and bears interest at floating US$ Libor. The utilised amount at 31 December 2004 was US$ 13.6 million (31 December 2003: US$ 12.1 million).

Liquidity

The Bank's net liquidity position is summarised as follows:

ILLUSTRATION 7
SUMMARY OF NET LIQUID POSITION

Detail	2004 US$000	2003 US$000
Inter-bank placements and cash	3,196	815
Trading equities and funds	4,622	11,695
Other liquid bonds	5,000	5,000
Total liquid assets	12,818	17,510
Customer deposits maturing within 12 months	(36,037)	(36,475)
Medium term loan/due within 12 months*	(75,263)	(75,201)
Repos on Other bonds	(8,700)	(3,905)
Total liquid liabilities	(120,000)	(115,581)
Net liquid position	(107,182)	(98,071)

* includes past due interest US$ 263,000 (31 December 2003: US$ 201,000)

Capital ratios

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 and fair value adjustments for other equities and funds, the Bank's Tier 1 Capital was further reduced by US$ 4.7 million and the Bank, due to its negative capital base, was unable to utilise its US$ 30 million in subordinated loans (Tier 2 capital). Despite a reduction in risk weighted assets, the Bank's capital adequacy ratio continued to be below the required minimum.

At 31 December 2004, the total capital ratio using the standardised approach was (13.11%) compared to (10.01%) as at 31 December 2003.

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 which will take place no later than 14 June 2005.

The board of directors and the senior management of the Bank are confident that the rights issue and other planned steps will result in the Bank achieving a capital adequacy ratio in compliance with the requirements of the Bahrain Monetary Agency.

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.

ILLUSTRATION 8
CAPITAL BASE AND RISK WEIGHTED ASSETS

	Average for the year 2004 US$000	At year-end 2004 US$000	Average for the year 2003 US$000	At year-end 2003 US$000
Capital base				
Tier 1 capital	(32,197)	(32,833)	(26,715)	(28,085)
Total Capital base	(32,197)	(32,833)	(26,715)	(28,085)
Risk weighted assets				
Credit risk weighted assets	192,477	184,907	201,747	194,543
Market risk weighted assets	68,429	65,453	71,972	86,072
Total risk weighted assets	260,906	250,360	273,719	280,615
Capital ratio (standardized approach)	(12.34%)	(13.11%)	(9.76%)	(10.01%)
Minimum required		12.00%		12.00%

Earnings per share and price/earning ratio

The Group's earnings per share and price/earnings ratio at 31 December were as follows:

ILLUSTRATION 9
REVIEW OF EARNINGS PER SHARE AND PRICE EARNINGS RATIO

Detail	2004	2003
Net profit/(loss)	US$ 594,000	US$ (12,754,000)
Number of shares (fully diluted)	309,081,352	309,081,352
Earnings/(loss) per share	US$ 0.00	US$ (0.04)
BMB's year-end share price on the Bahrain Stock Exchange	N/A	US$ 0.06
Book value per share	US$ (0.09)	US$ (0.09)
Price/ earnings ratio	N/A	N/A

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 Bank's US$ 75 million medium term facility and the planning for the rights issue.

BMB shareholdings of Directors, their related parties and BMB senior management

The shareholdings of directors, their related parties and BMB senior management were as follows:

ILLUSTRATION 10
DIRECTORS AND SENIOR MANAGEMENT SHAREHOLDINGS

Detail	2004 Number	2003 Number
Directors and their related parties	66,633,378	66,633,378
BMB's senior management	233,755	258,755
Total	66,867,133	66,892,133

ILLUSTRATION 11
SUMMARY OF PERFORMANCE BY BUSINESS SEGMENTS

The Group is organised into two major business segments, banking and manufacturing. The respective segmental operating results for the year 2004 were as follows:

	Banking		Manufacturing		Consolidated	
	2004 US$000	2003 US$000	2004 US$000	2003 US$000	2004 US$000	2003 US$000
Net interest (expense)	(3,176)	(3,013)	(1,542)	(1,126)	(4,718)	(4,139)
Income from investments	7,933	953	-	-	7,933	953
Foreign exchange trading income/(loss) *	5,827	3,777	-	(3)	3,544	1,784
Other income/(loss)	2,191	2,035	(231)	(541)	1,960	1,494
Total income/(loss) from operations	12,775	3,752	(1,773)	(1,670)	8,719	92
Writeback/(impairment provisions)	854	(2,232)	-	-	854	(2,232)
General and administrative expenses	(5,754)	(7,565)	(3,225)	(3,048)	(8,979)	(10,613)
Donations	-	(1)	-	-	-	(1)
Total operating expenses	(4,900)	(9,798)	(3,225)	(3,048)	(8,125)	(12,846)
Net income/(loss) for the year	7,875	(6,046)	(4,998)	(4,718)	594	(12,754)

The banking segment represents BMB and all its subsidiaries excluding T&T Beverages Limited (T&T).

The manufacturing segment is represented by T&T only.

The consolidated figures are arrived at after off-setting all intra-group transactions including T&T.

*The foreign exchange trading income for the banking segment US$ 5.8 million (2003: US$ 3.8 million) includes US$ 2.3 million (2003: US$ 2.0 million) income derived from the long sterling position held for loans made to T&T. This income is eliminated on consolidation as the related sterling position is off-set on consolidation.