



***HH Shaikh Khalifa bin  
Salman Al Khalifa***

*Prime Minister*



***HM Shaikh Hamad bin  
Isa Al Khalifa***

*King of Bahrain*



***HH Shaikh Salman bin  
Hamad Al Khalifa***

*Crown Prince and  
Commander-in-Chief  
of the Bahrain  
Defence Force*

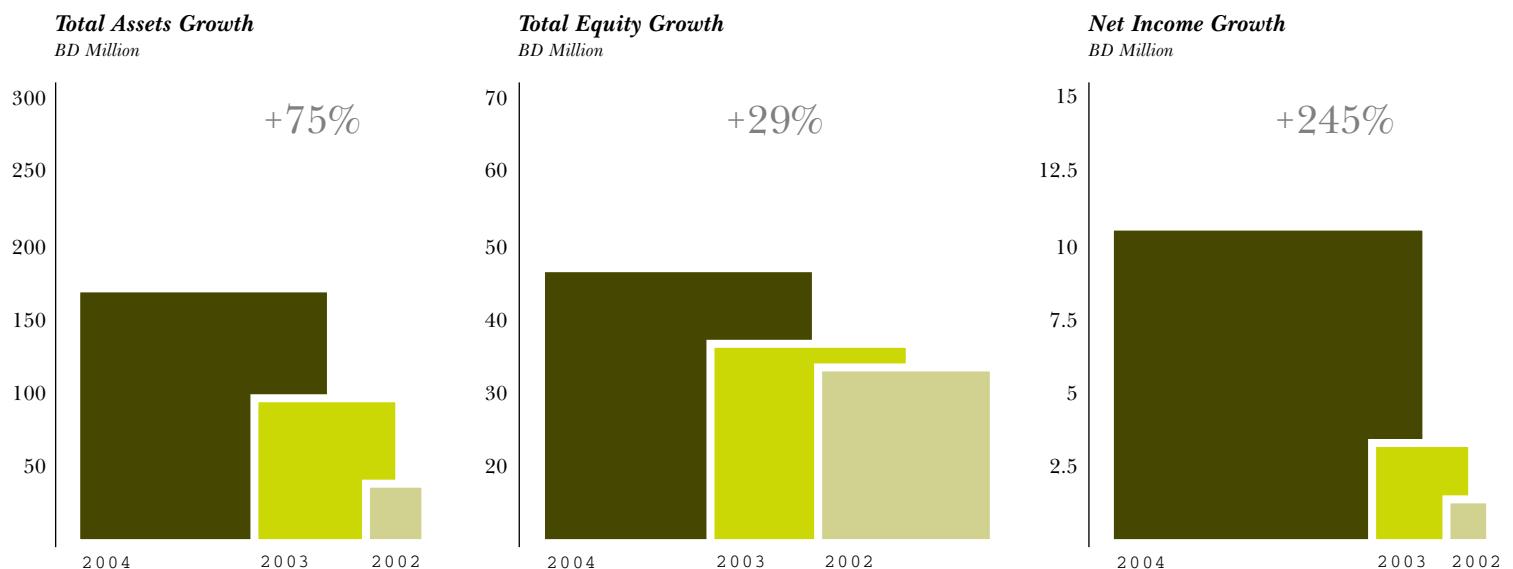
*With the aim of creating assets for its stakeholders and supporting growth in the economies in which it operates and invests, it is the mission of Kuwait Finance House - Bahrain to deliver excellence and innovation in Islamic commercial and investment banking.*

*Reflecting its unwavering commitment to Islamic values and its ongoing efforts to promote the concept of Islamic banking worldwide, this is achieved through long-term participation in the local and regional markets and the development and introduction of a broad range of unique products and services that are in perfect harmony with Shari'a principles.*

*These efforts are supported by a forward-thinking strategy and implemented by a dedicated management team and a highly skilled staff whose devotion to quality, service and integrity are reflected in every aspect of the bank's operations and its efforts on behalf of its stakeholders.*

## ***Financial Highlights***

	<b>2004</b> (BD Thousands)	2003 (BD Thousands)	2002 (BD Thousands)
<b>Net Income</b>	<b>11,188</b>	3,245	243
<b>Total Assets</b>	<b>175,379</b>	100,947	35,380
<b>Total Equity</b>	<b>49,553</b>	38,440	35,243
<b>Return on Average Equity (%)</b>	<b>25.4%</b>	8.8%	0.7%
<b>Return on Average Assets (%)</b>	<b>8%</b>	5%	0.7%





*It is our mission to perfect the art of successful banking across each of our business lines and the activities we undertake.*

## **Chairman and Managing Director's Statement**



**Bader Abdul Muhsen Al-Mukhaizeem**  
Chairman and Managing Director

### **Dear Stakeholders,**

On behalf of the Board of Directors, I am pleased to present the second annual report of Kuwait Finance House - Bahrain, marking the conclusion of what has been another successful and rewarding year.

We are proud of the gains made by our Bank during 2004. As a wholly owned subsidiary of Kuwait Finance House, we have seen KFH-Bahrain emerge as a leader in the provision of Islamic commercial, corporate and investment banking services and as a driving force for industry advancement.

This progress can be seen throughout the Bank's operations, its growing participation in local and regional markets and its rapidly expanding international reach, which has resulted in the strengthening of the KFH brand and the profile of the Islamic banking industry throughout global markets.

These have long been key objectives of our group's expansion plans and strategy. The success we have achieved with KFH-Bahrain has already contributed to our profitability, increased product delivery and served to enhance investment generation. It has also become a model for our ongoing efforts to take KFH into new and equally promising directions.

While the achievements of KFH-Bahrain in a short time have, on many levels, exceeded even our own internal expectations, the delivery of exceptional results in 2004 reinforces our belief in the vast opportunities that exist in Bahrain and those that have been facilitated in the region and beyond through our presence in this market.

These advancements have further been supported by key factors including sound economic fundamentals, the hard work and perseverance of a seasoned and dynamic management team and, ultimately, the ability of the Bank to win the confidence of customers and investors through the effective introduction of compelling new products, services and investment opportunities.

Looking at the economic landscape during 2004, and its impact on performance, the regional markets continued to register unprecedented growth rates on top of substantial gains already made in 2003. Benefiting from high oil prices that averaged well above expected levels throughout the year, the GCC economies were characterised by a sharp upturn in income, significantly enhanced levels of liquidity and a strengthened appetite on the part of local investors to participate in regional projects and opportunities.

These conditions had an overwhelmingly favourable impact across GCC markets, including Bahrain, which continued to witness strong growth in 2004. The ongoing expansion of the financial services industry, burgeoning real estate and construction markets and overall progress in economic diversification greatly benefited our industry and innovative financial institutions such as KFH-Bahrain.

Our 2004 results are testament to that. For the year, we reported substantial progress across each of our operating lines including our investment banking, corporate finance and retail banking divisions, which collectively served to enhance both top and bottom line growth for our group.

Direct deposits from customers for the year increased by 59% from BD 33 million in 2003 to BD 52.5 million in 2004. Similarly, deposits from banks and other financial institutions also increased dramatically, rising 129% from BD 28.5 million last year to BD 65.4 million at year-end 2004.

Other measures further demonstrate the growing financial and operational strength of KFH-Bahrain. Net profit for the year rose 245% to BD 11.2 million, representing a 25.4% return on equity in 2004, versus BD 3.2 million, an 8.8% return on equity for 2003. Assets increased 75% to BD 175.4 million from BD 100.9 million in 2003. Total operating income for 2004 was BD 18.5 million compared with BD 7.5 million for 2003, representing growth of 147% for the year.

As we look to the future, we believe that steady economic development in Bahrain and across the regional markets will continue to provide the backdrop for our growth and the generation of even greater opportunities.

Having established a solid foundation over the past two years, we fully expect that the actions taken by the Bank during 2004 and the investments made since our inception will serve to further enhance our ability to deliver superior results and value. Further, we believe that these investments, coupled with a healthy pipeline of new business and opportunities across the region and internationally have paved the way for what we anticipate will be an exciting and prosperous 2005.



*The art of successful banking is reflected in each of our initiatives and achievements.*

#### **Board of Directors**

**Bader Abdul Muhsen Al-Mukhaizeem**  
Chairman and Managing Director

**Mohammed Shaikh Ishaq**  
Vice Chairman

**Mohammed Sulaiman Al-Omar**  
Board Member

**Adel Ahmad Al-Banwan**  
Board Member

**Yaqoob Yousef Al-Majed**  
Board Member

**Mohammed Isa Al-Wazzen**  
Board Member

With gratitude from our Bank, our Board of Directors and all of our stakeholders, I conclude by paying tribute to the vision, support and confidence inspired in this Kingdom and its future by His Majesty King Hamad Bin Isa Al Khalifa, King of Bahrain, His Highness Shaikh Khalifa Bin Salman Al Khalifa, the Prime Minister; and His Highness Shaikh Salman Bin Hamad Al Khalifa, the Crown Prince and Commander-in-Chief of the Bahrain Defence Force.

Further, thanks is also due to the Government of Bahrain and institutions such as the Bahrain Monetary Agency, which have continued to set the highest standards and provided unrivalled support for the elevation of the Islamic banking industry and the region's financial services arena, with Bahrain as its heart.

Our employees, customers and numerous stakeholders have also been instrumental in the success of KFH-Bahrain during the past year and we extend our appreciation to them for their efforts and confidence. We look forward to our continued partnership with each of them as we move ahead with great certainty and faith in 2005.

**Bader Abdul Muhsen Al-Mukhaizeem**  
Chairman and Managing Director



*We employ the art of successful banking as reflected by our success and the strength of our performance.*

## **General Manager's Statement**



*Abdulhakeem Yaqoob AlKhayyat  
General Manager*

The year 2004 has been a year of significant progress and growth at KFH-Bahrain, marked by strong financial results and considerable accomplishments that reflect the Bank's continued commitment to excellence and ongoing success in fulfilling its mission and promises to stakeholders.

When establishing KFH-Bahrain just two years ago, we underscored our desire not only to strengthen our position as a leading provider of Islamic commercial, corporate and investment banking services but, further, we promised to utilise our resources and leverage the support, strength and formidable track record of our parent company - Kuwait Finance House - in order to advance a number of strategic and long-term objectives.

These objectives included, helping customers and investors enhance their financial positions through the development and introduction of pioneering new products and services, supporting the further development of the local and regional economies through investments in key projects that drive growth and create opportunity and the promotion of Islamic banking and finance across international markets vis-à-vis the implementation of a global investment strategy.

I am proud to report that in 2004 we have made important progress in advancing each of these goals whilst continuing to further strengthen and develop every aspect of our operations and our ability to execute.

During the year, we effectively identified and participated in a number of compelling investment opportunities. According to plan, we completed several private equity transactions in the telecommunications, technology and aerospace sectors in the New Zealand and US markets, taking substantial shares in companies with differentiated business models and strong potential for growth.

And, whilst we pursue an international strategy so as to provide investors with diversified opportunities and enhanced potential for superior returns, our activities also continue to contribute to building the profile and reach of our industry across world markets. We have been particularly mindful of seeking out territories and constituencies with limited prior exposure to the increasingly complex and globalised Islamic financial services industry.

We have also continued our success in both financing and spearheading the development of major projects that drive economic diversification, downstream development and job creation in the local and regional markets.

This significant progress, over a relatively short period of time, reflects our ongoing ability to identify and meet the fast developing needs of the market through effective product development and the introduction of value-added service enhancements. Our aim is to be a lasting partner for our customers - one that is capable of helping them achieve their long-term financial aspirations and potential - and grow with them as they do so.

**Ultimately, these achievements and our ability to continue to build on our successes are rooted in the development of an organisation and culture that supports its management, empowers its employees and rewards ingenuity and forward thinking at every step.**

We believe we have come a long way over the past year in establishing such an organisation.

We firmly see that our future - and that of our industry - depends on cultivating leaders that can inspire and drive creativity, productivity and, ultimately, growth. We are committed to supporting the creation of mechanisms - both within our Bank and in our community - that build on this idea. This ensures that we are always moving forward in step with the rapid developments of our industry and our societies, and are well positioned to meet the challenges and significant opportunities that await us.

**We continue to be thankful to the Bahrain Monetary Agency (BMA) in addition to other standards setting organisations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). These organisations play a critical role in driving the further evolution of Islamic banking and finance and continue to lead efforts to unify and standardise regulatory frameworks that ensure the implementation of financial best-practices by all industry participants. This remains central to building and maintaining the confidence of local, regional and international investors and institutions and ultimately, to the success and advancement of our industry.**



*Successful investing is an art that KFH practices on a global canvas.*

Looking to the future, we renew our commitment to our stakeholders, the markets we serve and our industry, which continues to grow and expand in dynamic new directions. As a Bank, we look to foster the talents of our employees, build upon the successes of the past year and leverage the immense support and assets that we have amassed.

As we do so, we express our gratitude to our strong and harmonious Board of Directors and Shari'a scholars for their guidance, support and enthusiasm during what has been an exciting year for KFH-Bahrain and our industry.

In conclusion, we would also like to extend a word of appreciation to all of our loyal and dedicated employees, customers, partners and the community, without whom the accomplishments of the past year and those that lie ahead would not be possible. We look forward to updating you on our progress throughout 2005.

***Abdulhakeem Yaqoob AlKhayyat***  
*General Manager*

## **Business Review**

**KFH-Bahrain's success in further building its position as a leading provider of Islamic commercial and investment banking services has been the result of its continued ability to effectively respond to ever changing market conditions and growing consumer demands for new and compelling products, services and investment opportunities.**

**KFH-Bahrain's strategy - across each of its business lines - has been to remain flexible and encourage innovation whilst pursuing the further strengthening and development of its operating infrastructure, resources and ability to execute.**

### **RISK MANAGEMENT**

In 2004, KFH-Bahrain continued to take the necessary steps to further enhance its risk management policies and functions in line with the Basel II accord and guidelines and directives issued by the BMA. Importantly, during the year, the Bank developed a comprehensive plan that addressed areas such as credit risk, equity and investment risk, market and liquidity risk, Shari'a risk and technology risk. This would help to improve our internal assessment and enable us to become an even more transparent organisation.

Specifically, during the year, we upgraded our existing mechanism for quantifying our credit risk by rating our corporate portfolio and embedding certain features for compliance for the new Basel II accord. This rating mechanism can be used to calculate the probability of default for assessing a charge on capital, over a future time-horizon of five to seven years. Similar mechanisms would be implemented in due course for assessing charges for capital by quantifying operational and market risk as per the Basel II accord and directives issued by BMA.

At the same time, we have also taken every necessary measure to ensure we have adequate systems and procedures in place in order to manage our investments and credit exposures, locally and internationally, ensuring that our risk is well managed.

Furthermore, during the year, KFH-Bahrain has developed a robust strategy for the participation of its valued clients in the investments that the Bank holds. Through this mechanism, KFH-Bahrain is not only able to offer attractive investment opportunities for its clients but is also better able to manage its equity and investment(s) risk. KFH-Bahrain has already structured attractive investment products, whereby these products will enable us to strengthen our balance sheet while ensuring continued return participation on the part of our clients.

In terms of liquidity risk, this important function is managed by our active Treasury Department. The Asset Liability Committee (ALCO) has set policies and guidelines to effectively manage the liquidity risk. Moreover, our conformity with the International Financial Reporting Standards (IFRS) helps us to provide timely and transparent information to our stakeholders and concerned parties.

Supporting each of these areas, is an ongoing focus on the deployment of the latest IT systems and state of the art technologies which will ensure we are well positioned to meet the ongoing challenges and deliver and manage IT compatible solutions to our valued clients.

#### ***CONSUMER BANKING & FINANCE***

Throughout 2004, KFH-Bahrain's consumer banking and finance operations experienced significant growth as we continued to branch out. Having effectively gained the confidence of the market and a strong and expanding client base, we focused our efforts, throughout the year, on ensuring we were effectively meeting their needs and rewarding their loyalty with superior products and service.

At KFH-Bahrain, we believe that customer satisfaction is truly what defines our success and there is no better measure of our efforts in this regard than through our initiatives, results and accomplishments for the year.

In addition to the rise in customers deposits compared to 2003, the year also witnessed a number of achievements, all of which were aimed at providing customers with the resources and support they need to fulfil their financial goals. These included:

#### ***Expansion in the market place:***

To keep up with demands of a fast growing customer base and opportunities in the market, in 2004 we began a branch expansion programme. During the year, we added one new branch and further identified other new strategic locations through which we intend to grow our branch and ATM network in 2005. Part of meeting the needs of customers is making sure we are everywhere they want us to be. As we further expand our presence, we are closely assessing the growth of the market and our community and taking the necessary steps to ensure that we are growing together.

#### ***Delivering greater convenience and support:***

We continue to seek - on an ongoing basis - ways to provide greater convenience to our customers. During the year, we introduced a number of innovations including new technologies, systems and customer care initiatives. These included the launch of an Interactive Voice Response (IVR) telebanking system for a 24 hour automated service, a fully operational call centre to deal with account specific questions and general inquiries and additional ATM sites for greater ease of use and access.

## ***Business Review*** *(continued)*

### ***New Areas of client service:***

We have also focused our attention on further enhancing key areas of client service in order to meet the specialised needs of our diverse client base. During the year, we strengthened our Ladies Banking operations and support services and successfully introduced Priority Banking with a dedicated new team focused solely on assessing and managing the commercial and investment banking needs of our high net worth clientele.

### ***Introduction of compelling products:***

In 2004, we successfully rolled out the Ijara Card, which is effectively the first Islamic financing card in the world that allows customers to acquire durable goods on a lease to own basis through Islamic Ijara principles. The Ijara Card has introduced "A New Era in Card Finance" in Bahrain, giving hundreds of families the power to obtain a broad range of durable products they would otherwise not have the resources to finance. Since introduced, the card has been met with strong and growing customer demand. While currently a local product, we see prospects for the card beyond the Bahrain market and believe that going forward there will be opportunities to expand the programme and its reach.

### ***Leadership in the financing market:***

Our position has also grown as a leader in the home and auto financing markets in Bahrain which continue to mature steadily. Home financing became an area of particular focus for the Bank in 2004 in line with Bahrain's fast developing real-estate market and strong customer interest in owning homes in prestigious projects such as Durrat Al Bahrain and Amwaj Islands in which the Bank is a stakeholder. These projects, among others, are ideal locations for potential homeowners and we are helping them invest in their future through various forms of financing including our 20-year Ijara property financing scheme. Similarly, our position has also advanced in the auto finance market as we continue to further build our client base and take on new partnerships with well reputed dealers and companies in order to give consumers greater access and more choices.

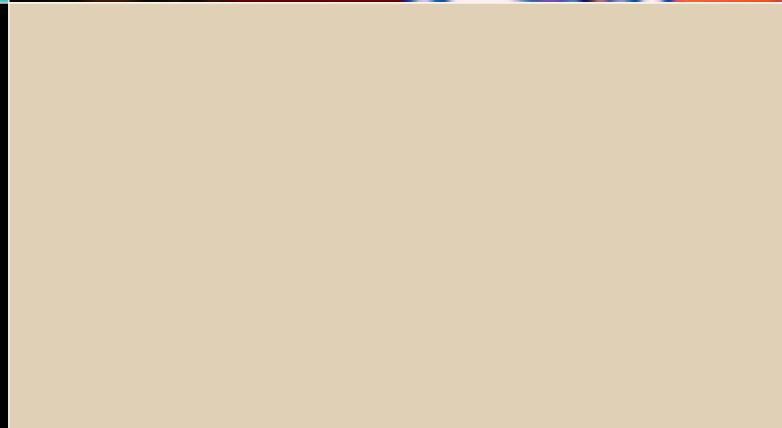
These developments are in line with our long-term commitment to this market, our community and our customers and we will continue our efforts to consistently raise the bar in terms of quality assurance, innovation and customer satisfaction.

### ***CORPORATE FINANCE***

In 2004, KFH-Bahrain continued to expand its corporate finance division in both traditional areas as well as new and exciting directions.

During the year, our corporate finance team provided service and support for a growing number of local and regional businesses - ranging from small and medium-sized companies to large corporates.

On an ongoing basis, we worked with companies across all industry sectors giving them access to such facilities as real-estate financing, project financing, working capital financing and trade financing through the provision of Import/Export Letters of Credit, Letters of Guarantee and Documentary Collections. During the year, we extended more than BD 52.7 million in credit facilities, a sharp increase since 2003 when financing extended to corporate clients stood at BD14.6 million.



To further enhance our position and the value we add, we also concluded a partnership with Bahrain's Ministry of Commerce (MOC) in 2004. This agreement established KFH-Bahrain as the first Islamic Commercial and Investment Bank in the newly launched Bahrain Investors' Centre (BIC), a facility that is intended to offer enhanced and streamlined services for investors and businesses looking to establish or expand their presence in the Bahrain market. Our presence at the BIC is aimed at supporting this mission and providing investors and corporates with greater access to the Bank's broad and dynamic offer of corporate banking and finance services, which combine a superior range of products with the value of expert advice from our experienced and dedicated corporate finance team.

Importantly, KFH-Bahrain also made significant headway in its efforts to provide support to the local and regional economies through participation in projects geared towards stimulating both upstream and downstream development as well as job creation.

In 2004, our corporate finance division participated in a number of the region's largest syndications alongside local and international banks and took the lead in launching new and exciting ventures.

KFH-Bahrain arranged the financing facility for the US\$80 million World Trade Centre project located in Bahrain, consisting of two towers, each 50 floors, which will be used as prime office, commercial and retail space in the heart of Manama.

Further, KFH-Bahrain became a major stakeholder - with a 60 percent share - in the Meena 7 project, a new beachside resort located on the 22,722 square meter Amwaj Island. The Meena 7 project consists of seven residential towers offering apartments with varying specifications that are designed to an Arabic architectural theme. The beach resort will offer residents and visitors numerous amenities including restaurants, Spa facilities and indoor and outdoor health and fitness facilities.

During the year, KFH-Bahrain also introduced a new concept in Islamic project finance, which has seen KFH-Bahrain not only assume responsibility to lead the arrangement of financing for a mega project, but has further seen the Bank take charge of the conceptualisation, organisation and planning of a groundbreaking project in cooperation with reputable investment companies.

In September, we announced plans for the development of a US\$ 1.5 billion combined petrochemical and power and water generation complex in Bahrain which will be the first of its kind in the region. During the year, we effectively carried out successful feasibility studies for the project and we will continue to focus on taking it forward in the year ahead. We see significant opportunities for this project and our role in launching similar projects in the near future as we move forward in 2005 with a strengthened platform, resources and vision for creating value and tangible assets for our partners, stakeholders and the economies in which we operate.

## *Investment Activities*

KFH-Bahrain's investment activities in 2004 continued to generate significant opportunities for our Bank and our investors. We have remained focused on successfully identifying and participating in compelling investment opportunities throughout the local, regional and international markets.

As we did so, we continued to evaluate new opportunities and invest our time and resources in identifying and participating in diverse investments both in terms of their geographic location and sectors as well as across a number of asset classes, where we have seen significant opportunities for growth and where we have already achieved considerable success.

*These have included:*

- *Investment in local real estate ventures*
- *Participation in private equity placements*
- *Funding for the establishment of Shari'a-compliant start-up businesses*
- *Investment in existing businesses with significant growth and expansion prospects*
- *Establishment of specialised portfolios and funds*



While we invest in diverse opportunities, our investment strategy for each of these areas is one. We continually seek out projects and businesses with a demonstrated differentiation and we look for partners with innovative business plans and products, strong executives and exceptional potential for growth.

In 2004, we identified a number of companies that fulfilled these criteria and, accordingly, we completed several key investments in the US and New Zealand in line with our targets for the year.

In the US, we acquired through an intermediary company approximately 75 percent stake of Florida-based Liberty Aerospace Inc., a privately held designer and manufacturer of single-engine piston-powered aircraft. Having recently been granted US Federal Aviation Administration (FAA) approvals to bring to market the first all-new, two-seat aircraft to be fully certified in the US in the past 30 years, we believe this investment will offer our clients the growth prospects and strong returns we work to deliver.



## ***Investment Activities (continued)***

Similarly, we completed three additional transactions in equally compelling businesses all in the New Zealand market. These deals were undertaken through our New Zealand Australia Private Equity Fund, which was launched by KFH-Bahrain in October 2003.

Our investments through the New Zealand Australia Private Equity Fund in 2004 included New Zealand healthcare provider Radius Health Group. Additionally, we also invested in two advanced technology firms with unique products, competitive advantages and strong outlooks for the future. The first was in Woosh Wireless, a dynamic and fast-growing high-speed, wireless, Broadband Service Provider (BSP) in which we took a 21 percent shareholding and NextWindow, a designer and developer of optical imaging technologies in the fields of gesture and touch recognition for the commercial retail market, in which we acquired a 28 percent stake.

We also continue to be pleased with the ongoing progress of our current investment portfolio. The companies in which we have invested over the past two years including, Al Kindi Pharmaceutical Industries, Mena Broadband and Miracle Graphics are performing according to our expectations and plans and we remain committed to working actively alongside them to ensure they reach their full potential.



We are particularly pleased with our investment in Durrat Al Bahrain, which has been received with strong enthusiasm on the part of our investors and residents alike. The planned US\$1.2 billion project is the Kingdom's largest resort and residential city under development, for which phase I and II sales have been completed successfully.

With a strengthened reputation and track record in the market as well as a growing network of partners worldwide, we enter 2005 with a strong pipeline of business and opportunities that will allow us to deliver superior risk adjusted returns now and in the future.

We are already in talks with a number of prospects in several of our target markets and will continue to leverage our resources and expertise to take advantage of the growing opportunities for KFH-Bahrain and our industry.

## ***Report of the Fatwa and Shari'a Supervisory Board***

*In the Name of Allah, the Beneficent, the Merciful*

Praise be to Allah, the Lord of the Worlds  
and peace and blessings be upon our  
Prophet, Mohammed, and on his scion  
and companions.

### **To the Stakeholders of KFH-Bahrain.**

*Assalam Alaikum Warahmat Allah  
Wa Barakatuh.*

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications undertaken by KFH-Bahrain during the period ended 31 December 2004. We have also conducted our review to form an opinion as to whether KFH-Bahrain has complied with Shari'a Rules and Principles and also with the specific fatwas, rulings and guidelines issued by us.

KFH-Bahrain's management is responsible for ensuring that the Bank conducts its business in accordance with Shari'a Rules and Principles. It is our responsibility to form an independent opinion, based on our review of the operations of KFH-Bahrain, and to report to you.

We conducted our review which included examining, on a test basis, each type of transaction, the relevant documents and procedures adopted by KFH-Bahrain.

We planned and performed our view so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that KFH-Bahrain has not violated the Shari'a Rules and Principles.

### ***In our opinion:***

- a) the contacts, transactions and dealings entered into by KFH-Bahrain during the year ended 31 December 2003 that we have reviewed are in compliance with the Shari'a Rules and Principles;
- b) the allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shari'a Rules and Principles;
- c) all earnings that have been realized from sources or by means prohibited by Shari'a Rules and Principles, have been disposed of to charitable causes; and
- d) the calculation of Zakat is in compliance with Shari'a Rules and Principles.

This opinion is rendered based on what has been presented to us by KFH-Bahrain's General Manager and its in-house Shari'a Advisor.

We pray to Allah the Almighty to grant us success and the path of straightforwardness.

*Wassalam Alaikum Wa Rahmat Allah  
Wa Barakatuh.*

**Ahmad Bazie Al-Yaseen**  
*Chairman*

**Mohammed Fawzi Faidullah**  
*Member*

**Khalid Mathkour Al-Mathkour**  
*Member*

**Ajeel Jasem Al-Nashmi**  
*Member*

**Anwar Shuaib Abdulsalam**  
*Member*

**Mohammed Abdul Razaq Al-Tabtabae**  
*Member*