





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

**KUWAIT FINANCE HOUSE
(BAHRAIN) B.S.C. (c)**

**P.O. Box 2066 Manama
Kingdom of Bahrain
Tel: +973 17 221666
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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.

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 KFH-Bahrain's operations and its efforts on behalf of its stakeholders.

100,946,754_{BD}
total assets

38,439,572_{BD}
total equity

3,244,975_{BD}
net income

8.8%
return on average equity

5%
return on average assets

Chairman and Managing Director's Statement

Dear Stakeholders, It is on behalf of the Board of Directors, and with great pleasure, that I present to you the first annual report of Kuwait Finance House - Bahrain. As the first wholly owned subsidiary of Kuwait Finance House outside Kuwait, the establishment of KFH -Bahrain represents not only a strategic step forward in the group's global expansion plans but further underscores our commitment to Bahrain and to supporting growth and development throughout the region.

In spite of the difficult global economic conditions that prevailed as we established our operations, and ongoing geopolitical uncertainties, such as the conflict in Iraq, we moved ahead with great confidence in the long-term prospects for Bahrain and the resilience and strength of the regional economies.

During 2003, Bahrain has continued to maintain its position as a pivotal financial, information technology and commercial centre in the GCC. In terms of GDP growth, which reached 5.1 percent in 2002, the economy has continued to show significant strength with 2003 being no exception. Assets of various banking units operating in Bahrain witnessed an ongoing upward trend in 2003 and Bahrain's foreign currency ratings were upgraded by Moody's Investor Services from "stable" to "positive".

These factors have both driven and continue to support aggressive government plans to encourage foreign investment and achieve further economic diversification - particularly in the areas of real estate and tourism. Over the past year, these efforts have allowed Bahrain to sustain one of the strongest growth rates among GCC countries, a phenomenon that is expected to continue and one that will surely provide significant opportunities for financial institutions vis-à-vis the growing necessity for long-term financing and local venture capital.



Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director

Our faith and strategy have been rewarded. Our first year of operations has seen remarkable progress. Strong fundamentals in Bahrain such as a world class regulatory framework, a vibrant and transparent economy and a highly skilled indigenous workforce have enabled us to create a solid platform through which to capitalise on vast local opportunities as well as those that exist both regionally and beyond for the benefit of our stakeholders.

Over the course of the past year, we have focused on developing an organisation in Bahrain that embodies new thinking horizons, while maintaining the same strengths and vision that have made Kuwait Finance House a leader in the Islamic banking industry for more than 25 years and allowed us to meet the needs of our customers and support local and regional advancement.

These attributes include a genuine view towards Shari'a compliance, international best practices in corporate governance, a robust financial position, dynamic thinking and a long and proven heritage of ingenuity and leadership.

It is the mission of KFH-Bahrain to follow in these footsteps. We are committed to delivering excellence and innovation and to leading by example through the implementation of a globally minded investment strategy and the introduction of a diverse portfolio of products and services that can create tangible assets and wealth for our stakeholders and our region.

BOARD OF DIRECTORS

Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director

Mohammed Shaikh Ishaq
Vice Chairman

Adel Ahmad Al-Banwan
Board Member

To ensure that this mission is fulfilled, we have taken the necessary steps to develop an effective operating infrastructure, employed state-of-the-art systems and technologies and invested in our human capital, which remains our greatest asset.

We have assembled a highly experienced and forward thinking management team and drawn on the significant talent that exists in Bahrain's financial services industry to retain the highest calibre employees across all of our operations. 95 percent of our employees are Bahraini nationals with deep roots in the local and regional economy and a strong understanding of the global market.

The fact that we have been successful thus far in reaching our objectives is no better demonstrated than by what we have achieved. During the year, we introduced into the Bahrain market a number of new products, services and investment structures. Further, we have developed a significant and fast-growing customer base, collecting more than BD31 million in direct customer deposits in addition to deposits from banks and financial institutions exceeding BD30.3 million.

That we have accomplished this in such a short period of time and against the backdrop of economic and geopolitical challenges that persisted throughout the year is particularly gratifying.

Strong performance is also reflected in our overall financial results. Our first full year saw KFH-Bahrain post net profits of BD3.2 million, representing a 8.8% return on equity, as well as a 185% increase in assets from BD35 million to BD100.9 million at the year end. Total operating income for the year was BD7.7 million.

Mohammed Sulaiman Al-Omar
Board Member

Yaqoob Yousef Al-Majed
Board Member

Mohammed Isa Al-Wazzan
Board Member

KFH-Bahrain's solid performance during 2003 also enabled us to distribute profits to the bank's investment accounts at a rate of 1.75% for continuous investment deposits and 1.125% for other saving accounts.

We are proud of our accomplishments and our results, which serve as a testament to the strength of our strategy, our management team and their ability to execute. We expect strong and steady growth in the year ahead as well as the further enhancement of our financial position and that of investors and customers.

As we enter a new year, we continue to see the strength and opportunity in Bahrain and in the regional economy and remain committed to actively supporting and participating in their growth and development.

On behalf of the Board and our stakeholders, I would like to extend our appreciation to 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 Defense Force, for their support and vision.

Further, I would like to acknowledge the government of Bahrain and the Bahrain Monetary Agency for the critical role they have played in creating an environment in which our bank and the Islamic banking industry can continue to prosper and grow.

We would also like to thank our customers and employees for the trust they have placed in us during what has been both a challenging and rewarding year. We look forward to reporting to you on our progress and our achievements in the year ahead.

Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director

General Manager's Statement

Since establishing KFH-Bahrain in January 2002, we have maintained a singular focus on the achievement of excellence in banking and the creation of assets through the development of innovative investment products and structures that are in perfect harmony with Shari'a principles.

Throughout the year, we have worked diligently to establish a world-class infrastructure that was capable of supporting these aspirations and, in doing so, introduced, what we believe to be, a new and compelling proposition in Islamic commercial banking and investment banking as evidenced by the way in which we conduct our daily operations and implement our long-term strategies.

The decision to establish KFH-Bahrain was driven by the vast opportunities that exist in this market, which continues to grow and advance rapidly, and also by the desire to introduce even greater opportunities and provide for the demands of consumers in a number of key areas that had yet to be developed.

In our first year of operations, we have made great strides in both participating in the opportunities that exist in the market and in meeting the needs of a significant and fast-growing number of customers, who have come to place their confidence and trust in us.

Our efforts have been supported by the strength of our parent company, Kuwait Finance House, who has long been a leader in the Islamic banking industry, as well as the forward-thinking strategy of our management team.



Abdulhakeem Yaqoob AlKhayyat
General Manager

The focal point of this strategy has been our commitment to long-term participation in this market as reflected by the substantial and ongoing investments we have made in the systems and technologies we employ and in our human resources, including the recruitment and training of a highly skilled and dedicated local employee base, which we consider to be at the core of our success.

Bahrain, being the premier financial services centre in the region, has provided us with a strong pool of talent and we are focused on leveraging their expertise to ensure that we can always meet and hopefully exceed the expectations and needs of our customers.

In addition, we believe that the talent and innovation of our employees and our management team, over the past year, has also been an asset to our industry, allowing us to play an important role in its ongoing expansion.

Our dedication to this effort is evidenced by the development of new Islamic investment and financing structures, not seen before in the market, the promotion of best practices in Islamic banking, and the successful introduction of Islamic banking and finance in international markets, where investors and companies have had little prior exposure to our industry.

As we have strived to achieve these goals, we have not lost sight of what underlies our ability to deliver the kinds of products, services and returns that our customers and investors expect – namely an unwavering commitment and adherence to Shari'a principles, as are monitored and ensured by our Shari'a board, as well as the implementation of international best practices in corporate governance.

Throughout the year, as we have developed our organisation, we have taken the utmost care to adopt a rigorous series of internal controls and functions and established clearly defined lines of reporting in order to monitor our operations and ensure that we are consistently adhering to the highest standards in banking and Islamic values.

Our board of directors and Shari'a board, in conjunction with our management team, meet regularly to maintain open lines of communication and full transparency with regard to all of our financial, investment and operational activities. We believe the results we have delivered are a testament to the strong guidance and vision our Boards have provided.

Further, KFH-Bahrain operates within the strong regulatory framework established by the Bahrain Monetary Agency (BMA) for Islamic financial institutions. The BMA is renowned, both regionally and internationally, for having created a regulatory environment that supports and promotes industry growth while also providing for the protection of depositors and investors alike.

As we move into the next phase of our operations, we will continue to use the strengths of our organisation to deliver new levels of excellence and innovation, which we believe to be the cornerstones of our KFH-Bahrain's foundation and the successes we have enjoyed in our first year of operations will be detailed in the pages that follow.

Finally, we thank our board of directors and our Shari'a scholars for their guidance, wisdom and support and extend our thanks and gratitude to our employees and our customers, all of whom we view as partners in what promises to be a sound and prosperous future.

Abdulhakeem Yaqoob Alkhayyat
General Manager

Management



Yousef Abdulla Taqi
Deputy General Manager



Fuad Taqi
Assistant General Manager



Mohammed Arbouna
Shari'a Adviser



Paul Mercer
Legal Counsel



Mohammed Hamad
Manager - Internal Audit



Sharif Monfaradi
Manager - Direct Investment



Abdul Razak Jawahery
Manager - Investment Placement



Osama Al-Khaja
Manager - Corporate Finance



Yousif Al-Hammadi
Manager - Financial Control



Salah Al-Majdoub
Manager - IT



Jameel Al-Khaja
Manager - Credit



Osama Al-Musallam
Manager - Treasury



Ahmad Saeed
Manager - Consultancy Group



Hisham Al-Moayyed
Manager - Real Estate



Waleed Ahmadi
Manager - Human Resources



Jalal Haji
Manager - Operations

Business Review

As a bank, and as an industry, we are witnessing increased demand for Shari'a compliant products, services and investment opportunities.

In establishing KFH-Bahrain in the Kingdom of Bahrain, we have focused, over the past year, on creating a framework and operating structure whereby we can effectively meet these needs. This has been achieved through active participation in and the development of Shari'a compliant investment structures and opportunities in the local and regional markets and beyond.

Consumer Banking & Finance

In developing our consumer banking and finance facilities in Bahrain, we closely assessed the needs of the market and launched a number of groundbreaking initiatives, which have helped to raise the industry standard for innovation and service.

Already in our first year of operations, we have collected more than BD31 million in direct customer deposits and established ourselves as a leader in the consumer finance market including areas such as home, auto and consumer financing.

Important innovations and achievements have included:

- The development of the Ijara Card, the first Islamic financing card of its kind in the world that will allow customers to acquire durable goods on a lease-to-own basis on Ijara principles.
- The introduction of a 20-year property-financing product utilising the concept of lease-to-own in line with KFH-Bahrain's long-term commitment to its customers and the local economy which doubled the financing period previously available to consumers at the time the bank began its operations in Bahrain.
- The provision of a new type of financing, which allows individuals and small businesses the ability to finance the purchase of building materials, equipment and furnishing.
- The introduction of a new concept in Bahrain, a dedicated ladies branch, through which KFH-Bahrain offers this important market segment the full range of its products and services.

Going forward, we will continue to focus our efforts on establishing an even broader offering of products and services to support the growing needs of our customers and the local market. With a dedicated team of individuals focused on doing just that, we anticipate launching a number of other innovative products in the course of the coming year and further enhancing our banking services through the introduction of such facilities as tele-banking and e-banking capabilities.

عصر جديد للتمويل بالبطاقات
A new era in card finance

ابارة
IJARA

بيت التمويل الكويتي
Kuwait Finance House
التمويل الإسلامي B.S.C. (K.C.)
التمويل الإسلامي



Business Review

Corporate Finance

KFH-Bahrain's corporate finance division also achieved good results in 2003 as the bank took the necessary steps to develop and make available a full range of services aimed at supporting local and regional businesses, from small and medium-sized companies to large corporates.

Among the services available to businesses across numerous industry sectors including those in manufacturing, aviation, real estate development, petrochemicals, oil & gas, technology and tourism are 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.

Financing is structured according to Islamic Murabaha, Musharaka, Ijara and Istisna'a facilities as well as Commodities and Convertible facilities.

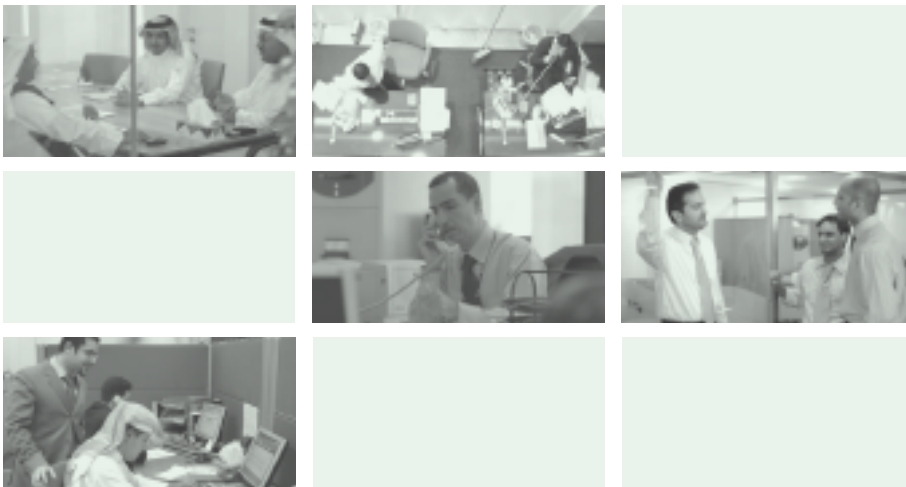
The broad range of services on offer coupled with the value and strategic advice provided by KFH-Bahrain's corporate banking team, have seen the development of a strong client base in 2003 and the ability of this division to extend credit facilities of up to BD20 million with further growth expected in 2004.

Additionally, during the year, KFH-Bahrain provided capital for significant ventures in Bahrain. In line with KFH-Bahrain's efforts to support local and regional growth, the corporate finance division will look to further enhance its activities and support for noteworthy businesses and projects.

Investment Activities

The investment philosophy of KFH-Bahrain is based upon the principle of creating assets and wealth for stakeholders through participation in compelling investment opportunities.

In creating such opportunities, we are principally focused on offering our customers access to investment vehicles that comply with Shari'a principles while also delivering consistently superior risk-adjusted returns.





Business Review

With a strong and experienced investment team, and in close conjunction with our Shari'a board, which ensures that all of the bank's investments comply with Shari'a principles, we have already, in just one year's time, created a number of significant opportunities for our investors through:

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

In every investment we undertake we conduct a rigorous due diligence and, ultimately, reward innovation and vision with our participation.

In those investment opportunities we structure ourselves, we focus closely on creating vehicles that allow us to mitigate risks for the bank and our investors.

For example, we aim to provide our customers access to equity investments through the formation of Shari'a compliant funds that minimise exposure to any one investment through participation in a number of promising private equity companies in New Zealand and Australia.

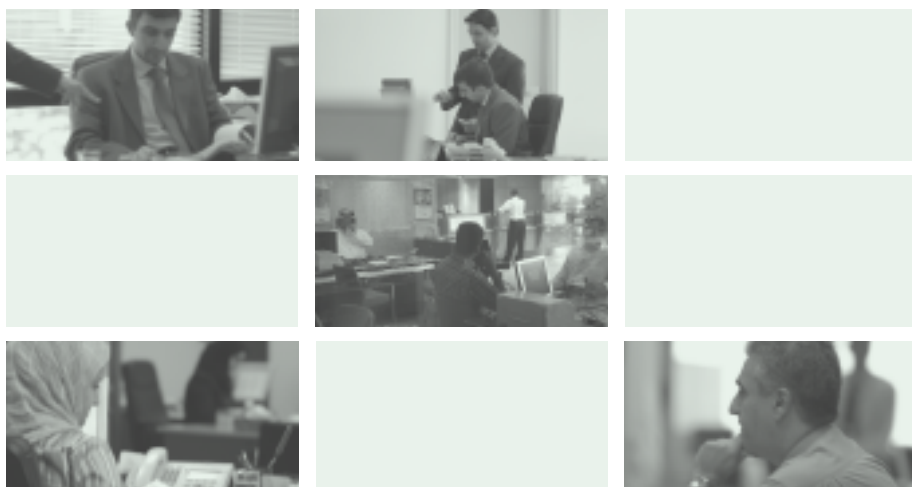
Our confidence in the strength of our investment decisions and the opportunities we offer is no better demonstrated than by the fact that we underwrite a majority of our investments before we place the investments with our clients.

Further, whilst selling down our position in our various investments, it is our policy to maintain a solid shareholding so that we can continue to work in partnership with our investors – sharing both the risk and the rewards.

Investing in the Local Market

Our investment strategy and our focus on supporting local growth and progress has been a key focus during the year and one that has already drawn great praise from the local community.

Leveraging KFH-Bahrain's network, capital and market knowledge, we have actively sought out local investment opportunities and ways in which to help local companies and projects move forward and succeed.





Business Review

Already, during our first year of activities, we have invested in a number of Bahrain-based projects and are continually assessing promising new opportunities that further our long-term goals in the market and signal our commitment to Bahrain. Important among these has been our investment in one of Bahrain's largest and most promising projects, Durrat Al-Bahrain, a resort city that introduces a new concept in modern living.

Global Investing

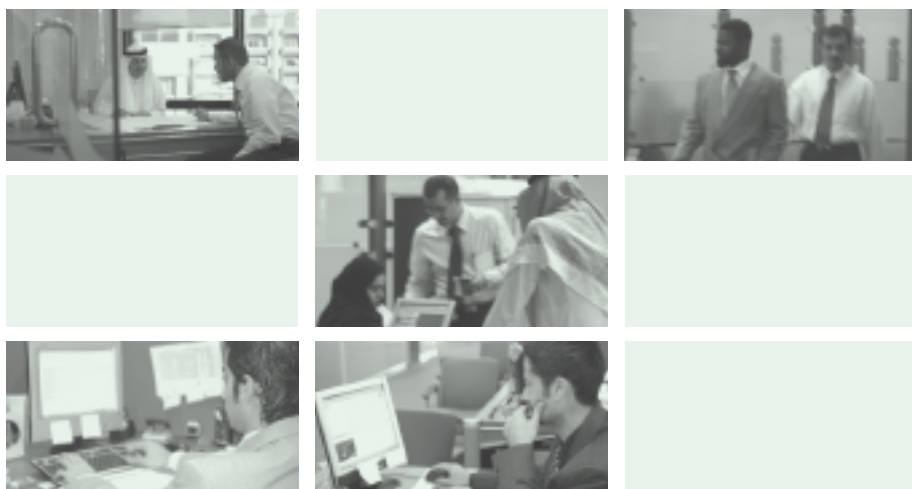
We entered this market with great confidence in its future and that of the regional economies. Whilst it is our mission, and that of our industry, to stimulate local and regional development for the greater good, KFH-Bahrain's approach to achieving this is a global one.

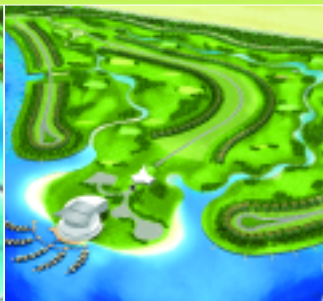
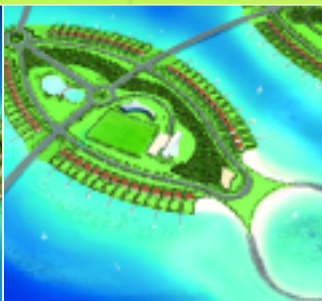
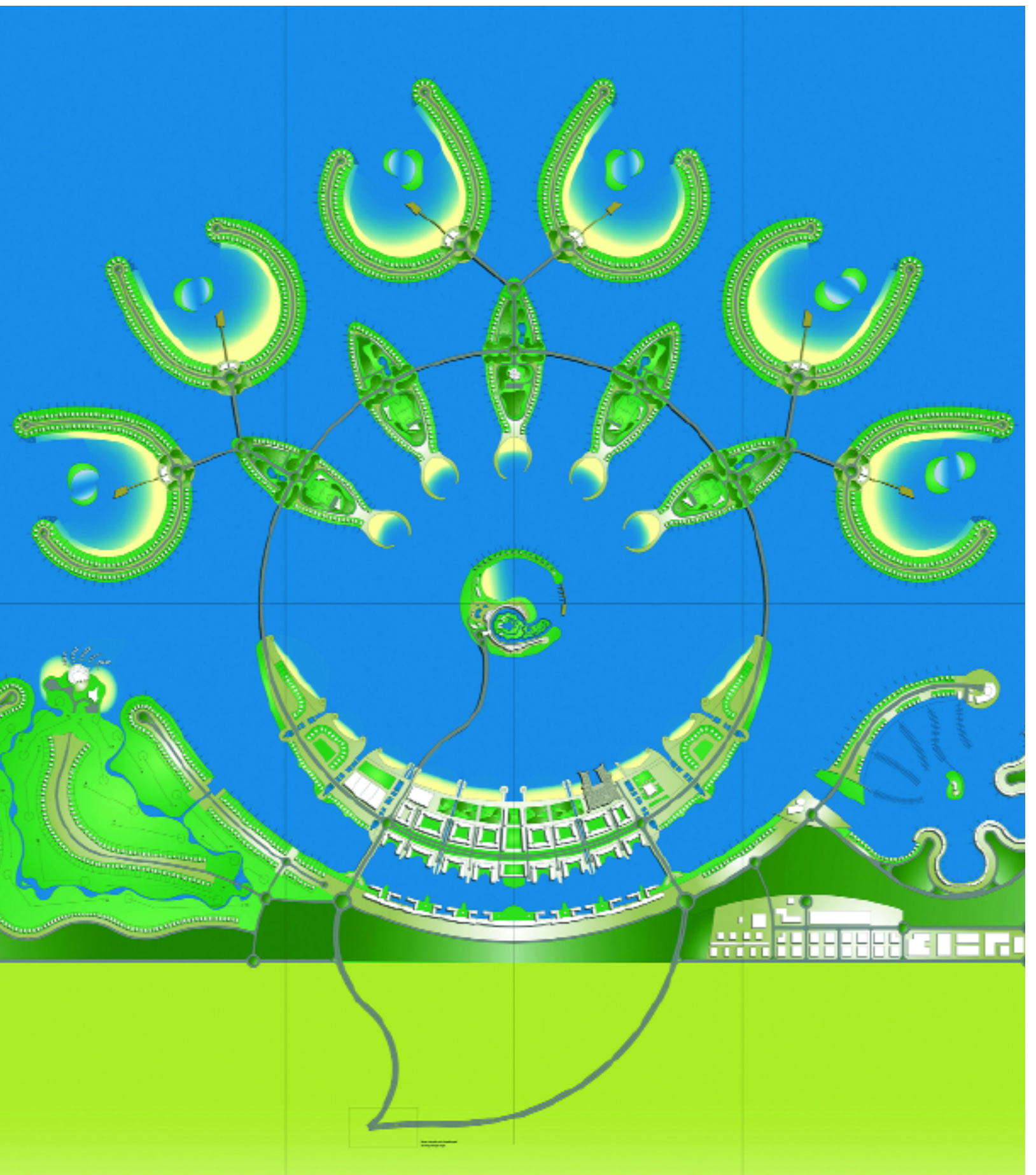
From the onset, we have actively pursued an international investment strategy that allows investors access to a diverse range of local, regional and international investment opportunities – all of which are capable of providing strong returns and expanding the reach and profile of the Islamic banking industry.

As with diversification through the introduction of funds, global diversification further allows us to protect and grow the assets of our investors by minimising their exposure to one single market.

An important example of this principle in practice was the launch, in late October, of The New Zealand Australia Private Equity Fund.

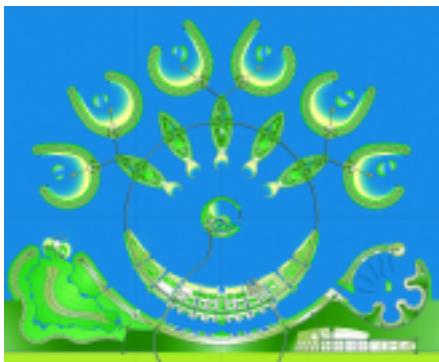
Through this fund, investors are given access to opportunities that exist in these stable, transparent and fast growing markets. Additionally, such investments, while diversifying our portfolio, also help to establish a strong profile for KFH-Bahrain and our industry internationally.





Investment Review

Overview of KFH-Bahrain's Private Equity Portfolio



Durrat Al-Bahrain

KFH-Bahrain has acquired a 50% ownership interest in Durrat Khaleej Al-Bahrain Company. The remaining 50% is owned by the Government of the Kingdom of Bahrain. The Company is engaged in the development of a resort city in southern Bahrain called Durrat Al-Bahrain.



Canterbury Limited (New Zealand)

Canterbury is globally recognised as the world's leading rugby apparel brand. It is focused on rugby and the rugby apparel market. The brand has a strong recall around the world and is positively associated with the values inherent to rugby. This investment was undertaken through The New Zealand Australia Private Equity Fund established by the bank.



Radius Health Group Limited (New Zealand)

This is another investment undertaken by the New Zealand Australia Private Equity Fund. Radius provides a complete range of health and life care services. These include Medical Centres, Pharmacies, Residential Care (rest homes and hospitals) and Community Care (medical alarms and home security).



The Investment Placement Team

(From left to right)

Thaer Jamsheer
Abdul Razak Jawahery
Fawaz Al-Jowder
Mohammed Al-Shaikh
Salahuddin Janahi



Miracle Graphics (Bahrain)

KFH-Bahrain acquired 70% ownership in Miracle Graphics. The principal activities of Miracle are high quality graphic and pre-press productions, publishing, digital design and large format digital printing. Miracle offers its services to a number of advertising and design agencies and other corporate clients.



MENA Broadband Services (Bahrain)

KFH-Bahrain has established a new company to provide two-way broadband satellite communication in the MENA region. KFH-Bahrain owns 87.7% of MENA Broadband and management own 12.3%. Under the management incentive scheme, management can increase its ownership to 30%.



Al-Kindi Pharmaceutical Industries (Jordan)

KFH-Bahrain has invested in Al-Kindi Pharmaceutical Industries through a convertible instrument. At conversion, the bank shall own up to 55% of Al Kindi's share capital. Al-Kindi has obtained exclusive licenses to produce and market human based Insulin and a range of IV solutions in the Middle East. Al Kindi is registered in the Heshimate Kingdom of Jordan.

Future Outlook

As we move forward, we will actively seek new ways in which to build wealth and provide value to our stakeholders and continue to promote further awareness and participation in our industry.

We have established a solid foundation in the past year consisting of the right people, a strong infrastructure and systems and the highest standards in corporate governance and Shari'a compliance. All of this has allowed us to build strong customer relationships and a reputation for excellence in the market.

We are pleased with all that we have accomplished thus far and as we further expand our operations and our product and service offering, we will continue to invest in our people and the resources that allow us to best service customers and fulfil our mission and dedication to our Islamic banking principles.

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 2003. 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 straight-forwardness.

*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-Tabtabaee
Member

Financial Statements

Auditors' Report to the Shareholders of Kuwait Finance House (Bahrain) B.S.C. (c)

We have audited the accompanying balance sheet of Kuwait Finance House (Bahrain) B.S.C. (c) [the "Bank"] as of 31 December 2003, and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with both the Auditing Standards for Islamic Financial Institutions and the International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Bank as of 31 December 2003, the results of its operations and the changes in its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, International Financial Reporting Standards and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

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

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

27 January 2004
Manama, Kingdom of Bahrain

Balance Sheet

At 31 December 2003

	<i>Note</i>	2003 BD	2002 BD
ASSETS			
Cash and balances with the Bahrain Monetary Agency and banks	3	6,598,928	915,512
Receivables and prepayments	4	1,814,660	35,385
Murabaha and Mudaraba contracts with banks	5	23,755,116	22,891,141
Murabaha and Ijarah Muntahia Bittamleek contracts - relating to customers	6	25,381,716	-
Investments	7	34,128,670	7,577,102
Investment properties	8	6,567,629	2,481,648
Investment in affiliates	9	638,137	-
Fixed assets		2,061,898	1,479,104
Total Assets		100,946,754	35,379,892
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
Liabilities			
Due to banks	10	28,479,178	-
Murabaha contracts	11	13,013,096	-
Customers' current accounts	12	11,383,150	11,864
Other liabilities	13	1,075,643	104,899
Total Liabilities		53,951,067	116,763
Unrestricted investment accounts	14(a)	8,556,115	20,532
Equity			
Share capital	15	35,000,000	35,000,000
Statutory reserve	16	348,758	24,260
Investment revaluation reserve		1,717,391	-
Retained earnings	17	1,373,423	218,337
		38,439,572	35,242,597
Total Liabilities, unrestricted investment accounts and equity		100,946,754	35,379,892
Commitments and contingent liabilities	23	3,360,468	-

The attached notes 1 to 30 form part of these financial statements

Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director

Mohammed AlShaikh Ishaq
Deputy Chairman

Abdulhakeem Yaqoob Alkhayyat
General Manager

Statement of Income

Year ended 31 December 2003

	<i>Note</i>	2003 BD	22 January to 31 December 2002 BD
GROSS OPERATING INCOME			
Income from investment banking activities	18	6,170,023	638,773
Income from retail and corporate banking activities	19	805,204	-
Fees, commissions and other income		701,203	6,005
		7,676,430	644,778
Less: Profit paid on Murabaha contracts from banks and others		98,245	-
Profit paid on unrestricted investment accounts	14(b)	131,813	-
Operating Income		7,446,372	644,778
OPERATING EXPENSES			
Staff costs		1,651,823	199,985
Other operating expenses	20	1,174,256	156,336
Depreciation		875,514	45,860
		3,701,593	402,181
Net operating income before provisions		3,744,779	242,597
Less: Non-specific provision	6	499,804	-
Net income for the year/period		3,244,975	242,597

The attached notes 1 to 30 form part of these financial statements

Statement of Cash Flows

Year ended 31 December 2003

	<i>Note</i>	2003 BD	22 January to 31 December 2002 BD
OPERATING ACTIVITIES			
Net income for the period		3,244,975	242,597
Adjustments		(342,073)	45,860
Operating income before changes in operating assets and liabilities		2,902,902	288,457
Changes in operating assets and Liabilities:			
Receivables and prepayments		(1,779,275)	(35,385)
Murabaha and Mudaraba contracts with banks		(7,540,488)	(7,917,000)
Mudaraba and Ijarah Muntahia Bittamleek contracts - relating to customers		(25,994,896)	-
Due to banks		28,479,178	-
Murabaha contract liabilities		13,013,096	-
Customers' current accounts		11,371,286	11,864
Other liabilities		970,744	104,899
Directors' remuneration		(48,000)	-
Net cash from (used in) operating activities		21,374,547	(7,547,165)
INVESTING ACTIVITIES			
Investments		(26,551,568)	(7,577,102)
Investment properties		(2,368,590)	(2,481,648)
Fixed assets		(1,344,932)	(1,524,964)
Investment in affiliates		(638,137)	-
Net cash used in investing activities		(30,903,227)	(11,583,714)
FINANCING ACTIVITIES			
Increase in unrestricted investment accounts		8,535,583	20,532
Share capital issued		-	35,000,000
Net cash from financing activities		8,535,583	35,020,532
Net (decrease) increase in cash and cash equivalents		(993,097)	15,889,653
Cash and cash equivalents at the beginning of the period		15,889,653	-
Cash and cash equivalents at 31 December	21	14,896,556	15,889,653
The attached notes 1 to 30 form part of these financial statements			

Statement of Changes in Equity

Year ended 31 December 2003

		Share capital BD	Statutory reserve BD	Investment revaluation reserve BD	Retained earnings BD	Total equity BD
	<i>Note</i>					
Share capital issued		35,000,000	-	-	-	35,000,000
Net income for the period		-	-	-	242,597	242,597
Transfer to statutory reserve	16	-	24,260	-	(24,260)	-
Balance at 31 December 2002		35,000,000	24,260	-	218,337	35,242,597
Net income for the year		-	-	-	3,244,975	3,244,975
Transfer to investment revaluation reserve		-	-	1,717,391	(1,717,391)	-
Transfer to statutory reserve	16	-	324,498	-	(324,498)	-
Directors' remuneration		-	-	-	(48,000)	(48,000)
Balance at 31 December 2003		35,000,000	348,758	1,717,391	1,373,423	38,439,572

The attached notes 1 to 30 form part of these financial statements

Notes to the Financial Statements

At 31 December 2003

1 Activities

Kuwait Finance House (Bahrain) B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain by Amiri Decree No. 21 of 2001 to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). It operates under full commercial banking licence issued by the Bahrain Monetary Agency ("the BMA").

The Bank was incorporated on 22 January 2002, under Commercial Registration number 48128. It started investment activity on 4 April 2002 and commenced banking and commercial operations on 3 December 2002.

The Bank is a 100% subsidiary of Kuwait Finance House K.S.C. (Parent Company), a company incorporated in the State of Kuwait. The Parent Company's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities.

The Bank's registered office is at Building 121, Government Avenue, Block 304, Manama, Kingdom of Bahrain. The Bank has one office in the Kingdom of Bahrain and employs 86 staff as of 31 December 2003 (2002: 41).

The financial statements were authorised for issue in accordance with a resolution of the directors on 27 January 2004.

2 Significant Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements are as follows:

Basis of preparation

The financial statements have been prepared in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, International Accounting Standards issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of IASB, and in conformity with the Bahrain Commercial Companies Law and the Bahrain Monetary Agency Law.

The financial statements have been prepared under the historical cost convention as modified for the measurement at fair value of investments and investment properties.

The Bank does not consolidate its investee companies, over which it exerts control, which are acquired with the intention of sale in the near future, as the control is considered to be temporary.

Comparative information is for the period from 22 January 2002 (incorporation date) to 31 December 2002. Since various business activities of the Bank commenced at different dates, the results for the previous period are not comparable to the current year.

Financial contracts

Financial contracts consist of Murabaha and Mudaraba transactions. Balances relating to these contracts are stated net of provisions for impairment and deferred profits.

The Bank considers the promise made in the Murabaha to the purchase order as obligatory.

Investments

All investments are initially recognised at cost. Transaction costs are included in the initial measurement. At the time of acquisition, investments are classified as held for trading, held-to-maturity or available-for-sale, as described below.

After initial recognition, all investments other than those classified as held-to-maturity are remeasured at fair value. Investments whose fair value cannot be reliably measured are carried at cost less provision for impairment.

Notes to the Financial Statements

At 31 December 2003

2 Significant Accounting Policies (continued)

Investments held-for-trading

An investment, that was acquired, or a portion of an investment designated at the time of acquisition, for the purpose of generating profit from short-term fluctuations in price is classified as investment held for trading.

Gains or losses arising from remeasurement to fair value are included in the statement of income as gain/loss on investments held for trading. Realised gains or losses are disclosed as profit/loss on investments held for trading.

Managed funds

Managed funds which are investments in funds managed by external managers are classified as investments held for trading. Gain and loss arising from remeasurement to fair value are taken to the statement of income.

Investments available-for-sale

An investment, or a portion of investment, that is not classified as held for trading or an investment that is not classified as held-to-maturity is classified as available-for-sale investment.

Unrealised gains and losses arising from remeasurement to fair value are reported as a separate component of equity until the investment is disposed of or the investment is determined to be impaired. On disposal or impairment the cumulative gain or loss previously reported in equity is included in the statement of income for the year.

Fair values

For financial instruments traded in organised financial markets, fair value is determined by reference to quoted market prices at the balance sheet date.

For corporate investments, which have no quoted market price, the carrying value is adjusted to reflect the estimate of fair value based on valuation implied by the following events:

- (a) exit is imminent or negotiation for sale is in progress;
- (b) recent significant transaction involving third parties which are not retail investors;
- (c) valuation determined by independent professional consultants; or
- (d) performance of the investee company or the valuation multiples of similar listed companies change significantly.

For managed funds, fair values are determined based on the net asset value provided by the fund managers.

Investment properties

Investment properties are those held to earn rentals and/or for capital appreciation. These are initially recorded at cost, including acquisition charges associated with the property.

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the statement of income as unrealised gain/loss in investment properties, except for the portion related to unrestricted investment accounts which is recognised directly under the investment revaluation reserve in the statement of changes in equity. The fair value of the investment properties is determined based on valuations made by independent valuers. Realised gains or losses are disclosed as profit/loss on sale of investment properties.

2 Significant Accounting Policies (continued)

Investment in associates

Associates are legal entities in which the bank holds 20% to 50% of the voting power or over which it exercises significant influence. The investment in associate is accounted for under the equity method of accounting.

Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek comprises assets, mainly land and buildings, leased to third parties, under terms that would transfer the ownership of the assets to third parties at the end of the lease period.

Ijarah assets are recorded at cost. Depreciation is provided on a diminishing balance method on all Ijarah assets other than land, at rates calculated to write off the cost of each asset over the period of the lease.

Fixed assets

Fixed assets held for administrative purposes are recorded at cost. Depreciation is provided on a diminishing balance method at rates calculated to write off the cost of each asset over its estimated useful life.

Investment revaluation reserve

Unrealised gains resulting from revaluation of investment properties, related to shareholders' funds, are appropriated to investment revaluation reserve and are not available for distribution to shareholders. Upon disposal of an asset, the cumulative gain related to the asset is transferred to retained earnings and is available for distribution to shareholders.

Provisions

Provisions are recognised when the bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Offsetting

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

Revenue recognition

Murabaha

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable, it is recognised when realised. Accrual of income is suspended when the Bank believes that the recovery of these amounts may be doubtful or when the repayments are overdue by 90 days, whichever is earlier.

Mudaraba

Income and losses on Mudaraba transactions are recognised when these are declared by the Mudarib.

Dividends

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

Ijarah

Ijarah income is recognised on a time-apportioned basis over the lease term.

Fees and commission income

Fees and commission income is recognised when earned.

Allocation of income

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

Notes to the Financial Statements

At 31 December 2003

2 Significant Accounting Policies (continued)

The provisions for investment and fair value adjustments related to investments are charged to both the shareholders and the holders of the unrestricted investment accounts, considering the allocation of various assets.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Bahraini Dinar at rates of exchange prevailing at the balance sheet date. Investments in foreign currencies which are remeasured to fair value are retranslated into Bahrain Dinars at rates of exchange prevailing at the remeasurement date. Any gains or losses are taken to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise balances with maturities of less than 90 days from the date of transaction including: cash and balances with the BMA, with banks and other financial institutions, Murabahas and Mudarabas with banks.

Impairment and uncollectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Bank of the effective value to it of anticipated cash flows including anticipated recoveries from guarantees and collaterals, is recognised in the statement of income.

In addition, a non-specific provision is made to cover impairment which, although not specifically identified, is deemed to be present in the bank's portfolio of financial assets based on market experience.

Trade and settlement date accounting

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

3 Cash and Balances with the Bahrain Monetary Agency and Banks

	2003 BD	2002 BD
Cash	403,621	79,424
Balances with Bahrain Monetary Agency	5,980,509	550,000
Balances with banks	214,798	286,088
	6,598,928	915,512

4 Receivables and Prepayments

	2003 BD	2002 BD
Fee receivable	669,824	-
Rentals due	79,064	-
Prepaid expenses	46,789	-
Other receivables	1,018,983	35,385
	1,814,660	35,385

Other receivable include BD 931 thousand in respect of sale of an investment property.

5 Murabaha and Mudaraba Contracts with Banks

	Europe BD	Middle East BD	2003 BD	Europe BD	Middle East BD	2002 BD
Murabaha contracts with banks						
- international commodities	6,482,968	8,041,371	14,524,339	9,720,211	13,643,520	23,363,731
Deferred profits	(208,135)	-	(208,135)	(465,996)	(6,594)	(472,590)
	6,274,833	8,041,371	14,316,204	9,254,215	13,636,926	22,891,141
Mudaraba contract with banks	9,438,912	-	9,438,912	-	-	-
	15,713,745	8,041,371	23,755,116	9,254,215	13,636,926	22,891,141

6 Murabaha and Ijarah Muntahia Bittamleek Contracts - Relating to Customers

	2003 BD	2002 BD
Murabaha contracts	25,199,498	-
Deferred profits	(5,022,924)	-
	20,176,574	-
Ijarah Muntahia Bittamleek (see below)	5,704,946	-
	25,881,520	-
Non-specific provision	(499,804)	-
	25,381,716	-

Ijarah Muntahia Bittamleek are represented by the following assets:

	Land BD	Buildings BD	2003 Total BD	2002 Total BD
Cost - additions during the period	801,266	5,017,056	5,818,322	-
Ijarah assets depreciation - provided during the period	(16,073)	(97,303)	(113,376)	-
Net book value	785,193	4,919,753	5,704,946	-

The rentals received against Ijarah Muntahia Bittamleek are included in income from retail and corporate banking activities. The above depreciation is covered by these rentals.

The composition of the Murabaha and Ijarah Muntahia Bittamleek contracts, net of deferred profits and provision, based on the status of the customer to the contract, is as follows:

	2003 Total BD	2002 Total BD
Commercial and business	10,235,714	-
Real estate	9,328,547	-
Private individuals	5,817,455	-
	25,381,716	-

All the above are with customers based in Middle East.

Notes to the Financial Statements

At 31 December 2003

7 Investments

The composition of the investment portfolio is as follows:

	2003 BD	2002 BD
Held for trading	6,713,560	-
Managed funds	5,675,697	7,577,102
Available-for-sale	21,739,413	-
Total investments	34,128,670	7,577,102

The percentage of Bank's ownership in the investee companies, where significant, is as follows:

	2003 %	2002 %
New Zealand Australian Fund	100	-
<i>A fund incorporated in the Kingdom of Bahrain, with a fund size of USD 100 million, currently underwritten by the Bank.</i>		
Durrat Al-Bahrain	50	-
<i>A company currently engaged in developing Durrat Al-Bahrain Islands, a real estate project in the Kingdom of Bahrain.</i>		
Mina Tower	60	-
<i>A company currently engaged in developing a residential tower in Amwaj Islands, a real estate project in the Kingdom of Bahrain.</i>		
Miracle Graphics	70	-
<i>A company engaged in designing and printing works in the Kingdom of Bahrain and Kuwait.</i>		
Comsats	87.7	-
<i>A company engaged in providing 2-way satellite communication facilities in the Gulf region.</i>		

Investments classified as available-for-sale are carried at cost, which at the year-end best reflected the estimate of the fair values, since they were acquired recently.

The composition of the investment portfolio is as follows:

	New Zealand/ Australia BD	Middle East BD	2003 BD	2002 BD
Commercial and technology	6,713,560	2,687,028	9,400,588	-
Real estate development	-	19,052,385	19,052,385	-
Banking and finance	-	5,675,697	5,675,697	-
31 December 2003	6,713,560	27,415,110	34,128,670	-

8 Investment Properties

	2003 BD	2002 BD
At the beginning of the period	2,481,648	-
Additions	6,152,782	2,481,648
Disposals	(3,784,192)	-
Net gain from fair value adjustment	1,717,391	-
At 31 December	6,567,629	2,481,648
Investment properties at 31 December consist of the following:		
Buildings in Bahrain	2,700,770	259,272
Land in Bahrain	3,866,859	2,222,376
	6,567,629	2,481,648

Investment properties were revalued as of dates close to the balance sheet date, by independent consultants who have reasonable and sufficient experience in the location and category of the properties being valued.

These include properties in which the Bank's share is valued at BD 5,086 thousand (2002: BD Nil) which are jointly owned with affiliates and/or third parties and are subject to normal conditions applicable to joint ownership.

9 Investment in Affiliates

The bank has a 33% shareholding (2002: Nil) in Al-Enma Real Estate House B.S.C. (c), a company incorporated in the Kingdom of Bahrain in September 2003. The company's share of equity attributable to the Bank is not significantly different from its cost.

The Bank holds 100% share in Baytak Advisory W.L.L., a company incorporated in the Kingdom of Bahrain in August 2003. This investment has not been consolidated in these financial statements as it is not material to the financial position or results of the Bank.

10 Due to Banks

	2003 BD	2002 BD
Vostro accounts	204,178	-
Murabaha contracts from banks	28,275,000	-
	28,479,178	-

Murabaha contracts from banks represent funds received from other banks on the principles of Murabaha transactions.

11 Murabaha Contracts

These represent funds received from non-banks on the principles of Murabaha transaction.

12 Customer's Current Accounts

These represent customer accounts which are not entitled to any profit distributions in accordance with the terms of the related agreements.

Notes to the Financial Statements

At 31 December 2003

13 Other Liabilities

	2003 BD	2002 BD
Suppliers against Murabaha contract goods	223,137	-
Accrued expenses	456,361	44,000
Compensating balances received against trade finance facilities	227,336	-
Undistributed declared profit	69,956	-
Other liabilities	98,853	60,899
	1,075,643	104,899

14 Unrestricted Investment Accounts

	2003 BD	2002 BD
(a) The composition of these is as follows:		
Customers	6,671,115	20,532
Financial institution	1,885,000	-
	8,556,115	20,532
(b) Profit allocation between unrestricted investment accounts and shareholders is as follows:		
Unrestricted investment account holders' share of profit	131,813	-
Shareholders' share of profit	3,244,975	242,597
	3,376,788	242,597

As unrestricted investment account holders' funds are commingled with the Bank's funds for investing in short term highly liquid investments, no priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested. The Bank did not take any share in the profit of unrestricted investment accounts as a mudarib.

Income generated from current account balances has been taken in full to the account of the shareholders.

15 Share Capital

The authorised, issued and fully paid-up share capital as of 31 December 2003 comprised 35,000,000 shares (2002: 35,000,000 shares) of BD 1 each.

16 Statutory Reserve

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

17 Retained Earnings

Retained earnings include an aggregate amount of BD 1,946 thousand (2002: Nil) on account of remeasurement to fair value of investments.

18 Income from Investment Banking Activities

	2003 BD	2002 BD
Gain on investment held for trading	1,946,130	-
Unrealised gain on investment properties	1,717,391	-
Profit on sale of investment properties	1,147,548	-
Income from international commodity Murabaha contracts	751,688	517,330
Investment banking fees	278,522	-
Income from managed funds	176,807	121,443
Other income	151,937	-
	6,170,023	638,773

19 Income from Retail and Corporate Banking Activities

	2003 BD	2002 BD
Income from Murabaha contracts	539,057	-
Income from Ijarah	244,725	-
Other fees and commission	21,422	-
	805,204	-

20 Other Operating Expenses

	2003 BD	2002 BD
Technology and communication	497,967	7,990
Administration, professional and others	284,890	64,623
Business development	216,016	64,677
Premises - rentals and maintenance	175,383	19,046
	1,174,256	156,336

21 Cash and Cash Equivalents

Cash and cash equivalents included in the statement of cash flows comprise of the following balance sheet amounts:

	2003 BD	2002 BD
Cash and balances with the Bahrain Monetary Agency and banks	6,598,928	915,512
Murabaha contracts	6,871,423	14,974,141
Mudaraba contracts	1,426,205	-
	14,896,556	15,889,653

Notes to the Financial Statements

At 31 December 2003

22 Related Party Transactions

Parties are considered related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. For the Bank, such related parties include its investee companies and companies that hold these investments. It also includes shareholders, directors and senior officers of the Bank, their immediate families and companies of which they are principal owners. Income is earned or expense is incurred in the Bank's transactions with such related parties in the ordinary course of business. All the contracts with related parties are performing and all balances with related parties are free of any impairment at the balance sheet date.

In addition to the investments, in which the Bank exercises significant influence or control, other year end balances in respect of related parties included in the financial statements are as follows:

	2003 BD	2002 BD
Murabaha contracts with a bank	9,425,000	14,793,598
Mudaraba contracts - relating to customers	1,000,000	-
Investments	5,675,697	7,577,102
Due to banks	3,973,813	-
Customers' current accounts	3,645,774	-

The income and expenses in respect of related parties, in addition to those arising from investment transactions, included in the financial statements are as follows:

	2003 BD	2002 BD
Income from international commodity Murabaha contracts	333,576	431,931
Income from managed funds	176,807	121,443
Income from retail and corporate banking activities	33,647	-
Operating expenses	396,185	-

The Bank also purchased fixed assets with an aggregate cost of BD 985 thousands (2002: BD 964 thousand) from a related party.

23 Commitments and Contingent Liabilities

Financing-related commitments

These include commitments to enter into contracts which are designed to meet the requirements of the Bank's customers. Commitments represent contractual commitments under Murabaha, Mudaraba and Ijarah Muntahia Bittamleek contracts. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being exercised, the total contract amounts do not necessarily represent future cash flow requirements.

23 Commitments and Contingent Liabilities (continued)

Letters of credit and guarantees (including standby letters of credit) 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.

The bank has the following credit related commitments:

	2003 BD	2002 BD
<i>Commitments on behalf of customers:</i>		
Letters of credit	701,738	-
Guarantees	758,390	-
	1,460,128	-
<i>Irrevocable commitments to extend credit:</i>		
Original term to maturity of one year or less	211,940	-
Original term to maturity of more than one year	1,688,400	-
	3,360,468	-

Capital and operating lease commitments

At 31 December 2003 the bank had capital commitments in respect of premises and equipment purchases amounting to BD 200 thousand (2002: BD 663 thousand) and commitments in respect of non-cancelable operating leases amounting to BD 349 thousand (2002: BD 442 thousand) relating to leasehold premises. Of the commitments in respect of operating leases, BD 93 thousand expire within one year and the remaining expire within two to five years.

Investment commitments

At 31 December 2003, there were no investment related commitments outstanding (2002: BD Nil). However, the Bank remains committed to providing necessary financial support to the investee companies where considered necessary and financially viable.

The Bank does not expect any material loss in respect of the above.

24 Credit Risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The bank manages credit risk by setting limits for individual borrowers, and groups of borrowers and for geographical and industry segments. The bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties. All financing contracts are secured by the continued ownership of the object of the financing contracts until the time the obligations are fully met and personal guarantees of the counterparty, thus the risk of non payment is limited to the opportunity of reinvesting the installments in the cases of non-payment on the due date.

For details of the composition of the various assets involving credit risk, refer note 5, 6 and 7.

25 Concentrations

Concentrations 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 indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location. The Bank manages its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

Notes to the Financial Statements

At 31 December 2003

25 Concentrations (continued)

The distribution of assets, liabilities, unrestricted investment accounts, equity and off-balance sheet items by geographic region and industry sector was as follows:

	2003			2002		
	Assets BD	Liabilities, unrestricted investment accounts and equity BD	Off balance sheet items BD	Assets BD	Liabilities, unrestricted investment accounts and equity BD	Off balance sheet items BD
GEOGRAPHIC						
Middle East	78,903,711	100,946,754	1,460,128	26,331,892	35,379,892	-
Europe	15,457,000	-	-	9,048,000	-	-
New Zealand / Australia	6,586,043	-	-	-	-	-
	100,946,754	100,946,754	1,460,128	35,379,892	35,379,892	-
INDUSTRY SECTOR						
Trading and business	2,603,134	5,166,922	-	-	-	-
Banks and financial institutions	29,430,813	81,959,982	-	35,379,892	35,379,892	-
Construction and real estate	11,597,949	-	-	-	-	-
Individuals	11,680,437	13,819,850	-	-	-	-
Other	45,634,421	-	-	-	-	-
	100,946,754	100,946,754	-	35,379,892	35,379,892	-

26 Market Risk

Market risk arises from fluctuations in global yields on financial instruments and foreign exchange rates that could have an indirect effect on the Bank's assets value and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Asset and Liability Committee.

27 Profit Sharing Risk

The Bank has risk to changes in profit return as a result of changes in the market profitability relating to due from financial institutions and available-for-sale investments. The profit return risk relating to due from financial institutions is partially mitigated by the profit return payable on due to financial and other institutions. This risk also arises from the possibility that changes in profit return will affect the value of the financial instruments that mature or reprice in a given period.

The return payable to unrestricted investment account holders by the Bank is dependent upon the profit or loss made by the Bank over a given period.

28 Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The bank views itself as a Bahraini entity, with the Bahrain Dinar as its functional currency. The Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

Substantial portion of the Bank's assets and liabilities are denominated in Bahrain Dinars or US Dollars. US Dollar is pegged to Bahrain Dinar and as such the currency risk is minimal.

There are no significant exposures denominated in other foreign currencies as of 31 December 2002 and 2003.

29 Liquidity Risk

Liquidity risk is the risk that the bank will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with due considerations to liquidity requirements and monitors liquidity on a daily basis.

The table below summarises the maturity profile of the bank's assets and liabilities based on contractual repayment arrangements. The maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the bank's deposit retention expectation and the availability of liquid funds. In the case of investments and investment properties, the maturity date has been determined based on management's expectation of possible sale dates.

The maturity profile of the assets and liabilities at **31 December 2003** was as follows:

	Up to 3 months BD	3 months to 1 year BD	1 to 5 years BD	5 to 10 years BD	10 to 20 years BD	Undated BD	Total BD
ASSETS							
Cash and balances with the Bahrain Monetary Agency and banks	6,598,928	-	-	-	-	-	6,598,928
Receivables and prepayments	1,790,034	24,626	-	-	-	-	1,814,660
Murabaha and Mudaraba contracts with banks	17,480,783	6,274,333	-	-	-	-	23,755,116
Mudaraba and Ijarah Muntahia Bittamleek contracts - relating to customers	1,426,205	5,081,980	14,642,675	3,944,856	286,000	-	25,381,716
Investments	18,504,257	1,885,000	13,739,413	-	-	-	34,128,670
Investment properties	1,146,091	-	5,421,538	-	-	-	6,567,629
Investment in affiliates	-	-	-	-	-	638,137	638,137
Fixed assets	-	-	-	-	-	2,061,898	2,061,898
Total assets	46,946,298	13,265,939	33,803,626	3,944,856	286,000	2,700,035	100,946,754
LIABILITIES							
Due to banks	28,479,178	-	-	-	-	-	28,479,178
Murabaha contracts	-	13,013,096	-	-	-	-	13,013,096
Customers' current accounts	11,383,150	-	-	-	-	-	11,383,150
Other liabilities	1,075,643	-	-	-	-	-	1,075,643
Total liabilities	40,937,971	13,013,096	-	-	-	-	53,951,067
Unrestricted investment accounts	8,556,115	-	-	-	-	-	8,556,115
Total liabilities and unrestricted investment accounts	49,494,086	13,013,096	-	-	-	-	62,507,182

Notes to the Financial Statements

At 31 December 2003

29 Liquidity Risk (continued)

The maturity profile of the assets and liabilities at 31 December 2002 was as follows:

	Up to 3 months BD	3 months to 1 year BD	1 to 5 years BD	5 to 10 years BD	10 to 20 years BD	Undated BD	Total BD
ASSETS							
Cash and balances with the Bahrain Monetary Agency and banks	915,512	-	-	-	-	-	915,512
Receivables and prepayments	35,385	-	-	-	-	-	35,385
Murabaha and Mudaraba contracts with banks	14,974,141	6,032,000	1,885,000	-	-	-	22,891,141
Investments	-	7,577,102	-	-	-	-	7,577,102
Investment properties	-	-	2,481,648	-	-	-	2,481,648
Fixed assets	-	-	-	-	-	1,479,104	1,479,104
Total assets	15,925,038	13,609,102	4,366,648	-	-	1,479,104	35,379,892
LIABILITIES							
Customers' deposits	11,864	-	-	-	-	-	11,864
Other liabilities	104,899	-	-	-	-	-	104,899
Total liabilities	116,763	-	-	-	-	-	116,763
Unrestricted investment accounts	20,532	-	-	-	-	-	20,532
Total liabilities and unrestricted investment accounts	137,295	-	-	-	-	-	137,295

30 Fair value of Financial Instruments

There is no significant difference in the carrying values and fair values of those on and off balance sheet financial instruments which are not measured to fair values.