BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

January 21, 2005

IN RE: Application for Approval of the Transfer of Control of Cypress Communications Operating Company, Inc. from Cypress Communications Holding Co., Inc. To TechInvest Holding Company, Inc.	)))))	Docket No. 04-00417

RESPONSE TO DATA REQUEST

Cypress Communications Operating Company, Inc. ("Cypress") Cypress Communications Holding Co., Inc. ("Cypress Holding") and TechInvest Holding Company, Inc. ("THC") respectfully submit the following responses to the Data Request issued by the Tennessee Regulatory Authority ("TRA") on January 19, 2005.

1. Will Cypress Operating Company, Inc. ("Cypress") continue to do business in Tennessee under its present CCN? Will it continue to operate under its current name?

   Response: Yes. Cypress will continue to do business in Tennessee under its present CCN and will continue to operate under its current name.

2. Provide a copy of Cypress's certification with the Tennessee Secretary of State.

   Response: Appended hereto as *Attachment 1* please find a copy of Cypress's certification with the Tennessee Secretary of State.

3. Has TechInvest Holding Company, Inc. ("THC") filed a similar petition in the other states in which Cypress conducts business? If so, what were the results of the filings?

1020515 v1
100784-001 1/21/2005

Response: Yes, THC has filed a similar petition in other states in which Cypress is authorized to provide telecommunications services. Specifically, the results of the filings as of the date of this letter are as follows:

Notice filings in the following states have been made and are complete: Alabama, Connecticut, District of Columbia, Georgia, Illinois, Kentucky, Massachusetts, Michigan, Mississippi, Nevada, Oregon, South Carolina and Texas.

Notice filings in the following states have been made and are pending: Maryland.

The following states require approval and the status of the applications are as follows:
California: pending, anticipated approval 3/17/05
Colorado: to be resubmitted, anticipated approval in February
Delaware: approved, complete
Indiana: approved, complete
Louisiana: pending, anticipated approval in January
Minnesota: pending, anticipated approval in January
New Jersey: pending, anticipated approval 2/23/05
New York: pending, automatic approval expected 2/28/05
Ohio: approved, complete
Pennsylvania: approved, complete
Utah: pending, anticipated approval in January
Virginia: pending, anticipated approval in February

4. Was a similar petition filed with the FCC? What is the File No. or Docket No. assigned by the FCC?

Response: Yes, a similar petition was filed with the FCC. The domestic docket number assigned is WC 04-418 and the international file number is ITC-T/C-20041112-00448.

5. Will the assets of Cypress be encumbered in any manner by the transfer of control transaction?

Response: No, the assets of Cypress will not be encumbered by the transfer of control transaction.

6. The Application states on page seven that "Interests in these Cayman Island entities will be sold through a Shares Offering to non-U.S. persons." Please explain why this transaction is so structured.

Response: FIIB's mission is to provide innovative and distinctive investment opportunities that generate superior risk-adjusted returns. FIIB bridges investors in the Middle East, a region with an overwhelming amount of the world's wealth due to the Gulf's oil supply, with investment opportunities in the U.S. and Europe, the world's two most active economies. Generally, FIIB establishes Cayman Islands companies through which high net worth foreign individuals invest in particular companies. The syndication to these individuals allows FIIB to reduce its balance sheet exposure to any particular deal to approximately 15% to 20% of the equity value. The investments made in the Cayman Islands companies represent non-voting economic interests, with no ability to affect the day-to-day operations of Cypress.

7. The Application states that voting stock of THC will be held by 15 Cayman Island entities with each entity limited in percentage of voting interest to 6.67% of THC. The Cayman Island entities then will be owned by 50 International Investors. Provide a complete organization chart tracing all of the owners, investors, and chain of command at the conclusion of the transaction. Please include Crescent in the chart.

Response: In their Application, the Parties described a proposed transfer of control of Cypress from Cypress Holding Co., Inc. ("Cypress Holding") to THC, which would have an ownership structure such that no person would hold an interest that would be sufficient to constitute a 10 percent or greater equity or voting interest in Cypress post-close or confer the ability to control Cypress. As discussed in further detail in *Attachment 2* hereto, THC has decided to change the ownership of the voting stock of THC, and thus voting control over Cypress, post-close. This minor amendment of a change in ownership structure does not change the Parties' proposal that THC will assume ultimate control over Cypress. As discussed in the Application, the proposed transaction will result in a change in the ultimate ownership of Cypress, but the management and operation of Cypress will continue largely unchanged. Cypress will retain its authorization to provide telecommunications services in Tennessee and will continue to provide service to its existing customers in the same manner as it does today. *Attachment 2* also includes PowerPoint slides from a presentation by Cypress to staff from the Department of Homeland Security, Department of Justice, and the Federal Bureau of Investigation. Included in the presentation is a chart tracing the owners, investors and chain of command, including Crescent, at the conclusion of the transaction.

8. Provide a projected balance sheet, income statement, and expected cash flow statement of THC after 12 months of operations.

Response: Please see *Attachment 3*, which details Cypress' financial support. The financial information for FIIB is being provided in response to this request, as THC is simply a holding company. The financial support for Cypress will come from FIIB.

9. Provide expected date of actual consummation of the transaction.

Response: As noted in the Application, the closing of the transaction is contingent on receipt of the necessary regulatory approvals and the approval of the shareholders of Cypress Holding, among other things. It is anticipated that the transaction will be consummated in March 2005.

10. Cypress will become a direct, wholly owned subsidiary of THC which is currently an indirect subsidiary of First Islamic Investment Bank, E.C. ("FIIB"). Will this remain true after the transaction is consummated?

Response: As described in the Application, Cypress is a direct, wholly owned subsidiary of Cypress Communications, Inc., which in turn, is a direct, wholly owned subsidiary of Cypress Holding. Post-close, Cypress Holding will be a direct, wholly owned subsidiary of THC. In other words, Cypress will become an indirect, wholly owned subsidiary of THC, its ultimate corporate parent. THC currently is an indirect subsidiary of FIIB and will remain an indirect subsidiary of FIIB after the transaction is consummated, as FIIB will indirectly hold the largest share (approximately 18.76%) of non-voting equity interests post-close, FIIB employees will indirectly hold another 3.28% (through FIIP Limited), and another FIIB subsidiary, First Islamic Investment Management ("FIIM"), will hold proxies to vote 100% of the voting stock in THC.

11. Will Crescent have any actual ownership of THC after the transaction is completed?

Response: Crescent will not hold any ownership interests in THC after the transaction is completed.

12. Confirm that all of the voting stock of THC will be held by the 15 Cayman Island entities, but that FIIB will, within the revocable proxy issued to the 15 entities, be able to vote the stock of THC and thus affect all major decisions that may or many not effect Cypress Communications.

Response: Please see the answer to Question No. 7 above. The new holders of the voting stock of THC described in *Attachment 2* hereto will hold all the voting stock of THC, but they will each grant a revocable proxy to FIIM, a wholly-owned, indirect subsidiary of FIIB, to vote the stock of THC and thus affect all major decisions that may or may not affect Cypress.

13. Provide evidence of agreement that Cypress will still be under the regulation of the Tennessee Regulatory Authority in accordance to its customary statutes as it pertains to the telecommunications industry in Tennessee.

Response: Since this is a stock transaction as opposed to an asset sale, the transfer of control of Cypress will not result in a change of carrier for Cypress' customers or any transfer of authorizations. Immediately following consummation of the transaction, Cypress will continue to provide high-quality communications services to its customers pursuant to its existing certificate. The contact for Authority inquiries will remain the same. Thus, Cypress will still be under the regulation of the Authority.

14. Will all assets in addition to the customers of Cypress be sold to THC?

Response: The transaction described in the Application for which approval is sought is not an asset sale, but rather, a transfer of control. All Cypress customers will remain customers of Cypress. As noted above, since this is a stock transaction as opposed to an asset sale, the transfer of control of Cypress will not result in a change of carrier for Cypress' customers or any transfer of authorizations.

Respectfully submitted,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By: Kristy R. Godsey

Henry M. Walker
Kristy R. Godsey
1600 Division Street, Suite 700
P.O. Box 340025
Nashville, Tennessee 37203
(615) 252-2363

ATTACHMENT 1

Secretary of State
Corporations Section
James K. Polk Building, Suite 1800
Nashville, Tennessee 37243-0306

DATE: 04/25/00
REQUEST NUMBER: 3891-0669
TELEPHONE CONTACT: (615) 741-2286
FILE DATE/TIME: 04/25/00 1435
EFFECTIVE DATE/TIME: 04/25/00 1435
CONTROL NUMBER: 0388390

TO:
C T CORP SYSTEM
1201 PEACHTREE

ATLANTA, GA 30361

RE:
CYPRESS COMMUNICATIONS OPERATING COMPANY, INC.
APPLICATION FOR CERTIFICATE OF AUTHORITY -
FOR PROFIT

WELCOME TO THE STATE OF TENNESSEE. THE ATTACHED CERTIFICATE OF AUTHORITY HAS BEEN FILED WITH AN EFFECTIVE DATE AS INDICATED ABOVE.

A CORPORATION ANNUAL REPORT MUST BE FILED WITH THE SECRETARY OF STATE ON OR BEFORE THE FIRST DATE OF THE FOURTH MONTH FOLLOWING THE CLOSE OF THE CORPORATION'S FISCAL YEAR. PLEASE PROVIDE THIS OFFICE WITH WRITTEN NOTIFICATION OF THE CORPORATION'S FISCAL YEAR. THIS OFFICE WILL MAIL THE REPORT DURING THE LAST MONTH OF SAID FISCAL YEAR TO THE CORPORATION AT THE ADDRESS OF ITS PRINCIPAL OFFICE OR TO A MAILING ADDRESS PROVIDED TO THIS OFFICE IN WRITING. FAILURE TO FILE THIS REPORT OR TO MAINTAIN A REGISTERED AGENT AND OFFICE WILL SUBJECT THE CORPORATION TO ADMINISTRATIVE REVOCATION OF ITS CERTIFICATE OF AUTHORITY.

WHEN CORRESPONDING WITH THIS OFFICE OR SUBMITTING DOCUMENTS FOR FILING, PLEASE REFER TO THE CORPORATION CONTROL NUMBER GIVEN ABOVE.

FOR: APPLICATION FOR CERTIFICATE OF AUTHORITY - FOR PROFIT　　　ON DATE: 04/25/00

	FEES	
RECEIVED:	$600.00	$0.00
TOTAL PAYMENT RECEIVED:		$600.00

FROM:
C T CORPORATION SYSTEM (ATLANTA, GA.)
1201 PEACHTREE ST.,
N.E, STE 1240
ATLANTA, GA 30361-0000

RECEIPT NUMBER: 00002679212
ACCOUNT NUMBER: 00000009

Riley C Darnell

RILEY C. DARNELL
SECRETARY OF STATE

SS-4458

ATTACHMENT 2

In the Application, the Parties described a proposed transfer of control of Cypress from Cypress Holding to THC, which would have an ownership structure such that no person would hold an interest that would be sufficient to constitute a 10 percent or greater equity or voting interest in Cypress post-close or confer the ability to control Cypress. THC has decided to change the ownership of the voting stock of THC, and thus voting control over Cypress, post-close. This change in ownership structure does not change the Parties' proposal that THC will assume ultimate control over Cypress. As discussed in the Application, the proposed transaction will result in a change in the ultimate ownership of Cypress, but the management and operation of Cypress will continue largely unchanged. Cypress will retain its authorization to provide telecommunications services in Tennessee and will continue to provide service to its existing customers in the same manner as it does today.

In the Application, the Parties stated that following consummation of the merger between a subsidiary of THC and Cypress Holding, all of the voting stock of THC will be held by 15 Cayman Island entities (the "Voting Cayman Entities"), with the ownership of the voting stock divided equally among these companies. The ownership interest in the Voting Cayman Entities, in turn, will be held by approximately 50 international investors (the "International Investors"). Each International Investor has granted a revocable proxy to First Islamic Investment Management Limited ("FIIM"), a wholly-owned indirect subsidiary of FIIB, to vote the investor's shares on all matters. In addition, each Voting Cayman Entity has entered into an administrative agreement with FIIM pursuant to which FIIM will be authorized to vote the voting stock of THC and make all major decisions on behalf of the Voting Cayman Entities.

Under the revised structure, the voting interests of THC will be held in equal shares by five (5) individuals, all of whom are U.S. citizens. The five individuals are David Crosland, Charles Ogburn, Ed Underwood, Ransom James, and Bob Shingler. Mr. Crosland, Mr. Ogburn, Mr. Underwood, and Mr. James are employees of Crescent Capital Investments, Inc. ("Crescent"), a U.S. corporation and a wholly-owned subsidiary of FIIB. Mr. Shingler is currently a consultant to Crescent but will be the Chief Executive Officer of Cypress post-close. Mr. Crosland, Mr. Ogburn, Mr. Underwood, Mr. James, and Mr. Shingler will each grant a revocable proxy to FIIM to vote the voting stock of THC and make all major decisions with respect to the voting stock on his behalf. In total, the voting stock of THC as held by Mr. Crosland, Mr. Ogburn, Mr. Underwood, Mr. James, and Mr. Shingler will represent less than 2 percent of the aggregate equity value of THC.

This change in structure will eliminate the 50 International Investors as indirect holders of the voting interests in THC. It is possible that some of these International Investors may elect to participate in FIIB's shares offering in the offshore investment companies that will hold the non-voting common stock of THC (the four "Non-Voting Cayman Entities" described in the Application). However, as explained in the Application, these investors in the Non-Voting Cayman Entities will be wholly or largely passive investors.

At the same time, this change in the voting structure is not a major change from the structure proposed in the Application. As before, no person will hold interests that would be sufficient to constitute a 10 percent or greater equity interest in Cypress post-close or confer the ability to control Cypress. While Mr. Crosland, Mr. Ogburn, Mr. Underwood, Mr. James, and Mr. Shingler will each hold a 20 percent voting interest in THC, each of these individuals is an employee of or consultant to Crescent, FIIB's subsidiary, and each will give another FIIB subsidiary, FIIM, the right to vote his shares in THC. Thus, under the revised structure as well as under the structure proposed in the Application, FIIB will control Cypress following consummation of the transactions contemplated by the Merger Agreement.

Cypress Communications Operating Company Transfer of Control

Presentation to DHS, DOJ, and FBI Staff

January 21, 2005

Cypress Operating

- Subsidiary of Cypress Communications Holding Co.
  - Provides in-building networks and resells telecommunications services.
    - No switches or transmission facilities outside of office buildings.
  - Small and medium-sized businesses located in 1,612 multi-tenant commercial office buildings in 25 major metro markets in the U.S.
    - No law enforcement or “first responder” customers.
    - About 10 federal/state government customers (out of 8,300).

Cypress Operating

- Subsidiary of Cypress Communications Holding Co. (con't)
  - Established procedures for handling law enforcement requests for assistance.
    - 21 requests since 2001; no requests for interception of communications.
  - No foreign operations or foreign carrier affiliates.
- FCC Licenses held
  - International and domestic Section 214 authority.

TechInvest Holding Company, Inc. (“THC”)

- U.S. corporation that is a subsidiary of First Islamic Investment Bank (“FIIB”) and an affiliate of Crescent Capital Investments (“Crescent”).

FIIB

- Bahrain-based international merchant bank founded in 1997 to bridge investors in the Gulf Region with investment opportunities in the U.S. and Europe.
  - Founders were principals at Investcorp, a global merchant bank, sourcing capital in the Middle East for the past 23 years.
  - Licensed by Bahrain Monetary Authority.
- Current investor base includes some of the wealthiest and most respected families and institutions in the Middle East.
- No shareholder or group of shareholders have control.
  - Management owns 11%.
  - Next largest shareholder holds 10.5%.

FIIB
(cont.)

- Approximately half of senior management are U.S. citizens.
- $1.2 billion balance sheet with over $95 million in cash and $355 million in equity.
  - No other telecom interests.
- Published annual report, including Ernst & Young audit.
- Operates in the U.S. through Crescent, and in Europe through Crescent Capital Investments Europe, Ltd.

FIIB Investor Procedures

- FIIB follows the principle of "know your customer."
  - Outlined in the Basle Committee statement and the Financial Action Task Force guidelines, as adopted by the Bahrain Monetary Authority.
  - E&Y provides periodic training for FIIB staff in KYC procedures.

FIIB Investor Procedures (cont.)

- "Know your customer" (cont.).
  - Comprehensive measures to verify each investor's identity and status before and during the investment horizon.
    - Marketing team personally knows each investor.
      - All investments placed pursuant to a PPM and Subscription Agreement.
    - FIIB legal department reviews each subscription before acceptance.
    - Check status on Worldcheck, a regularly updated subscription service which tracks numerous governmental lists of banned persons (including OFAC and the Bank of England Sanctions List).
    - Compare comprehensive investor base regularly against all updated lists of banned institutions released by OFAC, the US government and the government of Bahrain.
    - Comply with all anti-terrorism and anti-money laundering regulations of all relevant jurisdictions.

Crescent

- U.S. corporation based in Atlanta, managed by U.S. citizens.
- Wholly-owned subsidiary of FIIB.
- Identifies and structures investments for FIIB.
- Provides management and strategic advice to acquired companies in the U.S.
- Will provide management advice to Cypress post-close.

Crescent (cont.)

- Completed 13 corporate transactions in the U.S. since 1998.
  - Approximately $1.7 billion in aggregate enterprise value.
  - Over $825 million in equity invested to date; $150 million of equity commitments pending.
  - Diversified portfolio across a wide range of sectors, including consumer and retail, healthcare, aerospace, industrial and technology.
    - Investments include: Caribou Coffee, Church's Chicken, Cirrus Industries, and American Pad & Paper.
    - Executed two highly successful exits to strategic buyers: Computer Generation, Inc. and Medifax-EDI, Inc.

Crescent (cont.)

- Over 30 banks have provided financing to Crescent's transactions, including:

Aareal Bank
ABN Amro Bank
Allstate
Bank of America
Bank of Scotland
Bank of Tokyo-Mitsubishi
BankOne
Bayerische Hypo- und Nereinsbank
BNP Paribas
CIC Group

Cigna
CIT
Credit Foncier de France
Credit Lyonnais
Dexia
Fannie Mae
FleetBoston Bank
Fortis Bank
Freddie Mac
GMAC
Helaba

HSBC
ING BHF Bank
KBC
KfW
Natexis
Prudential
Royal Bank of Canada
Royal Bank of Scotland
Standard Trust
SunTrust
Wells Fargo Foothill

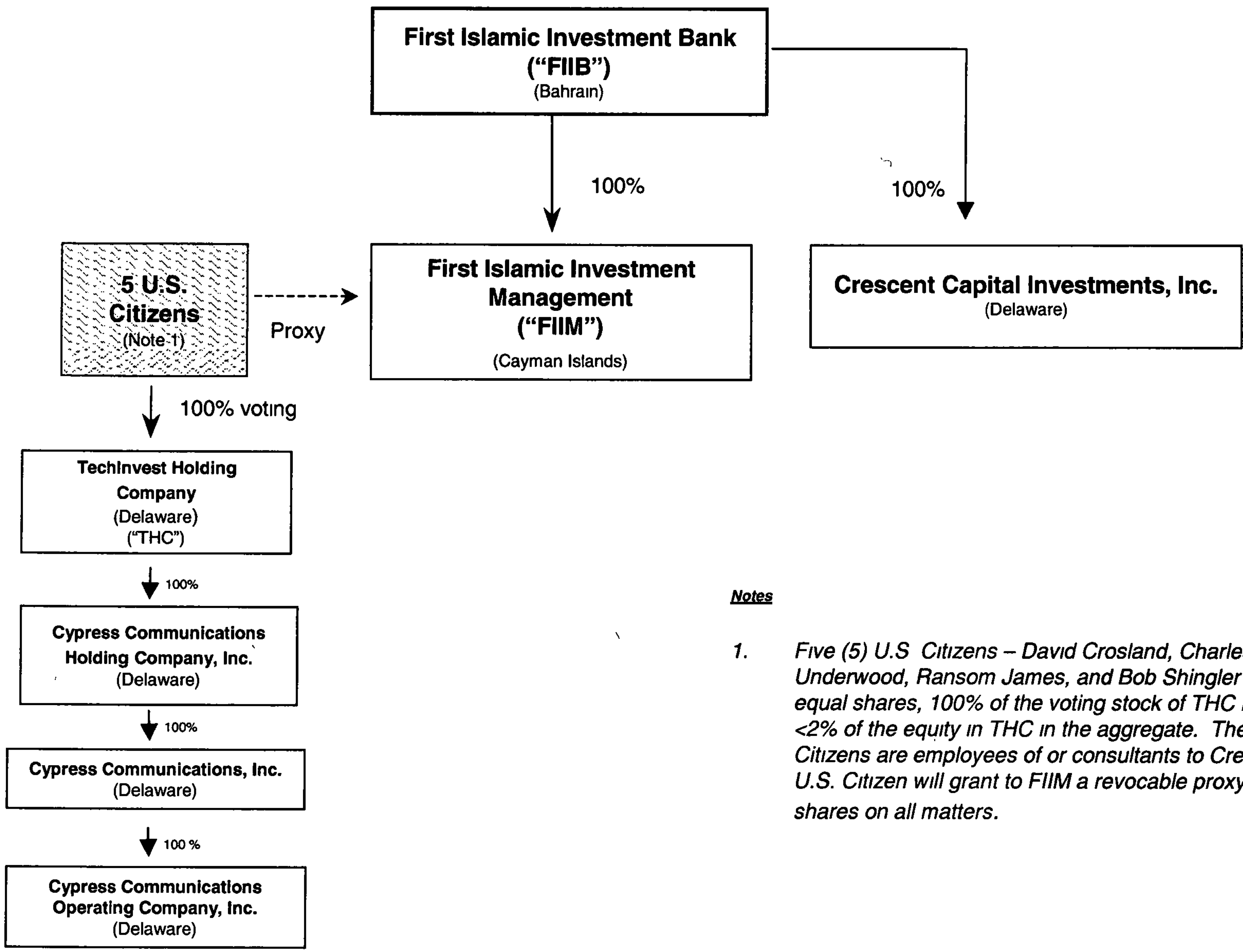
Agreement and Plan of Merger

- TechInvest Acquisition, Inc., a subsidiary of THC, will be merged into Cypress Holding, with Cypress Holding surviving as a wholly-owned subsidiary of THC.
- Existing shareholders of Cypress Holding receive $39.35 million (subject to adjustment) for capital stock.
- Closing subject to receipt of regulatory approvals and approval of Cypress Holding shareholders.
- Closing anticipated March 2005.

Post-Close Ownership Structure

- Bottom line: FIIB controls THC (and thus Cypress).
  - Voting interests in THC:
    - All voting interests in THC will be held by U.S. citizens who are employees or consultants of FIIB.
    - A FIIB subsidiary, First Islamic Investment Management Limited ("FIIM"), will hold proxies to vote 100% of THC voting stock.
  - Non-voting equity interests in THC: after closing, FIIB syndicates an offering of shares in offshore investment companies that hold non-voting equity interests in THC, *however:*
    - FIIB indirectly will own largest share (approximately 18.76%) of non-voting equity interests in THC; FIIB employees indirectly will own another 3.28% through FIIP.
    - No other person will hold 10% or greater non-voting equity interests in THC, or interests sufficient to confer the ability to control THC, post-close.

POST-CLOSE OWNERSHIP STRUCTURE: Voting interests



Notes

1. *Five (5) U.S Citizens – David Crosland, Charles Ogburn, Ed Underwood, Ransom James, and Bob Shingler – will hold, in equal shares, 100% of the voting stock of THC representing <2% of the equity in THC in the aggregate. The 5 U.S. Citizens are employees of or consultants to Crescent. Each U.S. Citizen will grant to FIIM a revocable proxy to vote his shares on all matters.*

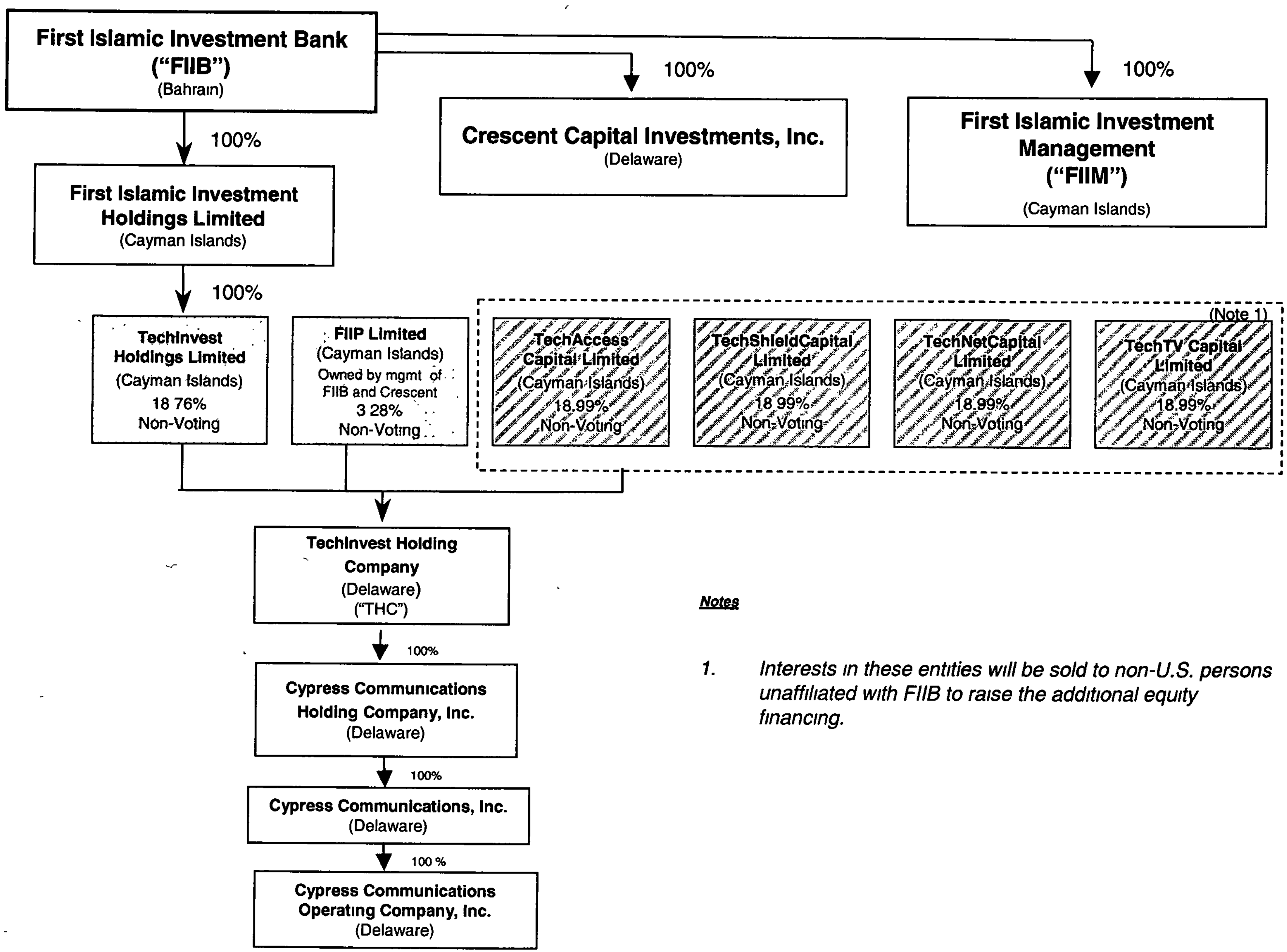
Post-Close Ownership Structure: Voting Interests (cont.)

- Voting interests of THC held by:
  - 5 U.S. citizens, all employees of or consultants to Crescent, in equal shares.
  - 100% of voting interests of THC = <2% equity interest in THC.
- Each U.S. citizen will give proxy to FIIM to vote his shares in THC.

Post-Close Ownership Structure: Voting Interests (cont.)

- Charles Ogburn (Crescent Capital, 4 years)
  - Previously with Robinson-Humphrey (18 years) and King & Spalding (5 years)
  - Duke University, Vanderbilt University School of Law JD
- David Crosland (Co-founder, Crescent Capital, 8 years)
  - Previously with Investcorp (5 years), Morgan Stanley (3 years), and Chase (5 years)
  - Duke University, Harvard MBA
- Ed Underwood (Co-founder, Crescent Capital, 8 years)
  - Previously with Investcorp (10 years), Burnham Service (CFO-3 years), and Ernst & Young (5 years)
  - Georgia Tech, Cornell University MBA
- Ransom James (Crescent Capital, 1 year)
  - Previously with Merrill Lynch (3 years) and Wachovia (3 years)
  - Washington & Lee, Darden-University of Virginia MBA
- Bob Shingler (KMJ Partners, 2 years (consultants to Crescent); Cypress CEO post-closing)
  - Previously with Broadwing (President-2 years), Albion Connect (CEO & Chairman-1 year), Steadfast.Net (President-2 years), Sonofon A/S (EVP & Deputy CEO-4 years), and BellSouth (13 years)
  - Vanderbilt, Georgia State MBA

POST-CLOSE OWNERSHIP STRUCTURE: Non-Voting Equity Interests



Notes

1. *Interests in these entities will be sold to non-U.S. persons unaffiliated with FIIB to raise the additional equity financing.*

Post-Close Ownership Structure: Non-Voting Equity Interests (cont.)

- Non-voting equity interests of THC to be held by:
  - Non-Voting Cayman Entities (4);
  - FIIP (employees); and
  - TechInvest Holdings Limited (FIIB subsidiary).
- Non-voting = no right to influence decisions or operations of Cypress.
- Interests in Non-Voting Cayman Entities to be sold to non-U.S. persons.
  - No person with ownership interests in Non-Voting Cayman Entities, FIIP, or FIIB (or any combination thereof) sufficient to constitute a 10% or greater equity interest in Cypress post-close.
- FIIB will retain largest non-voting equity share (18.76%).

Management of Cypress Post-Close

- Cypress continues largely as-is
  - No change in carrier, rates, or services for customers.
  - Day-to-day operations remain largely in the hands of the same U.S. personnel that currently control company.
    - Law enforcement contacts remain unchanged.
- U.S. citizens control the Board
  - FIIB controls 3 seats (majority), to be held by employees of Crescent (Charles Ogburn, David Crosland, and Ed Underwood) who are U.S. citizens.
  - Other board members are Bob Shingler and Stan Allen, both U.S. citizens.

Grant of Application Serves Public Interest

- Stronger financial position; debt-free balance sheet.
- No competitive concerns – no elimination of existing or potential market participants.
- No foreign ownership concerns
  - No foreign carrier affiliations.
  - No transmission or switching facilities outside of the buildings where customers are located.
  - FIIB – a company based in Bahrain, a member of the WTO -- has control through FIIM.
  - No individual investor will have a 10 percent or greater equity interest in Cypress or have the ability to control Cypress.

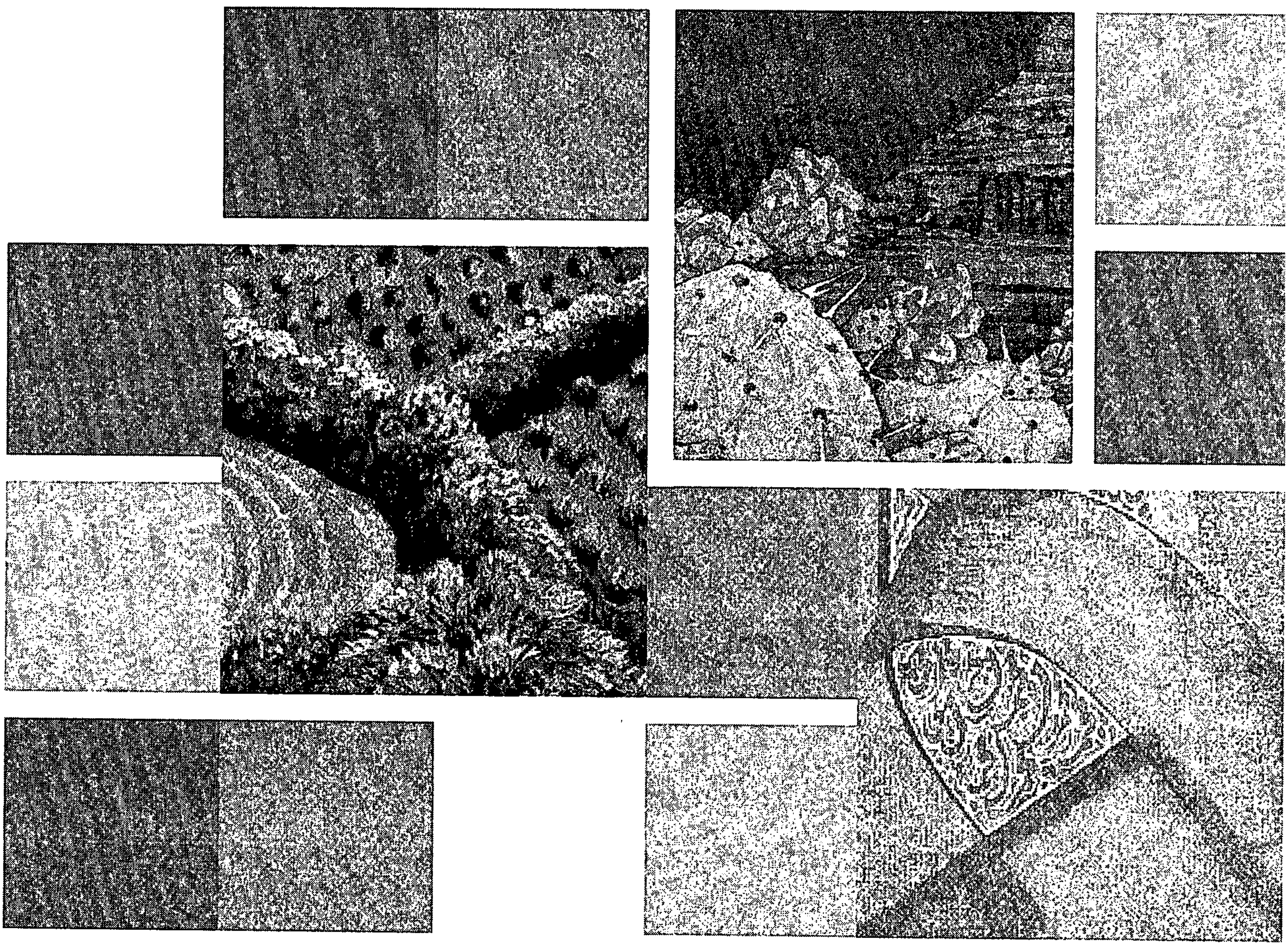
Going Forward

- Combined domestic/international transfer application filed 11/12/04.
  - All public notice periods were completed as of 1/20/05.
- Answers to Team Telecom questions provided 12/17/04.
- Anticipate filing voluntary notice with CFIUS upon completion of Team Telecom review.

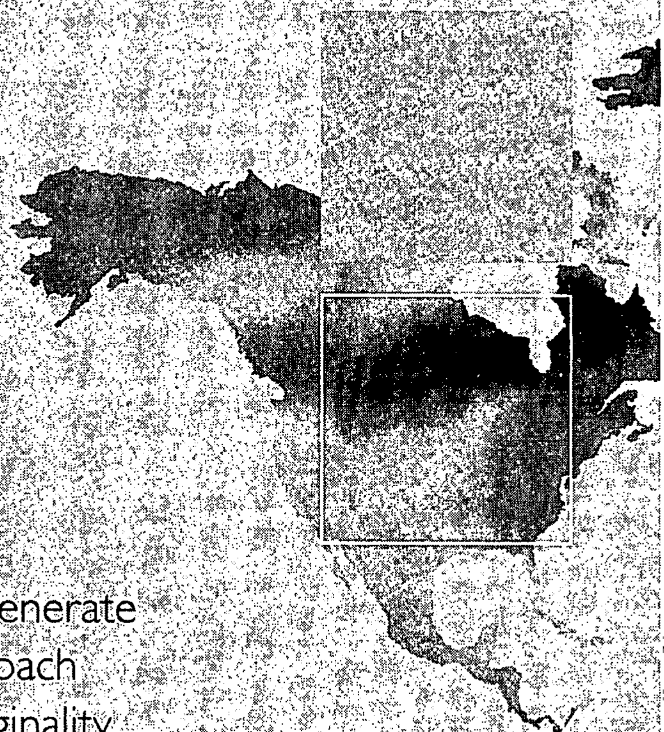
ATTACHMENT 3

FIRST ISLAMIC

INVESTMENT BANK



Annual Report 2003



Traditional values, modern solutions

Our mission is to provide innovative and distinctive investment opportunities that generate superior risk-adjusted returns. In our approach to business, we embrace the values of originality, integrity, transparency, professional excellence and, above all, adherence to Islamic principles.

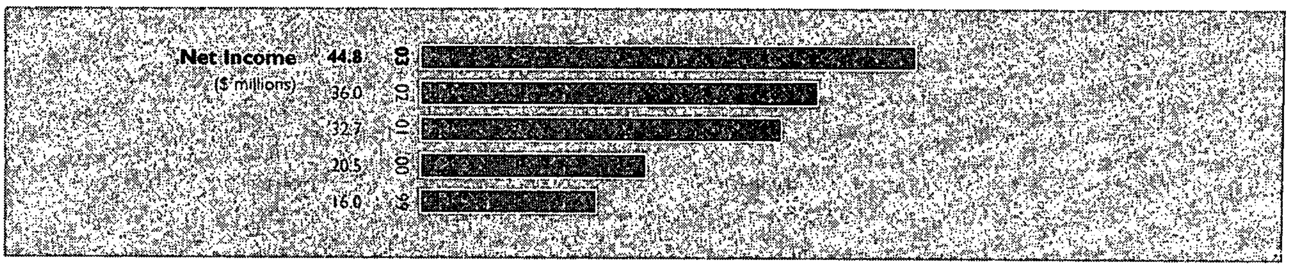
Values and Principles

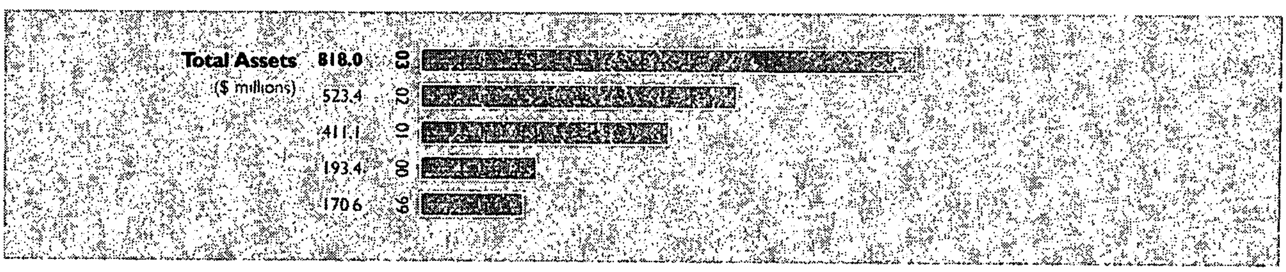
We are committed to operating our business based on the following principles:

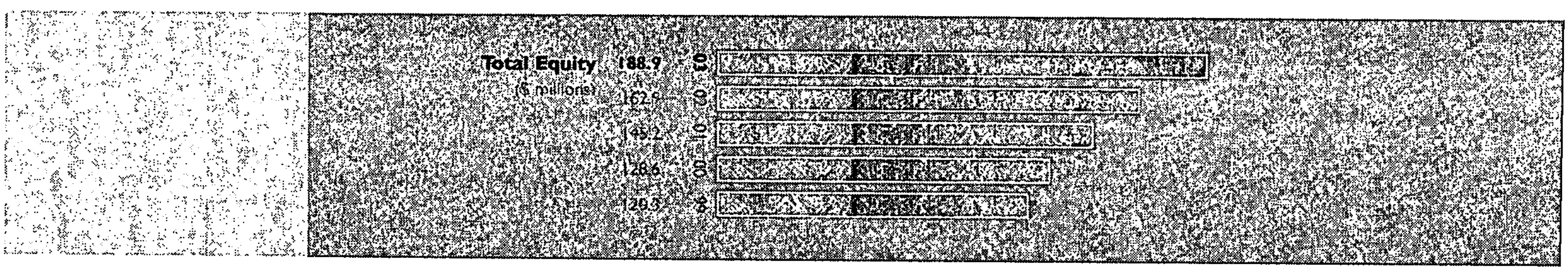
- We put our clients' interests first, since our success depends first and foremost on fulfilling our clients' needs.
- We follow a focused strategy to achieve superior risk-adjusted returns for shareholders and investors over the medium term.
- We are committed to attracting and retaining the best people with a diverse range of expertise and experience.
- We aim to align the interests of our shareholders and employees by encouraging employees to take a direct stake in the Bank's equity and investment transactions.
- We cultivate a dynamic corporate culture and maintain a flat, participatory management structure, which maximizes teamwork and encourages creative thinking and integrated decision making.
- We work in partnership with shareholders, investors, business associates, and the management of portfolio companies for the benefit of all stakeholders.
- We are committed to providing the highest level of professionalism, quality, and excellence in everything that we do.
- We strive to achieve sustainable growth, maintain a solid capital base, and to effectively manage the risk inherent in our business.
- Above all, we demand integrity and compliance with Islamic principles.

Financial Highlights

	2003	2002	2001	2000	1999
Net income ($ millions)	**44.8**	36.0	32.7	20.5	16.0
Total assets ($ millions)	**818.0**	523.4	411.1	193.4	170.6
Total equity ($ millions)	**188.9**	162.9	145.2	128.6	120.3
Return on average equity (percent)	**25.5%**	23.4%	23.9%	16.5%	14.3%
Return on paid-in capital (percent)	**39.8%**	32.0%	29.1%	18.2%	14.2%
Return on average assets (percent)	**6.7%**	7.7%	10.8%	11.3%	10.8%
Net book value per share ($)	**16.79**	14.48	12.91	11.43	10.69
Dividend as percentage of paid-in capital	**15.0%**	15.0%	15.0%	10.0%	10.0%
Number of employees	**114**	94	82	69	61







Message to Shareholders


Mohammed Abdulaziz Aljomaih
Chairman

Atif A. Abdulmalik
Chief Executive Officer

We are delighted to report that 2003 was a landmark year for First Islamic, in which we passed a number of important milestones. Against a background of the Iraq war and continuing geopolitical uncertainty, the Bank realized a substantial partial exit from its US corporate investment portfolio, significantly expanded its presence in the European market and completed an innovative medium-term financing in the form of Islamic *sukuk*. As a result, First Islamic exceeded $120.0 million in revenues for the first time in its history while significantly improving its financial strength and achieving record earnings.

Revenues reached $120.6 million, up 55.8 percent from 2002. Net income for the year increased 24.4 percent to $44.8 million from $36.0 million in 2002. Return on average equity was 25.5 percent, compared with last year's 23.4 percent, with total equity increasing to $188.9 million. The Bank has now achieved a return on equity above 20 percent for each of the last three years.

For the third year running, First Islamic made a dividend payment of $16.9 million, representing a return of 15.0 percent on the Bank's paid-in capital. Each $1.00 invested in First Islamic in 1997 has to date returned $0.70 in dividends and an additional $0.67 in retained earnings and reserves, or an aggregate return of $1.37.

In October 2003, the Bank arranged the sale of the Medical Services Division of Medifax-EDI℠, Inc. ("Medifax") to WebMD, a NASDAQ-listed health care services company, for a total transaction value of $280.0 million. This partial exit earned investors a total return in excess of 135 percent. The sale of the remaining business unit, which consists of the Pharmaceutical Services Division, is expected to be completed during 2004. Our success in completing the investment cycle for Medifax at a high valuation is particularly noteworthy as the US private equity environment continues to be challenging despite increased momentum in the public markets.

2003 was a landmark year for First Islamic, in which we passed a number of important milestones.

In September 2003, our US corporate investment team also arranged the acquisition of a 100 percent interest in American Pad & Paper LLC ("Ampad"), for a total transaction value of $82.7 million. Ampad is one of the largest manufacturers and distributors of paper-based office products in the United States.

In what was the largest equity placement by First Islamic to date, the Bank also completed its third US joint venture with Sunrise Senior Living, Inc. ("Sunrise"), which acquired 28 assisted living properties located in 11 US states. The equity placement of $128.1 million was supplemented by $285.0 million of Ijara facilities provided by four leading US financial institutions, for a total transaction value of $417.4 million.

In just six years, the Bank's US subsidiary, Crescent Capital Investments, Inc., has become recognized as one of the leading private equity firms in the Southeast of the United States, and has developed a reputation for sound business judgment, professionalism and integrity throughout the regional business community and beyond, resulting in a consistently high quality deal flow. We are optimistic about achieving further US private equity exits at attractive risk-adjusted returns in the coming years, particularly as the US economic recovery takes hold.

We are also proud to report good progress in the development of our European operations. Our London-based European subsidiary, Crescent Capital Investments (Europe) Limited, was incorporated in January 2003 and now has 14 full-time employees covering the full range of the Bank's business lines. Crescent Europe sourced four transactions with a total value of $625.0 million and was responsible for 23.5 percent of the Bank's revenues in 2003.

In June 2003, First Islamic formed a joint venture with Shurgard Europe that will develop up to 38 self-storage sites, at a total cost of approximately € 231.9 million, in the United Kingdom, France, the Netherlands, Denmark, Sweden and Germany. First Islamic and its co-investors hold an 80 percent stake in the joint venture, with Shurgard Europe holding the remaining 20 percent. Shurgard Europe is the largest developer, owner and operator of self-storage facilities in Europe. Société Générale, one of the largest property lending institutions in Europe, provided a five-year development financing facility for 65 percent of the total development cost.

In one example of our ability to leverage the Bank's US franchise into other markets, First Islamic also entered into a joint venture with Sunrise to acquire three assisted living properties in the greater London area. The value of the transaction was £64.6 million, with First Islamic holding an 80 percent interest and Sunrise the remaining 20 percent. Ijara facilities for a total amount of £40.6 million were provided by Bank of Scotland.

In May 2003, First Islamic formed a joint venture with Northacre PLC to acquire a site at Vicarage Gate in the Kensington area of London, for the purpose of developing 13 luxury residential apartments, with an expected total value of £39.4 million including a £30.3 million development facility provided by ING BHF Bank. Northacre is a specialist developer of residential properties in the most exclusive areas of Central London. First Islamic and its co-investors hold a 90 percent membership interest in the joint venture, with Northacre holding the remaining 10 percent.

In December 2003, First Islamic agreed to form a joint venture with RWE Innogy Plc and an international investor to acquire a portfolio in the United Kingdom of a number of existing wind farms and new farms under development, over the next three years, with a total electricity generating capacity of 430MW through renewable energy. The total transaction value is expected to be approximately £400.0 million once the pipeline of wind farms is fully developed and transferred into the portfolio. First Islamic and its co-investors alongside RWE Innogy Plc and an international investor will all hold equal ownership interests in the wind farm portfolio.

We believe that European Union expansion towards the east and south, and tax, pension and regulatory reforms in the big four economies will eventually restore higher growth rates in Europe and drive further economic restructuring. Our planned approximately $100.0 million Rights Issue and new share issue will strengthen our pursuit of European opportunities that these changes will manifest, while maintaining adequate capital support for our US business. Middle-market buyouts in Europe are consistently cited by specialist data firms as having delivered the highest returns of any private equity segment in the United States or Europe, including venture capital.

In addition to the equity issue, we received strong support from our investors in the first-half placement of over $100.0 million of three and five year Islamic *sukuk*. The issue size of these new instruments, which are known as FIRSAN, was increased from an initial target of $75.0 million. We believe this is the first Islamic *sukuk* program for a corporate entity or investment bank.

We would like to end by thanking our existing shareholders for their continued support and welcome our new shareholders to the ownership of the Bank. We look forward to a continuing and mutual beneficial partnership with our shareholders, Board of Directors, Shari'ah Supervisory Board members, regulators, employees and all other stakeholders.

Mohammed Abdulaziz Al-Jomaih
Chairman

Atif A. Abdulmalik
Chief Executive Officer

CEO Message

Atif A Abdulmalik
Chief Executive Officer

2003 was another record year for First Islamic the sixth in succession with revenues reaching $120.6 million and net income of $44.8 million. Since we started operating in 1997 our net income has increased at a compound annual growth rate of more than 30 percent and our balance sheet footing has grown eightfold to more than $810.0 million as of 31 December 2003.

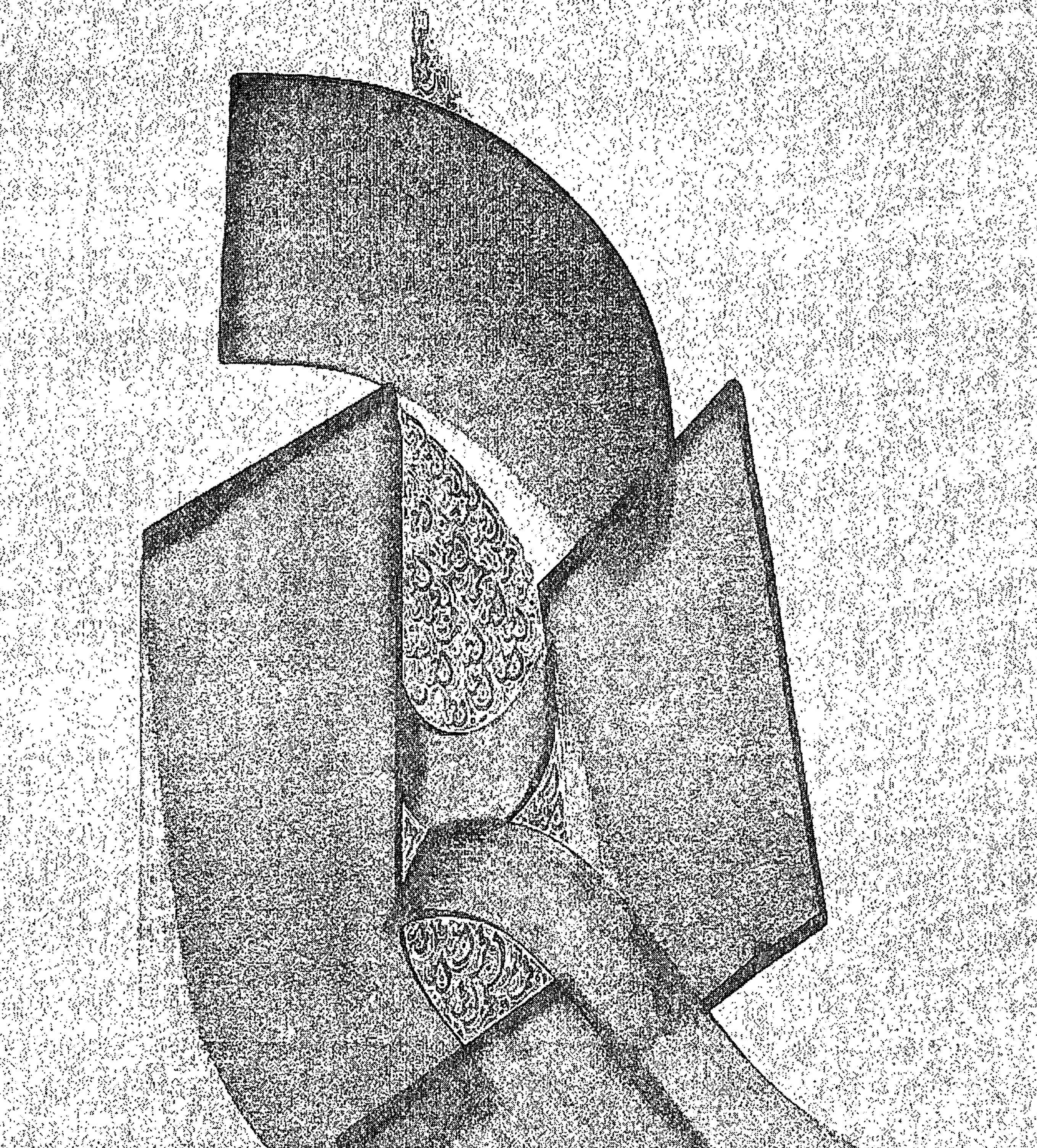
The consistent growth we have achieved during the last six years is a testament to the quality of the people we have assembled at First Islamic. We have recruited a team with a diverse range of expertise and experience and have cultivated a corporate culture that encourages teamwork, innovative thinking and integrated decision making. We believe that our management team and our corporate culture give First Islamic its competitive advantage and go a long way to explain the success we have enjoyed to date. As we grow and mature as an institution, we will endeavor to maintain the entrepreneurial and dynamic corporate culture that allows our people to excel, and maintain the team spirit that we have built at First Islamic.

Our long-term success depends on our ability to close the investment cycle by divesting from our investments and generating attractive risk adjusted returns for our investors. Consequently, the partial exit from Medifax during 2003 after a two-year holding period was an important milestone for the Bank. Achieving the profitable Medifax exit in the prevailing business climate demonstrates the robustness and sustainability of our business model.

2003 will also be remembered as the year in which we opened our London office to act as our European base. In line with our business plan and on the back of strong investor demand for European investments we increased our European deal flow significantly during 2003 and strengthened our European deal teams by recruiting a number of senior professionals. The capability to respond quickly to meet the requirements of our investors is one of our key strengths and reflects our results-oriented corporate culture as well as the strength and depth of our management team.

As we prepare for the next phase in our development, our aim is to achieve sustainable growth while maintaining a solid capital base. In 2003 we issued in excess of $100.0 million of medium-term *sukuk* (non-equity financing instruments) and in early 2004 we completed rights and new share issues, which will increase our capital base to approximately $300.0 million. This increase in our equity capital, together with the increased liquidity provided by the *sukuk* issue, is designed to strengthen our balance sheet as we continue to build a diversified portfolio of investments across business lines and geographic regions.

As the number of Islamic investment banks increases in the region, our aim is to continuously strive to maintain the corporate culture and business practices that have helped shape First Islamic's distinctive brand in the market: a focused strategy, recruiting and retaining the best people, a flat and participatory management structure, maintaining a solid capital base and effectively managing the risk inherent in our business and, above all, alignment of the interests of employees, shareholders and our investors.



(left to right): Khalid A. Al-Jassim, Charles H. Ogburn, Hisham A. Al-Abdulla, Mounzer A. Nasr.

Investment Activities

Corporate Investment

Medifax-EDI℠, Inc.

Headquartered in Nashville Tennessee Medifax is a leading provider of innovative healthcare information technology solutions to providers and payers throughout the United States, processing more than 200 million transactions per year for more than 130,000 healthcare providers The company is the leading provider of medical eligibility transactions services in the United States Medifax comprises two divisions the Medical Services Division and the Pharmacy Services Division

In December 2003, WebMD Corporation a NASDAQ quoted company (NASDAQ HLTH) acquired the Medical Services Division of Medifax for a total transaction value of $280 0 million, including assumed liabilities Medifax transferred the Pharmacy Services Division to an affiliate of First Islamic, who is negotiating a separate sale process for this remaining business unit

The above two transactions are estimated to value Medifax at over $325 0 million First Islamic and its co-investors acquired Medifax in 2001 for a transaction value of approximately $123 1 million, and three subsequent acquisitions were completed by Medifax for a total value of approximately $45 0 million

First Islamic worked closely with management to grow Medifax's core business and to make a number of add on acquisitions during the investment holding period The successful completion of this sizeable transaction with WebMD in the current business climate is a testament to the strength and sustainability of the Bank's business model

American Pad & Paper LLC

Transaction Date September 2003
Transaction Amount $82 7 million

In September 2003, First Islamic and its co-investors acquired a 100 percent interest in American Pad & Paper LLC ("Ampad") one of the largest manufacturers and distributors of paper-based office products in the United States after taking it out of Chapter 11 reorganization process The total transaction value was $82 7 million

Headquartered in Plano, Texas (near Dallas), Ampad was founded in 1888 by the inventor of the ruled "legal pad" and has since become one of the leading US suppliers of writing pads and notebooks, filing supplies retail envelopes and specialty papers Ampad markets its products under several recognized brand names such as AMPAD®, Embassy®, Evidence®, Globe-Weis®, Gold-Fibre®, Regal Mills® and World Fibre®

Ampad's customers include many of the largest and fastest growing office product retailers and distributors in North America, including Staples and Wal-Mart Ampad is a "one-stop-shop" in the estimated $5 billion North American paper-based office products industry and is the market leader in the retail channel for each of its four primary product lines

Ampad has a significant free cash flow generation capability The projected cash flow over the next four years is expected to be sufficient to repay a substantial amount of Ampad's obligations, building up the equity base of the company in the process Revitalized under the leadership of new management, Ampad is now taking advantage of numerous product, customer and manufacturing opportunities, while achieving additional margin improvements through cost rationalization

Our long-term success depends on our ability to close the investment cycle by exiting from our portfolio companies and generating superior risk-adjusted returns for our investors.

Smart Document Solutions
Transaction Date June 2002
Transaction Value $104 1 million

Smart is the leading provider of medical records release of information ("ROI") services in the United States

During the year the company introduced several new products and services and continued to enhance its market presence In April 2003, the Health Information Privacy Protection Act (HIPPA) came into effect This caused the majority of Smart's clients to restrict release of information while the HIPPA-compliant procedures were reviewed This had a negative impact on Smart's fiscal 2003 revenues Because Smart had already established the processes and procedures that enabled the company to quickly transition to the HIPPA environment, management believes that this will give Smart a competitive advantage and will translate into a return to revenue growth and new business in fiscal 2004

Cirrus Industries, Inc.
Transaction Date August 2001
Transaction Value $142 0 million

Cirrus is the world's second largest manufacturer of single engine, general aviation aircraft

During 2003, Cirrus focused on sales and marketing by substantially increasing its team of sales representatives, which led to a significant increase in orders Coupled with the company's increased production capabilities and enhanced product offering, this has resulted in Cirrus increasing its market share from 11 percent in 2001 to over 31 percent in 2003 Looking ahead, Cirrus plans to continue investing in product development in order to increase its market share in North America. The company is also developing a product specifically designed for Europe, with a view to expanding its potential market overseas.

Destination Outdoors, Inc.
Transaction Date August 2001
Transaction Value $173 1 million

DOI is one of the premier outdoor products companies in the United States, comprising Yakima Products, Inc ("Yakima"), a leading manufacturer of multi-sport racks and rack accessories for automobiles, and WaterMark Paddlesports, Inc ("WaterMark"), the largest manufacturer of kayaks and paddle sport accessories in the world

2003 represented a significant transition year for DOI The company restored focus on its core rack businesses, consolidated its operational headquarters and established a results-oriented management team During the year, DOI accomplished the sales and marketing integration of Yakima Rhode Gear and Sospenders and increased the company's leverage by consolidating all brands under one sales umbrella DOI has now completed many of the critical elements of integration needed to establish a powerful outdoor sporting goods platform Going forward management is optimistic about the prospects for equity value enhancement

Caribou Coffee Company, Inc.
Transaction Date December 2000
Transaction Value $83 8 million

Caribou is the second largest non-franchised specialty coffeehouse chain in the United States with 250 stores in seven markets as at year-end

Caribou's new CEO has successfully implemented several major initiatives aimed at improving customer service and store-level operations During 2003, Caribou completed the company wide rollout of its stored value debit card and also implemented a comprehensive customer service program These initiatives have resulted in growing revenue and customer retention as evidenced by strong growth in customer count during the year Management expects to increase the pace of store openings during 2004 and is planning to expand into new domestic markets and internationally in the near future

Corporate Investment continued

Transportation Safety Technologies, Inc.
Transaction Date October 2000
Transaction Value $25.2 million

TST manufactures specialty electrical components and safety products for the automotive, truck, and emergency vehicles industries in the United States.

The Controls and Harnesses Group continued its solid performance throughout 2003, providing a stable base of cash flow as well as engineering talent to pursue the obstacle detection market. TST continues to invest in product development, with the introduction this year of a control system for snow plows, a supplemental power source for starting heavy-duty engines, a dual battery monitor, and a trailer security system. Sales of *Eagle Eye*, the company's obstacle detection system, continued to show positive trends with 1,800 units now in operation. The company has established numerous operational and test sites with major customers, with the ultimate goal of establishing *Eagle Eye* as a standard in the trucking industry.

B.R. Lee Industries, Inc.
Transaction Date January 2000
Transaction Value $79.6 million

Lee Industries is the number one manufacturer of commercial paving and road building equipment in North America.

The company continues to expand its markets and product line and to improve gross margins by implementing lean manufacturing and supply chain initiatives. In October 2003, Lee Industries closed its South Dakota plant and transferred production to the Lee plant in North Carolina, which resulted in a 30 percent reduction in headcount. The launch of the 8815 highway class paver in March 2003 was well received and management anticipates robust sales of this product in 2004. The company is currently developing a new, 22,000 pound motor grader for introduction in early 2004.

These new products, along with a turnaround in dealer sentiments, contributed to a tripling of backlog at the end of 2003, compared to the same point in 2002. Management plans to continue to drive organic growth of its core product line while seeking out small "tuck-in" acquisitions that fit within its mission to become a destination point for road maintenance solutions.

DVT Corporation
Transaction Date September 1999
Transaction Value $63.9 million

DVT develops, manufactures and markets image sensors, and is a recognized leader in the machine vision systems industry in the United States.

During the year, DVT continued to invest in product development and international expansion in order to position itself for strong growth as the capital equipment market rebounds. DVT now has over 100 distributors in North America and has expanded its network of distributors in the United Kingdom, France, Germany, the Nordic countries, China, Singapore, Japan and Korea. Revenue grew in all North America regions during 2003, with China and the Nordic countries generating the strongest growth internationally. In 2003, DVT was awarded the ISO 9000 rating, which should help the company to penetrate the large Fortune 500 manufacturers. Longer term, the company hopes to facilitate growth by producing easier to use software that will make vision systems increasingly simple to implement.

To date, First Islamic has completed corporate investment transactions totalling over $1.0 billion.

Real Estate and Asset-Based Investments

Shurgard I

In June 2003 First Islamic formed a joint venture with Shurgard Europe that will undertake up to 38 self-storage development projects, with a total development cost of approximately € 231.9 million, in the United Kingdom, France, the Netherlands, Denmark, Sweden and Germany. The First Islamic Group and its co-investors hold an 80 percent membership interest in the joint venture, with Shurgard Europe holding the remaining 20 percent. Société Générale, one of the largest property lending institutions in Europe, provided a five-year development financing facility for 65 percent of the total development cost.

Shurgard Europe is the largest developer, owner and operator of self-storage facilities in Europe. The company's principal shareholder is Shurgard Storage Centers, Inc. (NYSE: SHU), the fourth largest company in the US self-storage sector and the second largest in terms of equity market capitalization (approximately $1.1 billion). Shurgard Europe will oversee construction management, design services and functions for the projects and will play a key role in the marketing and lease-up of the properties under the Shurgard brand name.

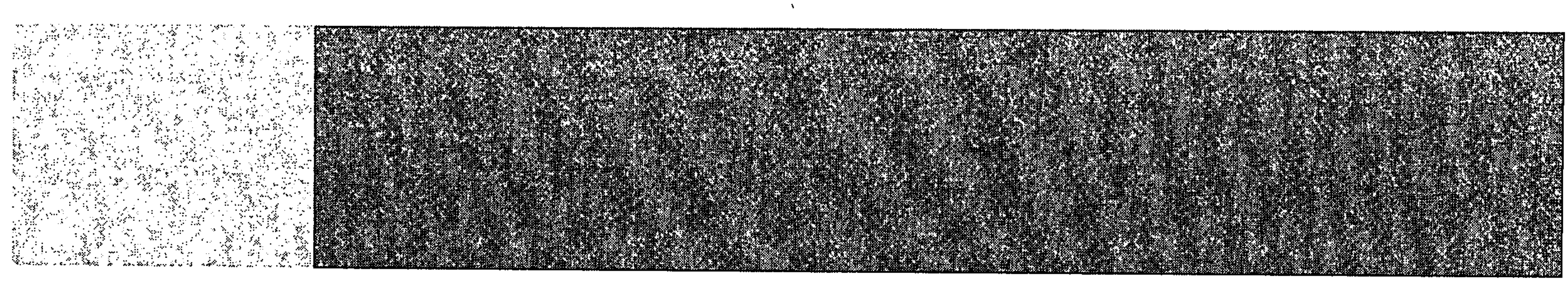
The European self-storage market is underserved, and enjoys a strong demand profile generated from a large population living in a very dense environment, and the relatively early stage of development of the sector. In terms of market penetration, the European self-storage sector has significant room for growth as Europe experiences an increase in population mobility and changes in business practice, and as more consumers see the benefits of a well designed, secure and conveniently-located self-storage facility.

Vicarage Gate

In May 2003, First Islamic formed a joint venture with Northacre PLC to acquire a site in Vicarage Gate, Kensington, an exclusive neighborhood with some of the most expensive residential properties in London. The project involves the design, development and sale of 13 luxury residential apartments. The value of the transaction was £39.4 million. ING BHF-BANK AG provided approximately £30.3 million in a non-recourse senior development financing facility.

Northacre was established in 1988 as a specialist developer of residential properties in the most desirable and exclusive areas of Central London such as Chelsea, Mayfair, Kensington and Belgravia. Widely recognized among industry professionals as a premier developer of luxury residential developments, Northacre has considerable skill in developing new as well as protected buildings within conservation areas. First Islamic and its co-investors hold a 90 percent membership interest in the joint venture, with Northacre holding the remaining 10 percent.

Central London has a uniquely favorable supply equation due to a number of factors. Permitting laws severely restrict the height and density of new schemes and many areas, which were built in the 19th century, are within conservation areas where new schemes are limited. In addition, much of the prime areas of Kensington and Chelsea is owned by a few family estates, thereby limiting supply even further. According to research conducted by FPDSavills, the average values of prime Central London properties have risen by 225 percent over the last decade due to a combination of fixed supply and a major expansion in demand, on the back of London's dominance as the financial capital of Europe.



Real Estate and Asset-Based Investments continued

Sunrise
At year-end, the Bank had completed four joint ventures with Sunrise Senior Living, Inc. ("Sunrise") three in the United States, comprising 52 senior living properties, and one in the United Kingdom, comprising three properties. Headquartered in McLean Virginia, Sunrise is the oldest and largest provider of assisted living services in the United States.

At the end of March 2003, Sunrise completed the acquisition of Marriott Senior Living Services, which added a further 129 senior living communities, thereby creating the largest senior living operator in the United States. With an equity market capitalization of more than $1.0 billion, Sunrise owns and operates more than 380 communities throughout the United States, Canada and the United Kingdom.

Demand for assisted living services continues to be strong based on demographic trends. This sector has been the least affected real estate market in the current economic turmoil and, with over $150.0 billion spent annually on senior housing and care, remains a robust market.

Sunrise III
In September 2003, the Bank completed its third and largest US joint venture to date with Sunrise. In two transactions, in June 2003 and September 2003 Sunrise Third LLC acquired a portfolio of 28 assisted living properties, comprising 1,902 residential units, located in 11 US markets. The value of the transaction was $417.4 million, with First Islamic and its co-investors holding 90 percent and Sunrise the remaining 10 percent. Senior Ijara financing facilities totaling $285.0 million were provided by Fannie Mae, Bank of America, N.A., Bank One, N.A. and GMACCM.

Sunrise I
Transaction Date: March 2002
Transaction Value $203.4 million

Sunrise II
Transaction Date November 2002
Transaction Value $222.4 million

Sunrise UK
In May 2003 the Bank entered into a joint venture with Sunrise to acquire three assisted living properties, comprising 256 residential units, located in high end post codes around the M25 motorway of London. The value of the transaction was £64.6 million, with First Islamic and its co-investors holding an 80 percent interest and Sunrise the remaining 20 percent. Senior Ijara financing facilities for a total amount of £40.6 million were provided by Bank of Scotland, one of the major clearing banks in the United Kingdom.

Sunrise began its operations in the United Kingdom in 1999 and the properties in the portfolio represent the first three completed by Sunrise in the United Kingdom.

In an example of our ability to leverage the Bank's US franchise into other markets, First Islamic entered into a joint venture with Sunrise to acquire three assisted living properties in the greater London area.

Crescent Euro Industrial

According to industry surveys, the industrial sector in Europe has been radically affected by the shift from national to Euro-wide distribution strategies, the removal of cross-border trade barriers, currency unification, and outsourcing of distribution functions by manufacturers and retailers.

The above factors have had a positive impact on the European industrial sector as a real estate class, by creating a more efficient logistics services industry, characterized by major hubs with larger and more flexible buildings that are served by multiple modes of transportation. This has also allowed investors to treat Europe as one market, thereby fueling, through capital allocation, the re-organization of distribution channels and supply networks on a pan-European basis.

Crescent Euro Industrial I

Transaction Date November 2002
Transaction Value € 264.5 million

During 2002, First Islamic formed a joint venture with Lend Lease Real Estate Investments GmbH ("Lend Lease REI GmbH") a member of the Lend Lease Group, that acquired usufruct lease interests in a portfolio of industrial distribution facilities located in strategic markets in Germany. As at year-end 2002, three assets had been acquired in Kamen, Bedburg and Morfelden. No new assets were added to the portfolio during 2003.

In early 2003, Lend Lease REI GmbH's Australian parent, The Lend Lease Group, decided to pull out of all its US and European real estate investment activities. In late 2003, the company owning Lend Lease's investment in the three existing assets was acquired by First Islamic and renamed First Euro Industrial REI GmbH, with Heitman International providing asset management services.

Crescent Euro Industrial II

Transaction Date August 2003

During 2003 a new joint venture was created with Heitman International, the European subsidiary of Chicago-based Heitman, one of the major US real estate asset managers. This joint venture expanded the geographical spread of Crescent Euro Industrial I to include France and Italy, as well as Germany. All new assets will form part of this new joint venture. Although no assets were acquired during 2003, a portfolio of assets was acquired early in 2004 and further acquisitions throughout 2004 are anticipated.

Heitman ranks in the top ten US based real estate investment management firms, with approximately $11.2 billion in assets under management for its clients. The company's clients include US and international institutions, US pension plans, endowments and foundations, high net worth individuals and retail investors. Heitman has been active in Europe for a number of years, with particular focus on Central Europe.

Real Estate and Asset-Based Investments continued

ProLogis
To date First Islamic has undertaken three joint ventures with ProLogis that have acquired in aggregate a total of 78 industrial distribution facilities, comprising approximately 12.4 million square feet of rental space throughout the United States. First Islamic and its co-investors own 80 percent of the joint ventures, with ProLogis owning the remaining 20 percent.

ProLogis is a leading provider of distribution facilities and services, with more than 1,750 facilities owned, managed and under development in over 70 markets throughout North America, Europe and Asia.

The industrial market has suffered a decline in rents and a slight increase in vacancies as a result of the weak economy. However, the market appears to be moving in a positive upward trend with low interest rates, tax cuts and massive deficit spending by the federal government laying the groundwork for stronger GDP growth.

ProLogis I
Transaction Date April 2001
Transaction Value $242.6 million

ProLogis II
Transaction Date June 2001
Transaction Value $215.4 million

ProLogis III
Transaction Date September 2001
Transaction Value $145.5 million

Multifamily
First Islamic has two existing joint ventures with Archstone-Smith that together own 11 multifamily apartment complexes comprising a total of 3,594 rentable units, in eight US states. First Islamic and its co-investors own 80 percent of the joint ventures, with Archstone-Smith owning the remaining 20 percent.

With a current total market capitalization of approximately $9.9 billion, Archstone-Smith is one of the leading owners, operators, developers and acquirers of multifamily housing in the United States.

Although the overall US apartment market is currently sluggish, the National Multi Housing Council expects growth in the multifamily sector to be in full force by the latter half of this decade. However, as the economy begins to recover and mortgage rates start to rise, thus making home buying less affordable, apartment demand should experience a near term boost. In addition, employment recovery, which is expected during 2004 should also improve the sector's prospects.

Multifamily I
Transaction Date April 2000
Transaction Value $107.3 million

Multifamily II
Transaction Date June 2000
Transaction Value $143.7 million

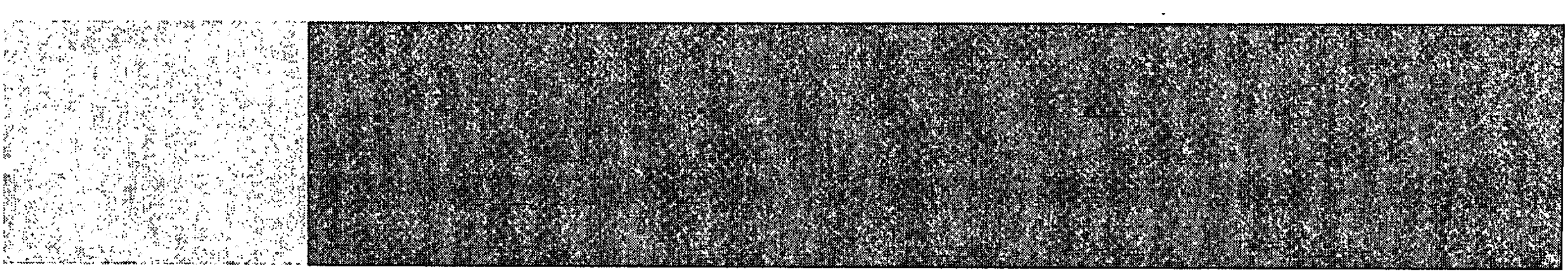
To date, First Islamic has completed real estate and asset-based investment transactions totalling approximately $3.0 billion.

Montrose Aviation I
Transaction Date December 2002
Transaction Value $142 9 million

First Islamic entered into a joint venture with Montrose & Company International, LLC ("Montrose") an affiliate of Bank of America NA, to acquire lease (Ijara) interests in 21 aircraft to take advantage of cyclically low prices in the secondary market by investing in leases to prime carriers and their subsidiaries Montrose acts as servicer on behalf of the lessors of the aircraft and is responsible for day to day management of the leases in the portfolio

The portfolio consists of a diversified mix of narrow body, turbo-prop and regional jet aircraft operated by British Airways, Air Canada, and Brit Air (a wholly owned subsidiary of Air France) Eight of the twelve turbo-prop aircraft currently leased to Air Canada will soon be re-leased to alternative carriers as a result of fleet restructuring at the airline The portfolio is so far performing to plan

The portfolio is structured to generate a stable and steady cash income flow for investors by offering a LIBOR-based yield The aircraft leasing industry has traditionally been modestly correlated to equity markets and thus offers an attractive means for diversification



Review of Financial Results

Net Income

Consolidated net income for 2003 increased by 24.4 percent to $44.8 million from $36.0 million in 2002. First Islamic has achieved a compound annual growth in net income of 30 percent, increasing from $12.0 million in 1998 to $44.8 million in 2003.

Operating Income

Total operating income increased to $1[illegible]6 million, up 55.8 percent from 2002. This increase resulted from a higher level of acquisition and placement activity in European real estate and asset-based investments, in addition to the realization of a substantial partial exit from a US corporate investment.

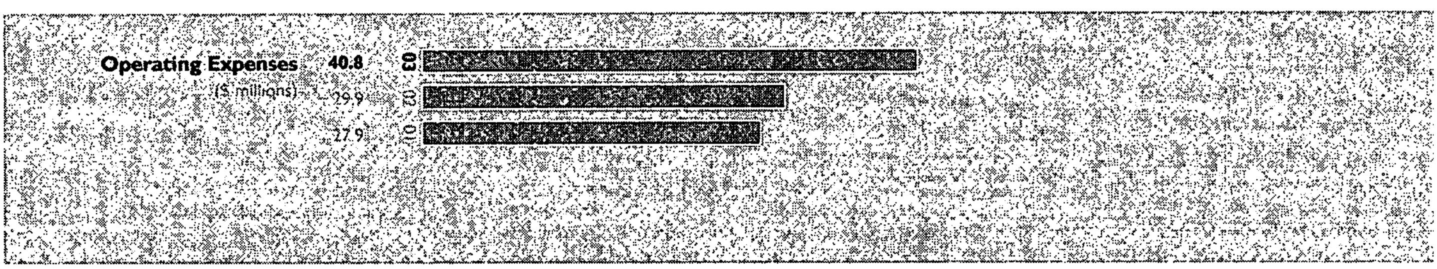
Operating Expenses

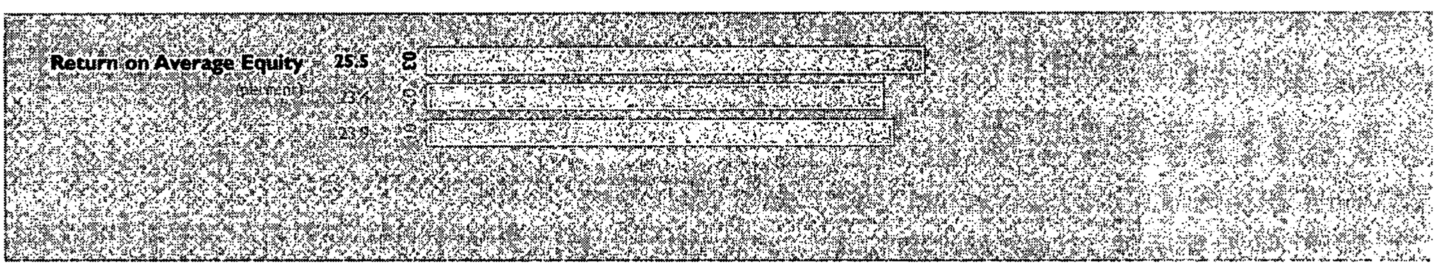
Total operating expenses increased to $40.8 million, up 36.4 percent from 2002, which is commensurate with our rate of business growth. For every dollar spent, the Bank has increased its efficiency ratio by 15 percent on a year-on-year basis, which is consistent with our commitment to maintain operating expenses at acceptable and sustainable levels.

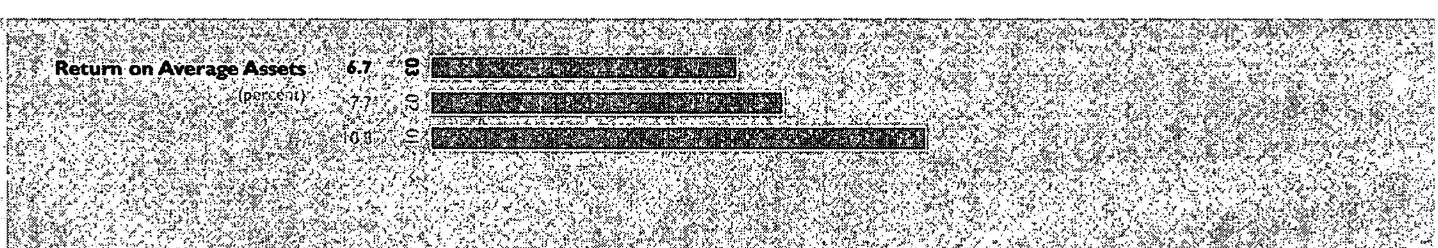
Despite the increase in the operating expenses of the bank, the overall cost income ratio continues to show a steady improvement.

Provisions

The balance of provisions against available for sale investments was $37.2 million. The Bank intends to maintain a prudent level of provisions against its available-for-sale investments exposure.







Auditors' Report to the Shareholders

We have audited the accompanying consolidated balance sheet of First Islamic Investment Bank E.C. (the "Bank") and its subsidiaries (the "Group") as of 31 December 2003, and the related consolidated statements of income, cash flows, changes in equity and sources and uses of charity funds for the year then ended. These consolidated financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2003, and the results of its operations, changes in its cash flows and sources and uses of charity funds for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, International Financial Reporting Standards and the Islamic Shari'ah rules and principles as determined by the Shari'ah Supervisory Board of the Group.

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Bahrain Monetary Agency Law, nor of the Memorandum and Articles of Association of the Bank, have occurred during the year ended 31 December 2003 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking licence. We obtained all the information and explanations which we required for the purpose of our audit.

Ernst & Young

12 January 2004
Manama, Kingdom of Bahrain

Shari'ah Supervisory Board's Report to the Shareholders

In The Name Of Allah, Most Gracious, Most Merciful

Assalaam Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with the letter of appointment and Article 38 of the Bank's Articles of Association, we are required to submit the following report.

We have reviewed the principles and the contracts relating to the transactions and applications introduced by First Islamic Investment Bank EC during the year ended 31 December 2003. We have also conducted our review to form an opinion as to whether the Bank has complied with Shari'ah rules and principles and also with the specific fatwas, rulings and guidelines issued by us.

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

We conducted our review, which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give assurance that the Bank has not violated the rules and principles of Islamic Shari'a.

In our opinion:

a) the contracts, transactions, and dealings entered into by the Bank during the year ended 31 December 2003 that we have reviewed are in compliance with Islamic Shari'ah rules and principles;

b) the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'ah rules and principles;

c) all earnings that have been realized from sources or by means prohibited by Islamic Shari'ah rules and principles have been disposed of to charitable causes; and

d) the calculation of Zakah is in compliance with Islamic Shari'ah rules and principles.

We beg Allah the Almighty to grant us success and guide us to the straight path.

On behalf of the Shari'ah Supervisory Board

Justice, Muhammad Taqi Usmani
Member

23 Dhul Qadah 1424
15 January 2004

Consolidated Balance Sheet

31 December 2003

	Note	2003 US$ '000	2002 US$ '000
Assets			
Cash and balances with banks		**18,596**	3,757
Due from financial institutions	4	**288,181**	85,462
Receivables	5	**248,019**	201,280
Available-for-sale investments	6	**255,928**	224,654
Other assets		**7,236**	8,269
Total Assets		**817,960**	523,422
Liabilities, Unrestricted Investment Accounts and Equity			
Liabilities			
Due to financial and other institutions	8	**319,928**	257,249
Medium term sukuk	9	**113,000**	-
Other liabilities	10	**17,001**	10,161
Total Liabilities		**449,929**	267,410
Unrestricted Investment Accounts		**162,306**	76,216
Equity			
Share capital	12	**112,500**	112,500
Reserves	13	**76,350**	50,421
Proposed dividends	12	**16,875**	16,875
Total Equity		**205,725**	179,796
Total Liabilities, Unrestricted Investment Accounts and Equity		**817,960**	523,422

The consolidated financial statements for the year ended 31 December 2003 were authorized for issue in accordance with a resolution of the Board of Directors on 12 January 2004

Mohammed Abdulaziz Aljomaih
Chairman

Atif A. Abdulmalik
Chief Executive Officer

The attached notes 1 to 20 form part of these consolidated financial statements

Consolidated Statement of Income

Year ended 31 December 2003

	Note	2003 US$ '000	2002 US$ '000
Corporate Investments			
Acquisition, placement and exit income		**34,449**	20,579
Management fees		**4,095**	3,952
Fair value adjustments	6c	**9,866**	16,277
		48,410	40,808
Real Estate and Asset-Based Investments			
Acquisition, placement and exit income		**44,481**	22,543
Management fees		**4,072**	1,210
Fair value adjustments	6c	**2,023**	721
		50,576	24,474
Other Income Earned			
Recurring income		**14,975**	9,272
Financial institutions		**1,572**	1,542
Others		**5,070**	1,319
		21,617	12,133
Total Operating Income		**120,603**	77,415
Profits Paid			
Financial and other institutions		**6,887**	7,667
Unrestricted investment accounts		**1,725**	813
Medium term sukuk		**3,866**	-
		12,478	8,480
Net Operating Income		**108,125**	68,935
Operating Expenses			
Staff compensation and benefits		**24,216**	16,942
General and administration		**16,588**	12,972
Total Operating Expenses		**40,804**	29,914
Net Income Before Provisions		**67,321**	39,021
Provisions	6g	**22,500**	3,000
Net Income for the year		**44,821**	36,021

The attached notes 1 to 20 form part of these consolidated financial statements

Consolidated Statement of Cash Flows

Year ended 31 December 2003

	2003 US$ '000	2002 US$ '000
Operating Activities		
Net income for the year	**44,821**	36,021
Adjustments for non-cash items		
Depreciation	**2,465**	2,249
Provisions	**22,500**	3,000
Fair value adjustments of available-for-sale investments	**(11,889)**	(16,998)
	57,897	24,272
Changes in operating assets and liabilities		
Receivables	**(46,739)**	(73,576)
Available-for-sale investments	**(41,885)**	2,022
Due to financial and other institutions	**62,679**	55,348
Other assets	**681**	1,163
Other liabilities	**4,823**	(802)
Net cash from operating activities	**37,456**	8,427
Investing Activities		
Purchase of fixed assets	**(2,113)**	(1,481)
Net cash used in investing activities	**(2,113)**	(1,481)
Financing Activities		
Dividends paid	**(16,875)**	(16,875)
Purchase of treasury stock	**-**	(10,200)
Reissue of treasury stock	**-**	12,600
Medium-term sukuk	**113,000**	
Unrestricted investment accounts	**86,090**	38,411
Net cash from financing activities	**182,215**	23,936
Net increase in cash and cash equivalents	**217,558**	30,882
Cash and cash equivalents at 1 January	**89,219**	58,337
Cash and cash equivalents at 31 December	**306,777**	89,219
Cash and cash equivalents comprise		
Cash and bank balances	**18,596**	3,757
Due from financial institutions	**288,181**	85,462
	306,777	89,219

The attached notes 1 to 20 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity

Year ended 31 December 2003

	Share capital US$ 000	Reserves: Share premium US$ 000	Reserves: Treasury stocks US$ 000	Reserves: Statutory US$ 000	Reserves: Investments fair value US$ 000	Reserves: Retained earnings US$ 000	Proposed dividends US$ 000	Total equity US$ 000
Balance at 1 January 2002	112,500	408		8,131		21,949	16,875	159,863
Dividends paid			-	--			(16,875)	(16,875)
Net income for the year 2002	-	-				36,021		36,021
Purchase of treasury stocks			(10,200)					(10,200)
Reissue of treasury stocks	-	2,400	10,200					12,600
Transfer to statutory reserve	-		-	3,602	-	(3,602)		
Charitable contribution					-	(713)		(713)
Directors' remuneration	-				-	(900)		(900)
Proposed dividends						(16,875)	16,875	
Balance at 31 December 2002	**112,500**	**2,808**	**-**	**11,733**	**-**	**35,880**	**16,875**	**179,796**
Dividend paid	–	-			-		(16,875)	(16,875)
Net income for the year 2003						44,821		44,821
Transfer to statutory reserve		-		4,482		(4,482)	-	-
Net transfer to investments fair value reserve				-	26,482	(26,482)		
Charitable contribution						(896)		(896)
Directors' remuneration	-		-	-		(1,121)		(1,121)
Proposed dividends	-	-	-	-	–	(16,875)	16,875	-
Balance at 31 December 2003	**112,500**	**2,808**	**-**	**16,215**	**26,482**	**30,845**	**16,875**	**205,725**

The attached notes 1 to 20 form part of these consolidated financial statements

Consolidated Statement of Sources and Uses of Charity Funds

Year ended 31 December 2003

	Note	2003 US$ '000	2002 US$ '000
Sources of Charity Funds			
Contribution by the Bank		**896**	713
Uses of Charity Funds			
Charitable contributions		**(591)**	(583)
Excess of sources over uses		**305**	130
Undistributed charity funds at 1 January		**880**	750
Undistributed Charity Funds at 31 December	[illegible]	**1,185**	880

The attached notes 1 to 20 form part of these consolidated financial statements

Notes to the Consolidated Financial Statements

31 December 2003

1 Incorporation and Activities

a) Incorporation

First Islamic Investment Bank E.C. (the "Bank") operates under an Investment Banking Licence issued by the Bahrain Monetary Agency. The activities of the Bank and its wholly owned subsidiaries (together referred to as the "Group") include providing investment banking services in conformity with Islamic Shariah.

The Bank was incorporated in the Kingdom of Bahrain in November 1996 under commercial registration number 36403 as an Exempt Joint Stock Company. Consequent to changes in the Bahrain Commercial Companies' Law, the Bank's legal status is being changed to a Bahrain Closed Shareholding Company. The legal formalities to effect such change have not yet been completed. However, the change has no effect on the Bank's business activities or regulatory environment.

b) Activities

The Group's main activities are corporate investment and real estate and asset-based investments.

2 Significant Accounting Policies

The consolidated financial statements of the Group are prepared in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and the Bahrain Commercial Companies Law. These consolidated financial statements are prepared in US dollars, being the principal currency of the Group's operations.

Following is a summary of the significant accounting policies adopted in preparing the consolidated financial statements. The accounting policies are consistent with those used in previous years.

a) Accounting convention

The consolidated financial statements are prepared under the historical cost convention as modified for the re-measurement at fair value of certain available-for-sale investments.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. A subsidiary is an entity over which the Bank has control to govern its financial and operating policies in order to obtain benefits from its activities. Certain of the subsidiary companies ("investee companies") are acquired and held exclusively with the view to their subsequent disposal in the near future and, therefore, are excluded from consolidation as control is intended to be temporary.

The results of all other subsidiaries are included in the consolidated financial statements. All intercompany balances, transactions and income have been eliminated on consolidation.

c) Use of estimates in preparation of the consolidated financial statements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities at the date of the financial statements and the reported amounts of provisions for the period. In particular, determination of the fair value of unquoted investments and impairment provisions requires considerable judgement by management. Amounts recognized in the consolidated financial statements using such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgement and uncertainty.

2 Significant Accounting Policies continued

d) Due from financial institutions

Due from financial institutions comprises mainly commodity Murabaha receivables, which are trade transaction agreements (Murabahas) stated at cost plus accrued profit, and investment in Mudaraba financing, which is a profit sharing agreement, stated at cost.

e) Receivables

Receivables arise largely from subscriptions by clients to the Group's various investment products, fees earned in respect of the Group's management services and proceeds due from investment exits that have been contracted but have not yet been funded.

Subscription receivables are recognized when the obligation is established, i.e. when the binding subscription agreement is signed. Fees are accrued as and when management services are rendered. Provisions are made against receivables as soon as they are considered doubtful.

Notes receivable, which are zero-cost funding to employee stock and investment incentive programs, are stated at cost less amounts settled.

Due from investee companies arise largely as a result of the Group extending working capital Murabaha to investee companies stated net of provisions, if any.

f) Investments

Investments comprise the Group's retained share in corporate and real estate investments. These also include investments underwritten for placement with clients in the near term.

Investments are classified as available-for-sale and are initially recognized at cost, being the fair value of the consideration given including acquisition costs.

Re-measurement to fair value

Following initial recognition, available-for-sale investments are re-measured to fair value. The unrealized gains and losses arising from the re-measurement to fair value are included in the consolidated statement of income. The determination of fair value is done for each investment individually in accordance with the valuation policies set out below.

Corporate investments

i) Available-for-sale investments involving recent significant buy or sell transactions with third parties, whether completed or in progress, are re-measured to the fair value implied by the transaction.

ii) Available-for-sale investments, which cannot be re-measured to fair value using (i) above and given the high level of subjectivity involved in applying any other valuation methods, are carried at cost or previously re-valued amount as determined in (i) above, less provision for impairment, if any, as explained below.

Real estate investments

Real estate investments are re-measured based on the capitalization of future cash streams of the underlying real estate assets.

Impairment

An assessment is made at the balance sheet date of any available-for-sale investment to determine if there is objective evidence that an investment may be impaired. If such evidence exists, the estimated recoverable amount of such investment is determined and the potential impairment loss is recognized in the consolidated statement of income. Among other things, management carefully considers key factors about the investee company in determining whether impairment exists. These include the financial condition, business prospects and the Group's willingness and financial ability to hold such investment until value realization takes place.

g) Fixed assets

Fixed assets are carried at cost less accumulated depreciation. Depreciation is provided using the straight line method on all fixed assets using appropriate depreciation rates to write off the cost over their expected useful lives of 2 to 5 years.

2 Significant Accounting Policies continued

h) Due to financial and other institutions

All liabilities under Murabaha contracts are classified as due to financial and other institutions and are carried at cost plus accrued profit less amounts settled.

i) Medium-term Sukuk

Medium-term Sukuk are Murabaha contracts and are carried at cost plus accrued profit less amounts settled.

j) Unrestricted investment accounts

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

k) Treasury shares

Treasury shares are stated at cost and do not carry the rights of other ordinary shares including the right to dividends. Gain or loss arising from the sale of treasury shares is taken to equity.

l) Revenue recognition

Acquisition, placement and exit income

The Group earns several types of fees during the acquisition, placement and exit process for rendering services including arrangement of acquisition financing, mergers and acquisition advice associated with deal execution, equity underwriting and placement with clients and performance fees.

Income from brokerage is recognized on receipt by the Bank of signed Share Purchase Agreements (SPAs). Other fees are recognized when earned net of direct investment banking expenses.

Exit income comprises capital gains on disposal of investments, representing the proceeds returned by an investment in excess of its carrying value less any impairment provision, and performance fees representing the fee earned by the Group for outperforming a pre-determined hurdle rate. Exit income is recognized when a binding and definitive sale agreement or contract is signed.

Management fees

Management fees represent a recurring fee earned by the Group for rendering management and administrative services to investee companies and investment holding companies through which clients participate in the Group's investment products. Management fees are recognized as and when services are rendered.

Recurring income

Recurring income is earned on Islamic financing provided to investee companies which are recognized on a time-apportioned basis, and from rental income from the various real estate investments held by the Bank which are recognized on an accrual basis. Recurring income is suspended if the Group believes that the recovery of these amounts may be doubtful.

Other income

Where income is quantifiable and contractually determinable, it is recognized on a time apportioned basis, otherwise it is recognized when realized.

m) Income allocation

Income to unrestricted investment account holders is allocated on the basis of their daily balances in proportion to shareholders' balances.

n) Fiduciary assets

The Group's clients participate in corporate and real estate investments. Assets held in trust or in a fiduciary capacity in connection with these investments are not treated as assets of the Group and accordingly are not included in the consolidated balance sheet.

o) Foreign currencies

Transactions in foreign currencies are booked in US dollars using the foreign exchange rate prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are translated into US dollars at the rates of exchange prevailing at the balance sheet date. Any gains or losses are taken to the consolidated statement of income.

2 Significant Accounting Policies continued

p) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and due from financial institutions maturing within three months from the date of acquisition.

q) Employee end of service benefits

The Group provides for end of service benefits to its employees. Entitlement to these benefits is based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

r) Zakat

In accordance with Article 39(c), paragraph (3) of its Articles of Association, the Bank is not required to pay Zakat on behalf of its shareholders. However, the Bank is required to calculate and notify under a separate report individual shareholders of their pro rata share of the Zakat payable amount. The Shariah Supervisory Board approves these calculations.

s) Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on overseas operations is provided in accordance with the fiscal regulations of the respective countries in which the Group operates and is included in the accompanying consolidated income statement.

t) Trade date accounting

All "regular way" purchases and sales of financial assets are recognized on trade date, i.e. the date that the Group contracts to purchase or deliver 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.

u) Offsetting

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

3 Subsidiary Companies

The following are the principal subsidiaries of the Bank, which are consolidated in these financial statements

Subsidiary	Ownership	Year of Incorporation	Country of Incorporation
Crescent Capital Investments, Inc (CCII) CCII's main activities are to source investment opportunities in the United States and monitor the performance of the acquired companies on behalf of the Bank and investors	100%	1997	United States
First Islamic Investment Management Limited (FIIML) FIIML's main activity is to maintain and manage the books of account of the investment vehicle companies created for corporate investments, real estate and other investment activities	100%	1997	Cayman Islands
First Islamic Investment Holdings Limited (FIIHL) FIIHL's main purpose is to hold the Bank's share in corporate and real estate investments	100%	1998	Cayman Islands
First Islamic Structured Finance Limited (FISFL) FISFL's main activity is to structure Islamically acceptable financing facilities	100%	1998	Cayman Islands
First Islamic Investment Funding Limited (FIIFL) FIIFL is the holding company of FISFL, its main activities are to source real estate deals and sponsor other investment banking activities	100%	1998	Cayman Islands
Crescent Capital Investments (Europe) Limited (CCIE) CCIE's main activities are to source investment opportunities in Europe and the UK and monitor the performance of the acquired companies on behalf of the Bank and investors	100%	2003	United Kingdom

4 Due from Financial Institutions

	Self financed		Jointly financed		Total	
	2003 US$ '000	2002 US$ '000	**2003 US$ '000**	2002 US$ '000	**2003 US$ '000**	2002 US$ '000
Commodity Murabaha	**120,840**	9,250	**140,623**	23,442	**261,463**	32,692
Less Deferred profits	**(39)**	(4)	**(45)**	(9)	**(84)**	(13)
	120,801	9,246	**140,578**	23,433	**261,379**	32,679
Investment in Mudaraba	**–**	–	**26,802**	52,783	**26,802**	52,783
	120,801	9,246	**167,380**	76,216	**288,181**	85,462

Self financed represents Murabaha and Mudaraba financed exclusively by the Group, while jointly financed balances are those financed by the Group and unrestricted investment accounts. The effective profit return on these balances as of 31 December 2003 was [illegible]3% (2002 2.0%)

The investment in Mudaraba represents overnight investments with a major financial institution and can be withdrawn on demand without penalty

5 Receivables

	Note	2003 US$ '000	2002 US$ '000
Receivables and prepayments	5a	**84,673**	83,929
Notes receivable	5b	**19,448**	12,065
Due from investee companies	5c	**143,898**	105,286
		248,019	201,280

a) Receivables and Prepayments

	2003 US$ '000	2002 US$ '000
Subscriptions receivable	**43,643**	64,172
Management and other fees receivable	**6,921**	5,006
Prepaid expenses	**2,650**	774
Others	**31,459**	13,977
	84,673	83,929

Subscriptions receivable represents amounts due from clients for participation in the Group's investment products. These are typically collected in the short term and until such time are collateralized by the underlying investment assets which are only transferred to the client upon receipt of cash. Share Purchase Agreements outstanding for over six months are reversed, the investment restated and the receivable representing brokerage income fully reversed.

Management and other fees receivable represent amounts due from clients' investment holding companies for the provision of management and administrative services or performance fees related to the Group's corporate and real estate investment products.

Included under "Others" is an amount of US$14 million (2002: nil) representing the Group's share held in an escrow account in connection with the partial sale of a corporate investment. This amount will be collected upon the satisfaction of certain terms and conditions as stipulated in the Escrow Agreement.

b) Notes Receivable

	Note	2003 US$ '000	2002 US$ '000
Employee Stock Incentive Program	5b(i)	**2,931**	3,186
Investment Incentive Program	5b(ii)	**16,517**	8,879
		19,448	12,065

5. Receivables continued

b) Notes Receivable continued

i) *Employee Stock Incentive Program*

An employee stock incentive program as approved by the Bahrain Monetary Agency was established in 1999 whereby eligible employees are given an opportunity to acquire shares of the Bank. There are [illegible]4 eligible employees for the scheme as of 31 December 2003 (2002: 94).

The Bank has issued 1,250,000 ordinary shares (2002: 1,250,000) to an employee trust established for this purpose and has provided funding for the acquisition of the shares at zero-cost to employees. The Bank secures such funds by assignment of these shares.

ii) *Investment Incentive Program*

Eligible employees are given the opportunity to participate in investments arranged by the Group. The participants are provided with zero-cost funds from the Bank for this purpose. The Bank secures such funds by assignment of these investments.

c) Due From Investee Companies

	2003 US$ '000	2002 US$ '000
Commodity Murabaha	**145,138**	106,215
Less: Deferred profits	**(1,240)**	(929)
	143,898	105,286

The effective profit return on these balances as of 31 December 2003 was equivalent to a return of 5.9% (2002: 7.6%).

6 Available-for-sale Investments

These are unquoted investments, held with the intention of sale and are hence classified as available for sale.

	Note	2003 US$ '000	2002 US$ '000
Corporate investments	6a	**200,480**	192,235
Real estate and asset-based investments	6b	**66,212**	25,202
		266,692	217,437
Fair value adjustments	6c	**26,482**	16,998
Provisions	6c	**(37,246)**	(9,781)
		255,928	224,654

6 Available-for-sale Investments continued

a) Corporate Investments

Corporate investments stated at cost are as follows

	2003 US$ '000	2002 US$ '000
Destination Outdoors, Inc (DOI) DOI is a leading manufacturer of multi sports racks, rack accessories for automobiles, kayaks and paddle sport accessories. DOI is headquartered in Arcata, California	**106,275**	103,252
Smart Document Solutions, LLC (Smart) Smart is a leading provider of medical records release of information (ROI) services in the United States. Smart is headquartered in Alpharetta, Georgia	**28,346**	21,895
Cirrus Industries, Inc (Cirrus) Cirrus is the second largest manufacturer of single engine piston-powered, general aviation aircraft in the world headquartered in Duluth, Minnesota	**23,256**	23,789
DVT Corporation (DVT) DVT is a leading provider of machine vision solutions to the industrial marketplace. DVT is located in Atlanta, Georgia	**11,875**	10,345
Transportation Safety Technologies, Inc (TST) TST is the leading manufacturer of specialty electrical components and safety products for the automotive industry in North America. TST is located in Indianapolis, Indiana	**9,571**	5,113
B. R Lee Industries, Inc. (B. R Lee) B.R. Lee is a leading manufacturer of commercial paving and road repair equipment, located in Denver, North Carolina	**8,147**	8,207
Caribou Coffee Company, Inc (Caribou) Caribou is the second largest non franchised specialty coffee house chain in the United States, headquartered in Minneapolis, Minnesota	**7,511**	8,243
American Pad & Paper, LLC (Ampad) Ampad is one of the largest manufacturers and distributors of nationally branded and private label paper based office products, based in Plano, Texas	**2,783**	
Medifax EDI™, Inc. (Medifax) Medifax is a leading provider of information processing services to the health care industry headquartered in Nashville Tennessee with offices in Los Angeles, California	**2,716**	11,391
	200,480	192,235

6. Available-for-sale Investments continued

b) Real Estate and Asset-Based Investments continued

Real estate and asset-based investments stated at cost are as follows

	2003 US$ '000	2002 US$ '000
Montrose A portfolio of lease (lare) interests in 21 aircraft operated by British Airways, Air Canada and Brit Air, in alliance with Montrose & Company International, LLC, an affiliate of Bank of America, N.A. and a leasing specialist in the secondary market	**21,758**	3,758
Shurgard Development of self-storage facilities across Europe in alliance with Shurgard Europe, the largest developer, owner and operator of self-storage facilities in Europe	**11,557**	-
Sunrise USA Assisted living properties in alliance with Sunrise Senior Living Inc, the largest provider of senior living services in the United States	**10,952**	7,548
ProLogis Industrial distribution facilities in a number of different locations across the United States in alliance with ProLogis Trust, a leading global provider of integrated distribution facilities and services	**6,565**	7,004
Zephyr Development and operation of wind farms in the United Kingdom, in alliance with Englefield Capital and RWE Innogy Plc	**6,396**	-
Multifamily Multifamily properties in alliance with Archstone Smith, a leader in the development and operation of multifamily residential properties in the United States	**5,633**	4,794
Others This represents the Group's share of real estate investments of less than US$2 million each	**3,351**	2,098
	66,212	25,202

8 Due to Financial and Other Institutions

	2003 US$ '000	2002 US$ '000
Due to financial institutions:		
Syndicated Murabaha	**100,086**	100,053
Murabaha	**171,574**	136,919
	271,660	236,972
Due to other institutions		
Murabaha	**48,268**	20,277
	319,928	257,249

Syndicated Murabaha represent unsecured balances from a syndicate of financial institutions obtained during 2001 and carry covenants for limitation on dividends, insurance and guarantees. The effective profit return as of 31 December 2003 was 2.2% (2002: 2.8%) and is renewable on a six monthly basis with a final maturity date of 24 June 2004.

Murabaha include various short-term unsecured balances maturing within 3 to 12 months. The effective profit return as of 31 December 2003 was 1.5% (2002: 2.7%).

9 Medium-Term Sukuk

Sukuk represent ownership of units of equal value (bonds) and are registered in the names of the holders on the basis of their undivided ownership therein. Returns are based on the percentage of ownership, and as per the Mudaraba agreement.

Amounts outstanding represent the following medium-term facilities:

	Maturity	2003 US$ '000	2002 US$ '000
FIRSAN A	May 2006	**66,500**	
FIRSAN B	May 2008	**46,500**	
		113,000	

First Islamic Registered Senior Aman Notes (FIRSAN), were issued during the year comprising FIRSAN A and FIRSAN B. FIRSAN A carries a profit equivalent to a rate of 1.50% over LIBOR, with a floor rate of 5.00%, while FIRSAN B carries a profit equal to a rate of 2.25% over LIBOR with a floor rate of 6.00%.

These unsecured notes carry covenants relating to maintenance of minimum capital adequacy and leverage ratio, limitation on dividends, insurance and guarantees.

10 Other Liabilities

	2003 US$ '000	2002 US$ '000
Accrued expenses	**14,127**	6,887
Directors' remuneration	**1,128**	900
Undistributed charity funds	**1,185**	880
Others	**561**	1,494
	17,001	10,161

11 Unrestricted Investment Accounts

Unrestricted investment accounts are funds held by the Group, which it can invest in commodity Murabaha receivables and Mudaraba investments at its own discretion. The Group does not charge management (Mudarib) fees to unrestricted investment account holders. The effective profit return to investors for the year was 0.95% (2002: 1.43%).

12 Share Capital

	2003 US$ '000	2002 US$ '000
Authorized		
15,000,000 ordinary shares of US$10 each	**150,000**	150,000

In its meeting held on 15 December 2003 the Board of Directors resolved to recommend an increase in the authorized share capital of the Bank from 15,000,000 ordinary shares of US$10 each to 40,000,000 ordinary shares of US$10 each. This recommendation will be put to the Annual General Meeting for shareholders' approval.

	2003 US$ '000	2002 US$ '000
Issued and fully paid up		
11,250,000 (2002: 11,250,000) ordinary shares of US$10 each	**112,500**	112,500

Proposed dividends

A dividend representing 15% of the paid-in capital of the Bank, or US$1.50 per share, has been proposed by the Board of Directors and will be submitted for formal approval at the 2004 Annual General Meeting.

13 Reserves

a) Share premium

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

b) Statutory reserve

The Bahrain Commercial Companies Law and the Bank's Articles of Association require 10% of the net income for the year to be transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve is not distributable but can be utilized as security for the purpose of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

c) Investment fair value reserve

Investment fair value reserve represents unrealized revaluation gains on available-for-sale investments. This reserve is distributable upon the realization which takes place either at time of actual exit or placement with the Bank's investors.

14 Related Party Transactions

During the course of the Group's investment activities, some portion of the investment banking income arises from transactions with companies over which the Group exerts significant influence and with other related parties such as shareholders, directors and officers, their families and/or companies of which they are principal owners.

A portion of acquisition and placement income is earned on the Group's transactions with such related parties in the ordinary course of business. A significant portion of management fees and recurring income arises from investee companies in respect of the Group's management and administrative services and financing support.

Although these companies are considered related parties, the Group administers and manages these companies on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. Consequently, the true nature of the Group's transactions with these companies is effectively conducted on commercial terms and conditions. Such terms and conditions are approved by the Board of Directors.

Expenses incurred pertaining to transactions with related parties, mainly in the form of operating expenses, are not significant.

The related party balances included in these consolidated financial statements are as follows:

	2003				2002
	Shareholders US$ '000	**Directors US$ '000**	**Others US$ '000**	**Total US$ '000**	Total US$ '000
Assets					
Receivables	**26,189**	**259**	**191,729**	**218,177**	152,004
Liabilities					
Other liabilities	**–**	**1,128**	**483**	**1,611**	4,471
Unrestricted investment accounts	**34,809**	**661**	**93,994**	**129,464**	43,626

15 Risk Management

Risk management is an integral part of the Group's decision-making process. Various management committees, comprising members of senior management drawn from all key areas of the Group, guide and assist with overall management of the Group's balance sheet risks.

a) Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash and cash equivalents.

The following table summarizes the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements. The maturities of assets and liabilities at balance sheet date have been determined on the basis of the remaining contractual period. Maturity period for subscriptions receivable are determined on the basis of their expected collection dates. Maturity periods for available for sale investments are based on planned exit dates.

15 Risk Management continued

a) Liquidity Risk continued

The maturity profile of assets and liabilities as at 31 December 2003 is as follows

	Total US$ '000	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000	6 months to 1 year US$ '000	1 to 3 years US$ '000	Over 3 years US$ '000
Assets							
Cash and balances with banks	**18,596**	18 596	–	–	–	–	-
Due from financial institutions	**288,181**	288 181	–	-	-	–	-
Receivables	**248,019**	1 952	47 [illegible]05	–	11 898	104 736	82 3[illegible]8
Available-for-sale investments	**255,928**	-	1073	20 79[illegible]	[illegible]5 999	68 806	129 601
Other assets	**7,236**	-	06	--	874		6 256
Total assets	**817,960**	308 729	57 942	[illegible]079	38 77	173 54[illegible]	218 185

Liabilities, Unrestricted Investment Accounts and Equity

	Total US$ '000	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000	6 months to 1 year US$ '000	1 to 3 years US$ '000	Over 3 years US$ '000
Liabilities							
Due to financial and other institutions	**319,928**	66 328	84 185	161 936	7 479	–	-
Medium-term sukuk	**113,000**	–	–	-	-	66,500	46,500
Other liabilities	**17,001**	–	14 804	38	-	1 816	-
Total liabilities	**449,929**	66 328	98 989	16[illegible] 3[illegible]7	7 479	68 316	46,500
Unrestricted investment accounts	**162,306**	-	84,[illegible]6	2 848			[illegible],042
Equity	**205,725**		16 875		-		188,850
Total liabilities, unrestricted investment accounts and equity	**817,960**	66 328	200 280	165,[illegible]65	7 479	68 316	310,392

15 Risk Management continued

c) Concentration Risk

Concentration risk arises 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. Concentration risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

	2003		2002	
	Assets US$ '000	**Liabilities and unrestricted investment accounts US$ '000**	Assets US$ '000	Liabilities and unrestricted investment accounts US$ '000
Geographic region				
Middle East	**262,179**	**495,974**	42,877	268,063
Europe	**121,821**	**85,029**	7,438	24,711
North America	**471,206**	**31,232**	372,888	50,352
	855,206	**612,235**	533,203	343,626
Less Provisions	**37,246**	**–**	9,781	
	817,960	**612,235**	523,422	343,626
Industry sector				
Manufacturing	**289,651**	**17,821**	245,045	
Services	**51,066**	**13,944**	44,3[illegible]3	-
Technology	**31,675**	**–**	23,05[illegible]	
Real estate	**61,993**	**58,007**	34,[illegible]63	34,450
Banking and financial institutions	**321,202**	**304,169**	99,343	257,249
Aviation	**23,151**	**–**	3,758	
Others	**76,468**	**218,294**	83,524	51,927
	855,206	**612,235**	533,203	343,626
Less Provisions	**37,246**	**–**	9,781	-
	817,960	**612,235**	523,422	343,626

As at 31 December 2003 the Group had significant exposures to Destination Outdoors, Inc., Cirrus Industries Inc., and B.R. Lee Industries, Inc. These exposures are included in Notes 5 and 6.

15 Risk Management continued

d) Profit Return Risk

Profit return risk arises from the possibility that changes in the profit return will affect the value of financial instruments.

The Group is exposed to a profit return risk as a result of changes in the market profitability relating to due from/to financial institutions, due from investee companies and available-for-sale investments. The profit return risk relating to due from financial institutions is partially mitigated by not entering into deals where the profit return is fixed for more than one year. In addition, the Group conducts its business with the unrestricted investment account holders based on the principles of the Mudaraba contract by which the investment account holders share the profit or loss made by the Group over a given period. The Group monitors profit return risk and adjusts its maturity structure to minimize the related risk.

e) Foreign Currency Risk

The majority of the Group's business is conducted in US dollars. However, certain available-for-sale investments and other financial assets and liabilities are in other currencies and give rise to foreign currency risk.

The Group had the following significant foreign currency exposures at the balance sheet date:

	2003			2002		
	Assets US$ '000	**Liabilities US$ '000**	**Net US$ '000**	Assets US$ '000	Liabilities US$ '000	Net US$ '000
Euro	**98,215**	**58,491**	**39,724**	107,340	41,158	66,182
Pounds sterling	**43,465**	**42,116**	**1,349**	16,119	16,678	(559)
Other currencies	**612**	**2**	**610**	562	1	561
	142,292	**100,609**	**41,683**	124,021	57,837	66,184

16 Fair Value of Financial Instruments

The estimated fair value of the Group's financial instruments are not significantly different from their book values as at the balance sheet date. Furthermore, investments with a carrying value of US$ 96.9 million (2002: US$ 55.5 million) are carried at cost. The directors believe that the carrying value of these investments either approximate fair value or the variability in the range of reasonable fair value estimates is so great that disclosure of such range will be misleading.

17 Earnings and Expenses Prohibited by Shari'ah

The Bank receives interest from deposits placed with the Bahrain Monetary Agency and other commercial deposits. These earnings are utilized exclusively for charitable purposes and amount to US$22,706 for the year (2002: US$309,393).

18 Shari'ah Supervisory Board

The Bank's Shari'ah Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'ah principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'ah principles.

19 Social Responsibility

The Group discharges its social responsibilities through donations to charitable causes and organizations.

20 Comparative Figures

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassifications did not affect previously reported net income or shareholders' equity.

Board of Directors

Mohammed Abdulaziz Aljomaih Chairman
Vice Chairman and Executive Vice President Aljomaih Holding Co., a major business enterprise in the Kingdom of Saudi Arabia representing General Motors, Yokohama, Pepsi Cola Shell MAN and Fiat-Allis among others

Abdulaziz Hamad Aljomaih Vice Chairman (1,2,3)
Assistant Vice President Aljomaih Holding Co., Saudi Arabia

Mohamed Abdullah Al-Zamil (1)
Chairman A H Al-Zamil Group of Companies Bahrain and Saudi Arabia, Bahrain Islamic Bank B.S.C. Vice Chairman Gulf Union Insurance & Reinsurance Co. Member of the Board of Directors Investcorp Bank E.C., General Organization for Social Insurance, Saudi Cement Co., Saudi Arabia International Insulation Materials Co. (El Benhawi Al-Zamil) S.A.E., Cairo, IFA Barque S.A., Paris

Ghazi Fahad Alnafisi
Chairman and Managing Director Salhia Real Estate Company K.S.C., Kuwait. Chairman Kuwait Hotel Owners Association Vice Chairman Azzad Catering & Services Co., Kuwait. Co-Founder and Vice Chairman Independent Petroleum Group s.a.k., Kuwait. Co-Founder and Member of the Board of Directors Gulf International Properties, Bahrain, Kuwait Packing Materials Manufacturing Co., K.S.C., Kuwait

Mohammed Bin Humooda (1,2,3)
Executive Director Abu Dhabi Investment Authority Chairman Islamic Finance Consultants (E.C.), Bahrain Member Federal National Council, United Arab Emirates Member of the Board of Directors Abu Dhabi Islamic Bank, Abu Dhabi Investment Company, Thuraya Satellite Telecommunications Company, General Authority for Health Services for the Emirate of Abu Dhabi

Abdulrahman Abdulaziz Al-Muhanna
Managing Director Al-Mara, Company Ltd., Saudi Arabia Member of the Board of Directors Al Mara, Company Ltd., Arasco, Tabuk Agriculture Company, and various commercial establishments in Riyadh, Saudi Arabia

Ayman Ismail Abudawood (1)
Vice President Ismail Ali Abudawood Trading Company Ltd., Saudi Arabia, the exclusive partner of Procter & Gamble for its local distribution and manufacturing activities. The company also represents other brands such as Clorox, Quaker and a number of American and other multinational corporations. Mr Abudawood is additionally in charge of the group's foreign investment activities

Abdulla Abdullatif Al-Fozan
Member of the Board of Directors Abdullatif & Mohammed Al-Fozan Co., Abdullatif A. Al-Fozan & Sons Co., Abdullatif & Mohammed Al-Fozan Development Co., Al-Fozan Wood Industries Co., Al-Fozan Steel Industries Co., Arnon Plastic Industries Co., Building & Construction Co., United Transformers Electrical Co. "UTEC", United Electronics Co. "Extra", Al-Aula Real Estate Development Co., Arab Paper Manufacturing Co., Gulf Union Insurance Co., Dhahran Expo Co., Al-Farabi Petrochemical Co.

Khalid Thani A. Al-Thani
Chairman Qatar Real Estate Investment Co., AXIS Engineering & Mechanical Co. (Oil and Gas), Orientals Enterprises (Contractors & Engineers), Continental Tourism Network, Qatar British Association of Businessmen, Qatari Korean Friendship Association. Vice Chairman & Managing Director Thani Bin Abdulla Housing Group. Managing Director & Chairman Executive Committee Qatar International Islamic Bank. Chief Executive & Board Member Qatar Islamic Insurance Co. Board Director Al-Ahli Hospital Co. Vice Chairman Doha Securities Market

Dr. Khalid Mohammed Boodai (2,3)
President Horizon Management Consulting, Kuwait. Member of the Board of Directors International Turnkey Systems Company, Educational Services Company. Member Supreme Petroleum Council, Kuwait, Accounting & Auditing Council for Islamic Banks and Financial Institutions, Bahrain

Hamed Ahmed Al-Hamed (2,3)
Deputy General Manager Abu Dhabi Investment Company

Atif A. Abdulmalik (1,2,3)
Chief Executive Officer First Islamic Investment Bank E.C. One of the founders of First Islamic, previously Mr Abdulmalik was with Investcorp Bank E.C.

(1) Executive Investment Committee
(2) Executive Administrative Committee
(3) Board Audit Committee

Board of Directors
Top row (left to right): Mohammed Abdulaziz Aljomaih, Abdulaziz Hamad Aljomaih, Mohamed Abdullah Al-Zamil
Top center row (left to right): Ghazi Fahad Alnafisi, Mohammed Bin Humooda, Abdulrahman Abdulaziz Al-Muhanna
Bottom center row (left to right): Ayman Ismail Abudawood, Abdulla Abdulatif Al-Fozan, Khalid Thani A. Al-Thani
Bottom row (left to right): Dr. Khalid Mohammed Boodai, Hamed Ahmed Al-Hamed, Atif A. Abdulmalik

6 Available-for-sale Investments continued

c) Fair value adjustments

	2003 US$ '000	2002 US$ '000
Balance at the beginning of the year	**16,998**	-
Fair value adjustments for the year	**11,889**	16,998
Net realized gain	**(2,405)**	-
Balance at the end of the year	**26,482**	16,998

The fair value adjustments as of 31 December 2002 was previously included in retained earnings and has been reclassified to investment fair value reserve in the statement of changes in equity. This change was not effected retroactively.

d) Provisions

	2003 US$ '000	2002 US$ '000
Balance at the beginning of the year	**9,781**	6,781
Charge for the year	**22,500**	3,000
Others	**4,965**	
Balance at the end of the year	**37,246**	9,781

7 Assets under Management

Assets under management at balance sheet date are as follows:

	2003 US$ million	2002 US$ million
Proprietary	**411**	323
Clients	**3,157**	2,394
	3,568	2,717

The proprietary assets are included in the consolidated balance sheet, while client assets which are managed in fiduciary capacity without risk of recourse to the Group, are not included in the consolidated balance sheet.