

Chief Executive's Review of Operations



Aabed Al-Zeera

In my Review of Operations last year, I expressed confidence in the ability of International Investment Bank ("IIB") to bring attractive proposals to market, to broaden and deepen our relationships with institutions and individuals, to recruit skilled professionals, and to enhance our policies, procedures, systems and controls. I am pleased to be able to report that my confidence was well-founded on all fronts, as can be seen from the Bank's excellent results in only its second full year of operations.

I believe that IIB is now well set to achieve its mission of becoming a premier Islamic investment bank in the Middle East and North Africa ("MENA") region, and a trusted provider of value-added, ethical investment opportunities to its clients.

IIB's investment philosophy and approach, which entails establishing strategic alliances with regional and international institutions in sourcing, structuring and underwriting a broad spectrum of investment proposals, has paid handsome dividends, and will therefore remain at the heart of the Bank's business model. Similarly, IIB's "partnership" approach towards all of its stakeholders, which is consistent with the Shari'ah principles that govern its business activities, has clearly proved its worth during the Bank's first two years of operations, and it will therefore be reinforced within the Bank's core values.

Business Activities

IIB currently undertakes three principal business activities:

Private Equity Investment - The Bank has developed relationships with a number of leading international and regional investment houses, financial institutions and venture capital / private equity firms in order to generate private equity opportunities that meet our

clients' objectives and comply with the Shari'ah principles. We aim to construct a balanced portfolio of industries and countries, and we target those companies which offer potential for value-enhancement through financial and business restructuring. These investments are normally held for the medium term in order to implement the necessary restructurings and, where appropriate, to launch IPO's. Private equity transactions in which IIB has already invested include one of the most successful independent power producers in Asia, an Islamic investment bank that is being established in the UK, and a UAE-based company that is expanding its manufacturing operations in the paper industry.

Real Estate Investment - Through strategic alliances that IIB has forged with some regional and international real estate firms, the Bank is aiming to create optimal portfolios of real estate investments. These portfolios will be diversified by country and by asset class, such as residential properties, offices and warehousing, and will include development, as well as investment, properties. In 2005 the Bank made a US\$280 million acquisition of a landmark commercial property in Central London, in conjunction with a leading private investment company from Saudi Arabia. IIB has also recently established the Housing Development Company in Bahrain, which will develop residential properties in the mid to lower price range, and at year-end the Bank successfully placed its 50% stake in a US\$94.1 million commercial tower development in the new Business Bay district in Dubai. All of these investments were very well received by the Bank's investors.

Asset Management - Through its international alliances and networks, together with its growing in-house expertise, IIB aims to develop a broad spectrum of asset management

Chief Executive's Review of Operations (Continued)

products that comply with the Shari'ah, including mutual funds, Ijara funds, Morabaha funds, direct investments and real estate funds. In 2004, IIB established the Bahrain Property Fund, the first fund of its type in Bahrain.

This Fund, which was placed with a wide range of investors in the GCC, assembled a balanced portfolio of professionally-managed, income-producing commercial and residential properties in Bahrain, which was designed to provide unit-holders with a steady income stream plus superior capital gains over a projected five year investment period. In 2005, the Fund paid unit-holders cash dividends of 7% p.a., and several of the Fund's largest holdings look well-placed to benefit from strong capital gains over the next two to three years. As the Fund has now completed one whole financial year, arrangements are being made to list it on the Bahrain Stock Exchange during the first half of 2006, as this should provide investors with greater flexibility in acquiring and selling units, thereby adding liquidity to this Fund.

Corporate Finance - In the future, IIB also aims to develop its capabilities in Corporate Finance, such as mergers and acquisitions and corporate advisory services, in parallel with the deregulation and opening-up of the economies and markets of the GCC countries.

IIB's early success can be attributed mainly to our competitive advantage, which derives from:

- our strong shareholder base spread across 45 prominent names in the GCC, which not only provides core investors for new investment offerings by the Bank, but is also a source of new business referrals and specialist market knowledge, and promotes the Bank's name in a variety of markets;
- our extensive placement capability in the GCC countries, which has been built on the Bank's shareholder base and on the extensive relationships that the Bank's management team has built with investors over many years;
- our strong management team, which has a broad and complementary range of experience and skills; and
- our ability to respond quickly to changing market conditions.

IIB also has significant origination capabilities in the local, regional and international markets, based on the institutional and personal relationships established by its management team during their long professional careers.

Corporate Governance

Board of Directors and Board Committees

IIB's Board of Directors is responsible for the overall direction, supervision and control of the Bank. It currently consists of ten Directors, all of whom are non-executive, and is chaired by the UAE businessman, Mr Saeed Abdul Jalil Al Fahim, who is also Chairman of the Al Fahim Group, one of the most successful groups of companies in the UAE. The Bank's Vice Chairman is the Saudi Arabian businessman, Mr Ahmed bin Salem Bugshan.

The Board meets on a quarterly basis, and exercises its oversight principally through two committees. The Audit Committee determines the Bank's annual internal audit programme in consultation with the external auditors,

and reviews internal audit reports, the Bank's financial statements, and the effectiveness of internal controls and policies and procedures. The Bank's Internal Auditor reports directly to the Audit Committee. The Executive Committee of the Board has delegated authorities to approve new business proposals and senior level recruitment, and currently fulfils the role of Risk Committee, Remuneration Committee and Nominations Committee. During 2006, a Nominations Committee will be established by the Bank.

IIB's Board and management consider it essential that the interests of all stakeholders are carefully aligned through appropriate policies and procedures that cover all areas of the Bank's activities, such as risk management, operations, compliance and remuneration. These policies and procedures have been developed in collaboration with external consultants, and are reviewed by the Audit Committee before final approval by the Board.

Shari'ah Supervisory Board

IIB's Shari'ah Supervisory Board comprises two prominent GCC Islamic scholars who provide the Bank with pragmatic Islamic opinions: Sheikh Nizam bin Mohammed Saleh Yaquby, and Dr. Abdul Sattar Abdul Kareem Abu Ghuddah, both of whom are members of the Shari'ah Supervisory Boards of several reputable Islamic financial institutions.

The Shari'ah Supervisory Board regularly reviews all investment products and business activities to ensure compliance with the Islamic Shari'ah, approves the Bank's financial statements and also participates with management in the development of suitable investment products and services.

Management

IIB attaches great importance to attracting, retaining and developing the best available employees who share the Bank's ambition and core values. It has assembled a team of seasoned professionals who are committed to providing innovative Islamic financial solutions.

IIB's senior management team is headed by Mr. Aabed Al Zeera, Chief Executive Officer, who has twenty five years of international banking experience with major financial institutions in Bahrain and the UAE, including Arab Banking Corporation ('ABC'), Standard Chartered Bank and First Islamic Investment Bank (now Arcapita). Mr. Al Zeera was one of the key promoters of IIB who, together with the Al Fahim Group, conceived and successfully set up the Bank.

IIB's Chief Operating Officer is Mr. Salah Nooruddin, whose twenty year banking career has been spent mainly with ABC and Chase Manhattan Bank in Bahrain and New York.

IIB's Executive Director of Banking Support, Mr. Frederick Stonehouse, has almost thirty years of international banking experience with major UK, US and Arab institutions in London, Bahrain and Madrid.

Mr. Mohammed Hadi Mejai, the Bank's Director of Investment & Business Development, brought in investment and Islamic banking expertise gained with the Islamic Development Bank Group (IDB) and its investment affiliates in Saudi Arabia and UAE.

(From left to right) Mr. Salah Nooruddin, Chief Operating Officer; Mr. Aabed Al Zeera, Chief Executive Officer; Mr. Frederick Stonehouse, Executive Director, Banking Support; Mr. Mohammed Hadi Mejai, Director, Investment & Business Development

Chief Executive Officer:	Aabed Al Zeera
Chief Operating Officer:	Salah Nooruddin
Business Development	
Director, Investment & Business Development:	Mohammed Hadi Mejai
Principal, Business Development:	Nasser Eldine Bayoun
Principal, Business Development:	Nader Alkhalili
Principal, Corporate Finance:	Narayanan Ganapathy
Investment Placement	
Principal:	Ebrahim Al Shaibeh
Principal:	Rayan Kazerooni
Principal:	Alyas Al Meftah
Banking Support	
Executive Director:	Frederick Stonehouse
Engineering Services Head:	Hasan Abu Hassan
Principal:	Murtaza Ghulam
Associate, Corporate Communications & Banking Support:	Zain Al-Thawadi
Finance and Administration	
Director:	Nader Asad
Risk Management	
Principal:	Sushil Jain
Internal Audit	
Head of Internal Audit & Compliance:	Ali Redha





Above: (From left to right) Murtaza Ghulam, Hasan Abu Hassan, Zain Al-Thawadi and Frederick Stonehouse.

Top left: Ebrahim Alshaibeh

Below left: Rayan Kazerooni



Top Left: (From left to right) Nader Asad, Abed Al Zeera, Sushil Jain, Frederick Stonehouse and Ali Redha.

Top Right: Salah Nooruddin.

Right: (From left to right) Nasser Bayoun, Mohammed Mejai, Nader Alkhalili, Salah Nooruddin and Narayanan Ganapathy.



2005 Performance

In 2005, having put in place its basic operational infrastructure, the Bank was successful in generating a strong deal flow which resulted in a nine-fold increase in Net Profit to US\$7.0 million, representing a 16.3% return on the Bank's paid-up capital. Operating Income also grew substantially during the year, rising by 192% on the back of net fee income of US\$9.7 million. Whilst total expenses increased by 57% to US\$4.2 million, reflecting IIB's rapid expansion, the cost / income ratio improved sharply from 63.4% to 34.2%, which is superior to the average of international investment banks. At the same time, the Bank maintained its prudent approach to risk management, and at year-end our capital adequacy ratio stood at 101%, which is substantially higher than the regulatory minimum of 12%.



During 2005 IIB concluded six transactions with a total value of US\$852 million. They ranged from an independent power producer in Asia to a landmark office building and an Islamic investment bank in London, to industrial and real estate investments in the GCC. These six transactions are described in more detail below:

IIB Power Company Limited

IIB underwrote and arranged the private placement amongst GCC investors of a portion of a US\$239million investment in one of the most successful independent power producers in Asia, thereby providing our investors with access to the expanding electricity market in three of the fastest-growing economies in the world, namely China, South Korea and Taiwan. This investment is a pre-IPO opportunity that is expected to generate an Internal Rate of Return of between 16% to 21% per annum, depending on the timing and valuation of the IPO. The underlying operating company continues to operate profitably, and its stock exchange listing is currently scheduled for the end of 2006.

IIB European Investment Company Limited

IIB underwrote US\$17 million as a strategic investor in a US\$205 million private placement for an Islamic investment bank that is being established in the UK, and this investment was placed successfully with a number of IIB's investors in the GCC. After receiving its banking authorization from the UK Financial Services Authority, this new bank is expected to launch an IPO, and be listed on the UK's Alternative Investment Market ("AIM"), during the first half of 2006. It is the first dedicated Islamic investment bank to be granted authorisation by the UK Financial Services Authority.

IIB Belgravia Property Company Limited

In mid-2005 IIB acquired for US\$280 million a landmark commercial property occupying a prime site in Central London, in conjunction with SEDCO, a leading private Islamic investment company in Saudi Arabia. The property overlooks the gardens of Buckingham Palace and benefits from a long-term lease to the UK subsidiary of one of the world's leading energy companies. This transaction offers investors an attractive and stable cash yield of 7.5% p.a. from rental income, and the prospect of capital appreciation at the time of exit in three to five years. Since the acquisition of this property, the London commercial real estate market has continued to strengthen, so the prospects for achieving our targeted returns appear good.

Housing Development Company Limited

Housing Development Company ("HDC") was incorporated in Bahrain with the objective of developing residential properties of various types in the mid to lower price range. IIB's market research revealed a chronic shortage of affordable housing in Bahrain, and the Government of Bahrain has publicly announced its desire that the private sector play a role in meeting the demand. IIB is keen to promote projects that fulfil its corporate

social responsibility objectives while also achieving attractive returns for the Bank's investors, and HDC fits this profile. The company was launched with an authorised capital of US\$53 million, and following strong interest from private and institutional investors from around the GCC, this may be increased. HDC offers investors an attractive Internal Rate of Return in excess of 16% per annum over a three to five year investment horizon, with scope for enhancement through capital appreciation at exit. IIB's intention is to replicate the structure of HDC in other selected markets in the GCC.

IIB Paper Company Limited

IIB Paper Company Limited is the investment vehicle established by IIB and its investors to hold a 47.4% stake in Queenex Paper Products Company ("QPPC"), a tissue paper manufacturing company. QPPC is a US\$47 million joint-venture with the Al Hajri International Group of Abu Dhabi, which is one of the pioneers that encouraged the development of the manufacturing sector in the UAE, and which has interests in the paper, packaging, and printing industries, amongst others. The joint-venture company will expand the activities of the Group in various segments of the paper industry in the Middle East. This investment offers an attractive Internal Rate of Return of 25% per annum over the anticipated three to five year investment holding period, and the potential for even higher returns through the scaling-up and restructuring of the operations.

Shari'ah-compliant term financing for this venture was provided by the Islamic Corporation for the Development of Private Sector ("ICD"), a multilateral investment institution, and affiliate of the Islamic Development Bank group (IDB), based in Saudi Arabia.

IIB is particularly proud to be supporting this pioneering industrial venture, which will further broaden the UAE's manufacturing base and will increase UAE exports.

IIB Business Bay Properties Limited

IIB Business Bay Properties Limited was established to own 50% of One @ Business Bay, a 31-storey commercial tower in Dubai which is under development at a total cost of US\$94.1 million. The Bank identified an imbalance in the supply / demand equation for prime offices in Dubai, and entered into a partnership with Omniyat Properties, which forms part of the Dubai-based Al Masa Group, to develop a world-class office building. The tower is located in the rapidly developing Business Bay district of Dubai which, under a Dubai Government master development plan, is destined to become the new central business district for Dubai, eventually comprising some 250-300 towers for commercial, retail, residential and hotel use.

The projected Internal Rate of Return for investors in this project is in excess of 23% p.a. over the anticipated investment horizon of 12-18 months. Investor appetite for this investment proved to be very strong, as the fundamentals for the commercial property sector in Dubai remain very positive. Not only was this investment oversubscribed, but within three months of launching, all 30 office floors in the Tower were also pre-sold at the target price, thereby assuring our investors of excellent returns, and eliminating an important element of risk in such investments. This is the first investment that IIB has arranged in Dubai, but it will serve as a model for similar investments in the future.

The success of this placement and sales initiative was the result of IIB's careful selection of the right investment product, in the right location, with the right business partner, at the right time, followed by thorough due diligence and effective placement.

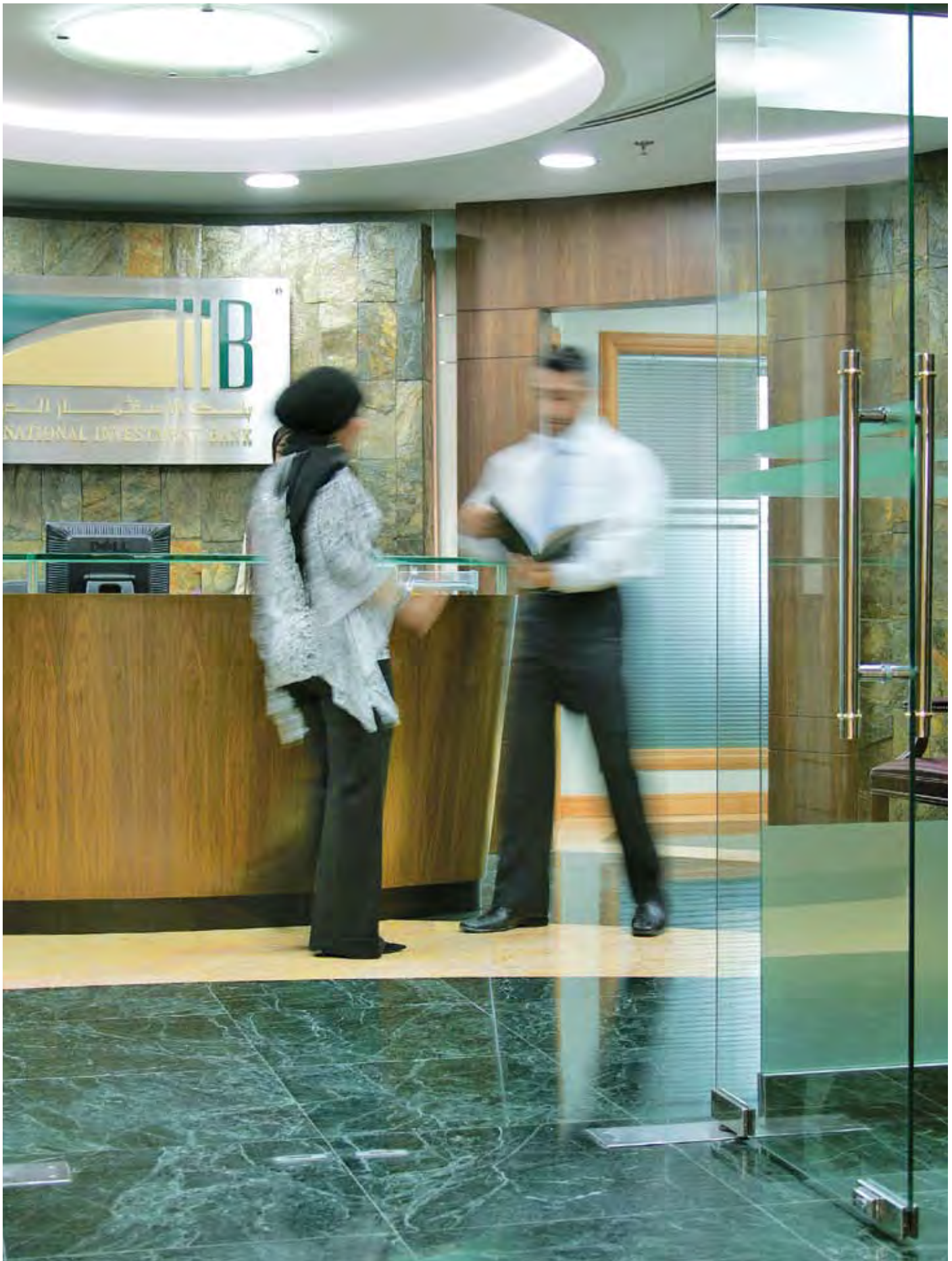
These six investments are tangible evidence of IIB's strategy of assembling a portfolio of investments that is diversified by geography, by industry and by asset class, as we believe that this affords the Bank and our investors enhanced protection in the event of a correction in any individual country or market sector.

2006 Prospects

Whilst economic conditions in the MENA region are expected to remain favourable during 2006, buoyed by continued high oil prices, IIB, in common with other regional investment banks, is facing increased competition from local, regional and international institutions which are seeking to tap into the enormous pool of liquidity that is currently available for investment. Investor expectations have been distorted by the abnormally high returns that have been available on regional stock markets, but we expect valuations on these markets to become more realistic during the course of 2006, and this will increase the attraction of the type of internationally diversified investments offered by IIB.

The Bank's current pipeline of new transactions, together with the performance of the existing investment portfolio, give us confidence that we will be able to achieve a further significant increase in our profitability in 2006. Our successful track record to date has also encouraged us to increase the size and frequency of our offerings, and we are therefore contemplating a material increase in the Bank's capital during the course of the year, which will be subject to the approval of our shareholders and the Bahrain Monetary Agency. However, as the Bank expands, we will maintain our rigorous approach in the origination, due diligence and delivery of the investments that we offer to our clients.

Aabed Al-Zeera
Chief Executive Officer



International Investment Bank's move to new offices located on the 37th floor of the landmark Almoayyed Tower in Bahrain's rapidly developing Al-Seef District, has created an enhanced working environment, and will accommodate the Bank's future growth.