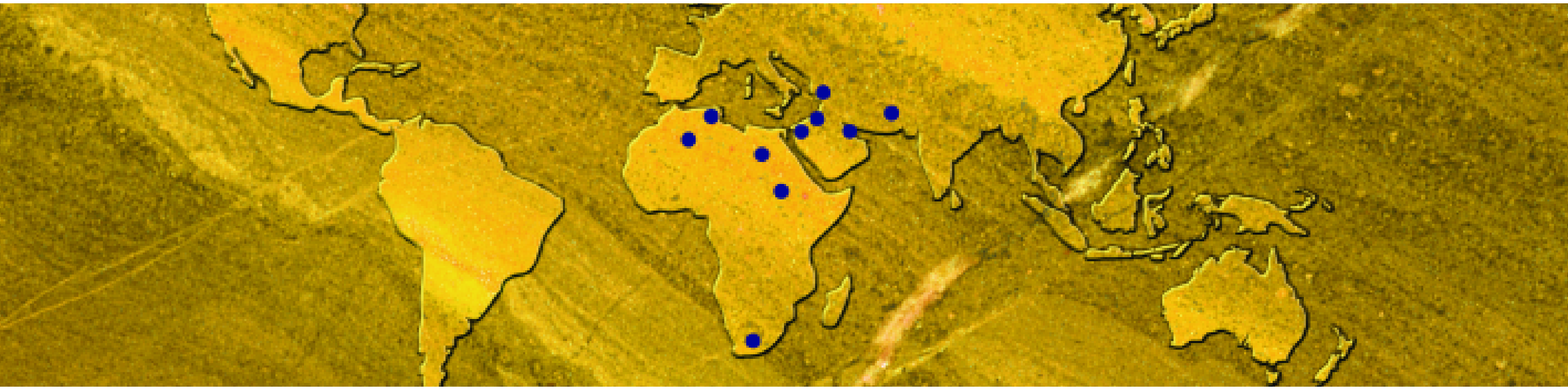
albaraka banking group

Annual Report **2005**



Contents

VISION

GLOBAL DEVELOPMENT OF ISLAMIC BANKING FOR THE GREATER BENEFIT OF SOCIETY

Mission and Strategic Objectives

Mission

OUR MISSION IS TO BE THE LEADING ISLAMIC BANKING GROUP WITH A WORLDWIDE PRESENCE, OFFERING RETAIL, COMMERCIAL, INVESTMENT BANKING AND TREASURY SERVICES STRICTLY IN ACCORDANCE WITH THE PRINCIPLES OF THE SHARI'A.

Strategic Objectives

To enhance shareholder value whilst pursing a strategy of business growth and geographical expansion.

To provide innovative and high quality research and development into Islamic financial products which comply fully with the principles of Shari'a Law and Islamic values, for the benefit of its customers.

To utilize the Group's geographical presence to distribute its products and services and promote cross border services.

To maintain the highest international standards of corporate governance and regulatory compliance.

Financial Highlights

Net Income attributable to Equity Shareholders of the Parent

79,372

Total Assets

6,276,343

Total Shareholders Equity

566,334

	Year to 31 December 2005	Year to 31 December 2004
Earnings (US$ millions)		
Operating Income	393.2	324.8
Operating Expenses	279.0	260.5
Net Income Attributable to Equity Shareholders of the Parent	79.4	36.8
Earnings per Share (US$)	0.22	0.11
Financial Position (US$ millions)		
Total Assets	6,276.3	5,056.7
Total Shareholders Equity	566.3	422.0
Total Liabilities	1,513.8	1,157.7
Customer current and other accounts	1,185.6	910.6
Unrestricted Investment Accounts	3,995.4	3,333.1
Ratios (%)		
Profitability		
Net Income as % of Average Shareholders Equity	16.06	9.27
Net Income as % of Average Paid-In Capital	22.25	11.33
Net Income as % of Average Assets	1.40	0.80
Capital		
Average Shareholders' Funds as % of Average Total Assets	8.72	8.67
Total Financing and Investments as a multiple of Equity (times)	7.31	7.50
Asset Quality		
Net Asset Value per Share (US$)	1.46	1.30
Liquidity		
Ratio of Liquid Assets to Total Customers' Accounts	1.26	1.48
Ratio of Liquid Assets to Total Liabilities	0.98	1.16
Ratio of Liquid Assets to Total Liabilities + Unrestricted Investment Accounts	0.27	0.30
Other		
Number of Employees	4,846	3,844
Total number of branches	185	150
CAPITALISATION AND PRINCIPAL SHAREHOLDERS		
Capitalisation (US$ thousands)		
Authorised	1,500,000	1,500,000
Subscribed and fully paid up	387,998	325,307
Principal Shareholders		
Shaikh Saleh Abdullah Kamel	55%	55%
Dallah Al Baraka Holding Company (E.C.)	45%	45%

Financial Highlights continued

All figures in US$ Millions as applicable

Total Assets

2003	4,116.5
2004	5,056.7
2005	**6,276.3**

Total Shareholders Equity

2003	373.3
2004	422.0
2005	**566.3**

Customer Current & Other Accounts

2003	736.5
2004	910.6
2005	**1,185.6**

Unrestricted Investment Accounts

2003	2,680.9
2004	3,333.1
2005	**3,995.4**

Net Income attributable to equity shareholders of the Parent

2003	27.3
2004	36.8
2005	**79.4**

Operating Income

2003	263.8
2004	324.8
2005	**393.2**

Operating Expenses

2003	232.4
2004	260.5
2005	**279.0**

Net Income as % of Average Shareholders Equity

2003	7.31
2004	9.27
2005	**16.06**

Net Income as % of Average Paid in Capital

2003	8.39
2004	11.33
2005	**22.25**

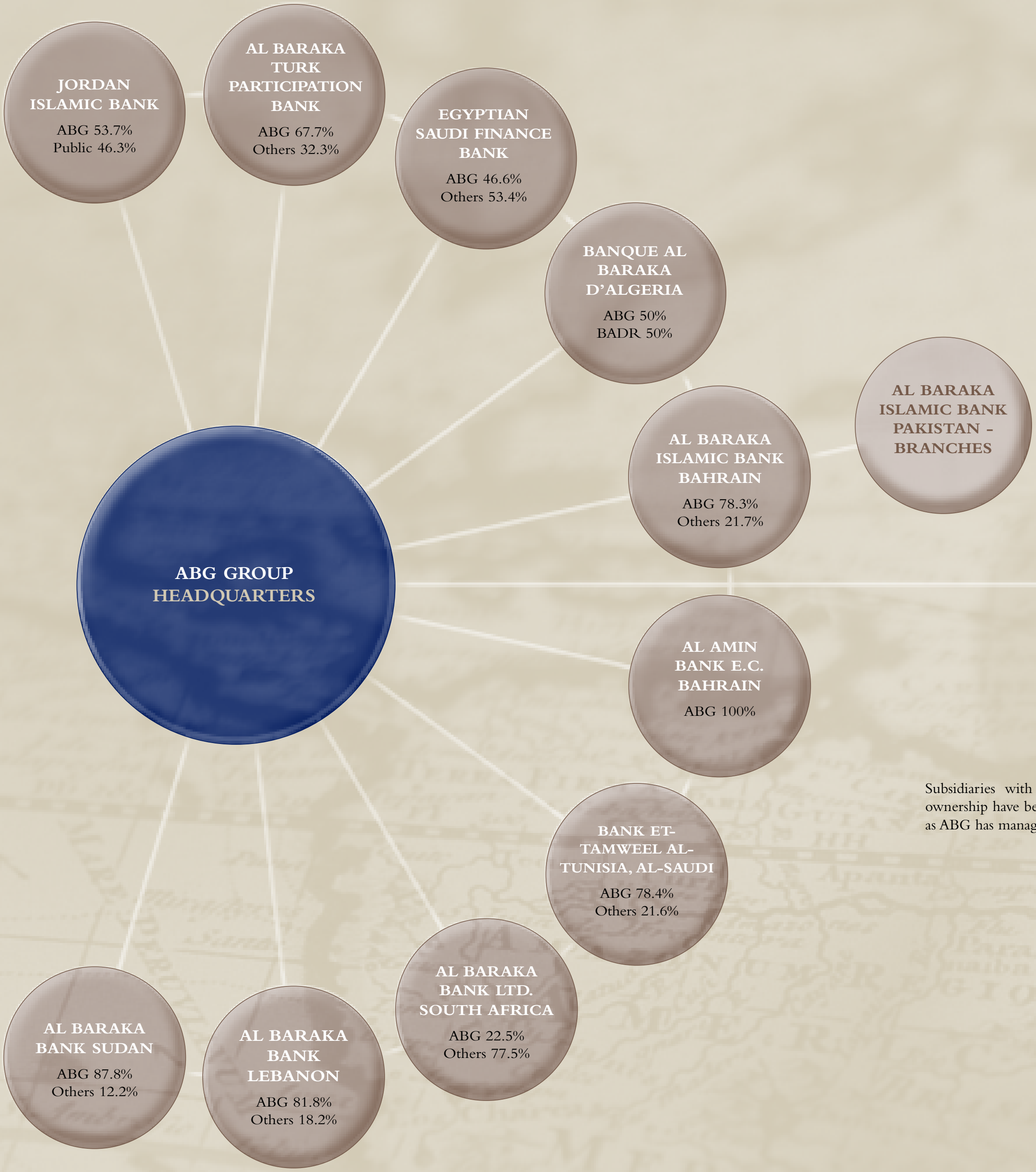
Number of Employees

2003	3,233
2004	3,844
2005	**4,846**

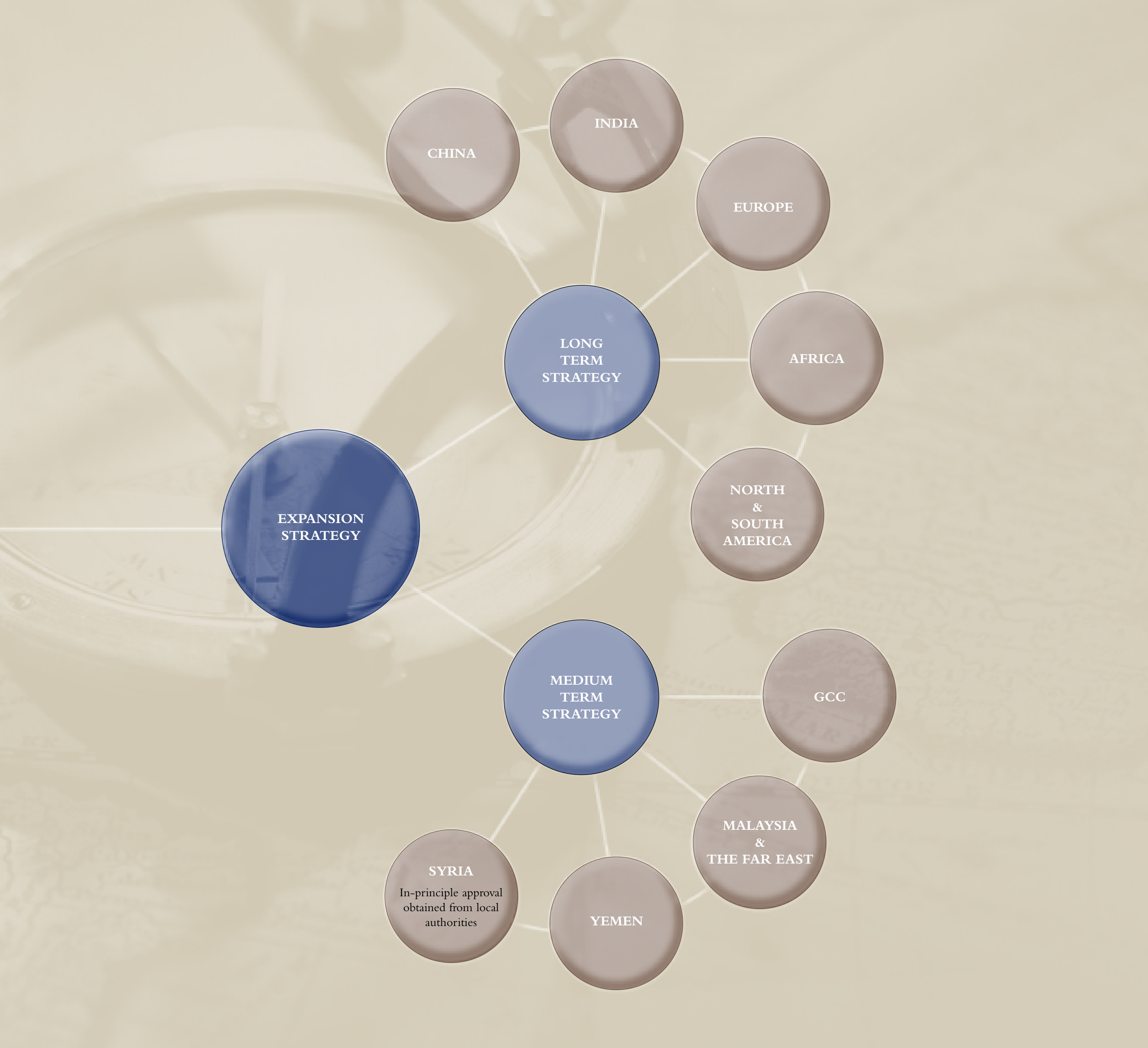
Total Number of Branches

2003	133
2004	150
2005	**185**

Albaraka Banking Group (ABG)



Subsidiaries with less than 51% ownership have been consolidated as ABG has management control


EXPANSION STRATEGY
LONG TERM STRATEGY
CHINA
INDIA
EUROPE
AFRICA
NORTH & SOUTH AMERICA
MEDIUM TERM STRATEGY
GCC
MALAYSIA & THE FAR EAST
YEMEN
SYRIA
In-principle approval obtained from local authorities

Board of Directors and Shari'a Supervisory Board

Sheikh Saleh Abdullah Kamel
Chairman and Non Executive Director

Chairman of Dallah Al Baraka Holding Company E.C , Jeddah, Saudi Arabia. Chairman of Egyptian Saudi Finance Bank, Egypt; Albaraka Bank Lebanon; Arab Media Company, Saudi Arabia and Arab Radio & Television, Cayman Islands;Vice-Chairman of Arab Agricultural Investment Co. , Bahrain; Member of the Board of Sunnyland Co., Cyprus. Chairman of General Council for Islamic Banks and Financial Institutions; President of Islamic Chamber of Commerce, Saudi Arabia. Founding Member of Faisal Islamic Bank, Sudan and Egypt; Saudi Livestock Trade & Transport Co., National Saudi Shipping Co., and Saudi Arabian Public Transport Co. Sheikh Kamel also retains active memberships of a host of social and educational organisations in a number of Arab countries as well as the U.K., Germany, Switzerland and the U.S.A. He has delivered a great number of papers and lectures on Islamic economics, finance, banking regulation, development and social philosophy and has established Islamic economic research centres in Saudi Arabia and Egypt. Sheikh Kamel has been the recipient of several international awards, ranging from Gulf Businessman Award in 1993 to Islamic Banker of the Year from Islamic Development Bank in both 1995 and 1996.

Mr. Abdulla Ammar Al Saudi
Vice Chairman and Non-Executive Director

Central Bank of Libya (1958 – 1972), Founding Chairman & General Manager, Libyan Arab Foreign Bank, Libya (1972 – 1980), Founding Chairman, UBAE Arab Italian Bank, Italy (1972 – 1982), Founding Chairman Banco Arabe Espanol, Spain (1975 – 1995), Director, FIAT S.p.A. Italy (1977 – 1982), Deputy Chairman, Founding President & Chief Executive, Arab Banking Corporation, Bahrain (1980 – 1994), Founding Chairman of Arab Financial Services (E.C.), Bahrain (1982 – 1994), Chairman, Banco Atlantico S.A., Spain (1984 – 1994). In addition to these he has held top executive positions on several different financial institutions.

Currently Executive Chairman, ASA Consultants W.L.L. Bahrain (since 1994), Managing Director, Capital Investment Holding Co. B.S.C. Bahrain (since 1997), Director, The Housing Bank for Trade & Finance, Jordan (since 1997), Advisor, Credit Libanais, Lebanon (since 1997).

Mr. Saudi was honoured with various awards from: King of Spain (1977) President of Italy (1977), President of the Republic of Tunis (1993). He was awarded "The Most Innovative Banker of the Year" by International Herald Tribune & European Management Forum (1980), Award of "The Banker of the Year 1981" was given to him by the Board of Editors of Institutional Investor (1981), "Banking Achievement Award for Distinguished Life-time Achievements & Pioneering Contributions to Banking" award was given to him by the Arab Bankers Association of North America (1991), Award of "The Banker of the Arab World" was granted to him by Union of Arab Bankers in Vienna (1994).

Mr. Abdullah Saleh Kamel
Director

President & Chief Executive Officer, Dallah Al Baraka Holding Company E.C since 1995. Chairman of Halawani Bros. and Aseer Company, and Vice-Chairman of Bank Al-Jazira, Saudi Arabia. Member of the Board of Saudi Research & Marketing Group, Jeddah Chamber of Commerce, Young Presidents' Organization and Kamel Provident Fund. Mr. Kamel's experience has covered real estate investment and property management, trading and various executive positions in the Dallah Al Baraka Holding Company E.C over the past 15 years.

Mr. Saleh Mohamed Al-Yousef
Independent Non-executive Director

Ex-Chairman and Managing Director of the Industrial Bank of Kuwait (K.S.C.); Director of Gulf Invest. Mr. Al-Yousef has extensive experience in the banking industry, having been Chairman and Managing Director of the Industrial Bank of Kuwait (K.S.C.) from 1988 to 2005. Prior to that, Mr. Al-Yousef held a number of executive positions with IBK and the Central Bank of Kuwait. Mr. Al-Yousef has also served on the boards of directors of a large number of financial institutions, including Gulf Bank, Kuwait, Arab Banking Corporation (B.S.C.) and Ahli United Bank B.S.C., both of Bahrain, and was Chairman of ABC Islamic Bank (E.C.), Bahrain.

Board of Directors and Shari'a Supervisory Board continued

Mr. Adnan Ahmed Yousif
Chief Executive Officer and Director

Chairman of Banque Albaraka D'Algerie; Albaraka Turk Participation Bank; Albaraka Bank Ltd., South Africa and European Islamic Investment Bank, U.K. Mr. Yousif also holds directorships in Al Tawfeeq Company for Investment Funds Ltd., Cayman Islands and in several ABG subsidiaries. Following a distinguished career with Arab Banking Corporation (B.S.C.), culminating in his appointment to the Board of that bank, Mr. Yousif served as Chief Executive Officer and Board Member of Bahrain Islamic Bank for two years prior to joining the Board of ABG in 2004. He brings with him more than 30 years' experience as a senior international banker. Mr. Yousif was the recipient of the Islamic Banker of the Year Award at the World Islamic Banking Conference in December 2004.

Dr. Anwar Ibrahim
Independent Non-executive Director

Dr. Ibrahim has served as the Education Minister, Finance Minister and deputy Prime Minister of Malaysia. He is currently the visiting professor at the Centre for Muslim-Christian Understanding at Georgetown University in Washington D.C.

Mr. Mahmoud Jameel Hassoubah
Director

First Deputy President, Dallah Al Baraka Holding Company E.C, Jeddah, Saudi Arabia. Chairman of Albaraka Islamic Bank, Bahrain; Jordan Islamic Bank; Al Amin Bank, Bahrain; Dallah Al Baraka Malaysia and Islamic Trading Company, Bahrain. Vice-Chairman of Egyptian Saudi Finance Bank, Egypt; Cayman Islands and Jeddah Science and Technology Center. Mr. Hassoubah's past experience includes several years in management roles with Saudi Airlines, followed by over 20 years in Executive and Board positions with the Dallah Al Baraka Holding Company E.C.

Mr. Abdul Elah A. Sabbahi
Director

Chief Financial Officer, Dallah Al Baraka Holding Company E.C, Assistant to the Chairman for Fund Management. Chairman of Bank Et-Tamweel Tunisi Al-Saudi (B.E.S.T.), Tunisia and of Arab Leasing International Finance, Saudi Arabia. Member of the Boards of Dallah Al Baraka Holding Co. E.C., Bahrain; Algerian Saudi Leasing Ltd.; Dallah Al Baraka (UK) Ltd., London; Al Amin Investment Co., Jordan and United Albanian Bank, Albania. Mr. Sabbahi has over 25 years' experience in international banking, the last 15 with the Dallah Al Baraka Holding Company E.C in Saudi Arabia.

The Shari'a Supervisory Board
Sheikh Dr. Abdul Sattar Abu Ghuddah – Chairman
Sheikh Dr. Abdul Latif Al Mahmood – Member
Dr. Ahmad Mohyedeen – Member
Sheikh Abdullah Mannea – Member
Dr. Ezzedine Khoja – Member


STRATEGY
ENHANCEMENT OF SHAREHOLDER VALUE
BUSINESS GROWTH AND EXPANSION

Directors' Report

(All figures in US dollars unless otherwise stated)

Sheikh Saleh Abdullah Kamel
Chairman

Global and Regional Economies

The global economy again expanded in 2005, with an estimated year-on-year growth of 4.6%. Although the widening US trade deficit continues to be of some concern, nevertheless its economy grew by 3.6%, driven mainly by consumer spending. Japan's GDP grew by 2.6%, fuelled in part by industrial production and retail sales expansion, and the Japanese economy appears finally to have turned the corner from its long period of stagnation. Even the euro zone managed some growth - estimated at 1.4% overall – despite its largest member, Germany, producing only 1.1% on the back of record export sales, thanks mainly to an improved performance from France, with 1.6%, and Spain, recording 3.4%. British GDP grew by 1.7%. Meanwhile, China led the emerging countries with a scorching 9.9% growth, with Singapore not far behind at 8.7% and closely followed by India and Hong Kong, both estimated to have recorded growth rates of 7.6% for the year.

With the exception of Lebanon, whose economy did well to achieve 0.1% growth as it recovered from the negative impact of President Hariri's assassination, all of the countries in which Albaraka Banking Group have established subsidiaries likewise recorded important growth in 2005, mostly ranging between 5% and 7% although Pakistan turned in a robust 8.4%. The oil and gas producing states continued to benefit from increased world energy prices, fortunately not so great as to provoke recession in the leading energy importers. For those emerging countries more dependent on tourism and agricultural and manufacturing exports, too, continued demand from both OPEC and OECD countries aided economic growth, in many cases with sufficient vigour to also feed through to increased infrastructure development.

2005 Performance

Once again, the strong economic fundamentals exhibited over much of the Group's operating areas greatly benefited ABG's constituent banks, as they were able to attract increased volumes of customer deposits and investment accounts. These additional resources were directed mainly towards murabaha contracts and non-trading investments, which grew significantly over the year. Including the contribution for the first time from the consolidation of Albaraka Bank Sudan, the joint income from sales receivables, jointly financed contracts and investments reached $159.7 million, after returning a record $213.2 million to the investors in respect of their share of the joint activities. These results in turn contributed substantially to the enhanced net operating income of $114.3 million and net profit after tax was more than double 2004's $36.8 million.

The Way Ahead

Albaraka Banking Group was formed with the mission of becoming the leading Islamic banking group, with a global presence and extensive product base spanning retail, commercial, investment banking and treasury services. To achieve this ambitious long-term objective will require steady and sustained progress on a range of separate, but related, goals. In this respect the Group is well on its way to implementing the initial three-stage strategy, each phase of which encompasses the many individual, smaller, milestones to be achieved on the path to success.

The first stage has been to achieve full consolidation, under Islamic and International Financial Reporting Standards, of the existing businesses comprising the new Group and to put in place a core management team tasked with introducing and implementing broadly uniform and consistent policies across the Group. Both of these steps have essentially been achieved. Building on this, the initial core management team is now being expanded with the aim of implementing control mechanisms to cover all areas of central administration not already integrated, including global marketing, risk management and credit policy, treasury, legal services, information technology, operations and administration. Nonetheless, the Group's philosophy is to avoid overly centralised control that might inhibit the units' ability to respond quickly to changing events in their own market place. We therefore aim to achieve a balance where, to the greatest extent possible, units will operate under broad policies and guidelines enunciated by Group headquarters, whilst being permitted to operate flexibly in their own operational areas.

The Group has also been giving much attention to the establishment of a corporate governance infrastructure and ethos consistent with modern international standards. It has therefore taken a number of measures at the Group level to strengthen control over Group affairs. In January 2006 three non-executive directors (two of whom are independent), individuals

Directors' Report continued

of proven business experience and able to contribute much value to ABG, were appointed to the Board. This was followed in March 2006 by the establishment of the Audit Committee, and a Board Executive Committee to act for the Board between its formal meetings. More Board committees are in the process of being established - a Nomination Committee to recommend new appointments to the Board and a Remuneration Committee to consider all major elements of remuneration policy for the Board and the Core Management team as applicable. The Chief Executive Officer and his core management team have also been establishing a number of management committees to be responsible for the timely implementation of Basel II, risk measurement and capital allocation methodology, risk management policies and procedures, IT systems designed to interface with the banking subsidiaries' own systems to quicken the production of consolidating data and aid central monitoring against key performance indicators. and putting in place anti-money laundering policies at Group level.

Whilst engaged in laying down the foundations of the infrastructure necessary to bind the Group properly together and provide central management with meaningful information on Group activities and exposures, the core management team was also busy in 2005 preparing for the second stage of the strategic plan – the Initial Public Offering of shares in the Group. This initiative is intended both to enhance the capital structure of the Group and provide it with the means to fund its future expansion, as well as serving to introduce the ABG name and philosophy to the public. The shares of ABG are expected to be dual-listed on the Bahrain Stock Exchange and the Dubai International Financial Exchange.

The Group now has in place growth strategies which are based on its intimate knowledge of the markets in which it is represented and its expertise in the wide range of Islamic retail, commercial and investment banking services in which it is engaged. It has defined its business objectives in the context of the fast-expanding Islamic banking environment, and is gearing up to pursue these objectives vigorously. Immediately after the Initial Public Offering, ABG will embark on the third stage of its strategic plan: expansion. A significant portion of the proceeds of the Share Offering will therefore be directed, firstly, towards enhancing the capital base of existing operating subsidiaries, enabling them in turn to expand their branch networks, and secondly in funding a phased expansion into new markets, either through the establishment of new operating units or by acquisition where appropriate and practicable, focusing in particular on the GCC, Europe, Africa and the Far East.

"THE GROUP NOW HAS IN PLACE GROWTH STRATEGIES WHICH ARE BASED ON ITS INTIMATE KNOWLEDGE OF THE MARKETS IN WHICH IT IS REPRESENTED AND ITS EXPERTISE IN THE WIDE RANGE OF ISLAMIC RETAIL, COMMERCIAL AND INVESTMENT BANKING SERVICES IN WHICH IT IS ENGAGED"

Value for shareholders and investors is a fundamental part of the Group's corporate philosophy. As the Group works towards the realisation of its vision to be the leading Islamic banking group, implicit in that effort is the responsibility it has to achieve sustainable and healthy growth, for the benefit of its shareholders and the community at large, coupled with delivery to shareholders and investors alike of a fair and increasing reward for their confidence in the Group. To achieve these aims will require the Group to concentrate its energies on continually diversifying and adding to its product range to meet customer need, harnessing the potential synergies and cooperative opportunities for cross-border business available across the Group, whilst simultaneously expanding both its customer base and points of delivery through global geographic expansion.

This is the task that lies ahead. We acknowledge with gratitude the dedication and hard work that our core management team, the heads of our operating units and all our staff everywhere have contributed to the achievements of 2005, but look to them to help us meet the challenges to come. We are confident they will do so.

We would also like to take this opportunity to thank our Shari'a Supervisory Board, together with the many regulatory authorities with which we regularly deal, for their guidance and direction in respect to the conduct of our business, and in particular the Bahrain Monetary Agency for their assistance and wise counsel over the past year.

For and on behalf of the Board of Directors
Saleh Abdullah Kamel
Chairman

Core Management Team

Mr. Adnan Ahmed Yousif
Chief Executive Officer and Member of the Board

Following a distinguished career with Arab Banking Corporation (B.S.C.), culminating in his appointment to its Board, Mr.Yousif served as Chief Executive Officer and Board Member of Bahrain Islamic Bank for two years prior to joining the Board of ABG in 2004, and has more than 30 years' experience as a senior international banker.

Mr. Othman Ahmed Sulieman
Deputy General Manager

Chairman of Albaraka Bank Sudan, Member of the Board of Al Wafaa Muritanien Islamic Bank, Mauritania; Jordan Islamic Bank; Dallah Al Baraka Europe; Albaraka Bank South Africa; Egyptian Saudi Finance Bank, Egypt and Albaraka Islamic Bank, Bahrain. Mr Sulieman is also a Member of the Committee on Corporate Governance at the Islamic Financial Services Board. Mr. Sulieman's career with ABG began in 1988 following more than 22 years in banking in Sudan, crowned by his appointment as Chairman of the Board and General Manager of El Nilein Bank. From 1988 he has served the Dallah Al Baraka Holding Company E.C, based in Jeddah, representing its interests worldwide. In the final 7 years prior to his appointment to ABG in 2002 he was responsible for all the group's banking interests in Africa, in addition to lending his considerable experience on the Boards of group banks in Asia and Europe and of the parent company. Mr. Sulieman is responsible for Group Coordination & Planning in ABG, in addition to his overall executive responsibilities.

Mr. K. Krishnamoorthy
Head of Financial Control

Mr. Krishnamoorthy has over 25 years of experience in financial and management reporting, corporate and structured finance, credit, strategic planning, project management, equity research and fund management and administration and has worked both in the Middle East and in North America. After spending several years in the accountancy field in India and Bahrain, Mr. Krishnamoorthy joined Arab Banking Corporation (B.S.C.)'s investment banking subsidiary, where he served for 12 years before moving to the parent bank's Treasury Department to manage its mutual fund investment portfolio, and later to head the Treasury Mid-Office and play an instrumental role in implementing new front office and management information systems. After 2 years as a partner in a regional investment bank in the Gulf, and a further period heading the worldwide banking solutions business of a major Canadian IT solutions company in Toronto, in 2004 Mr. Krishnamoorthy took up his position at ABG, where his primary responsibilities cover group financial control and strategic planning, the introduction of Group policies and methodologies and integration of management information systems, in addition to his other formal duties.

Mr. Majeed H. Alawi
Head of Internal Audit

Mr. Alawi began his career at Banque Nationale de Paris, Bahrain branch, in 1981, moving to Arab Banking Corporation (B.S.C.)'s Internal Audit Department in 1988, where he covered the audits of Head Office and branches as well as most of the bank's overseas subsidiaries. During his 12-year tenure with ABC he was also involved in several due diligence pre-acquisition special assignments for the bank. Mr. Alawi has been with ABG since 2000, joining the Group when it was still under formation in order to ensure the establishment of an effective Group audit function prior to the transfer of ownership and control of the constituent banks to ABG.

Dr. Ahmad Mohyedeen Ahmad
Head of Research & Development

Head of Research and Development, Albaraka Banking Group. Member of the Legislative Shari'a Committee, Albaraka Banking Group. Member of the Shariá supervisory board of the Egyptian Saudi Finance Bank. Member of the Shari'a board of RHB Malaysia, Advisor to International Islamic Fiqh. Advisor to the Office of the Chairman of the Al Baraka Group and Supervisor of the Library at the Al Baraka Group. Previously a member of the Board of Directors and the Executive Committee of Al Tawfeeq and Al Ameen companies. Sheikh Ahmad has organized, been involved in and supervised various conferences, training courses and seminars. He has designed and organized the economic Fatwa (Islamic rulings) computer programme. Sheikh Ahmad has worked on various research papers and publications covering Islamic economics and Fatwa. He is accredited with several publications on Islamic financial products and Islamic economics.


STRENGTH
STRENGTH THROUGH PARTNERSHIPS
SYNERGY FOR FUTURE GROWTH

Chief Executive Officer's Report

(All figures in US dollars unless otherwise stated)

Mr. Adnan Ahmed Yousif
Chief Executive Officer

Introduction

ABG exhibited good progress in 2005 as the Group's operating units took full advantage of increased sources of funding and investment accounts to maximise its turnover, particularly in murabaha and investment opportunities. The Group's net profit of $79.4 million, equivalent to $0.22 per share, vindicates our organisational strategy of combining good central control over those aspects of the Group's operations that require a top-down approach – financial and accounting discipline, supervision and consolidation, corporate governance and compliance, policies and procedures – with operational decentralisation designed to give individual business units the greatest possible degree of flexibility in responding to local market needs and competitive pressures.

2005 saw the further transition of our Group into a well-coordinated and coherent operation. The successful conclusion of this first stage in the creation of a global banking organisation was only partly owing to the imposition of centrally-driven disciplines on to the component units, covering in particular financial consolidation and information flow standardisation, and was much more thanks to the positive – indeed enthusiastic - manner in which the units themselves reacted to the challenges inherent in creating this new banking group. Our first Group Strategy Meeting in May 2005 not only helped greatly to clarify the overall strategies of the Group but also, through the committed and proactive participation of the unit heads, enabled us to identify the immediate objectives to which all units then wholeheartedly subscribed.

These key objectives were focused on building a strong, conservative group dedicated to enhancing shareholder value and ensuring a healthy and consistent dividend payout through an expanding business base, offering its customers a diversified and continually developing range of products targeted to their needs, increasing cooperation between the units on the back of expanding cross-border business, and the creation of a standardised, modern IT and business system infrastructure to ensure delivery of a first class service to all users, internal and external.

A number of steps were taken over the last year in pursuance of these objectives. Management committees have been formed, with responsibilities for implementation of the Group's IT strategies and initiatives, and Basel II compliance, and a review of the Group's anti-money laundering compliance methodologies has been initiated. The existing core management team will shortly be joined by additional heads of department with specific responsibilities for Legal Affairs, Risk Management, Global Marketing, Credit Policy, Procedures and Support, Treasury, Information Technology and Operations & Administration.

In early 2006 ABG hosted its second Group Strategy Meeting in Bahrain, at which a number of specific goals were adopted in furtherance of the Group's key objectives. These include ambitious targets for achieving, over the next few years, a minimum return on equity of 15%, the development and provision to its widening customer base of a full range of e-banking facilities, a substantial increase in funding resources through sukuk issues, and aggressive expansion in the GCC, Europe, Africa and the Far East. We shall, in the second quarter, launch our Initial Public Share Offering to raise $364 million and simultaneously list ABG's shares on the Bahrain Stock Exchange and Dubai International Financial Exchange. As the Chairman has remarked in the Directors' Report, some of these resources will straightaway be utilised in strengthening the capital base of a few selected operating subsidiaries in preparation for their future expansion. We also anticipate an important restructuring during the year of the Bahrain head office, which will in effect convert ABG from being solely a holding company into a fully operational bank in its own right.

REVIEW OF UNITS

The following brief reviews of each of ABG's constituent banks, their respective backgrounds and recent performance, are intended to assist the reader in gaining a more thorough understanding of our Group. All figures are stated in the US dollar equivalents of the audited local currency-based balance sheets and profit & loss accounts, prepared in accordance with the Islamic Accounting Standards issued by the

Chief Executive Officer's Report Continued

Accounting and Auditing Organisation for Islamic Financial Institutions, and the International Financial Reporting Standards, and without adjustment for consolidation purposes to net out the effect of intra-Group activities. Each unit is managed by its respective Board of Directors, whose reporting lines are ultimately to the Parent, ABG, but whose decision-making is decentralised within an overall strategic direction.

The Group is currently considering making ABG a business unit which would undertake banking activities in addition to the areas of business already undertaken by ABG. In addition, ABG would continue to carry out head office functions.

Jordan Islamic Bank for Finance & Investment (Jordan) ("JIB")

Jordan Islamic Bank was established in 1978 as Jordan's first Islamic bank. JIB currently has a network of 64 branch offices, a brokerage office at the Amman Stock Exchange and a service office at its bonded warehouse, served by a total staff of 1,457. Its 56 ATMs are linked to the Jordan national payment network (JONET) of 540 machines maintained by all Jordanian banks and to the worldwide Visa International network. It is the 3rd largest bank in Jordan by total assets and total deposits held, despite the fact that it cannot extend to its customers the full range of facilities permitted by the banking regulations, as many of these fail to conform to the principles of the Shari'a. JIB's extensive product range includes murabaha, diminishing musharaka, mudaraba, Ijara Muntahia Bittamleek, instalment sale and Istisna'a contracts, as well as investments in Islamic sukuks and property development for on-sale or lease to its customers. It maintains full electronic linkage between all its branches and head office, and offers a full range of services to its customers including credit/charge card issuance, e-banking, speed cash and MoneyGram transfer services. With a steady track record since inception, JIB has paid dividends in bonus shares equivalent to approximately 104% of the bank's capital, in addition to cash dividends of 34% of the bank's capital, over the past 10 years.

In 2005 Jordan's GDP grew by an estimated 7.7%, similar to 2004's rate. Growth was driven mainly by the manufacturing, transport and communications, trade, restaurants and hotels, finance, real estate and business services sectors, which between them contributed more than 5% of the growth rate. Reflecting investors' continued confidence, the reference share index of the Amman Stock Exchange increased by 85% over the year, while the value of traded shares reached JD12.5 billion compared with JD3.8 billion in 2004. As at mid-year, the Central Bank's foreign currency reserves had reached US$5 billion, equivalent to more than 7 months' imports, while Jordan's external debt was reduced to under 60% of GDP compared with over 65% as at the end of 2004. Maintaining its policy of pegging the Jordanian Dinar to the US dollar, the Central Bank increased interest rates in line with those of US and other international markets. Annual inflation stood at a reasonable 3.4% in November 2005.

JIB took full advantage of this positive economic environment, expanding its total assets by 14% to US$1.9 billion, through increases in its liquid assets (16% increase to US$941 million) and murabaha sales receivables (34% to US$620 million), as well as Ijara Muntahia Bittamleek facilities (which expanded by 3.5 times to US$14 million), offset mainly by reduced non-trading investments. This expansion was funded by a 23% increase in customers' accounts, which reached US$495 million, and a 9% increase in unrestricted investment accounts to US$1.1 billion.

The increase in business turnover led to a 47% increase to US$74.8 million in income from jointly financed sales and investments so that, after accounting for the return paid out to unrestricted investment account holders (less the bank's Mudarib share, up 24% at US$25.6 million), JIB's net revenues from this source were US$42.5 million, 106% higher than the previous year. Including Mudarib share from managing restricted investment accounts, and 54% higher revenues from banking services, fees and commissions, its total operating income rose sharply to US$63.7 million, 87% above 2004's figure. Higher operating expenses of US$36.0 million (2004: US$27.6 million), due in part to infrastructure investment, reduced the operating profit to US$27.7 million, nevertheless representing an increase over 2004 by a factor of 4.3 times. After taxation the net profit was US$18.5 million, four times the 2004 result therefore representing an excellent year for the bank.

For 2006, JIB anticipates continuing to build its asset base, chiefly through murabaha financings, Ijara Muntahia Bittamleek activities and its investment portfolios (Muqarada bonds). Meanwhile, in view of the growth of its brokerage business since the opening of its dedicated

Chief Executive Officer's Report Continued

brokerage office in 2000, it has decided to transfer this business to a separate brokerage company. It also plans to implement its new Smart Card service in the coming year.

Albaraka Türk Participation Bank (Turkey) ("ABTPB")

ABTPB was incorporated in 1984 and granted its Special Finance House licence by the Central Bank in January 1985, permitting it to collect and utilise funds on an interest-free basis. At the end of 2005 it had a network of 43 branches, having expanded by a further 7 branches in the last year. Every branch maintains an ATM for customer use. Its total workforce of 909 staff has also grown in line with network expansion, in addition to the recent establishment of a marketing department. Of the 52 banks and special finance houses operating in Turkey, ABTPB ranks 24th in total assets, 19th in total deposits and 20th in terms of net profits, in every case representing a further improvement over 2004. It is also placed 3rd in terms of total funds collected of all non-interest finance institutions in Turkey, and 1st with respect to funds collected on both a per employee and a per branch basis among all Turkish participation banks.

Turkey's GDP growth rate rose in 2005 to an estimated 5.8% following a strong performance in the last quarter. Growth was led by a rise in exports - the driving force behind the economy's growth over the last two years - and recovery of the real estate and construction sectors, partly offset by lower overall manufacturing growth. The government's implementation - albeit with some delay – of the three-year IMF standby agreement signed in May 2005, which envisages a tightening fiscal policy, state bank restructuring and privatisation, appears to be helping to lower inflation as well as improving the public finances and generally boosting growth. The current account deficit, however, continued to be a key area of concern, as although capital inflows into the country have helped to finance the deficit in the short run and keep depreciation of the Turkish lira at bay, this has been at the price of reduced exports due to price differentials. Unemployment, which remains stubbornly at around 10%, is also a continuing cause of concern, as is the heavy associated social security cost. Nevertheless, there are hopes that the anticipated fall in the lira, a projected pick-up in domestic demand and improved export performance will together work towards reducing the current account deficit from the current estimated 6.5% of GDP to under 5% by 2006-7. It is also hoped that by openly announcing inflation targets this will help to boost confidence and may even prove to be self-fulfilling over time - inflation rates of 5-6.5% for 2006 have therefore been published. Meanwhile, progress on the EU accession negotiations, which opened in October 2005, will also have an inevitable impact on confidence.

In these uncertain conditions, ABTPB has resolved to focus equally on prudent cost management as on growth, seeking to maintain credit quality and avoid weak credit allocation. The ratio of its net receivables under legal follow-up to total funds utilised, for example, has steadily fallen and now equals a healthy 0.5%. The bank has targeted the export and import trade as a means of enhancing revenues.

In 2005 ABTPB's total assets rose by 35% to US$1.46 billion, represented mainly by growth of 50% in murabaha sales receivables and 26% in liquid assets. Its liabilities including unrestricted investment accounts likewise increased by 35%, to US$1.3 billion, reflecting growth of 43% in customers' current and other accounts and 32% in unrestricted investment accounts. This portfolio expansion led to an increase in income from jointly financed sales and investments of 16% to US$120.5 million which, after accounting to unrestricted investment account holders for their share, resulted in a 106% increase to US$40.6 million in the bank's net revenues from this source. However, lower revenues from the bank's own sales and investments and from banking services, fees and commissions led to an overall 12% fall in operating income to US$153.8 million. However, lower depreciation and amortisation and other charges, which more than compensated for increased staff costs, led to a 14% reduction in operating expenses at US$123.8 million and consequently the net operating income was only 2% below that of 2004, at US$30.0 million. Following a US$7 million taxation credit, less a monetary loss due to adjustment for hyperinflation, the bank reported a net profit of US$32 million, 22% up on 2004.

ABTPB's 2006 targets include achieving a substantial increase in both local currency funds and dollar and euro funds collected, as well as increasing its revenues from banking services and fees and commissions. It also plans to open a further 10 branches and increase its point of sale terminal network.

Chief Executive Officer's Report Continued

The Egyptian Saudi Finance Bank (Egypt) ("ESFB")

The Egyptian Saudi Finance Bank was incorporated in March 1980. It is listed on the Cairo Stock Exchange. ESFB currently maintains a network of 15 branches, in addition to several money changing bureaux in hotels and other strategically located sites. The bank is one of Egypt's smallest banks, with less than 1% of total assets and deposits in the market, ranking 26th and 24th respectively by these measures. It currently employs 604 personnel and its network includes the only women's branch in Egypt, in addition to a unit dedicated to customers with special needs.

Egypt has traditionally had a large structural trade deficit, but a services and current account surplus. The trade deficit reached US$9.3 billion in 2004 as imports as well as exports (which continue to be dominated by oil but increasingly less so) both rose strongly, to US$21.6 billion and US$12.4 billion respectively. This deficit was offset by surpluses derived from services – particularly tourism and Suez receipts – and inward remittances from overseas workers and other transfers, leading to a current account surplus equivalent to 3.8% of GDP, down from 5.2% of GDP in 2003 but nevertheless an improvement over earlier years. Annual GDP growth averaged 3% over the period 2001-2005 but has strengthened somewhat since 2004. An economically liberal cabinet has begun introducing a programme of economic reform, including privatisation measures and plans for cuts in customs duties and income and corporate taxes. Steps are being taken to strengthen banks' capital through mandatory minimum paid-up capital requirements – with those banks unable to comply being merged into stronger institutions - as well as to address the problem of delinquent loans by expediting settlement or restructuring. Confidence in the economy has therefore continued to grow, evidenced by *inter alia* the strongly increased stock exchange turnover during 2005.

In an ebullient economic environment, ESFB was able once again to increase its business turnover, achieving a 39% increase in total assets. This expansion was reflected in increases of 71% in both murabaha receivables, which stood at US$440 million at the end of the year, and mudaraba receivables (US$22 million) and a 69% increase in non-trading investments to US$379 million. Likewise, liabilities including unrestricted investment accounts rose by 33% to an aggregate US$927 million, the greatest expansion being in the unrestricted investment accounts. The income statement bore out this increased activity, as income from jointly financed sales and investments rose by 84% to US$67 million. The bank distributed all of this income to the unrestricted investment account holders, retaining only its share as Mudarib of US$11.4 million. After adding increased revenues from banking services, fees and commissions, ESFB was therefore able to report a 23% increase in total operating income, to US$19.8 million. Operating expenses increased by an overall 8% to US$16.3 million, as increased staff costs were only partially offset by a reduced provision requirement, leaving a net operating income after Zakah of US$3.4 million, comparing favourably with 2004's US$1.1 million.

Among the most significant events of 2005 for ESFB was the mid-year increase in its paid-up capital to LE500 million (US$87.1 million), providing future growth capability. The bank also took a number of steps aimed at improving both its organisational and managerial processes and its marketing profile. Among these initiatives was the formation of a banking risk department to be responsible for ongoing regulatory compliance and the implementation of Basel II requirements. The new department will be overseen by a senior management banking risk committee tasked specifically with improving corporate monitoring and internal controls. On the liabilities side of the balance sheet, ESFB launched two new innovative 3-year term deposit schemes, denominated in local currency and euro, featuring profit paid in advance to the investor.

Looking ahead, having fully extended the first tranche of funds available under a new financing service for small enterprises in cooperation with the Social Development Fund - a scheme introduced in 2004 - ESFB will commence offering a second tranche from the beginning of 2006. It is also progressing with its comprehensive restructuring of its IT infrastructure, designed around a centralised system linking all branches and incorporating the upgrading or renewal of all its existing networks, systems and equipment, and is preparing to introduce telephone, mobile and Internet banking services to its customers. As it completes the preparatory work involved in expanding the branch network by 3 new offices (to be located at Dekki, Nasr City and Sharm El Sheikh City) and setting up a network-wide ATM service, ESFB is also preparing for the launch of its first Islamic investment fund.

Chief Executive Officer's Report Continued

Banque Albaraka D'Algerie S.P.A. (Algeria) ("BABD")

Banque Albaraka D'Algerie was formed in 1991 and is the only commercial bank in Algeria operating according to the principles of the Shari'a. It has 11 branches operating throughout Algeria maintained by 461 staff. In terms of total assets and total deposits it is the 8th largest bank in Algeria (the 2nd largest among the private sector banks), but by total financings it ranks 1st among the private sector.

The Algerian economy continued its strong rate of growth in 2005, with an estimated 7.1% rise in GDP, compared with an average growth rate over the five year period 2000-2004 of 4.6% p.a. Foreign exchange reserves rose to US$55 billion, up from US$43 billion at the end of 2004 and equal to an astonishing 3 years' imports. Total exports, aided by the oil price rises of the last two years, increased by 31% to US$42 billion, while imports rose by only 6% to US$20 billion. Foreign debt fell, both in absolute terms (it now stands at US$17 billion) and as a percentage of GDP (under 19%), as did domestic debt, on both counts. The government's economic policies, reflecting its commitment to reducing unemployment – estimated at 15% of the registered work force, but possibly in actuality still as high as 24% of all those seeking work - through investment-driven growth, has resulted in massive expenditure on labour-intensive housing, road and water projects. At the same time, its encouragement of foreign investment through gradual liberalisation of selected sectors of the economy has led to a surge in external funds into the country, attracted particularly to the telecommunications, power and water sectors. Forecasts are therefore for Algeria's fiscal, trade and current account balances to remain strongly healthy over the next few years.

The privatisation at the end of the year of three commercial banks, a housing bank and an agricultural bank maintained the momentum of change in the banking sector. Upcoming reforms, including new minimum capital requirements for banks and enhanced internal controls, combined with the development of an electronic clearing and payment system, are also important elements of the drive towards modernisation of the country's banking system.

In 2005, BABD's total assets rose by 4% to US$530 million, led by growth of 29% to US$311 million in its murabaha sales receivables and a small increase in the Ijarah Muntahia Bittamleek portfolio offset by reductions in cash, bank and Central Bank balances, investments in associates and other assets. Total liabilities including unrestricted investment accounts increased by an overall 3% to US$482 million. The total income from jointly financed sales and investments grew by 16% to US$27.6 million which, after accounting for the share due to the unrestricted investment account holders, left a balance of US$20.0 million being the bank's share including its share as Mudarib, 22% above the result for 2004. Including revenues from banking services, fees and commissions and other operating income, the bank's total operating income was US$31.8 million, 8% above that of the previous year. Operating expenses, at US$24.2 million, were 11% up on 2004. This resulted in a net income of US$9.3 million after a taxation charge of US$2.9 million.

In 2006 BABD intends to expand its network by five new sale points and commence the construction of its new headquarters building in Algeria. On the marketing side, it plans to add Ijara real estate financing to its growing product range.

Albaraka Islamic Bank B.S.C. (E.C.) (Bahrain) ("AIB")

Albaraka Islamic Bank began as an offshore investment bank in 1984 under the name of Albaraka Islamic Investment Bank B.S.C. (E.C.). In 1991 it spread its operations to Pakistan when it was granted a licence to operate there by the State Bank of Pakistan. It changed its name to the present form after being granted an additional, commercial banking, licence in December 1998 by the Bahrain Monetary Agency. AIB currently has 10 branches in Pakistan, located in the major centres of Lahore (3), Karachi (3), Islamabad, Faisalabad, Rawalpindi and Multan, and two in Bahrain. The year 2005 was one of significant expansion for the bank, as 4 branches were added to the Pakistan network while one additional commercial branch was opened in Bahrain. AIB's Pakistan activities constitute 35% of its total operations as represented by its financing and investment portfolios, while its Bahrain business exposure constitutes about 23% of the total, with the balance spread among the rest of the Middle East - primarily the other GCC states - and Europe. Pakistan's economic performance therefore has the most significant bearing on AIB's own performance and is therefore reviewed below. For a review of the Bahrain economy please refer to the section under AAB below.

Chief Executive Officer's Report Continued

Pakistan's economy experienced yet another year of strong growth in fiscal 2004/5 and it appears likely to have met economists' forecast of 8.4% GDP growth - a 20-year record. The expansion was led by an upsurge in agricultural output, which achieved its highest growth for a decade, but the industrial, construction and services sectors also produced robust performances. However, high oil prices, strong domestic demand and shortages of some commodities also resulted in a leap in the rate of inflation to over 9% and an increase in both the fiscal deficit and the trade deficit, with the current account flipping over into deficit after three years in surplus. Notwithstanding strong fundamentals, there are concerns that both the inflation rate and the trade and current account deficits will worsen over the next two years.

In line with the general increase in business activity, AIB's total assets increased by 13% over the year to US$511 million. This was mainly reflected in a 35% increase in liquid assets to US$141 million and a 7% increase in murabaha sales receivables to US$274 million, but there were also significant increases in the mudaraba and Ijara Muntahia Bittamleek portfolios. The bank's liabilities including unrestricted investment accounts likewise grew, by an aggregate 14%, of which the largest constituent was the unrestricted investment accounts at US$375 million, which grew by 19%. The portfolio expansion led to an increase in income of 40% from jointly financed sales and 62% from jointly financed investments. After distributing the unrestricted investment holders' share, amounting to US$15.0 million - a 90% increase over 2004's distributions - the bank earned (including its share as Mudarib) a net US$14.1 million from this source. It also increased its income from its own sales and investments by an overall 192% to reach US$9.3 million. Total operating income was therefore 47% higher at US$27.0 million. Its operating expenses however increased by 37% to US$23.6 million, mainly due to a 48% increase in depreciation charges and 17% higher staff costs as a consequence of the establishment of new branches and the need to maintain competitive salaries. AIB nevertheless returned a net operating income which, at US$3.4 million, was 183% up on 2004 and after taxation produced a net profit of US$2.7 million, compared with 2004's US$0.5 million.

AIB's 2006 aims are to open a further six branches in Pakistan and two more in Bahrain. Its marketing focus in Pakistan will be on consumer financing and stock market operations, both of which have yielded considerable profit in recent years, while in Bahrain it will continue to concentrate on servicing medium-sized enterprises. In the meantime, it is progressing with plans to set up a separate Pakistan-based consumer finance division, which will be responsible for devising and launching new products into the market, and also intends to offer its customers Internet banking services and ATM facilities - ATM services are already available in Bahrain and have been linked into the national ATM Switch network there.

Having completed the necessary preliminaries in 2005, AIB also anticipates finalising the conversion of the Pakistan unit into a local bank during 2006, which will entail conversion of the capital held locally – currently denominated in dollars - into Pakistan Rupees and doubling the amount of capital held in accordance with local requirements. Following these steps, AIB hopes to obtain a listing of the new entity on the Pakistan stock exchange, offering a portion of the share capital to the public. Its plans for Basel II implementation by 2007 are meanwhile also progressing well.

Al Amin Bank (E.C.) (Bahrain) ("AAB")

AAB Bank commenced business in 1987 as Al-Amin Co. for Securities & Investment Funds (E.C.), but assumed its present name in May 2001 under an Islamic investment banking licence granted by the Bahrain Monetary Agency. It now has a staff of 32 specialists working from its Manama office which, during the year under report, was responsible for 72 issues valued at US$470 million, 117% higher than 2004's record.

In 2005 the Bahrain economy continued the pattern of recent years, recording strong GDP growth, estimated at a minimum of 5.5%. Although all sectors exhibited growth, the retail & wholesale trade, monetary projects, oil & mining and real estate & services sectors were the major contributors. The growth was also partly driven by the record value of government tenders awarded over the past 2-3 years. Total Foreign Direct Investment in Bahrain reached an estimated US$21 billion in 2005 and is projected to run at US$4.2-6.2 billion per annum over the next few years. Aiming to preserve the momentum of progress thus achieved so far, the government is devoting significant effort and resources into the ongoing development of regulations and systems designed to reassure and encourage foreign investors, including the privatisation of a number of public projects and the creation of an

Chief Executive Officer's Report Continued

appropriate, internationally respected, regulatory environment in support of the banking industry.

AAB took full advantage of the opportunities provided by its home country's economic performance during the year, increasing its total assets by 21% to US$328 million. The bank was particularly successful in expanding its mudaraba financing portfolio, by 23% to US$162 million, and its murabaha sales receivables, which grew by 59% to US$38 million. Although its Ijara Muntahia Bittamleek portfolio balance was lower at the close of the year, this was more than compensated by a 42% increase in Ijara receivables as well as a 30% increase in investments in associates. The expansion was in turn funded by an 11% increase in total liabilities including unrestricted investment accounts to US$173 million. As a result income from jointly financed sales and investments was up by 21% over 2004, at US$23.7 million and, after an increase of 70% to US$6.5 million in the net share paid to unrestricted investment account holders after deduction of its share as Mudarib, AAB reported a 9% increase in its share of income from this source, at US$17.3 million. To this was added income of US$39.6 million from the bank's own investments which, together with other operating income and commissions, produced a total operating income of US$57.3 million, more than doubling the previous year's figure. After deducting increased operating expenses of US$16.9 million, reflecting in part additional depreciation and staff costs, the net operating income was US$40.4 million, comparing very favourably with 2004's result of US$15.3 million.

AAB's goals for 2006 include managing an even greater number of issues than it handled in 2005, aiming to exceed US$200 million in value. It will also continue the process, begun in 2005, of upgrading its data systems and IT hardware, also implementing both Anti-Money Laundering and Basel II-related systems.

Albaraka Bank Sudan (Sudan) ("ABBS")

Albaraka Bank Sudan was established in 1984 and currently has a network of 23 branches and employs 685 staff. At the end of 2004 it was ranked 11th of all Sudanese banks in terms of total assets and 12th in total deposits, but 7th in terms of net profit. ABBS was acquired by ABG in January 2005.

Sudan is one of the world's least developed countries, with a GDP of only US$23 billion or US$572 per capita. However, the discovery of oil and its subsequent development – current output is 401,300 barrels/day with proved reserves of 1.6 billion barrels and natural gas reserves estimated at 99 billion cubic metres – has had a beneficial effect on the economy, reducing oil imports from 13% of total imports in 1999 to zero in 2005, and contributing to a balance of trade surplus estimated at US$1.96 billion (fob basis) last year and a reduction in the current account deficit to US$0.658 million. It has also permitted the government a degree of flexibility in management of the economy, enabling it to implement IMF economic reforms and to embark on a programme of limited privatisation and development of the services sector. However, although agricultural productivity has improved, helping to reduce imports of foodstuffs, imports of machinery and heavy equipment have risen in line with infrastructure development and economic expansion.

Sudan's economy grew by an estimated 8.6% in 2005, with the agricultural (43%), services (30%) and industrial (27%) sectors being the main contributors. Following the peace agreement in South Sudan and an improvement in Sudan's international risk ratings, the investment environment also improved, permitting the country to borrow some US$1.3 billion in the year despite a total external debt of US$18.15 billion or 80% of GDP. Inflation has, however, been increasing gradually over the last three years, reaching 10% in 2005.

2005 was a successful year for Albaraka Bank Sudan. The bank reported an 81% increase in its total assets to US$207 million, mainly reflecting growth of 49% in liquid assets to US$54 million and 52% in murabaha sales receivables to US$41 million, with significant growth also recorded in the musharaka financings and non-trading investments portfolios. This was matched by a 93% increase in liabilities including unrestricted investment accounts, the latter expanding from US$3.0 million in 2004 to a remarkable US$30.4 million over the year. The increased business resulted in a 31% increase in income from jointly financed sales and investments which, after accounting to the unrestricted account holders for their share (which itself was 136% higher at over US$1.1 million), produced a return to the bank from this source of US$8.8 million, 24% higher than the previous year. To this was added increased revenues from banking services, fees and commissions to reach a total operating income of US$15.7 million. However, after higher operating expenses of US$10.9 million, 44% higher than in 2004, taxation and Zakah,

Chief Executive Officer's Report Continued

ABBS ended the year with US$4.3 million net profit, still a healthy 4% up on 2004.

ABBS recently replaced its IT systems with a comprehensive banking system which centralises much of the processing tasks of the bank whilst enabling its customers to avail themselves of most services via a single delivery point, simultaneously shortening handling processes and saving customer time. In the coming year it hopes to link its ATMs and sales points with the national system that is being created by the Bank of Sudan It also aims to increase market share despite the impending competition anticipated from the entry of four new banking operations into the market, by expanding both its branch network by three branches and its overall portfolio.

Bank Et-Tamweel Al-Tunisi Al-Saudi (Tunisia) ("B.E.S.T.")

B.E.S.T. was incorporated in Tunisia in 1983 as a joint stock company with an offshore banking licence. In 1985, pursuant to an amendment to the relevant legislation, the bank was permitted to conduct offshore banking business in local currency with Tunisian residents up to a ceiling of 1% of the total deposits of all the commercial banks. Within Tunisia, B.E.S.T. provides finance in respect of the limited range of economic areas permitted to it, which includes the agricultural, industrial, tourism, and export industries. The bank currently has 6 branches serviced by 117 employees. In terms of relative size, it now holds some 15% of the Tunisian Offshore Banks Sector's total assets and about 29% of its total deposits. B.E.S.T. is 78.4% owned by the Albaraka Banking Group.

On the whole the Tunisian economy did well in 2005 despite the country being a non-oil producer, as it largely managed to overcome the negative impact of the major increase in energy prices during the year. Although its cost of imports increased by 7.5%, its exports and foreign currency receipts from the tourism sector both grew by around 12%. These factors, supported by strong inward investment and increased remittance transfers from Tunisians working abroad, produced a 17% increase in foreign currency reserves, equal to 4 months' import cover compared with 3.5 months' cover in 2004, and a GDP growth rate of 5%. With the Central Bank maintaining interest rates around the 5% level, the rate of inflation was reduced to 2% from 4% a year earlier.

Reflecting its renewed focus on improving portfolio returns, total assets at B.E.S.T. increased by only 2% in 2005, mostly represented by liquid assets as the bank concentrated on quality control and income maximisation. This emphasis was duly rewarded, as it was able to report an 18% increase to US$7.9 million in income from jointly financed sales and investments, of which the bank's share including its share as Mudarib, after distribution to unrestricted investment account holders, was US$5.0 million – a gain of 40% over 2004. Its total operating income was consequently 19% higher at US$8.6 million. After operating expenses, marginally higher than the previous year at US$4.7 million, and a taxation refund, B.E.S.T. returned a net profit of US$4.0 million, 51% up on 2004.

2005's performance testifies to the success of the bank's efforts in collection of past due debts and careful monitoring of existing exposure within a framework of cautious expansion. Over the last two years, B.E.S.T. has created several new internal units addressing risk control, marketing and organisation, and implemented a comprehensive new credit policy. Its aims for 2006 include adding a further branch to its network, upgrading its IT systems to international standards and expanding its Internet facilities to enable its customers to access its full service range. It will meanwhile continue to build on its cautious expansionary policy.

Albaraka Bank Limited (South Africa) ("ABBL-S")

Albaraka Bank Limited was established in 1989 and its activities are directed mainly at the 2% of Muslims in the population of South Africa. Until recently it was the only bank providing Islamic facilities – mainly murabaha and musharaka finance – in South Africa, however a number of other banks are now beginning to offer competing products. Its Durban head office and four branches in Durban, Johannesburg, Pretoria and Cape Town employ 150 staff between them. ABBL-S's main activities are the collection of deposits and the provision of trade-related, asset-based or motor vehicle and property purchase financial facilities.

The South African Rand remained strong in 2005, driven by high gold prices and strong inward investment flows. This inevitably put pressure on trade performance, however, as imports increased over the year to US$53 billion while exports only rose to US$51 billion, resulting in a US$2 billion trade deficit. Partly as a result of this, the current account deficit increased from 3.3% to 4.1% of GDP. Nevertheless GDP growth, which

Chief Executive Officer's Report Continued

has averaged 3.4% over 2001-2005, continued to reflect the underlying strength of the economy under the government's growth and investment-driven policies, while inflation remains under control and within the Central Bank's target range of 3-6%, as evidenced by its decision in December to leave the repurchase rate untouched at 7%.

Due to inherent restrictions placed on its activities by capital adequacy requirements of the Central Bank, currently being addressed, ABBL-S's energies were largely focused in 2005 on improving its corporate governance processes and procedures, formulating a strategy for increasing its share capital and readying itself for Basel II implementation. After 2004's major expansion (when the bank's total assets exceeded ZAR 1 billion for the first time) it allowed its asset base to increase by only some 5% to US$187 million in 2005, with a commensurately minimal increase in its total liabilities. Within the total asset increase, however, ABBL-S's murabaha receivables portfolio was expanded moderately by 12% to US$117 million. This increased facility turnover was however sufficient to enable the bank to increase its income from both its jointly financed sales and investments by 23% overall so that, after accounting to its unrestricted investment account holders for their share net of its own share as Mudarib, its share of revenues from this source was likewise increased by 23%, to US$6.0 million. After inclusion of revenues from banking services, fees and commissions, a 19% increase in operating income to US$7.1 million was recorded. Operating expenses were 13% higher at US$5.5 million, leaving a net operating income of US$1.6 million, 48% higher than 2004. After taxation, the net profit was US$1.2 million, 50% higher than 2004, a creditable result.

During the year ABBL-S fully implemented its new retail systems. Centralisation of the database has facilitated extraction and utilisation of data for both control and management purposes and permitted inter-branch enquiries as well as customer access to retail services from any branch of the bank. A number of front-end systems are now being integrated, for completion early in 2006, while additional projects such as credit scoring and statement automation are in the planning stage. Meanwhile, progress towards Basel II implementation proceeds apace.

Albaraka Bank Lebanon S.A.L. (Lebanon) ("ABBL")

Although ABBL was formed in 1992 the absence, prior to 2004, of appropriate laws and regulations to govern the practice of Islamic banking in Lebanon has meant that it has had to conduct Islamic banking activities whilst being regulated in a conventional manner. ABBL has therefore largely concentrated on the management of unrestricted investment accounts and the provision of retail banking services to small businesses and the general public. ABBL has 110 employees and maintains a total of 5 branches in Lebanon, including its Main Branch plus a second in Beirut and one each in Tripoli, Sidon and Shtura.

In 2005 the Lebanese economy's real GDP growth was estimated at zero, bringing to an abrupt halt the hitherto positive growth trend that had reached 5% in 2004. Nevertheless, the economy had exhibited much of its traditional strengths with a speedy return to confidence following the upheaval caused by the assassination of President Hariri, with the banking system withstanding the temporary cash withdrawals and maintaining good levels of capitalisation and liquidity throughout. The system also benefited from a significant inflow of funds from the Gulf Arab states, reflecting the liquidity surpluses built up in the GCC states in particular, following the oil prices increases of 2004-2005. In addition, the tourism industry still registered an increase in visitors and foreign exchange earnings. Finally, important economic indicators such as cement shipments, building permits and export/import figures all showed noticeable increases, while the Beirut Stock Exchange also demonstrated the inherent confidence of investors with a rise in the share index.

Notwithstanding the restrictions placed on ABBL's activities by virtue of its Islamic orientation the bank's total assets increased by 15% to US$122 million, represented mostly by liquid assets, which rose by 32%, and non-trading investments, which expanded by 83% over the year. It funded this increase in assets by attracting additional deposits from customers, which rose by 40% to US$19.0 million, and investments in its unrestricted investment accounts, which were 5% up on the year. Despite reporting a lower balance of murabaha sales receivables as at the end of the year, the turnover of this portfolio was such that the total income from jointly financed sales and investments rose by 71% over 2004 to reach US$2.8 million. Unfortunately, the bank suffered a net loss of just under US$1.0 million after distributing the unrestricted investment account holders' share of the profit, in view of losses on its own part of the portfolio, so that even after accounting for other

Chief Executive Officer's Report Continued

revenues from banking services, fees and commissions totalling US$3.1 million, total operating income was down 48% on 2004 at only US$2.3 million. Although operating expenses at US$5.5 million were 23% lower than 2004 this was insufficient to produce an improvement in its performance and consequently ABBL ended the year with a net loss of US$3.2 million, compared with a loss of US$2.7 million in 2004.

In 2005 the bank underwent a restructuring, reorganising its activities under sector heads, each with responsibility for a number of departments. Two new departments were created to be responsible for Banking Risks and Banking Compliance, in addition to an Audit Committee and a number of senior management committees, overseeing Finance and Investment, Asset Management, Marketing and Development, IT and Anti-Money Laundering policies and procedures. The Internal Audit and Financial Control Department, now independent of executive management and reporting to the Audit Committee, was also strengthened. A specialist IT security company was contracted to implement the bank's IT security in coordination with the regulatory authorities at the Central Bank.

All these activities are destined to refocus the bank, which intends to implement in 2006 its earlier plan to increase its paid up capital to the minimum level of US$20 million required under the new legislation permitting the establishment of Islamic Banks and to apply for a licence from the Central Bank of Lebanon to carry on Islamic banking activities.

FINANCIAL REVIEW

Income Statement

In 2005, ABG's net income for the year increased to US$79.4 million from US$36.8 million in 2004.

Total operating income was 21% higher than in 2004, at US$393.2 million (2004: US$324.8 million). Of the categories constituting total operating income, joint income from sales receivable and net income from jointly financed contracts and investments together totalled US$372.9 million (2004: US$251.3 million). After deducting the gross return paid out to investors on unrestricted investment accounts, which was higher than 2004 at US$306.0 million (2004: US$199.6 million), but including the Group's share as Mudarib - also higher than the previous year at US$92.8 million (2004: US$41.8 million) - the Group's share of income from investment accounts increased to US$159.7 million (2004: US$93.6 million).

Fee and commission income at US$71.6 million (2004: US$45.8 million) and Mudarib's share for managing restricted investment accounts, at US$6.0 million (2004: US$2.8 million) were also higher than for the previous year. However, net income from self financed contracts and investments fell somewhat in 2005, to US$133.0 million (2004: US$151.8 million), as did other operating income at US$22.9 million (2004: US$ 30.8 million). There was also a slight increase in the monetary loss on translation from local currencies, amounting to US$5.0 million (2004: US$4.2 million).

Operating expenses rose by 7% to US$279.0 million (2004: US$260.5 million) and comprised staff expenses of US$74.4 million (2004: US$52.7 million), depreciation and amortisation US$110.3 million (2004: US$145.4 million), other operating expenses US$62.1 million (2004: US$41.4 million) and provisions US$32.2 million (2004: US$21.0 million). Net income before taxation and minority interest amounted to US$109.3 million (2004: US$60.1 million) and was therefore 82% above 2004's. After taxation amounting to US$6.4 million (2004: US$6.0 million), and minority interest in subsidiaries of US$23.5 million (2004: US$17.2 million), as stated above, the net income for the year was US$79.4 million (2004: US$36.8 million).

Sources and Uses of Funds

On 31 December 2005, cash and bank balances, trading securities and non-trading investments totalled US$2.430 billion (2004: US$2.028 billion) or 38.7% (2004: 40.1%) of total assets and 44.1% (2004: 45.2%) of total liabilities and unrestricted investment accounts. Non-trading investments (made up of 24.7% available for sale investments and 75.3% held to maturity investments) stood at US$582 million (2004: US$401 million) whereas trading securities amounted to US$3 million (2004: US$1 million) and cash and balances with banks totalled US$1.845 billion (2004: US$1.627 billion). Sales receivables were US$2.955 billion (2004: US$2.189 billion); Mudaraba financings were US$167 million (2004: US$156 million); Musharaka financings were US$74 million (2004: US$70 million); investment properties totalled US$44 million (2004: US$46 million); Ijarah Muntahia Bittamleek totalled US$170 million (2004: US$172 million); investment in associates were US$125 million (2004: US$115 million) and Ijara receivables were US$20 million (2004: US$15 million). Investments in premises and other assets, aggregating US$290 million (2004: US$264 million), made up the remainder of the total assets.

Chief Executive Officer's Report Continued

These assets were funded by customer current and other accounts amounting to US$1.186 billion at the end of 2005 (2004: US$911 million); deposits from banks of US$111 million (2004: US$38 million) and other liabilities of US$217 million (2004: US$210 million); in addition to unrestricted investment accounts amounting to US$3.995 billion (2004: US$3.333 billion) and shareholders' equity of US$566 million (2004: US$422 million).

ABG's total assets at the end of 2005 amounted to US$6.276 billion (2004: US$5.057 billion). Average assets were US$5.667 billion (2004: US$4.587 billion) while average liabilities, excluding shareholders' equity, amounted to US$5.172 billion (2004: US$4.189 billion).

Restricted Investments

At the end of 2005, the Group's Restricted Investments stood at US$407 million (2004: US$314 million).

Geographical Distribution of the Balance Sheet

In 2005, the Group's total assets were distributed as follows:

Middle East	54.8%
Europe	25.9%
Africa	14.3%
Asia	4.2%
Others	0.8%

Its liabilities were distributed as follows:

Middle East	52.0%
Africa	24.7%
Europe	19.5%
Asia	3.6%
Others	0.2%

The distribution of unrestricted investment accounts was as follows:

Middle East	59.2%
Europe	25.7%
Africa	11.0%
Asia	4.1%

The distribution of restricted investment accounts was:

Middle East	89.1%
Europe	10.1%
Others	0.8%.

CORPORATE GOVERNANCE

The Board of Directors

The Board of Directors is responsible for the Group's overall management. In particular, the Board is responsible for approving the Group's overall business strategy, monitoring its operations and taking critical business decisions. In line with international best practice, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board in March 2006 of three non-executive directors, two of whom are independent.

ABG is administered by a Board of Directors consisting of not less than five and not more than eleven members to be appointed and/or elected in accordance with its Articles of Association. Subject to the provisions of the law, the shareholders at an Ordinary General Meeting may however determine that the number of directors shall exceed eleven to permit additional expert or non-executive directors to be appointed as Appointed Directors (see below).

Shareholders are entitled to appoint one Director for each 10% of the total of all Shares owned by them ("Appointed Directors"). Shareholders forfeit their right to vote for Elected Directors (see below) to the extent of the percentage of Shares cast in appointing Appointed Directors. If a Shareholder holds a percentage of shares that is insufficient to appoint another Appointed Director, that Shareholder may use the percentage that is held to vote with other Shareholders to elect Elected Directors.

The Ordinary General Meeting shall elect the remainder of the Board ("Elected Directors"). Elected Directors shall be selected from a list of qualified nominees presented to the Chairman of the Board of Directors before the date of the Ordinary General Meeting at which elections are scheduled to take place and after obtaining the approval of the Bahrain Monetary Agency in respect of such nominations.

Chief Executive Officer's Report Continued

Members of the Board of Directors hold office for a three-year renewable term. A corporate person that has appointed one or more Appointed Directors may replace them by others at any time. An Elected Director may be re-elected upon the expiry of his term of office, and this shall be considered to be a new nomination which requires satisfaction of the conditions required to be satisfied by nominees mentioned above. The term of office of Directors may be extended by resolution of the Bahrain Minister of Industry & Commerce for a period not exceeding six months at the request of the Board.

There are currently eight Directors on the Board - two of whom are independent non-executive directors - who have varied backgrounds and experience and who individually and collectively exercise independent and objective judgement. Other than the Chief Executive Officer all Directors are non-executive. The posts of Chairman and Chief Executive Officer are held by different Directors and each has separate, clearly defined responsibilities.

The Board of Directors meets regularly (usually four times a year) and has a formal schedule of matters reserved to it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational development, risk management and information technology development) and the performance of executive management. The Board and its Committees are supplied with full and timely information to enable them to discharge their responsibilities. All Directors have access to the advice and services of the Secretary who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed.

Board Committees

The Board is in the process of putting in place a number of Board committees, to which it intends to delegate specific responsibilities. The principal Board committees are:

Board Executive Committee

ABG has put in place an executive committee chaired by Mr. Abdullah Saleh Kamel, a Director of ABG. The other members are Mr. Adnan Ahmed Yousif, Chief Executive Officer and a Director of ABG and Mr. Abdul Elah A. Sabbahi, a Director of ABG. The Board of Directors expects to delegate certain of its day to day functions to the executive committee, including certain financial, administrative and credit matters.

Nomination Committee

ABG is currently putting in place a nomination committee. This process is expected to be finalised prior to the end of 2006. The nomination committee shall meet as required and shall make recommendations to the Board on new appointments to the Board and top executive positions within ABG.

Remuneration Committee

ABG is currently putting in place a remuneration committee. This process is expected to be finalised prior to the end of 2006. The remuneration committee shall meet at least once a year and shall consider all material elements of remuneration policy, the remuneration and incentivisation of the Board and the Core Management Team and all other ABG employees and shall make recommendations to the Board on the framework for executive remuneration and its costs.

Audit Committee

An audit committee has been formed and is chaired by Mr. Saleh Al-Yousef, a Director of ABG. Dr. Anwar Ibrahim, a Director of ABG, was recently appointed to the audit committee. Other members will be inducted in due course. The audit committee plans to meet formally at least 4 times a year and external auditors attend at least one meeting annually.

The external auditors shall have unrestricted access to the audit committee and its chairman. The audit committee shall consider all matters relating to financial control and reporting, internal and external audits, the scope and results of the audits, regulatory compliance and risk management. The audit committee shall also monitor the independence of the external auditors and their remuneration.

Senior Management

The primary initial role of ABG's Core Management Team is to effect consolidation and control over the entire Group. This is being achieved through the development of a system for filtering down to Group units the centralised strategic decisions taken at the parent level, which will ensure the implementation of Groupwide policies and common operational processes and procedures across the Group.

Chief Executive Officer's Report Continued

As at the end of 2005, the team consisted of the Chief Executive Officer, the Deputy General Manager and the Heads of Financial Control, Internal Audit, Information Technology and Research & Development. Other appointments to the team will be made during the course of 2006 in respect of the Treasury, Global Marketing, Risk Management, Credit, Legal Affairs and Operations & Administration functions. In addition, the following Senior Management Committees have been or are being set up, with specific responsibilities:

Basel II Steering Committee

The Basel Committee on Banking Supervision introduced a new Capital Accord (Basel II) to replace the 1988 Capital Accord establishing guidelines as to the minimum capital that banks should maintain in relation to their risk-weighted assets. Implementation of the new Capital Accord is due to take place worldwide between 2007 and 2008.

ABG's Basel II Steering Committee has been set up to review the Group's state of readiness for compliance with Basel II, both at the Head Office level and across the countries in which the Group is represented, and to develop a concerted strategy towards Basel II to achieve Groupwide risk and capital adequacy measurement. The Committee is chaired by the Head of Financial Control and will be co-chaired by the Head of Risk Management upon his appointment, with other membership that include the Heads of Information Technology, the Senior Manager - Financial Control and senior nominees drawn from most of the Group units.

Head Office IT Steering Committee

The Group has developed a Business Intelligence Roadmap for implementing a web-based financial consolidation application and a Corporate Performance Measurement (CPM) methodology using Key Performance Indicators (KPI) to set performance benchmarks for each subsidiary and to monitor them on a continuous basis. The Roadmap will be further enhanced to include elements of exposure management across the Group, including elements of risk management reporting, thus setting the stage for Basel II compliance. The Committee's role will be to draw up the Group's short and long term IT strategy and oversee and monitor its implementation throughout the Group with a view to effecting standardisation in information and operation management.

The Committee is chaired by the Deputy General Manager with membership comprising the Heads of Financial Control, Information Technology and Risk Management (upon his appointment) together with senior support nominees from Al Baraka Islamic Bank, Bahrain.

Compliance, Policies and Procedures

Regulation

The Group complies with all the regulatory requirements governing Islamic Banks issued by the Bahrain Monetary Agency (BMA), which include, *inter alia*, regulations governing the Group's capital adequacy, asset quality and risk management, liquidity and fund management.

The BMA as the home supervisor sets and monitors ABG's capital requirements on both a consolidated and an unconsolidated basis, while the Group's individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements.

The BMA currently requires each Bahrain-based bank or banking group to maintain a minimum ratio of total capital to on- and off-balance sheet risk-weighted assets of 12%, which requirement exceeds the 8% minimum ratio guideline of the Basel Committee on Banking Supervision under its 1988 Capital Accord. However, the new Capital Accord (Basel II) announced by the Basel Committee to replace the 1988 Accord is designed to achieve a more sophisticated degree of risk differentiation in establishing the amount of capital that banks should allocate to different categories of their credit risk exposure, in addition to stipulating a capital charge for operational risk and incorporating an earlier guideline in relation to capital charges for market risk. Regulators will have wider discretion to increase or decrease capital requirements for banks according to their individual circumstances. The new rules will also require greater transparency of published information relating to bank risk management. The Group aims to achieve in time the required degree of sophistication in risk assessment which will enable it to comply with the requirements of Basel II.

Anti-Money Laundering

The Group is implementing the anti-money laundering regulations introduced by the BMA in 2001 and its subsequent directives, including the appointment of a Group Money Laundering Reporting Officer (MLRO) - currently this position is held by the Head of Financial Control - as well as overseeing individual MLROs in each of the constituent banks. The Group has meanwhile appointed external consultants BDO Jawad

Chief Executive Officer's Report Continued

Habib, Bahrain, to assess and evaluate the Group's existing anti-money laundering reporting procedures at Group level. Upon conclusion of this exercise the consultants will produce for the Group a comprehensive document setting out recommended procedures to be adopted by the Group's Head Office in relation to its ongoing commitment to international best practice in this area. In the meantime, the Group is also considering the appointment of a professional firm to conduct an annual review of the Group's anti-money laundering procedures.

Policies & Procedures

The Group's priorities are focused on the introduction of standardised Groupwide policies and procedures as well as the integration and strengthening of its MIS and Reporting Systems. In the meantime, the policies & procedures and management information and reporting systems currently in use by the individual component banks fully meet local requirements and regulatory directives. It is anticipated that much of this work will have been completed over the next year, to be followed by the issuance of approved Groupwide policy documents.

Financial Performance Monitoring

The Group's management has put in place various measures that will help to monitor and control the activities of the Group worldwide. A comprehensive financial consolidation procedure has been implemented and is working effectively, whereunder all units submit their financial data in a format that is compatible with Islamic Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and International Financial Reporting Standards (IFRS). These are consolidated quarterly and a consolidated set of financial results is produced. Additionally, units submit a monthly return to Group headquarters providing details of their financial performance, measured against approved budgets.

The Group will shortly be implementing a Corporate Performance Measurement (CPM) system, whereby financial and operational data will be collected from Group subsidiaries through a web-based mechanism, pursuant to which Key Performance Indicators (KPI) can be extracted and measured against performance targets agreed with the units as part of their approved budgets. Under the system each member of the Core Management Team at Group level will be provided with key macro statistics, financial and operational, relevant to that member's areas of responsibility, while middle management will have access to the information relevant to their responsibilities, for analysis and ad hoc enquiry. Further enhancements will lead to Group exposure monitoring and management capability within global limits, and centralised risk management reporting for Basel II and regulatory compliance purposes.

Risk Management

The Group is committed to complying with internationally established principles and policies in relation to risk management. In particular the Group fully subscribes to the guiding principles of risk management for Islamic financial services institutions set down by the Islamic Financial Services Board and the need for a comprehensive risk management and reporting process. In this respect ABG will shortly be appointing a Head of Risk Management, whose role will be to formulate and monitor the Group's policies relating to all aspects of risk, develop the framework for risk measurement, coordinate the implementation of Basel II, introduce appropriate risk measurement software, monitor the Group's compliance with risk measurement standards and provide Group management with reports on the Group's risk adjusted return on capital.

Upon full implementation, the Board of Directors will define and set the Group's overall levels of risk appetite, risk diversification and asset allocation strategies applicable to each Islamic financing instrument, economic activity, geographical spread, currency and tenor. Each of the Group's subsidiaries is managed by its respective Board of Directors, whose reporting lines are ultimately to ABG but whose decision-making is decentralised within the overall strategic direction established by ABG's Board of Directors.

The major risks to which the Group is exposed are credit, equity investment, market, liquidity, rate of return and operational risks. The Group is in the process of establishing a Risk Committee, to be chaired by the Head of Risk Management upon his appointment, to oversee the risk management policies of the Group, including identifying material risks, reviewing risk reports and approving risk limits.

Credit Risk

Credit risk is the risk of loss from the failure of a customer or counterparty to meet its obligations in accordance with agreed terms. It applies to the Group in its management of the financing exposures arising out of receivables and leases (for example, murabaha and Ijarah) and other financing transactions (Salam, Istisna'a or mudaraba).

Chief Executive Officer's Report Continued

Each Group subsidiary has in place a framework for credit risk management that includes identification, measurement, monitoring, reporting and control of credit risks. Each subsidiary controls credit risk through the process of initial approval and granting of credit, subsequent monitoring of counterparty creditworthiness and the active management of credit exposures.

Each subsidiary maintains an internal audit department responsible for carrying out reviews of credit exposures to counterparties and assessing their quality and adherence to laid down approval procedures.

Equity Investment Risk

Equity investment risk can be defined as the risk of financial loss to the Group arising from any of its units entering into a partnership for the purpose of undertaking or participating in a particular financing or general business activity, in which the provider of finance shares in the business risk.

Each Group subsidiary has in place appropriate strategies, risk management and reporting processes in respect of the risk characteristics of investments, including Mudaraba, musharaka and other investments. Each subsidiary ensures that their valuation methodologies are appropriate and consistent, and assesses the potential impact of their methods on profit calculations and allocations mutually agreed between that subsidiary and its partners.

Market Risk

Market risk is the risk of financial loss to the Group resulting from adverse movements in values of assets that may be tradable, marketable or which are the subject of lease or Sukuk and in off-balance sheet individual portfolios such as restricted investment accounts.

Market risk arises as a normal part of the Group's activities as it relates to the current and future volatility of market values of specific assets, such as Salam assets or the market value of a sukuk or of murabaha assets purchased to be delivered over a specific period. It also relates to volatilities in foreign exchange rates.

Group units manage market risk through appropriate limits set by their boards, determined by the Unit's risk appetite for the market and its products, and the liquidity, maturity and the risk/return profile.

Liquidity Risk

Liquidity risk is the risk of loss to the Group arising from its inability either to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses.

Each of ABG's subsidiaries, maintain liquid assets at prudential levels to ensure that cash can quickly be made available to honour its obligations. Each has specific policies that construct maturity ladders based on appropriate time bands in order to identify future shortfalls in liquidity, including the potential risk impact of withdrawals by large single depositors, ensuring that there is no reliance on one customer or small group of customers. Liquidity management also recognises the impact of potential cash outflows arising from irrevocable commitments to fund new assets.

Profit Rate Risk or Rate of Return Risk

The Group is exposed to rate of return risk in that an increase in general benchmark rates may lead to investment account holders having expectations of a higher rate of return, thus putting operating units under market pressure to pay a rate of return that exceeds the rate that has been earned on assets financed by the investment account holders, by waiving all or part of their share of profits and/or fee as Mudarib.

Group units each have in place appropriate systems for identifying and measuring the factors which give rise to rate of return risk.

Currency Risk

Currency or foreign exchange rate risk is the risk of an adverse impact on the Group's earnings or shareholders' equity due to currency rate movements. The Group is exposed to foreign exchange rate risk in that the value of a financial instrument, or its net investment in its foreign subsidiaries, may fluctuate due to changes in foreign exchange rates. The Group's significant net foreign currency exposures are detailed in Note 31 to the Financial Statements.

Foreign exchange rate risk is managed by appropriate limits determined by each subsidiary's local Board of Directors.

Operational Risk

Operational risk, which includes legal risk, is the risk of financial loss or damage resulting from inadequate or failed internal processes, people and systems or from external events.

Chief Executive Officer's Report Continued

Management of legal risk is through effective consultation with internal and external legal counsel. Management of other operational risk is minimised by ensuring that trained and competent people and appropriate infrastructure, controls and systems are in place to ensure the identification, assessment and management of all substantial risks.

Apart from operations risks, which are controlled through regular daily functions and managed through internal procedures and monitoring mechanisms, and business/event risks, which include underlying, structural and external risks that can have a material impact on the Group such as changes in taxation, accounting and financial management, legal and regulatory requirements, the Group is also exposed to risks relating to Shari'a compliance and its fiduciary responsibilities towards fund providers.

Fiduciary risk arises from the failure to perform in accordance with explicit and implicit standards applicable to an Islamic bank's fiduciary responsibilities, leading to losses in investments or failure to safeguard the interests of the investment account holders. Group units have in place appropriate mechanisms to safeguard the interests of all fund providers. Where investment account holders' funds are commingled with the Group Unit's own funds, the Group Unit ensures that the bases for asset, revenue, expense and profit allocations are established, applied and reported in a manner consistent with the Group's fiduciary responsibilities.

Group policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff independent of staff initiating the transactions. Group units have primary responsibility for identifying and managing their own operational risks. Each unit is guided by policies, procedures, and controls that are relevant for each function. Internal control policies and procedures dictate the segregation of duties, delegation of authorities, exceptions reporting, exposures management and reporting, reconciliations, and are based on the submission of timely and reliable management reporting.

Shari'a Compliance Risk

Shari'a compliance risk arises from the failure to comply with the rules and principles of Shari'a and is therefore akin to reputation risk. Group units have in place systems and controls, including the Shari'a Supervisory Board, to ensure compliance with all Shari'a rules and principles.

Contents

Consolidated Financial Statements

Unified Shari'a Supervisory Board Report

For the year ended 31 December 2005

In the Name of Allah, The Merciful, The Compassionate
Praise be to God and blessings and peace be upon our Prophet Mohamed, His Companions and Family:

To: Albaraka Banking Group Shareholders

Greetings,
Pursuant to the assignment letter, we submit the following report:

We supervised the policies and procedures applied by the Group and reviewed the 2005 Shari'a reports issued by the following Group Units' Shari'a Supervisory Boards or their Shari'a advisors:

1. AlBaraka Islamic Bank (Bahrain).
2. Al-Amin Bank
3. Jordan Islamic Bank
4. Bank Et-Tamweel Al-Tunisi Al-Saudi
5. Banque Albaraka D'Algerie
6. AlBaraka Bank Ltd (South Africa)
7. AlBaraka Bank Lebanon
8. AlBaraka Türk Participation Bank
   (Formally: AlBaraka Turkish Finance House)
9. The Egyptian Saudi Finance Bank
10. AlBaraka Bank Sudan

In addition, we examined the Group's financial position as at 31st December 2005 and the statement of income and their notes.

We examined, where necessary, the Group's financial statements and their notes and obtained the necessary explanations and clarifications on the relevant technical issues.

The Group's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the Group's and Unit's management. Our responsibility is to express an independent opinion based on our review of the Shari'a reports and financial statements of the Group and its units.

The units' Shari'a Supervisory Boards and their Shari'a advisors supervised the unit's business activities including examining documentations and procedures applied by the Group and its units based on examining each type of operation.

The units' Shari'a Supervisory Boards and their Shari'a advisors, as indicated in their reports, planned and carried out compliance procedures to obtain all information and explanations they considered appropriate to enable them to provide a reasonable confirmation that the Group and its units do not violate Shari'a principles and guidelines.

In our opinion:

1. Contracts, operations and transactions made by the Group and its units during the year ended 31st December 2005 are made in accordance with Shari'a principles and guidelines.

2. Distribution of profits and charging of losses to investments accounts are in compliance with the basis approved in compliance with Shari'a principles and guidelines.

3. All revenues achieved from sources or methods contrary to Shari'a principles and guidelines have been allocated for charitable purposes.

4. The Group and its units are not required to pay Zakah. This should be paid by shareholders on their shareholdings. Subject to the Islamic Jurisprudence Board's resolution, a shareholder who invests for the purpose of trading should pay Zakah on the market price of his shares while a shareholder who invests for the purpose of getting profits should pay Zakah on the profits paid out in addition to his share in the bank's assets on which Zakah should be paid.

Praise be to God

Issued on 1 Safar 1427H, corresponding to 1 March 2006 AD.

Executive Committee of the Consolidated Shari'a Supervisory Board

President, Shari'a Supervisory Board
Dr. Abdul Sattar Abu Ghudah

Shari'a Supervisory Board's Member
Dr. Abdul Latif Mahmood Al Mahmood

Auditors' Report to the Shareholders

Albaraka Banking Group B.S.C. (c)

We have audited the accompanying consolidated balance sheet of Albaraka Banking Group B.S.C. (c) [the "Bank"] and its subsidiaries [the "Group"] as of 31 December 2005, and the related consolidated statements of income, cash flows, changes in equity, changes in restricted investment accounts, sources and uses of charity fund and sources and uses of good faith qard fund 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 did not audit the financial statements of certain subsidiaries, which statements reflect total assets of US$ 2.8 billion (2004: US$ 3.2 billion) and total net income attributable to equity holders of the parent of US$ 15 million (2004: US$ 9 million). Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion is based solely on the report of other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2005, and results of its operations and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the 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 financial year ended 31 December 2005 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

6 March 2006
Manama, Kingdom of Bahrain

Consolidated Balance Sheet

At 31 December 2005

	Notes	2005 US$ 000	2004 US$ 000
ASSETS			
Cash and balances with banks	3	**1,844,633**	1,626,512
Sales receivables	4	**2,955,463**	2,188,935
Mudaraba financing	5	**167,235**	156,398
Musharaka financing	6	**73,692**	70,385
Investment properties	7	**44,010**	46,279
Ijarah Muntahia Bittamleek	8	**170,467**	172,159
Investment in associates	9	**125,208**	115,380
Investments	10	**585,014**	401,927
Ijarah receivables	11	**20,279**	14,584
Fixed assets	12	**115,355**	111,873
Other assets	13	**174,987**	152,287
Total assets		**6,276,343**	5,056,719
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
Liabilities			
Customer current and other accounts		**1,185,592**	910,558
Due to banks		**111,432**	37,530
Other liabilities	14	**216,816**	209,644
		1,513,840	1,157,732
Unrestricted Investment Accounts	15	**3,995,370**	3,333,059
Equity	16		
Share capital		**387,998**	325,307
Reserves		**49,810**	39,635
Retained earnings		**111,526**	57,091
Proposed dividends		**17,000**	-
Equity attributable to the shareholders of the parent		**566,334**	422,033
Minority interest		**200,799**	143,895
Total equity		**767,133**	565,928
Total liabilities, unrestricted investment accounts and equity		**6,276,343**	5,056,719

Saleh Abdullah Kamel
Chairman

Adnan Ahmed Yousif
Member of the Board and
Chief Executive Officer

The attached notes 1 to 38 form part of these consolidated financial statements

Consolidated Statement of Income

Year Ended 31 December 2005

	Notes	2005 US$ 000	2004 US$ 000
INCOME			
Joint income from sales receivable		**254,987**	151,652
Net income from jointly financed contracts and investments		**117,930**	99,693
	17	**372,917**	251,345
Gross return on unrestricted investment accounts	18	**(305,964)**	(199,571)
Group's share as a Mudarib	18	**92,783**	41,784
Return on unrestricted investment accounts		**(213,181)**	(157,787)
Group's Share of Income		**159,736**	93,558
Mudarib share for managing restricted investment accounts		**5,970**	2,846
Net income from self financed contracts and investments	17	**133,001**	151,774
Other fees and commission income	19	**71,553**	45,806
Other operating income	20	**22,946**	30,836
Total Operating Income		**393,206**	324,820
Staff expenses		**74,364**	52,723
Depreciation and amortisation	21	**110,291**	145,385
Operating expenses	22	**62,068**	41,443
Provisions	23	**32,230**	20,976
Total Expenses		**278,953**	260,527
Net Income for the year before Monetary Loss and Taxation		**114,253**	64,293
Monetary loss on a subsidiary		**(4,987)**	(4,204)
Taxation		**(6,380)**	(6,022)
Net Income for the Year		**102,886**	54,067
Attributable to:			
Equity shareholders of the parent		**79,372**	36,845
Minority interest		**23,514**	17,222
		102,886	54,067

The attached notes 1 to 38 form part of these consolidated financial statements

Consolidated Statement of Cash Flows

Year Ended 31 December 2005

	Notes	2005 US$ 000	2004 US$ 000
OPERATING ACTIVITIES			
Net income for the year attributable to equity shareholders of the parent		**79,372**	36,845
Adjustments for non-cash items:			
Depreciation and amortisation	21	**110,291**	145,385
Gain on sale of fixed assets	20	**(4,266)**	(4,581)
Provisions	23	**32,230**	20,976
Share in profits of associated companies		**(43,489)**	(20,022)
Operating profit before changes in operating assets and liabilities		**174,138**	178,603
Net changes in operating assets and liabilities:			
Reserves with central banks		**(70,636)**	(755,432)
Sales receivables		**(769,180)**	(440,757)
Mudaraba financing		**(10,589)**	(71,417)
Musharaka financing		**2,867**	(26,507)
Investment properties		**6,383**	(3,146)
Ijarah Muntahia Bittamleek		**(93,764)**	(145,744)
Ijarah receivable		**(5,599)**	8,765
Other assets		**(8,481)**	57,877
Customer current and other accounts		**207,811**	174,101
Due to banks and financial institutions		**73,402**	(4,759)
Other liabilities		**(17,884)**	13,157
Net cash used in operating activities		**(511,532)**	(1,015,259)
INVESTING ACTIVITIES			
Acquisition of a subsidiary, net of cash acquired	35	**36,343**	–
Net purchase of investments		**(162,320)**	(86,138)
Net disposal (purchase) of fixed assets		**269**	(18,857)
Dividend received from associate		**21,911**	–
Proceeds from sale of investment in associates		**11,750**	385
Net cash used in investing activities		**(92,047)**	(104,610)
FINANCING ACTIVITIES			
Proceeds from issue of share capital		**41,347**	–
Increase in unrestricted investment accounts		**652,286**	652,185
Net changes in minority interest		**54,933**	26,627
Net cash from financing activities		**748,566**	678,812
Foreign currency translation adjustments		**2,498**	4,248
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**147,485**	(436,809)
Cash and cash equivalents at beginning of the year		**1,343,083**	1,779,892
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	**1,490,568**	1,343,083

The attached notes 1 to 38 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity

Year Ended 31 December 2005

	Attributable to equity holders of the Parent										
	Share capital US$ 000	Statutory reserve US$ 000	Cumulative changes in fair value reserve US$ 000	Foreign currency reserve US$ 000	Investment Properties fair value reserve US$ 000	Other reserves US$ 000	Retained earnings US$ 000	Proposed dividends US$ 000	Total US$ 000	Minority interest US$ 000	Total equity US$ 000
Balance at 1 January 2004	325,307	2,729	1,777	16,772	66	2,112	24,121	–	372,884	117,167	490,051
Net movement in cumulative change in fair value	–	–	6,169	–	41	–	–	–	6,210	686	6,896
Foreign currency translation	–	–	–	4,248	–	–	–	–	4,248	1,232	5,480
Net income for the year	–	–	–	–	–	–	36,845	–	36,845	17,222	54,067
Transfer to statutory reserve	–	3,685	–	–	–	–	(3,685)	–	–	–	-
Other reserves	–	–	–	–	–	2,036	(190)	–	1,846	1,859	3,705
Net movement in minority interest	–	–	–	–	–	–	–	–	–	5,729	5,729
Balance at 1 January 2005	325,307	6,414	7,946	21,020	107	4,148	57,091	–	422,033	143,895	565,928
Share capital issued for cash	41,347	–	–	–	–	–	–	–	41,347	–	41,347
Share capital issued in kind	21,344	–	–	–	–	–	–	–	21,344	–	21,344
Acquisition of a subsidiary (note 35)	–	–	–	–	–	–	–	–	–	2,815	2,815
Net movement in cumulative change in fair value	–	–	1,422	–	(107)	–	–	–	1,315	(738)	577
Net movement in other reserves	–	–	–	–	–	(1,575)	–	–	(1,575)	(106)	(1,681)
Foreign currency translation	–	–	–	2,498	–	–	–	–	2,498	(1,438)	1,060
Net income for the year	–	–	–	–	–	–	79,372	–	79,372	23,514	102,886
Transfer to statutory reserve	–	7,937	–	–	–	–	(7,937)	–	–	–	-
Proposed dividends	–	–	–	–	–	–	(17,000)	17,000	–	–	-
Dividends received from subsidiaries	–	–	–	–	–	–	–	–	–	(4,757)	(4,757)
Net movement in minority interest	–	–	–	–	–	–	–	–	–	37,614	37,614
Balance at 31 December 2005	**387,998**	**14,351**	**9,368**	**23,518**	**–**	**2,573**	**111,526**	**17,000**	**566,334**	**200,799**	**767,133**

Note: Net movement in minority interest includes the effect of changes in capital of subsidiaries.

The attached notes 1 to 38 form part of these consolidated financial statements

Consolidated Statement of Changes in Restricted Investment Accounts

Year Ended 31 December 2005

	Sales receivable US$ 000	Mudaraba financing US$ 000	Musharaka financing US$ 000	Investment Properties US$ 000	Others US$ 000	**Total US$ 000**
Balance at 1 January 2004	253,057	1,500	14,162	24,616	41,919	335,254
Deposits	59,082	4,046	6,814	22,795	140,427	233,164
Withdrawals	(118,007)	–	–	(27,370)	(117,938)	(263,315)
Income net of expenses	6,132	11	–	379	5,308	11,830
Mudarib's share	(1,385)	(3)	(15)	(115)	(1,328)	(2,846)
Balance at 31 December 2004	198,879	5,554	20,961	20,305	68,388	314,087
Deposits	287,304	–	2,732	3,234	250,992	544,262
Withdrawals	(259,023)	(4,145)	(20,961)	(14,932)	(193,110)	(492,171)
Income net of expenses	23,661	104	–	4,012	18,606	46,383
Mudarib's share	(1,975)	(13)	–	(326)	(3,656)	(5,970)
Balance at 31 December 2005	**248,846**	**1,500**	**2,732**	**12,293**	**141,220**	**406,591**

Restricted investment accounts

Restricted investment accounts represent funds received by the Group from third parties for investment in specified products as directed by the investment account holders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments.

The attached notes 1 to 38 form part of these consolidated financial statements

Consolidated Statement of Sources and Uses of Charity Fund

Year Ended 31 December 2005

	Note	2005 US$ 000	2004 US$ 000
Sources of charity fund:			
Contribution by the Group		**2,603**	1,755
Others		**415**	–
Total sources		**3,018**	1,755
Uses of charity fund:			
Charitable contributions		**1,352**	1,229
Others		**881**	394
Total uses		**2,233**	1,623
Net increase of sources over uses		**785**	132
Balance of charity fund at beginning of the year		**1,768**	1,636
Balance of charity fund at end of the year	14	**2,553**	1,768

The attached notes 1 to 38 form part of these consolidated financial statements

Consolidated Statement of Sources and Uses of Good Faith Qard Fund

Year Ended 31 December 2005

	Note	2005 US$ 000	2004 US$ 000
Sources of Qard fund:			
Contribution by the Group		**13,389**	8,761
Others		**587**	2,935
Total Sources		**13,976**	11,696
Uses of Qard fund			
Marriage		**739**	594
Medical treatment		**482**	440
Education		**2,108**	1,855
Advances to staff		**1,390**	1,071
Settlement of current accounts		**5,637**	4,610
Others		**3,620**	3,126
Total uses		**13,976**	11,696
Balance of Good Faith Qard fund at beginning of the year		**6,725**	7,126
Advances granted during the year		**13,976**	11,696
Advances settled during the year		**(12,079)**	(12,097)
Balance of Good Faith Qard fund at end of the year	13	**8,622**	6,725

The attached notes 1 to 38 form part of these consolidated financial statements

Notes to the Consolidated Financial Statements

31 December 2005

1. Activities

Albaraka Banking Group B.S.C. (c) (the "Bank") is a joint stock company incorporated in the Kingdom of Bahrain on 27 June 2002, under Commercial Registration (CR) number 48915. The address of the Bank's registered office is P.O. Box 1882, Diplomatic Area, Manama, Kingdom of Bahrain.

The Bank operates in Bahrain under an offshore banking licence issued by the Bahrain Monetary Agency and is engaged in Islamic investment banking activities.

The Bank and its subsidiaries (the "Group") is engaged in international and commercial banking, financing, treasury and investment activities in the Middle East and North African region. The Bank is supervised and regulated by the Bahrain Monetary Agency. As of 31 December 2005, the total number of employees employed by the Group was 4,846 (2004: 3,844).

One of the subsidiaries included in the consolidated financial statements is in the legal process of being transferred to the Bank (See note 2b). Accordingly, assets and liabilities of these subsidiaries are reflected based on the effective ownership of Sheikh Saleh Abdullah Kamel (Chairman of the Bank and the Group) and his family members including nominees and agents, as trustees on behalf of the Bank.

The Bank is owned by Sheikh Saleh A. Kamel and Dallah Albaraka Holding Company E.C., a company incorporated in the Kingdom of Bahrain in the ratio of 55% (2004: 55%) and 45% (2004: 45%) respectively. Sheikh Saleh Abdullah Kamel and his family are effectively the ultimate shareholders of Dallah Albaraka Holding Company E.C.

2. Significant Accounting Policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

a. Basis of preparation

The consolidated financial statements are prepared under the historical cost convention as modified for the measurement at fair value of investments, investment properties and fixed assets.

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (the "AAOIFI"), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Group and the Bahrain Commercial Companies Law. For matters which are not covered by AAOIFI standards, the Group uses the International Financial Reporting Standards (the "IFRSs").

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted certain IFRSs which became effective for financial years beginning on or after 1 January 2005 as follows:

IFRS 3 has been adopted for business combinations for which the agreement date is on or after 31 March 2004. The first transaction to which the new standard has been applied is the acquisition of Albaraka Bank Sudan on 1 January 2005. There is no material impact of the new Standard on the accounting of that transaction. After initial recognition, IFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. IFRS 3 prohibits amortisation of goodwill, consequently no amortisation is charged in 2005. Under IAS 36 "Impairment of Assets" (revised, effective 1 January 2005), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired.

Notes to the Consolidated Financial Statements

31 December 2005

2. Significant Accounting Policies continued

b. Basis of consolidation

The consolidated financial statements comprise the financial statements of Albaraka Banking Group and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All material intra-group balances, transactions, income and expenses are eliminated on consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Minority interests consist of the amount of those interests at the date of the original business combination and the minorities share of changes in equity since the date of combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The acquisition of Albaraka Bank Sudan on 1 January 2005 has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of Albaraka Bank Sudan for the twelve-month period from its acquisition on 1 January 2005.

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

Bank	Ownership	Year of incorporation	Country of incorporation
Held directly by the Bank			
Banque Albaraka D'Algerie	50.0%	1991	Algeria
Albaraka Islamic Bank	78.3%	1984	Bahrain
Beit Et-Tamweel Al-Tunisi Al-Saudi	78.4%	1983	Tunisia
Egyptian Saudi Finance Bank	46.6%	1980	Egypt
Albaraka Bank Lebanon	81.8%	1991	Lebanon
Jordan Islamic Bank	53.7%	1978	Jordan
Al Amin Bank	100.0%	1987	Bahrain
Albaraka Türk Participation Bank **	67.7%	1985	Turkey
Albaraka Bank Limited *	22.5%	1989	South Africa
Albaraka Bank Sudan	87.8%	1984	Sudan

* At present, this bank is legally owned by Sheikh Saleh A. Kamal (Chairman of the Group) and certain family members (including nominees and agents), as trustees on behalf of the Bank. The actual transfer will take place once the regulatory and other formalities relating to the acquisition have been completed. The Group will increase its shareholding to 50% after such regulatory approvals are met.

** Formerly AlBaraka Turkish Finance House.

Notes to the Consolidated Financial Statements

31 December 2005

2. Significant Accounting Policies continued

b. Basis of consolidation continued

Banque Albaraka D' Algerie, Egyptian Saudi Finance Bank and Albaraka Bank Limited South Africa have been consolidated as the Bank exercises control over the power to govern the financial and operating policies so as to obtain benefits from their activities. Sheikh Saleh Abdullah Kamel is the chairman of the Board of Directors of Egyptian Saudi Finance Bank along with other four members representing Albaraka Banking Group. The Chief Executive Officer of the Bank is the Chairman of Albaraka Bank Limited and Banque Albaraka D'Algerie.

Company	Effective Ownership	Year of incorporation	Country of incorporation
Held through subsidiaries			
Al-Rizq Trading Company **	48.3%	1994	Jordan
Al-Omariya School Company**	50.6%	1987	Jordan
Al-Samaha Real Estate Company**	51.0%	1998	Jordan
Future Applied Computer Technology Company**	53.6%	1998	Jordan
Dar AlBaraka	50.0%	2003	Algeria
Aman Takaful Insurance	57.2%	2002	Lebanon
AlBaraka Properties (Pty) Ltd.	22.5%	1991	South Africa

** Owned indirectly through Jordan Islamic Bank.

Dar AlBaraka, Aman Takaful Insurance and AlBaraka Properties (Pty) Ltd. are indirectly owned through Banque Albaraka D'Algerie, Albaraka Bank Lebanon and AlBaraka Bank Limited respectively.

c. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with banks maturing with an original maturity of ninety days or less.

d. Sales receivables

Sales receivable consist mainly of sales transaction agreements, murabaha and international commodities stated net of deferred profits and provisions for impairment.

Sales receivable which are jointly owned by the Bank and the unrestricted investment accounts holders are classified under the caption "jointly financed" in the consolidated financial statements. Sales receivables which are financed solely by the Bank are classified under "self financed".

e. Mudaraba financing

Mudaraba financing is stated at cost less provision for impairment.

f. Musharaka financing

Musharaka financing (in which the partner's share in capital remains constant) is accounted for at cost less provision for impairment.

g. Investment properties

All properties held for rental or for capital appreciation purposes or both, are classified as investment properties. These are initially recognised at cost and subsequently re-measured at fair value with the resulting unrealised gains or losses being recognised in the consolidated statement of changes in equity under investment properties fair value reserves. Unrealised losses are recognised in equity to the extent of the available balance, taking into consideration between the portion related to owners' equity and the portion related to the equity of unrestricted investment account holders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated statement of income under unrealised re-measurement losses on investments.

Notes to the Consolidated Financial Statements

31 December 2005

2. Significant Accounting Policies continued

h. Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek are accounted for at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

i. Investment in associaites

The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influences and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and in accordance with IFRS 3, is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The Group's share of income or loss arising from the operation of the associated companies is included in the consolidated statement of income.

j. Investments

Trading securities

These are initially recognised at cost and subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated income statement.

Non-trading investments

These are classified as follows:

- Held-to-maturity
- Available-for-sale

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Held-to-maturity

Investments which have fixed or determinable payments, the Group has both the intent and ability to hold to maturity are classified as held-to-maturity. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated income statement, when the investment is de-recognised or impaired.

Available-for-sale

Subsequent to acquisition available for sale investments are re-measured at fair value. The cumulative gain on fair values (net of any losses) is reflected proportionately in owners' equity and unrestricted investment accounts. Cumulative losses are reflected in the consolidated statement of income.

In case there are unrealised losses that have been recognised in the consolidated statement of income in a previous financial period, the unrealised gains related to the current period are recognised to the extent of previous losses recognised in the consolidated statement of income. Any excess of such gains over such prior period losses is added to the cumulative changes in fair value in the consolidated statement of changes in equity.

Notes to the Consolidated Financial Statements

31 December 2005

2. Significant Accounting Policies continued

k. Fixed assets

Fixed assets are initially recognised at cost and subsequently re-measured at fair value. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated income statement as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets other than freehold land, which is deemed to have an indefinite life.

The calculation of depreciation is on the following basis:

Buildings	30 years
Office furniture and equipment	4 - 10 years
Vehicles	3 years
Leased buildings	4 - 10 years
Others	4 - 5 years

l. Unrestricted investment accounts

All unrestricted investment accounts are carried at cost plus accrued profit and related reserves. Profit equalisation reserves and investment risk reserves are made at a subsidiary level. Profit equalisation reserves are amounts appropriated by the Group out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for investment account holders and to increase owners' equity. Investment risk reserves are amounts appropriated by the Group out of the income of investment account holders, after allocating the mudarib share, in order to cater against future losses for investment account holders and is included under unrestricted investment account holders.

m. Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate. The Group accounts for its share of associates profit after accounting for corporate taxation. Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

n. Fair values

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

For sales receivable the fair value is determined at a subsidiary level at the end of the financial period at their cash equivalent value.

For land and buildings the fair value is determined every five years based on independent external valuation.

The fair values of other financial assets and liabilities on the balance sheet approximate their carrying values.

o. Shari'a supervisory board

The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of five members appointed by the general assembly.

Notes to the Consolidated Financial Statements

31 December 2005

2. Significant Accounting Policies continued

p. Zakah

The responsibility of payment of zakah is on individual shareholders of the Bank, its unrestricted investment account holders and other account holders except for few subsidiaries where the responsibility of payment of zakah is on the individual subsidiary as a single entity.

q. Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic source. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for various social welfare activities. The movements in these funds is shown in statement of sources and uses of charity fund.

r. Revenue recognition

Sales receivable

Profit from sales receivable is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income that is 90 days or more overdue is excluded from income.

Mudaraba financing

Income on mudaraba financing is recognised on distribution by the mudarib, whereas any losses are charged to income on their declaration by the mudarib.

Musharaka financing

Income is recognised on the due dates of the instalments or when received in case of sale musharaka. Income that is 90 days or more overdue is excluded from income.

Fee income

Fee and commission income on letters of credit and letters of guarantee issued are recognised as income in full when the transaction is initiated.

Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek is recognised on a time-apportioned basis over the Ijarah term.

Other income

Other income on investments is recognised when the right to receive payment is established.

Bank's share as a Mudarib

The Group's share of profit as a Mudarib for managing unrestricted investment accounts is based on the terms and conditions of related mudarib agreements.

Bank's share of restricted investment

The Group shares profit for managing restricted investment accounts based on the terms and conditions of related contracts.

s. Return on unrestricted investment accounts

Unrestricted investment accounts holders' share of income is calculated based on the income generated from joint investment accounts and after deducting other expenses. Other expenses include all expenses incurred by the Group including specific provisions. The Group's share is deducted before distributing such income.

The Group deducts an amount in excess of the profit to be distributed to unrestricted investment accounts after taking into consideration the mudarib share of income.

Notes to the Consolidated Financial Statements

31 December 2005

2. Significant Accounting Policies continued

s. Return on unrestricted investment accounts continued

Investment that are jointly owned by the Group and the unrestricted investment accounts holders are classified under the caption "jointly financed" in the consolidated financial statements. Investments that are financed solely by the Group are classified under "self financed".

t. Impairment and un-collectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the value to it of estimated cash equivalent value, is recognised in the consolidated income statement. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement.

Also, the Group maintains general provisions to reflect a potential loss that may occur as a result of currently unidentifiable risks in relation to receivables, financings or investment assets. The amount reflects estimated losses affecting these assets attributable to events that have already occurred at the date of the financial statements, and not estimated losses attributable to future events.

u. Trade and settlement date accounting

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

v. Foreign exchange contracts

Foreign exchange contracts are not permissible under the Islamic Shari'a and therefore are not used in the ordinary course of the Group business. However, due to central bank's requirements in some countries, certain branches of the Group's subsidiaries are required to enter into these contracts with central banks against foreign currencies surrendered. Income, if any, generated from such transactions is credited to a charity account.

w. Offsetting

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

x. Employees' end of sevice 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 for over the period of employment.

y. Provisions

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

z. Foreign currencies

Foreign currency transactions at the entity level

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to income statement at the entity level.

Notes to the Consolidated Financial Statements

31 December 2005

2. Significant Accounting Policies continued

z. Foreign currencies continued

Foreign currency translations

As at the reporting date, the assets and liabilities of foreign currencies are translated into the presentation currency of the Bank (US$) at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

aa. Monetary loss

These represent the purchasing power loss from the application of hyperinflationary accounting standard by a subsidiary (Albaraka Türk Participation Bank) for differences between monetary assets and monetary liabilities. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date.

bb. Judgements

Classification of investments

Management decides on acquisition of an investment whether it should be classified as trading, held to maturity or available for sale.

cc. Use of estimates in preparation of the consolidated fianncial 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. The use of estimates is used primarily to the determination of provisions for sales receivable, mudaraba financing, musharaka financing, non-trading investments, ijarah receivable and other assets.

dd. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

ee. Collateral pending sale

The Group occasionally acquires real estate in settlement of certain financing facilities. Such real estate is stated at the lower of the net realisable value of the related financing facilities and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements

31 December 2005

3. Cash and Balances with Banks

	2005 US$ 000	2004 US$ 000
Balances with central banks*	**1,156,742**	1,031,680
Balances with other banks	**587,048**	506,327
Cash	**90,874**	66,098
Others	**9,969**	22,407
	1,844,633	1,626,512

* Includes restricted amounts US$ 354 million (2004: US$ 283 million)

4. Sales Receivables

	2005			2004		
	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
International commodities murabahas	**–**	**278,650**	**278,650**	67	324,768	324,835
Other murabahas	**122,554**	**2,867,814**	**2,990,368**	69,609	2,056,040	2,125,649
Gross sales receivables	**122,554**	**3,146,464**	**3,269,018**	69,676	2,380,808	2,450,484
Provisions (note 23)	**(1,872)**	**(151,835)**	**(153,707)**	(7,090)	(121,048)	(128,138)
	120,682	**2,994,629**	**3,115,311**	62,586	2,259,760	2,322,346
Deferred profits	**(624)**	**(159,224)**	**(159,848)**	(891)	(132,520)	(133,411)
Net sales receivables	**120,058**	**2,835,405**	**2,955,463**	61,695	2,127,240	2,188,935

Sales receivables, which are non-performing as of 31 December 2005, amounted to US$ 271.4 million (2004: US$ 189.3 million).

The Group considers the promise made in the murabaha (sales receivable) to the purchase order as obligatory.

5. Mudaraba Financing

	2005			2004		
	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Gross amount	**9,693**	**158,185**	**167,878**	2,300	154,989	157,289
Provisions (note 23)	–	**(643)**	**(643)**	–	(891)	(891)
	9,693	**157,542**	**167,235**	2,300	154,098	156,398

Mudaraba financing, which are non-performing as of 31 December 2005, amounted to Nil (2004: US$ 1.1 million).

Notes to the Consolidated Financial Statements

31 December 2005

6. Musharaka Financing

	2005			2004		
	Self financed US$ 000	**Jointly financed US$ 000**	**Total US$ 000**	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Gross amount	**3,706**	**71,088**	**74,794**	4,480	66,840	71,320
Provisions (note 23)	**(115)**	**(987)**	**(1,102)**	(115)	(820)	(935)
	3,591	**70,101**	**73,692**	4,365	66,020	70,385

Musharaka financing, which are non performing as of 31 December 2005, amounted to US$ 0.5 million (2004: US$ 1.1 million).

7. Investment Properties

	2005			2004		
	Self financed US$ 000	**Jointly financed US$ 000**	**Total US$ 000**	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Cost	**1,203**	**38,556**	**39,759**	1,492	44,650	46,142
Accumulated fair value adjustments	**-**	**4,251**	**4,251**	137	-	137
	1,203	**42,807**	**44,010**	1,629	44,650	46,279

The movement is as follows:

	2005 US$ 000	2004 US$ 000
At 1 January	**46,279**	43,092
Change in fair values of investment properties	**4,114**	52
Acquisition net of disposal	**(6,383)**	3,135
	44,010	46,279

Investment properties at 31 December consist of the following:

	2005			2004		
	Self financed US$ 000	**Jointly financed US$ 000**	**Total US$ 000**	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Land	**305**	**12,277**	**12,582**	-	19,296	19,296
Buildings	**1,078**	**30,350**	**31,428**	1,629	25,354	26,983
	1,383	**42,627**	**44,010**	1,629	44,650	46,279

Notes to the Consolidated Financial Statements

31 December 2005

8. Ijarah Muntahia Bittamleek

	2005			2004		
	Self financed US$ 000	**Jointly financed US$ 000**	**Total US$ 000**	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Cost:						
Opening balance	**7,412**	**224,439**	**231,851**	7,205	347,964	355,169
Additions	**10,235**	**99,720**	**109,955**	207	110,783	110,990
Disposals	**(533)**	**(68,530)**	**(69,063)**	–	(234,308)	(234,308)
Closing balance	**17,114**	**255,629**	**272,743**	7,412	224,439	231,851
Accumulated depreciation:						
Opening balance	**4,007**	**55,685**	**59,692**	2,641	193,090	195,731
Additions	**4,714**	**90,742**	**95,456**	1,366	131,657	133,023
Disposals	**–**	**(52,872)**	**(52,872)**	–	(269,062)	(269,062)
Closing balance	**8,721**	**93,555**	**102,276**	4,007	55,685	59,692
Net book value:						
At 31 December	**8,393**	**162,074**	**170,467**	3,405	168,754	172,159

	Properties US$ 000	Equipment US$ 000	Others US$ 000	2005 US$ 000
Cost:				
At 1 January	77,127	144,686	10,038	231,851
Additions	33,842	70,662	5,451	109,955
Disposals	(38,626)	(29,191)	(1,246)	(69,063)
At 31 December	72,343	186,157	14,243	272,743
Depreciation:				
At 1 January	31,535	26,251	1,906	59,692
Provided during the year	20,504	73,417	1,535	95,456
Disposals	(26,458)	(26,374)	(40)	(52,872)
At 31 December	25,581	73,294	3,401	102,276
Net book value:				
At 31 December	**46,762**	**112,863**	**10,842**	**170,467**

Notes to the Consolidated Financial Statements

31 December 2005

9. Investment in Associates

Investments in associates comprise the following:

	Carrying value 2005 US$ 000	Ownership % 2005	Country of incorporation	2005 Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Market Value US$ 000
Quoted							
Real Estate							
Real Estate Investment Company	**3,007**	**25.0**	Jordan	**-**	**3,007**	**3,007**	**4,972**
Investment Banking							
AlAmin Investment Company	**6,493**	**32.2**	Jordan	**-**	**6,493**	**6,493**	**16,824**
Insurance							
Islamic Insurance Company	**2,291**	**35.3**	Jordan	**-**	**2,291**	**2,291**	**5,713**
Others							
Jordan Centre for International Trade Company	**2,361**	**40.8**	Jordan	**-**	**2,361**	**2,361**	**3,013**
	14,152			**-**	**14,152**	**14,152**	**30,522**
Unquoted							
Real Estate							
Baraka Development Immobile	**924**	**20.0**	Algeria	**924**	**-**	**924**	
Egyptian Saudi Finance Real Estate	**435**	**40.0**	Egypt	**-**	**435**	**435**	
Leasing							
BEST Lease	**2,130**	**34.8**	Tunis	**2,130**	**-**	**2,130**	
Investment Banking							
AlTawfeek Company for Investment Funds Limited	**92,520**	**13.6**	Cayman Islands	**92,520**	**-**	**92,520**	
Insurance							
BEST Reinsurance	**15,047**	**21.8**	Tunis	**15,047**	**-**	**15,047**	
	111,056			**110,621**	**435**	**111,056**	
Total investment in associates	**125,208**			**110,621**	**14,587**	**125,208**	

Al Tawfeek Company for Investment Funds Limited has been accounted for under equity method as the Group exercises significant influence over it. The significant influence is demonstrated through its 100% ownership of Al-Amin Bank which owns 13.6% of Al Twafeeq Company for Investment Funds Limited. The management of Al-Amin believes that, in view of common shareholders and directors of Al-Amin Bank E.C., it exercises significant influence over Al Tawafeeq Company for Investment Funds Limited.

Notes to the Consolidated Financial Statements

31 December 2005

9. Investment in Associates continued

	Carrying value 2004 US$ 000	Ownership % 2004	Country of incorporation	2004 Self financed US$ 000	2004 Jointly financed US$ 000	2004 Total US$ 000	2004 Market Value US$ 000
Quoted							
Real Estate							
Real Estate Investment Company	5,618	46.7	Jordan	–	5,618	5,618	5,825
Investment Banking							
AlAmin Investment Company	7,844	38.9	Jordan	–	7,844	7,844	12,639
Insurance							
Islamic Insurance Company	1,723	35.3	Jordan	–	1,723	1,723	3,448
Others							
Jordan Centre for International Trade Company	2,361	40.8	Jordan	–	2,361	2,361	2,211
Jordanian Pharmacy Manufacturing Company Limited	8,084	21.3	Jordan	–	8,084	8,084	16,348
	25,630			–	25,630	25,630	40,471
Unquoted							
Real Estate							
Baraka Development Immobile	689	20.0	Algeria	689	–	689	
Egyptian Saudi Finance Real Estate	410	40.0	Egypt	–	410	410	
Leasing							
BEST Lease	2,084	34.8	Tunis	2,084	–	2,084	
Investment Banking							
AlTawfeek Company for Investment Funds Limited	71,099	13.6	Cayman Islands	71,099	–	71,099	
Insurance							
BEST Reinsurance	13,798	21.8	Tunis	13,798	–	13,798	
AlBaraka AlAmane Assurance Algeria	1,508	20.0	Algeria	1,508	–	1,508	
Others							
Cemedene Trading (Proprietary) Limited	162	50.0	South Africa	–	162	162	
	89,750			89,178	572	89,750	
Total investment in associates	115,380			89,178	26,202	115,380	

Cemedene Trading (Proprietary) Limited has not been consolidated as the Group does not have the ability to exercise control.

Notes to the Consolidated Financial Statements

31 December 2005

10. Investments

i) Trading securities

	2005			2004		
	Self financed US$ 000	**Jointly financed US$ 000**	**Total US$ 000**	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Quoted equities	**1,606**	**1,065**	**2,671**	–	1,250	1,250

Non-trading investments

ii) Available-for-sale investments

	2005			2004		
	Self financed US$ 000	**Jointly financed US$ 000**	**Total US$ 000**	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Quoted investments						
Managed funds	**2,766**	**19,157**	**21,923**	2,074	6,062	8,136
Equities	**4,459**	**49,558**	**54,017**	4,785	192,861	197,646
	7,225	**68,715**	**75,940**	6,859	198,923	205,782
Unquoted investments at cost						
Managed funds	**–**	**15,447**	**15,447**	–	1,000	1,000
Equities	**31,049**	**27,102**	**58,151**	939	47,503	48,442
	31,049	**42,549**	**73,598**	939	48,503	49,442
Provisions (note 23)	**(4,846)**	**(1,089)**	**(5,935)**	(5,004)	(1,313)	(6,317)
	33,428	**110,175**	**143,603**	2,794	246,113	248,907

iii) Held to maturity investments

	2005			2004		
	Self financed US$ 000	**Jointly financed US$ 000**	**Total US$ 000**	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Investments at cost						
Sukook and similar items	**11,193**	**427,547**	**438,740**	9,530	142,240	151,770
	11,193	**427,547**	**438,740**	9,530	142,240	151,770
Total investments	**46,227**	**538,787**	**585,014**	12,324	389,603	401,927

Notes to the Consolidated Financial Statements

31 December 2005

11. Ijarah Receivables

	2005			2004		
	Self financed US$ 000	**Jointly financed US$ 000**	**Total US$ 000**	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Gross amount	**5,498**	**15,865**	**21,363**	6,165	9,600	15,765
Provisions (note 23)	**(1,043)**	**(41)**	**(1,084)**	(1,163)	(18)	(1,181)
	4,455	**15,824**	**20,279**	5,002	9,582	14,584

Ijarah receivables, which are non-performing as of 31 December 2005, amounted to US$ nil (2004: US$ 0.224 million).

12. Fixed Assets

	Land and buildings US$ 000	Office furniture and equipment US$ 000	Vehicles US$ 000	Others US$ 000	Total US$ 000
Cost:					
At 1 January 2005	102,792	59,942	6,844	13,738	183,316
Acquisition through subsidiary (note 35)	11,679	2,306	505	–	14,490
Additions	5,195	9,251	1,349	1,121	16,916
Disposals	(11,523)	(502)	(333)	(504)	(12,862)
Transfers/others	8,646	2,128	(1,648)	(7,008)	2,118
At 31 December 2005	116,789	73,125	6,717	7,347	203,978
Depreciation:					
At 1 January 2005	23,021	41,635	4,236	2,551	71,443
Acquisition through subsidiary (note 35)	44	904	259	–	1,207
Provided during the year	5,072	7,134	873	719	13,798
Disposals	(1,062)	(284)	(289)	–	(1,635)
Transfers/others	1,382	2,661	(863)	630	3,810
At 31 December 2005	28,457	52,050	4,216	3,900	88,623
Net book values:					
At 31 December 2005	**88,332**	**21,075**	**2,501**	**3,447**	**115,355**
At 31 December 2004	79,771	18,307	2,608	11,187	111,873

Notes to the Consolidated Financial Statements

31 December 2005

13. Other Assets

	2005 US$ 000	2004 US$ 000
Goodwill *	**40,000**	40,000
Bills receivable	**39,821**	43,698
Collateral pending sale	**26,098**	22,919
Receivables	**16,280**	10,542
Deferred tax	**10,792**	1,604
Good Faith Qard Fund	**8,622**	6,725
Istisna financing	**6,585**	2,156
Others	**29,854**	28,226
Total	**178,052**	155,870
Provisions (note 23)	**(3,065)**	(3,583)
	174,987	152,287

* It has been allocated to Albaraka Türk Participation Bank as a cash generating unit as management views the whole Bank as one unit.

14. Other Liabilities

	2005 US$ 000	2004 US$ 000
Cash margins	**45,425**	68,642
Bills payable	**73,537**	43,926
Payables	**24,949**	13,460
Other provisions (note 23)	**13,497**	19,026
Current and deferred taxation	**15,508**	6,737
Accrued expenses	**15,044**	13,628
Charity fund	**2,553**	1,768
Others	**26,303**	42,457
	216,816	209,644

15. Unrestricted Investment Accounts

	2005 US$ 000	2004 US$ 000
Unrestricted investment accounts	**3,986,725**	3,330,200
Profit equalisation and investment risk reserve (note 15.1)	**1,270**	169
Cumulative changes in fair value attributable to unrestricted investment accounts	**7,375**	2,690
	3,995,370	3,333,059

Notes to the Consolidated Financial Statements

31 December 2005

15. Unrestricted Investment Accounts continued

15.1 Movement in profit equalization and investment risk reserve

	2005 US$ 000	2004 US$ 000
Balance at 1 January	**169**	11,368
Amount apportioned from income allocable to unrestricted investment account holders	**1,101**	(11,199)
Balance at 31 December	**1,270**	169

16. Equity

	2005 US$ 000	2004 US$ 000
Share capital		
Authorised 1,500,000,000 ordinary shares of US$ 1 each	**1,500,000**	1,500,000
Issued and fully paid		
61,346,609 ordinary shares of US$ 1 each issued against cash (2004: 20,000,000)	**61,347**	20,000
326,651,416 ordinary shares of US$ 1 each issued in kind* (2004: 305,307,211)	**326,651**	305,307
	387,998	325,307

*The increase during the year is due to the following:

The acquistion of Albaraka bank Sudan through the issue of shares at an amount of US$ 17.58 million.

Also the Bank increased its share capital in Egyptian Saudi Finance Bank through the issue of shares at an amount of US$ 3.76 million.

Statutory reserve
In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the period is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital.

Cumulative changes in fair values
This represents the net unrealised gains on available-for-sale investments.

Foreign currency reserve
The foreign currency reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Investment properties fair value reserves
This represents the net unrealised gain on revaluation of investment properties. This reserve is transferred to the consolidated statement of income upon sale of the investment properties.

Other reserves
Other reserves mainly consist of general banking risk reserves maintained by the subsidiaries in accordance with local regulations.

Notes to the Consolidated Financial Statements

31 December 2005

17. Net Income from Jointly and Self Financd Contracts and Investments

	2005 US$ 000	2004 US$ 000
Income from sales contracts	**268,942**	170,979
Ijarah Muntahia Bittamleek	**109,095**	131,111
Income from investments	**54,031**	61,552
Income from associates	**43,489**	20,022
Mudaraba financing	**11,020**	7,928
Income from Musharaka	**5,849**	3,698
Income from investment properties	**1,544**	77
Trading securities	**1,031**	5,603
Others	**10,917**	2,149
	505,918	403,119
Net income from jointly financed contracts and investments	**372,917**	251,345
Net income from self financed contracts and investments	**133,001**	151,774
	505,918	403,119

18. Return on Unrestricted Investment Accounts

Bank's share as a Mudarib is determined at the level of each subsidiary and is based on the terms and conditions of the related agreements.

19. Other Fees and Commission Income

	2005 US$ 000	2004 US$ 000
Fees and commissions	**51,261**	29,757
Letters of credit	**14,443**	12,725
Guarantees	**4,129**	2,449
Acceptances	**1,720**	875
	71,553	45,806

20. Other Operating Income

	2005 US$ 000	2004 US$ 000
Foreign exchange gain	**5,420**	10,435
Gain on sale of fixed assets	**4,266**	4,581
Others	**13,260**	15,820
	22,946	30,836

Notes to the Consolidated Financial Statements

31 December 2005

21. Depreciation and Amortisation

	2005 US$ 000	2004 US$ 000
Ijarah Muntahia Bittamleek (note 8)	**95,456**	133,023
Fixed assets (note 12)	**13,798**	11,286
Amortisation	**1,037**	1,076
	110,291	145,385

22. Operating Expenses

	2005 US$ 000	2004 US$ 000
General and administration	**46,046**	34,912
Business	**11,668**	3,516
Premises	**4,354**	3,015
	62,068	41,443

23. Provisions

2005	Sales receivables US$ 000	Mudaraba financing US$ 000	Musharaka financing US$ 000	Investments US$ 000	Ijarah receivables US$ 000	Other assets US$ 000	Other provisions US$ 000	Total US$ 000
Provisions at beginning of the year	**128,138**	**891**	**940**	**6,317**	**1,181**	**3,578**	**19,026**	**160,071**
Acquisition through subsidiary (note 35)	**1,447**	**–**	**442**	**–**	**–**	**253**	**–**	**2,142**
Charged during the year	**42,453**	**–**	**21**	**268**	**609**	**2,577**	**6,601**	**52,529**
Written back during the year	**(13,039)**	**(248)**	**(495)**	**(21)**	**(705)**	**(4,627)**	**(1,164)**	**(20,299)**
	29,414	**(248)**	**(474)**	**247**	**(96)**	**(2,050)**	**5,437**	**32,230**
	158,999	**643**	**908**	**6,564**	**1,085**	**1,781**	**24,463**	**194,443**
Written off during the year	**(5,292)**	**–**	**–**	**(629)**	**–**	**–**	**(10,966)**	**(16,887)**
Other adjustments	**–**	**–**	**194**	**–**	**(1)**	**1,284**	**–**	**1,477**
Provisions at end of the year	**153,707**	**643**	**1,102**	**5,935**	**1,084**	**3,065**	**13,497**	**179,033**
Notes	**4**	**5**	**6**	**10**	**11**	**13**	**14**	

Notes to the Consolidated Financial Statements

31 December 2005

23. Provisions continued

2004	Sales receivables US$ 000	Mudaraba financing US$ 000	Musharaka financing US$ 000	Investments US$ 000	Ijarah receivables US$ 000	Other assets US$ 000	Other provisions US$ 000	Total US$ 000
Provisions at beginning of the year	139,928	2,029	283	10,686	1,123	3,505	7,959	165,513
Charged during the year	20,438	–	236	366	58	169	31,627	52,894
Written back during the year	(26,889)	(203)	–	(4,735)	–	(91)	–	(31,918)
	(6,451)	(203)	236	(4,369)	58	78	31,627	20,976
	133,477	1,826	519	6,317	1,181	3,583	39,586	186,489
Written off during the year	(5,339)	(935)	(224)	–	–	–	(20,560)	(27,058)
Other adjustments	–	–	640	–	–	–	–	640
Provisions at end of the year	128,138	891	935	6,317	1,181	3,583	19,026	160,071
Notes	4	5	6	10	11	13	14	

24. Cash and Cash Equivalents

	2005 US$ 000	2004 US$ 000
Balances with central banks excluding mandatory reserve	**802,677**	748,251
Balances with other banks	**587,048**	506,327
Cash in hand	**90,874**	66,098
Others	**9,969**	22,407
	1,490,568	1,343,083

25. Related Party Transactions

Related parties comprise major shareholders, directors of the Group, close members of their families, entities owned or controlled by them and companies affiliated by virtue of shareholding in common with that of the Group.

The income and expenses in respect of related parties are as follows:

	2005 US$ 000	2004 US$ 000
Net income from self financed financing and investments	**39,474**	13,663
Income from sales receivable	**8,632**	1,296
Return on unrestricted investments	**335**	215
Net income from jointly financed contracts and investments	**166**	11,909
Other operating income	**3**	–

Notes to the Consolidated Financial Statements

31 December 2005

25. Related Party Transactions continued

The significant balances with related parties at 31 December were as follows:

	2005 US$ 000	2004 US$ 000
Assets:		
Mudaraba financing	**128,261**	85,416
Investment in associates	**96,767**	76,116
Sales receivable	**10,273**	17,246
Ijarah Muntahia Bittamleek	**11,629**	9,141
Cash and balances with banks	**28**	855
Liabilities:		
Customer current and other accounts	**7,087**	1,130
Other liabilities	**446**	1,880
Unrestricted investment accounts	**24,196**	25,973

All related party exposures are performing and are free of any provision for possible credit losses.

Dallah Albaraka Holding Company E.C., a major shareholder of the Group, invested in the shareholding of Egyptian Saudi Finance Bank, through a capital injection of US$ 23.39 million in exchange of 19.33 million ordinary shares at par. These shares are held in the name of the Bank for the beneficial interest and risk of Dallah AlBaraka Holding Company E.C.

In addition, the Group acquired Al Baraka Bank Sudan from the shareholder of the Bank on 1 January 2005 (Note 35)

26. Credit Related Commitments

	2005 US$ 000	2004 US$ 000
Letters of credit	**255,414**	97,394
Guarantees	**232,116**	128,607
Acceptances	**38,372**	32,150
Others	**31,890**	239,357
	557,792	497,508

27. Credit Risk and Concentration of Assets, Liabilities and Off-Balance Sheet Items

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and causes the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty and in certain cases mortgage of the object.

Type of credit risk

Financing contracts mainly comprise sales receivables, mudaraba financing and musharaka financing.

Notes to the Consolidated Financial Statements

31 December 2005

27. Credit Risk and Concentration of Assets, Liabilities and Off-Balance Sheet Items continued

Sales receivables

The Group finances these transactions through buying a commodity which represents the object of the murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in installments by the murabaha over the agreed period. The transactions are secured at times by the object of the murabaha (in case of real estate finance) and other times by a total collateral package securing the facilities given to the client.

Mudaraba financing

The Group enters into mudaraba contracts by investing in funds operated by other banks and financial institutions for a definite period of time.

Musharaka financing

An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

28. Concentrations

Concentrations arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular geographic location.

The distribution of assets, liabilities, and off-balance sheet items by geographic region was as follows:

	2005				2004			
	Assets US$ 000	**Liabilities US$ 000**	**Unrestricted investment accounts US$ 000**	**Retsricted investment accounts US$ 000**	Assets US$ 000	Liabilities US$ 000	Unrestricted investment accounts US$ 000	Retsricted investment accounts US$ 000
Geographic region:								
Domestic (Bahrain)	**301,566**	**10,361**	**89,694**	**215,641**	274,689	23,334	165,438	22,413
Other Middle East	**3,135,486**	**777,474**	**2,275,034**	**146,544**	2,400,605	631,828	1,857,795	277,833
Europe	**1,628,020**	**295,179**	**1,025,237**	**41,011**	1,293,593	199,563	732,853	11,501
Asia	**263,836**	**54,894**	**164,095**	**–**	198,009	62,090	124,582	–
Africa	**897,085**	**373,486**	**441,251**	**1,083**	693,418	239,788	393,021	–
Others	**50,350**	**2,446**	**59**	**2,312**	196,405	1,129	59,370	2,340
	6,276,343	**1,513,840**	**3,995,370**	**406,591**	5,056,719	1,157,732	3,333,059	314,087

Notes to the Consolidated Financial Statements

31 December 2005

28. Concentrations continued

The distribution of operating income, net operating income and net income by geographic region was as follows:

	2005			2004		
	Total operating income US$ 000	**Net operating income US$ 000**	**Net income attributable to the holders of the parent US$ 000**	Total operating income US$ 000	Net operating income US$ 000	Net income attributable to the holders of the parent US$ 000
Geographic region:						
Domestic (Bahrain)	**72,648**	**17,607**	**8,527**	20,506	6,071	5,969
Other Middle East	**84,926**	**34,355**	**27,723**	75,965	16,656	11,629
Europe	**153,617**	**32,319**	**23,523**	178,403	16,500	12,165
Asia	**15,624**	**5,525**	**4,822**	8,184	3,084	2,416
Africa	**66,225**	**24,281**	**14,611**	37,367	18,387	4,475
Others	**166**	**166**	**166**	191	191	191
	393,206	**114,253**	**79,372**	320,616	60,889	36,845

29. Market Risk

Market risk arises from fluctuations in profit rates, foreign exchange rates and equity prices. The respective management of the subsidiaries have set limits on the level of risk that may be accepted. This is monitored by the local management of the Group entities.

30. Profit Rate Risk

The Group has minimal risk to changes in profit share arising from the possibility that changes in profit shares will affect the value of the financial instruments that mature or reprice in a given period.

This is due to the fact that the majority of funding is by investment account holders. The return payable to investment account holders is based on the principle of the Mudaraba contract by which the investment account holders agree to share the profit or loss made.

Notes to the Consolidated Financial Statements

31 December 2005

31. Currency Risk

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	2005 US$ 000 equivalent long (short)	2004 US$ 000 equivalent long (short)
Jordanian Dinar	**136,815**	(107,893)
Turkish Lira	**53,287**	(8,491)
Egyptian Pound	**33,001**	(50,285)
Sudanese Dinar	**20,520**	–
Bahraini Dinar	**19,423**	17,818
Algerian Dinar	**18,417**	–
Lebanese Pound	**15,919**	(7,084)
Saudi Riyal	**4,071**	8,737
Pound Sterling	**715**	3,045
Tunisia Dinar	**138**	1,676
Euro	**(1,016)**	16,769
Others	**3,119**	–

32. Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis.

The table below summarises the maturity profile of the bank's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of bank lines.

Notes to the Consolidated Financial Statements

31 December 2005

32. Liquidity Risk continued

The maturity profile of assets and liabilities at 31 December 2005 was as follows:

	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	Total US$ 000
ASSETS							
Cash and balances with banks	1,669,446	54,317	62,173	25,094	103	33,500	1,844,633
Sales receivable	471,451	524,763	474,536	494,682	683,463	306,568	2,955,463
Mudaraba financing	4,781	56,039	23,409	29,362	30,658	22,986	167,235
Musharaka financing	6,027	7,604	9,944	9,822	22,864	17,431	73,692
Investment properties	–	–	–	–	–	44,010	44,010
Ijarah Muntahia Bittamleek	6,860	13,559	16,056	32,562	82,177	19,253	170,467
Investment in associates	–	–	–	–	–	125,208	125,208
Investments	136,588	161,353	60,217	108,567	90,050	28,239	585,014
Ijarah receivables	5,855	3,897	685	4,201	3,876	1,765	20,279
Fixed assets	21,912	–	655	–	–	92,788	115,355
Other assets	85,287	11,333	3,278	4,432	24,479	46,178	174,987
Total assets	2,408,207	832,865	650,953	708,722	937,670	737,926	6,276,343
LIABILITIES							
Customer current and other accounts	924,020	100,903	152,076	8,593	–	–	1,185,592
Due to banks	85,705	14,765	10,959	–	–	3	111,432
Other liabilities	84,247	12,459	37,136	19,904	57,713	5,357	216,816
Total Liabilities	1,093,972	128,127	200,171	28,497	57,713	5,360	1,513,840
Unrestricted investment accounts	2,036,265	657,780	534,576	312,103	365,669	88,977	3,995,370
Total liabilities and unrestricted investment accounts	3,130,237	785,907	734,747	340,600	423,382	94,337	5,509,210
Net liquidity gap	(722,030)	46,958	(83,794)	368,122	514,288	643,589	767,133

Notes to the Consolidated Financial Statements

31 December 2005

32. Liquidity Risk continued

The maturity profile of assets and liabilities at 31 December 2004 was as follows:

	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	Total US$ 000
ASSETS							
Cash and balances with banks	1,432,896	160,506	1,500	1,214	3,688	26,708	1,626,512
Sales receivable	289,938	337,165	353,179	383,648	489,018	335,987	2,188,935
Mudaraba financing	2,952	65,152	20	1,803	71,908	14,563	156,398
Musharaka financing	13,774	5,828	5,887	7,358	25,658	11,880	70,385
Investment properties	–	–	–	–	–	46,279	46,279
Ijarah Muntahia Bittamleek	24,021	16,042	23,833	16,576	63,653	28,034	172,159
Investment in associates	1,012	–	–	40,097	–	74,271	115,380
Investments	12,508	16,932	73,806	70,582	82,416	145,683	401,927
Ijarah receivables	1,426	8,662	1,199	2,209	276	812	14,584
Fixed assets	6,913	–	–	–	–	104,960	111,873
Other assets	78,338	1,619	37,013	966	23,877	10,474	152,287
Total assets	1,863,778	611,906	496,437	524,453	760,494	799,651	5,056,719
LIABILITIES							
Customer current and other accounts	884,647	5,784	–	20,127	–	–	910,558
Due to banks	–	15,214	22,316	–	–	–	37,530
Other liabilities	50,302	26,036	59,836	15,885	15,587	41,998	209,644
Total Liabilities	934,949	47,034	82,152	36,012	15,587	41,998	1,157,732
Unrestricted investment accounts	1,407,847	728,975	328,964	528,667	278,135	60,471	3,333,059
Total liabilities and unrestricted investment accounts	2,342,796	776,009	411,116	564,679	293,722	102,469	4,490,791
Net liquidity gap	(479,018)	(164,103)	85,321	(40,226)	466,772	697,182	565,928

33. Equity Price Risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

34. Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

Included under non trading investments are unquoted available for sale investments amount to US$ 73.6 million (2004: US$ 49.4 million) which are carried at cost due to lack of other reliable methods for arriving at a reliable fair value for these investments.

Notes to the Consolidated Financial Statements

31 December 2005

34. Fair Value of Financial Instruments continued

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the financial statement.

35. Business Combination

Acquisition of Albaraka Bank-Sudan

On 1 January 2005, the Group acquired 86.2 % of the voting shares of Albaraka Bank-Sudan, (from a related party at the fair value of net assets), an unlisted company based in Khartoum specialising in providing islamic products.

The fair value of the identifiable assets and liabilities of Albaraka Bank-Sudan as at the date of acquisition were:

	Recognised on acquisition US$ 000
ASSETS	
Cash and balances with Central Bank and other banks	**36,343**
Sales receivable	**26,762**
Investments	**20,300**
Fixed assets	**13,283**
Other assets	**13,206**
Musharaka financing	**5,700**
	115,594
LIABILITIES	
Customers' current and other accounts	**67,223**
Other liabilities	**21,700**
Unrestricted investment accounts	**5,774**
Due to banks and financial institutions	**500**
	95,197
Fair value of net assets for 100% shares	**20,397**
The Group's share for 86.20%	**17,584**

	US$ 000
Cash inflow on acquisition:	
Net cash acquired with the subsidiary	**36,343**
Cash paid	**-**
Net cash inflow	**36,343**

Notes to the Consolidated Financial Statements

31 December 2005

35. Business Combination continued

The total cost of the combination was US$ 17,583,786 for 86.2% of the voting and comprised an issue of equity instruments. The Group issued 17,583,786 ordinary shares with par value of US$ 1 each.

	US$ 000
Cost:	
Shares issued, at fair value	**17,584**

From the date of acquisition, Albaraka Bank Sudan has contributed US$ 3.2 million to the net income of the Group.

36. Social Responsibility

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

37. Comparatives

Corresponding figures for 2004 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported net profit, equity and cash flows.

38. Subsequent Event

The Bank is planning to convert Albaraka Banking Group to a public joint stock company to be followed by an IPO. In its extraordinary general meeting held on 16 November 2005 the General Assembly approved the conversion. The Bank intends to capitalise all of its reserves and retained earnings by way of a bonus issue prior to the IPO.

ABG Directory

ABG Contact Directory

Albaraka Banking Group

Adnan A. Yousif
Chief Executive Officer
Tel: +973 17533051 / +973 17541122
Fax: +973 17530147
email: adnanyousif@barakaonline.com

Othman A. Sulieman
Deputy General Manager
Tel: +973 17520720 / +973 17541122
email: othman@barakaonline.com

K.Krishnamoorthy
Head of Financial Control
Tel: +973 17520700 / +973 17541122
email:
kkrishnamoorthy@barakaonline.com

Majeed H. Alawi
Head of Internal Audit
Tel: +973 17520707 / +973 17541122
email: majeed@barakaonline.com

Dr. Ahmad Mohyedeen
Head of Research and Development
Tel: +9662 6710000 Ext 3382
Fax: +9662 6171016
email: f.ali@albaraka.com

Mr. Abdulrahman Shehab
Head of Operations
Tel: +973 17541122

AlBaraka Banking Group (ABG)
AlBaraka Tower, Diplomatic Area,
PO Box 1882, Manama, Kingdom of Bahrain
Tel: +973 17541122
Fax: +973 17536533

www.abg.bh

Jordan Islamic Bank
Jordan Islamic Bank was the first Islamic bank to be established in Jordan, in 1978. Its activities comprise retail, commercial and investment banking. Jordan Islamic Bank has a total of 66 branches and offices. The contact details of the bank are:

Mr. Musa A. Shihadeh
Vice Chairman & General Manager
Jordan Islamic Bank
P.O. Box 926225, Amman, Jordan
Tel: +9626 567 7377
Fax: +9626 566 6326
Website: www.islamicbank.com.jo

Al Amin Bank E.C.
Al Amin Bank was incorporated in 1987 and functions under an Islamic investment banking licence issued by the Bahrain Monetary Agency. The Bank's activities comprise of Islamic investment banking and fund management. The contact details of the bank are:

Mr. Mohamed Isa Mutaweh
General Manager and Board Member
Al Amin Bank E.C.
AlBaraka Tower, P.O. Box 3190
Manama, Kingdom of Bahrain
Tel: +973 17 540 000
Fax: +973 17 537 551
Website: www.alaminbank.com

AlBaraka Islamic Bank
AlBaraka Islamic Bank was incorporated in Bahrain in February 1984 and operates as an off-shore and commercial Islamic bank. It obtained a commercial banking licence in Pakistan in 1991. The activities of the bank are retail, commercial and investment banking. The bank operates 12 branches in Bahrain and Pakistan. The contact details of the bank are:

Mr. Salah Ahmed Zainalabedin
General Manager
AlBaraka Islamic Bank
AlBaraka Tower, P.O. Box 1882
Manama, Kingdom of Bahrain
Tel: +973 17 535 300
Fax: +973 17 530 695
Website: www.barakaonline.com

Mr. Shafqaat Ahmed
Regional General Manager
& Country Head
Al Baraka Islamic Bank, Pakistan
PICIC House
14, Shahrah'e Aiwan'e Tajarati
P.O. Box 1686, Lahore 54000, Pakistan
Tel: +92-42-6309961
Fax: +92-42-6309965

Banque Albaraka D'Algerie
Banque AlBaraka D' Algerie was incorporated in May 1991 as an Islamic Bank and operates under a commercial banking licence issued by the Bank of Algeria. The main activities of the bank are retail and commercial banking. The Bank operates 11 branches. The contact details of the bank are:

Mr. Mohammed Seddik Hafid
Board Member & General Manager
Banque AlBaraka D'Algerie
32, rue des Freres Djillali
Birkhadem, Algiers, Algeria
Tel: +21321 916 450-5
Fax: +21321 916 457 / 8
Website: www.albaraka-bank.com

AlBaraka Bank Sudan
AlBaraka Bank Sudan was established in 1984 and its activities comprise retail, commercial and investment banking. The bank operates 23 branches. The contact details of the bank are:

Mr. Abdulla Khairy Hamid
General Manager
AlBaraka Bank Sudan
AlBaraka Tower
P.O. Box 3583, Khartoum, Sudan
Tel: +249183 780 688
Fax: +249183 788 585
Website: www.albarakasudan.com

AlBaraka Bank Ltd
AlBaraka Bank Ltd was established in 1989 and operates as a commercial Islamic bank. The bank has 5 branches. The contact details of the bank are:

Mr. Shabir Chohan
Chief Executive Officer
AlBaraka Bank Ltd.
1st Floor, 134, Commercial Road
Durban 4001, South Africa
Tel: +2731 366 2800
Fax: +2731 305 2631
Website: www.albaraka.co.za

AlBaraka Bank Lebanon
AlBaraka bank Lebanon was established in 1992 and operates under a commercial banking licence. Its activities comprise retail and commercial banking. The bank operates 5 branches. The contact details of the bank are:

Mr. Mutasim Mahmassani
General Manager
AlBaraka Bank Lebanon
Rashid Karameh Street
Verdun 2000 Centre, Beirut, Lebanon
Tel: +9611 808008
Fax: +9611 806499
Website: www.al-baraka.com

Bank Et-Tamweel Al-Tunisi Al-Saudi
Bank Et-Tamweel Al-Tunisi Al-Saudi was established in 1983. The bank has both off-shore and local retail activities The bank operates 6 branches. The contact details of the bank are:

Mr. Essa Al-Haidosi
Vice Chairman & General Manager
Bank Et-Tamweel Al-Tunisi Al-Saudi
88, Avenue Hedi Chaker 1002
Tunis, Tunisia
Tel: +21671 790000
Fax: +21671 780235

The Egyptian Saudi Finance bank
The Egyptian Saudi Finance bank was incorporated in 1980 and its activities consist of retail and commercial banking. The bank operates 15 branches and several offices. The contact details of the bank are:

Mr. Ashraf Al Ghamrawi
Managing Director
The Egyptian Saudi Finance Bank
60, Mohie Elddin Abu ElEzz Street
P.O. Box 455 Dokki, Cairo, Egypt
Tel: +202 748 1222
Fax: +202 761 1436/7
Website: www.esf-bank.com

AlBaraka Turk Participation Bank
AlBaraka Turk Participation Bank was established in 1984. The bank's activities consist of retail and commercial banking. The bank operates 43 branches. The contact details of the bank are:

Mr. Adnan Buyukdeniz
General Manager and Board Member
AlBaraka Turk Participation Bank
Buyukdere Cad No.78
80290 Mecidiyekoy, Istanbul, Turkey
Tel: +90 212 274 9900
Fax: +90 212 272 4470
Website: www.albarakaturk.com.tr