albaraka banking group

Annual Report 2004

Strategy, Strength and Vision

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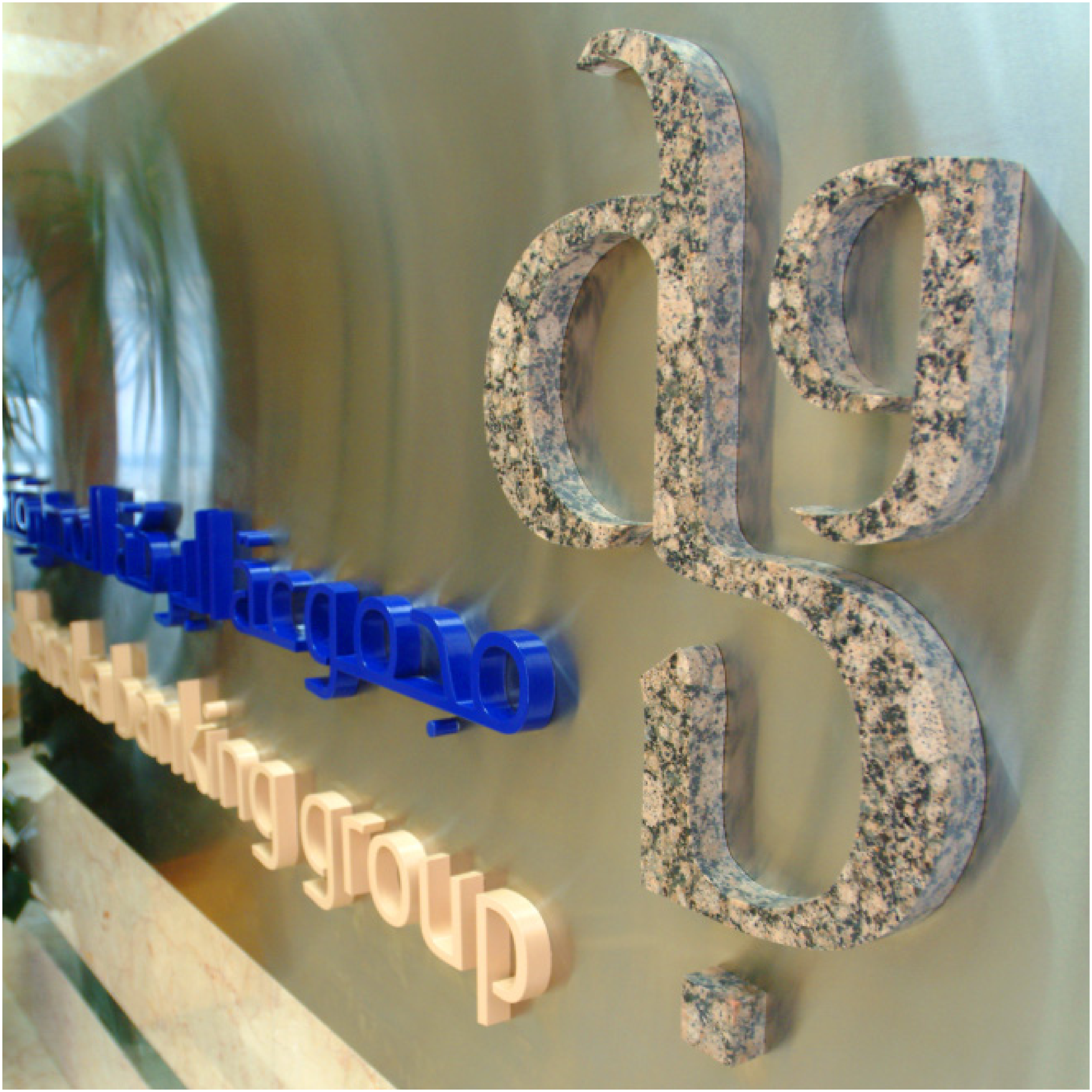

banking group

The Mission of ABG

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.

ABG's Strategic Objectives

To consolidate the diverse banks in the Group in order to pursue a uniform Group strategy in their respective countries, whilst retaining their individual identities.

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
36,845

Total Assets
5,056,719

Total Equity
422,033

	Year to 31 December 2004	27 June 2002 to 31 December 2003
Earnings (US$ millions)		
Operating Income	**320.6**	273.5
Operating Expenses	**260.5**	232.4
Net Income	**36.8**	27.3
Earnings per Share (US$)	**0.11**	0.08
Financial Position (US$ millions)		
Total Assets	**5,056.7**	4,116.5
Total Equity	**422.0**	373.3
Total Liabilities	**1,157.7**	945.1
Customer current and other accounts	**910.6**	736.5
Unrestricted Investment Accounts	**3,333.1**	2,680.9
Ratios (%)		
Profitability		
Net Income as % of Average Equity	**9.27**	7.31
Net Income as % of Paid-In Capital	**11.33**	8.39
Net Income as % of Average Assets	**0.80**	0.66
Capital		
Average Shareholders' Funds as % of Average Total Assets	**8.67**	9.07
Total Financing and Investments as a multiple of Equity (times)	**7.50**	6.87
Asset Quality		
Net Asset Value per Share (US$)	**1.30**	1.15
Liquidity		
Ratio of Liquid Assets to Total Customers' Accounts	**1.75**	2.45
Ratio of Liquid Assets to Total Liabilities	**1.38**	1.91
Ratio of Liquid Assets to Total Liabilities + Unrestricted Investment Accounts	**0.35**	0.50
Other		
Number of Employees	**3,844**	3,233
Total number of branches	**150**	133

CAPITALISATION AND PRINCIPAL SHAREHOLDERS

	Year to 31 December 2004	27 June 2002 to 31 December 2003
Capitalisation (US$ thousands)		
Authorised	**1,500,000**	1,500,000
Subscribed and fully paid up	**325,307**	325,307
Principal Shareholders		
Shaikh Saleh Abdullah Kamel	**55%**	55%
Dallah Al Baraka Holding Company (E.C.)	**45%**	45%

Registered Address
P.O. Box 1882, Manama, Kingdom of Bahrain

All Figures in US$ Millions as applicable

Total Assets

Total Equity

Customer Current and Other Accounts

Unrestricted Investment Accounts

Net Income

Operating Income

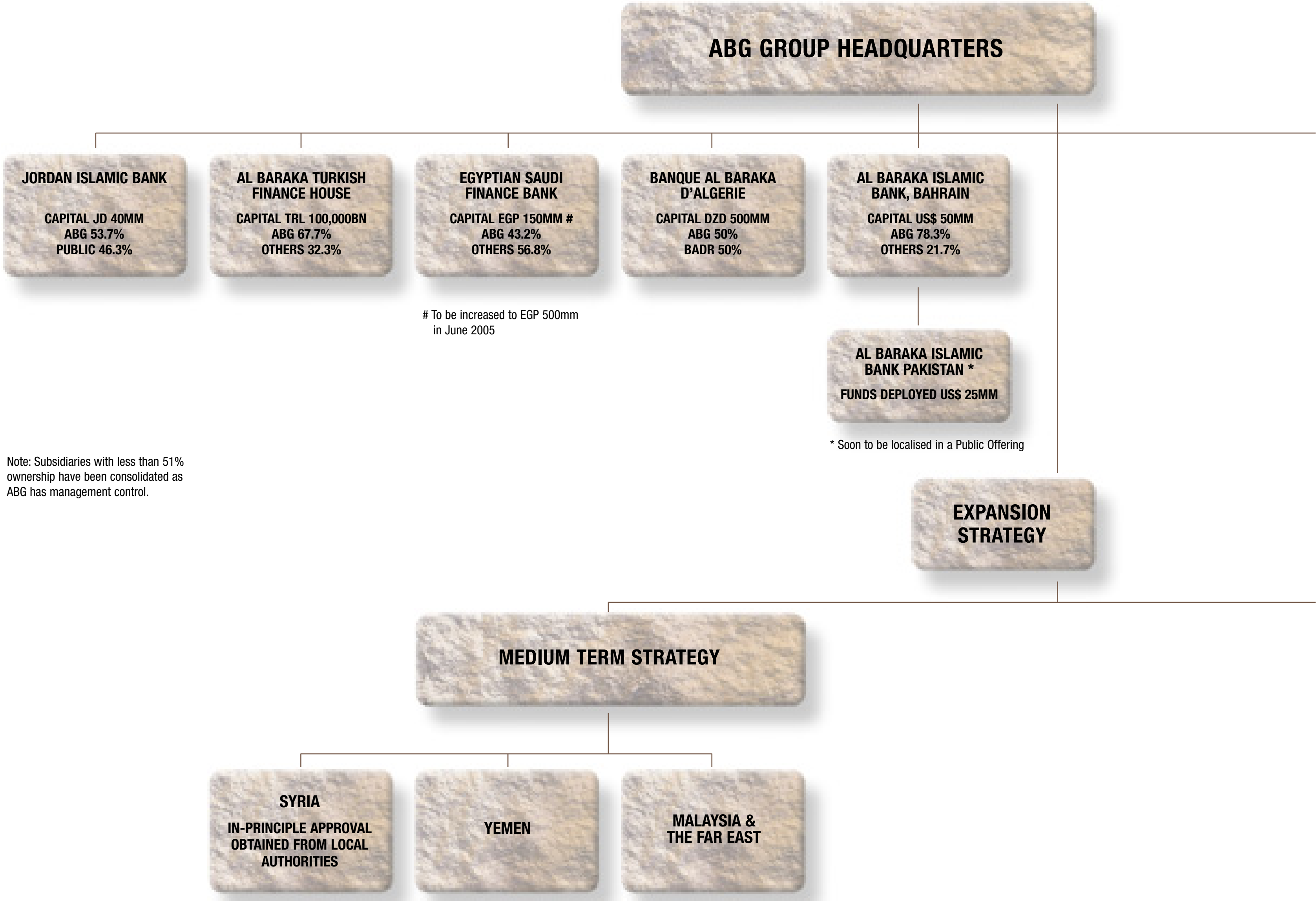
Operating Expenses

Net Income as % of Average Equity

Net Income as % of Paid-In Capital

Number of Employees

Total Number of Branches



To be increased to EGP 500mm in June 2005

* Soon to be localised in a Public Offering

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

AL AMIN BANK E.C. BAHRAIN
CAPITAL US$ 60MM
ABG 100%

BANK ET-TAMWEEL AL-SAUDI AL-TUNISI, TUNISIA
CAPITAL US$ 50MM
ABG 78.4%
OTHERS 21.6%

AL BARAKA BANK LTD. SOUTH AFRICA
CAPITAL ZAR 53MM
ABG 37.7%
OTHERS 62.3%

AL BARAKA BANK LEBANON
CAPITAL LBP 12BN
ABG 79.2%
OTHERS 20.8%

AL BARAKA BANK SUDAN **
CAPITAL SDD 1.4BN
ABG 84.4%
OTHERS 15.6%

** To be consolidated in 2005

LONG TERM STRATEGY

- CHINA
- INDIA
- UNITED KINGDOM
- GERMANY
- NORTH & SOUTH AMERICA

BOARD OF DIRECTORS AND SHARI'A SUPERVISORY BOARD

Shaikh Saleh Abdullah Kamel
Chairman

B.Com., Riyadh University, Saudi Arabia.
Chairman of Dallah Al Baraka Group, Jeddah, Saudi Arabia. Chairman of Egyptian Saudi Finance Bank, Egypt; Al Amin Bank, Bahrain; Albaraka Bank Lebanon; Arab Media Company, Saudi Arabia and Arab Radio & Television, Cayman Islands; Vice-Chairman of Arab Agricultural Investment Co., Bahrain; Islamic Arab Insurance Co., Dubai; Okaz Organization for Press & Publication, Saudi Arabia. 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. Shaikh 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. Shaikh 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. Abdullah Saleh Kamel
Member of the Board

B.A. in Economics, University of California, USA.
President & Chief Executive Officer, Dallah Al Baraka Group 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 Group over the past 15 years.

Mr. Mahmoud Jameel Hassoubah
Member of the Board

Diploma in Engineering, Lamar College, Colorado, U.S.A.
First Deputy President, Dallah Al Baraka Group, Jeddah, Saudi Arabia. Chairman of Albaraka Islamic Bank, Bahrain; Jordan Islamic Bank; Dallah Al Baraka Malaysia and Islamic Trading Company, Bahrain. Vice-Chairman of Egyptian Saudi Finance Bank, Egypt; Al Amin Bank, Bahrain; Al Tawfeeq Company for Investment Funds Ltd., Cayman Islands and Jeddah Science and Technology Center. Mr. Hassoubah's past experience includes several years in management roles in Saudi Airlines, followed by over 20 years in executive and Board positions with the Dallah Al Baraka Group.

Mr. Abdul Ellah A. Sabbahi
Member of the Board

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

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

M.B.A. in Business Administration, Hull University, U.K.
Chairman of Banque Al Baraka D'Algerie; Albaraka Turkish Finance House; Albaraka Bank Ltd., South Africa and European Islamic Investment Bank (Under Formation), U.K., Board Member of Islamic Bank of Britain, U.K. and Board and Executive Committee Member of Bahrain Stock Exchange. 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.

THE SHARI'A SUPERVISORY BOARD

Shaikh Dr. AbdulSattar Abu-Ghodah – *Chairman*
Shaikh Abdullah AlMunae'e – *Member*
Shaikh Dr. AbdulLatif AlMahmood – *Member*
Dr. Ahmed Mohyedeen – *Member*
Dr. Ezzedine Khoja – *Member*

Shaikh Saleh Abdullah Kamel
Chairman

(All figures in US Dollars unless stated otherwise)

"This consolidation represents the first stage in the evolution from the informal grouping of separate independent banks operating in 10 different countries, established over the last three decades through the vision of Shaikh Saleh Kamel, to a modern banking group, international in scope and activities, financially strong and ready to meet the challenges of the future."

Global and Regional Economies

Global economic conditions were largely benevolent in 2004. The overall growth rate of 5.1% was the highest recorded in more than two decades. Although this performance was led by the United States with its continuing strong consumer demand, several other countries were also important contributors. Japan's economy – still the world's second largest - began at last to show signs of recovery and, although faltering towards the end of the year, managed a respectable 3.4% growth rate. A number of European states also recorded growth, notably that of the United Kingdom, whose GDP rose by 3.1%, France with 2.4% and Ireland at over 5% with even Germany, despite its continuing problems, still managing 1.6% growth fed by an improved export performance. Of the emerging markets, China's fast growing economy once again recorded a blistering GDP growth rate - 9.5% - as internal capital investment continued to surge, despite the government's decision to raise interest rates in October for the first time in 9 years in an effort to cool the economy.

In the Arab world, the oil producing states also experienced positive economic growth, on the back of the oil price rises seen in the second half of the year, while others, more oriented towards agricultural exports and tourism, benefited from increased demand in both sectors.

The growth and prosperity seen in the OECD and in Arab world economies in turn acted as a spur to the economic advancement of many less developed countries in 2004, as demand for their products and services accelerated. As is explained in more detail in the Chief Executive Officer's Report, all of the 10 countries in which Albaraka Banking Group's subsidiary banks operate experienced positive growth in their economies to a greater or lesser degree, with GDP growth ranging from as high as 8.4% in Pakistan to 3% in Egypt and with inflation being relatively well contained. Stock Exchange activity, too, exemplified the rising confidence levels in several countries in the Middle East and North Africa, with those of Jordan, Pakistan and Egypt putting in a particularly strong performance.

The fortunes of international banks generally mirrored those of the countries in which they operated, with US and British banks doing well – US investment banks extremely well - and German banks less well. In both Japan and China, continuing concerns over their non-performing debts continued to weigh down on the indigenous banks. Banks in the Middle East, on the other hand, benefiting from the high levels of liquidity following the increases in international oil prices of recent times, have increased their profits significantly over the last two years. GCC banks, in particular, are estimated to have reported profits for 2004 some 25-30% on average higher than for 2003, with those banks conforming to Islamic principles being among the most profitable.

2004 Performance

The beneficent economic conditions prevailing in the countries of ABG's main activities provided fertile ground for our Group in 2004, enabling the majority of our units to achieve healthy growth. Most of our subsidiary banks therefore reported increases in both business turnover and profitability.

As a consequence, in 2004 ABG achieved a consolidated total operating income of $320.6 million. As its total operating expenses were well contained at $260.5 million, the Group recorded a net operating income of $60.1 million. After deduction of taxation and minority interest, net income was $36.8 million, a more than satisfactory performance compared with the net income of $27.3 million recorded for the Group's initial 18-month accounting period 27 June 2002 - 31 December 2003.

A New Force in Islamic Banking

The phased financial and managerial consolidation of the banking operations, hitherto owned directly by Al Baraka Investment and Development Co., and Shaikh Saleh Kamel and family and /or nominees, into the Albaraka Banking Group, has progressed well. Over 2003 and 2004 all units have been brought under the umbrella of ABG with the exception of Albaraka Bank Sudan, which will be consolidated into the Group in 2005. This consolidation represents the first stage in the evolution from the informal grouping of separate independent banks operating in 10 different countries, established over the last three decades through the vision of Shaikh Saleh Kamel, to a modern banking group, international in scope and activities, financially strong and ready to meet the challenges of the future. It is due to the wise guidance and leadership of Shaikh Kamel, and the implementation over the past decades of his benevolent business philosophy, resulting in the strong team of skilled management and committed and faithful employees that we have today, that ABG is now able and ready to embark on the next stage in its development.

The object of the second phase is primarily to achieve functional control over all the subsidiaries from a single centre responsible for coordination throughout the Group. This will be achieved through the introduction of standardised Group policies designed to unify the units' activities under a common series of platforms addressing the essential aspects of modern banking: financial control, credit, legal and risk management, treasury management, operations, administration, marketing and information technology. Within the overall framework of these Group policies each banking subsidiary will nevertheless retain its existing flexibility as to its day-to-day policies, as it seeks to meet the specific needs of its own market and customer base.

At the same time, the Group will be introducing measures to ensure that all cross-border business conducted by its banking subsidiaries is coordinated through the Group Head Office in Bahrain, for a number of reasons: firstly to ensure more efficient Group risk exposure management and unanimity of attitude to risk among Group units, secondly to enable the Group to provide its major customers with access to larger financings than could ordinarily be provided by any one subsidiary, by utilising the strength of the Group as a whole through multi-unit club deals, thirdly to enable the Group in its own right to enter into major international syndications in partnership with other financial institutions. This approach will also help us to achieve one of our primary long-term goals, delivering consistent profit growth for the benefit of our shareholders.

Enhancement of shareholder value is the major business driver for ABG. We aim to achieve this through a combination of increased cross-border business and geographic expansion, at the same time managing the increased business resulting from this expansion cautiously, through the tightened corporate governance and risk management disciplines that are being introduced Groupwide. ABG subsidiary banks have acquired a considerable degree of expertise in their respective markets, so that our combined core competencies cover the whole gamut of retail, commercial and investment banking expertise together, of course, with extensive commercial treasury capabilities. We seek to leverage these by expanding the Group, both regionally and internationally.

Through the continuing development and delivery of innovative products conforming to Shari'a principles, the Group will seek to provide its customers with a widely diversified, but intelligently targeted, range of products that meet their changing needs. Another important reason for bringing the ten individual banks together under one roof is therefore to encourage them to work actively together in the development of banking products, under the guidance and direction of a dedicated head office department.

A major step forward in the evolution of the Group is currently in the planning stage: to convert it from a private banking group to a public organisation, listed initially on the regional stock exchanges and later on the major stock exchanges of Europe, the Far East and Africa. The Initial Public Offering, anticipated to be announced at the end of 2005 or early 2006, will be targeted at investors from around the world with the object of attracting individual as well as institutional investors.

The challenges that lie ahead are great, but we are confident that, with our capable team of management providing competent leadership in the field, combined with the ongoing training of our young recruits and middle management, together with the introduction of homogenised policies and procedures and the new, modern IT systems that are gradually being implemented throughout the Group, we shall be able to meet them.

In closing, we should like to express our appreciation to the Bahrain Government and the Bahrain Monetary Agency for their vision in encouraging the establishment of a centre of Islamic Banking excellence in the Kingdom, to our Religious Supervisory Board for their support and guidance, to you our investors and, of course, to our 3,800 management and staff spread over ten countries, to each of whom we owe our success.

For and on behalf of the Board of Directors
Saleh A. Kamel
Chairman

Left to right

Mr. Othman Ahmed Sulieman
Deputy General Manager

Mr. Majeed H. Alawi
Head of Internal Audit

Mr. K. Krishnamoorthy
Head of Financial Control

Mr. Hassan Y. Albanna
Manager, Internal Audit

SENIOR MANAGEMENT

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

M.B.A. in Business Administration, Hull University, U.K.
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

B.Sc. (Honours) in Economics, University of Khartoum, Sudan
Chairman of Albaraka Bank Sudan, Member of the Board of Al Baraka Investment & Development Co., Saudi Arabia; 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. Also a Member of the Committee on Corporate Governance at 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 Group, 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

ACA – Associate of the Institute of Chartered Accountants of India; B.Com., Osmania University, India.

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

FCCA – Fellow of The Chartered Association of Certified Accountants, U.K.

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. Ahmed Mohyedeen
Head of Research & Development

Ph.D In Islamic Economics, Om Alghorah University, Masters degree in Fiqh transactions, B.Sc. Economics, Omdurman Islamic University.

Dr. Mohyedeen has been with the Dallah Al Baraka Group for over 25 years in various capacities and now in his present position in Research & Development, as Advisor to the Dallah Al Baraka Group President's office and Economics Advisor to the Islamic Fiqh Academy. He is also a member of Albaraka Banking Group's and Egyptian Saudi Finance Bank's Shari'a Supervisory Boards.

Seated

Mr. Adnan Ahmed Yousif

Chief Executive Officer

(Winner of the Islamic Banker of the Year Award 2004)

(All figures in US Dollars unless stated otherwise)

Introduction

Albaraka Banking Group was incorporated in Bahrain on 27 June 2002 and is 55% owned by Shaikh Saleh Abdullah Kamel and 45% by Dallah Al Baraka Holding Company (E.C.), Bahrain. ABG operates under an offshore banking licence and is holder of its shareholders' interests in nine geographically diverse subsidiaries incorporated in Algeria, Bahrain, Egypt, Jordan, Lebanon, South Africa, Tunisia and Turkey. The transfer of the ownership in a tenth bank, Albaraka Bank Sudan, will be completed during 2005.

The creation of Albaraka Banking Group arose from the need, identified through the wisdom of Shaikh Saleh Kamel, for a truly global Islamic banking service for Muslims worldwide. Through the consolidation under the banner of Albaraka Banking Group in Bahrain – arguably the foremost Islamic banking centre in the world today – of these already established and successful banks, with operations spanning the Middle East, Africa, Turkey and Pakistan, an entity has been created that is fast establishing a name for itself in the Arab and Islamic banking world.

The Islamic banking market has been experiencing enormous expansion over the last few years, as it has sought to meet the needs of Muslims throughout the Arab world, Africa and Asia - even, more recently, Europe - for Shari'a-compliant vehicles for saving, investment, consumer financing and the conduct of their commercial affairs. Recently this expansion has quickened, leading to substantial levels of liquidity never before witnessed. As the oil-based economies have strengthened and, through increasing infrastructure and social development, more wealth has filtered down to the general populace, ordinary people have been able to exercise their right to entrust their growing savings with commercial and investment banks that conform to the principles of the Shari'a. This has, in turn, led to a surge in the creation and offering to the public of appropriate instruments for investment.

The joining of the nine - soon to be ten - constituent banks under a single holding company, ABG, has not only created a group whose financial strength is greater than the sum of its parts but, with the strong moral and business ethos brought to it by Shaikh Saleh Kamel, has ideally placed it to take advantage of this growth in the industry and to expand to meet the challenges of that growth. ABG sees its mandate as the creation of an Islamic banking conglomerate that will provide its customers worldwide with a growing array of products and services strictly in conformity with the principles of the Shari'a.

The immediate strategic objectives of the Group are therefore:

- the smooth and effective consolidation of the units into a cohesive organisation pursuing a uniform strategy, whilst retaining all their individual strengths;
- the creation of an innovative and high quality research and development team, focusing on Islamic financial products targeted to meet the needs of its customers; and
- the effective mobilisation of the units to create a cross border distribution network for these products and services.

As mentioned in the Directors' Report, ABG aims to monetise part of the investment of the founder shareholders though an Initial Public Offering, in order to widen its shareholder base and deploy resources into geographic regions where it is not currently represented and towards the development of newly structured and innovate products to meet the needs of its expanding and diverse customer base. In this respect, and although some Group banks already carry individual credit ratings, the Group is currently in discussion with an international credit rating agency with a view to being awarded short and long term credit ratings in its own right.

The success of a banking group such as ours is measured by how well it monitors and controls the strategies of its separate components and creates a uniform and well - understood sense of direction in the implementation of its business initiatives. ABG is already well on its way to achieving this - it has put together much of its Core Management Team, consolidated its financial statements for 2003 and 2004, and set out its business and strategic priorities at a Group Strategy Meeting which took place in May 2005, at which the heads of all the units discussed and agreed their business plans and strategies for the future within the context of Group strategy.

The priorities for ABG in implementing its key strategic objectives are now:

- the strengthening of the Group's Management Information and Reporting Systems and the upgrading of its Information Technology resources;
- the introduction of best practice corporate governance infrastructure covering, *inter alia*, credit, market and operational risk management, including operational, internal audit and anti-money laundering procedures;
- the implementation of consistent Groupwide policies covering all the disciplines of Islamic banking; and
- the enhancement of the operational efficiency and marketing capability of each unit through training and human resource development.

ABG's Core Management Team is responsible for defining and implementing Groupwide policies and ensuring consistency and conformity with the principles of Corporate Governance, always within an Islamic context. The aim of the Team is to ensure that management style is easy and relaxed, without the bureaucracy that might stifle the dynamics of the units, so that they function with independence but within a consistent corporate culture that will define the Group. The Team, which currently consists of myself, the Deputy General Manager and the Heads of Financial Control, Internal Audit and Research & Development, will shortly be joined by Heads of Legal Affairs, Risk Management, Global Marketing, Credit, Treasury, Information Technology and Operations & Administration.

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 Accounting and Auditing Organisation for Islamic Financial Institutions, ("AAOIFI") and for matters not covered by AAOIFI, in accordance with the International Financial Reporting Standards, and without adjustment for consolidation purposes.

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.

Jordan Islamic Bank for Finance & Investment (JIB)

Jordan Islamic Bank was established in 1978 as Jordan's first Islamic bank. In 2000 the Private Banks Law under which it was regulated was replaced by the Banks Law containing a separate section specifically addressing Islamic banks and their regulation. JIB currently has a network of 52 branches, 12 smaller banking offices, a brokerage office at the Amman Stock Exchange and a service office at its bonded warehouse, served by a total staff of 1,418. Its 56 ATMs are linked through the Jordan national payment network to the 472 machines maintained by the other Jordanian banks and to the worldwide Visa International network. It is the 4th largest bank in Jordan by total assets and the 3rd largest in terms of 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 nevertheless has a thriving business with an extensive repertoire ranging from murabaha, diminishing musharaka, mudaraba, Ijara Muntahia Bittamleek, instalment sale and Istisna'a contracts, as well as investments in Islamic sukuks and property, in the latter case via land purchases and subsequent property development for on-sale or lease to its customers. JIB has had a steady track record since its inception and over the past 10 years 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.

In 2004 Jordan's economy prospered, its GDP growing by an estimated 7% compared with 3.3% in 2003. Activity on the Amman Stock Exchange more than doubled over the year and the share index ended the year over 60% higher than at the end of 2003, reflecting an increasing confidence in the future of the economy. Foreign currency reserves held by the Central Bank also grew, to reach $4.5 billion, equivalent to 9 months' imports.

> "Looking ahead, JIB foresees a moderate increase in its asset base as it concentrates on expanding its financing facilities and real estate investment portfolios. It also aims to build on its unrestricted investment accounts portfolio, attracting more funds from its ever-widening investor base."

Reflecting the growth of the economy, JIB's business activity also expanded, with both its total assets and total liabilities (including unrestricted investment accounts) increasing by around 16% to $1.626 billion and $1.544 billion respectively. In quantitative terms most of the growth in assets was seen in cash and bank balances, murabaha sales receivables and investments. Its customers' current and other accounts grew by over 20% and unrestricted investment accounts by over 15%. Its operating income was, however, 6% down at $34.1 million as, despite an 11% increase in jointly financed income, after paying out a significantly increased return to unrestricted investment account holders the bank's share from investment accounts (both as own fund owner and as Mudarib) fell by nearly 18% to $20.6 million. This result was somewhat alleviated by increases in its Mudarib share on restricted investment accounts, in addition to higher revenues from banking services and fees and commissions. Operating expenses, however, were also down, by nearly 6% at $27.6 million. Net operating profit at $6.5 million was therefore 5% below 2003 and, after a reduced taxation charge, the net profit for the year was 3.3% higher than that for the previous year, at $4.6 million.

JIB continued to invest in its infrastructure during the year, not least in IT systems and hardware as it finalised the electronic linking of all its branches and implemented both the SWIFT transfer system and Internet banking.

Looking ahead, JIB foresees a moderate increase in its asset base as it concentrates on expanding its financing facilities and real estate investment portfolios. It also aims to build on its unrestricted investment accounts portfolio, attracting more funds from its ever-widening investor base.

Albaraka Turkish Finance House (ABTFH)

Albaraka Turkish Finance House 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 2004 it had a network of 36 branches, having expanded considerably in recent years from a base of 22 branches in 2002. Every branch maintains an ATM for customer use. Its total workforce of 739 staff has also grown in line with network expansion as well as the establishment of a new marketing department in 2004. Of the 54 banks and special finance houses operating in Turkey, ABTFH ranks 25th in total assets, 20th in total deposits and 22nd in terms of net profits.

Turkey's average annual real GDP growth over the period 2000-2004 of 4.3% belies the progress made in recent years following the recession of 2001. Industrial output in the early months of 2005 appear to bear out the current forecast for GDP growth of 5.5% this year, falling back to 4% in 2006. The trade deficit of $23.8 billion in 2004 - compared with $14.0 billion in 2003 – reflected a surge in both exports and imports amid raised concerns that continuing capital inflows have been preventing the natural depreciation of the Turkish lira which would normally act as a self-correcting mechanism in such circumstances. Unemployment continues to be another cause of concern, exceeding 10% in recent years and dampening any tendency for economic growth to diffuse to the lower income classes.

Notwithstanding these mixed influences, ABTFH has been successful in establishing a path of growth that has led to it achieving third place in terms of total funds collected of all non-interest finance institutions in Turkey, as well as the highest level of collection and utilisation of funds on both a per personnel and a per branch basis.

In 2004 the bank's total assets rose by 27% to reach $1.081 billion, as growth of 38% in murabaha sales receivables (which constitute over 62% of total assets), 79% in cash and bank balances and 33% in non-trading investments more than compensated for a 40% reduction in the Ijarah Muntahia Bittamleek portfolio. Fixed assets, too, rose by 35%, reflecting the network expansion mentioned above. This growth was funded by a near 38% increase in total liabilities, mostly due to 43% growth in the unrestricted investment accounts over the year. However, although the return to investors – including the bank itself - on unrestricted investment accounts increased by almost 30%, its own share of income from these sources fell by 6% to $19.7 million. Nevertheless, after a 69% increase in income from its own investments and 26% greater income from its own sales, together with a 15% rise in revenues from banking services and fees and commissions, ABTFH's operating income for the year rose by 41% to $174.4 million. Despite administration and staff costs increasing by over 27% in the inflationary environment, to $143.9 million, the net operating profit was still an impressive 167% higher than 2003's result at $30.5 million. Following a monetary loss of $4.2 million due to hyper-inflation, the net profit for the year was $26.3 million, only 10% lower than the result in 2003 which had been greatly aided by the combined effects of a tax credit and a monetary gain due to hyper-inflation during that year.

“In the foreseeable future ABTFH's focus will be as much on rational cost management as on growth considerations, with a view to achieving consistent and sustainable profitability for its shareholders. Thus moderate expansion of the branch and ATM network, mainly in the larger cities, will be seen, alongside ongoing development of applied technology.”

ABTFH's targets for 2005 include an increase in both local and foreign currency funds collected as well as an increase in real terms in revenues from banking services and fees and commissions. However, in view of the anticipated depreciation of the Turkish lira against the dollar, the bank expects that revenues and profits will likely remain unchanged on 2004 when expressed in dollar terms. In the foreseeable future its focus will be as much on rational cost management as on growth considerations, with a view to achieving consistent and sustainable profitability for its shareholders. Thus moderate expansion of the branch and ATM network, mainly in the larger cities, is expected, alongside ongoing development of applied technology.

The Egyptian Saudi Finance Bank, Egypt (ESFB)

The Egyptian Saudi Finance Bank was incorporated in March 1980 under its original name of Al Ahram Bank. It is listed on the Cairo Stock Exchange. ESFB currently maintains a network of 15 branches, having opened 5 new branches in 2004, 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 of the local market, ranking 27th and 23rd respectively by these measures. It currently employs 588 personnel and boasts the only women's branch in Egypt, as well as a unit dedicated to serving people with special needs.

Egypt has traditionally had a large structural trade deficit, but a services and current account surplus. The latter widened to 5.2% of GDP in 2003 from 1.1% in 2002, reflecting the steady improvement of the economy over the last few years. Despite the downturn experienced in the aftermath of the Iraq war in 2003, which especially impacted the tourism industry, Suez revenues and workers' remittances from other Gulf countries, annual GDP growth has averaged 3.9% between 1999 and 2003 and is estimated to have been 3% in 2004. A more economically liberal cabinet was appointed in July 2004, however, which has commenced a programme of economic reform, cutting customs duties and announcing plans for sharp cuts in income and corporate taxes. The Central Bank also arranged the merger of the six weakest small banks and announced the privatisation of mixed investment banks owned partially or wholly by the public sector. Steps are also being taken to strengthen banks' capital and address the problem of delinquent loans by expediting their settlement or restructuring. All this has resulted in a sharp increase in confidence, as exhibited by an increased flow of inward investment and a strong Stock Exchange performance, in turn contributing to a more positive assessment by the credit rating agencies and a strengthening of the Egyptian Pound.

These positive developments enabled ESFB to increase its customers' current and other accounts by more than 100% to $56.1 million and its unrestricted investment accounts by 25%, permitting it in turn to expand its murabaha financing portfolio by over 15% to $256 million and its mudaraba portfolio by 54% to $12.6 million, while its own non-trading investment portfolio surged more than four-fold to $223.8 million, resulting in a 34% overall increase in total assets to $736.5 million.

The bank introduced in 2004 a new financing service for small enterprises in cooperation with the Social Development Fund, adapted to follow the principles of Shari'a. It also joined for the first time the ranks of financial institutions participating in financings under the US import programme for the private sector, enabling it to build its facilities to business customers. On the liabilities side, it launched two new innovative deposit schemes to complement its existing range: a 5-year certificate of deposit and a special deposit scheme tied directly to one of the religious rites called 'Suk of Umrah', which will enable small depositors to perform Umrah when their deposit balances reach 50% of the cost of the Umrah trip, while at the same time providing all the benefits of a 5-year cumulative deposit scheme.

> "ESFB's plans for 2005, once it has effected a share capital increase, are to increase both its placed funds and deposits, in order to lift income from financing contracts, in addition to increasing its banking services revenues. It will also commence the process of establishing another 2 new branches and moving an existing office to new premises, all planned for opening in 2006, and to launch several new retail finance products."

Income from jointly financed contracts rose by 4% to $36.4 million but, after accounting to unrestricted investment account holders for a return totalling $37.8 million on their investments – up 12% on 2003 – and other charges, the bank's net share of income from these sources was negligible. However, its income from own sales and investments and from banking services, fees and commissions surged by an overall 91% to $16.1 million, and this was sufficient to bring operating income to $16.2 million, comparable with 2003. Operating expenses were well contained at $15.8 million (2003: $16.0 million) so that the net operating profit of $0.4 million compared favourably with 2003's $0.3 million. After Zakah, net profit for the year was $0.35 million compared with the previous year's $0.2 million.

ESFB's plans for 2005, once it has effected a share capital increase, are to increase both its placed funds and deposits, in order to lift income from financing contracts, in addition to increasing its banking services revenues. It will also commence the process of establishing another 2 new branches and moving an existing office to new premises, all planned for opening in 2006, and to launch several new retail finance products. The bank also intends to embark upon a comprehensive restructuring of its IT systems to provide a central system linking all branches while providing advances services centrally. It has recently concluded a cooperation agreement with another Egyptian bank for the joint commissioning of an ATM service, which will provide an improved, but cost-effective, service to its customers.

Banque Albaraka D'Algerie S.P.A.

Banque Albaraka D'Algerie is the only commercial bank in Algeria operating according to the principles of the Shari'a. The bank's growth since its inception in 1991 has traced that of the Algerian economy itself over that time. Over the last few years, in particular, while Algeria's average annual GDP growth has exceeded 4% and foreign exchange reserves have risen by several billion dollars each year to reach $43 billion today (and foreign indebtedness has fallen apace), the bank's total assets have increased from the equivalent of $322 million in 2002 to $507 million in 2004 and its operating profitability from $4.04 million to $8.72 million respectively.

With the growth of the economy has also come a greater diversification so that, in addition to the all-important oil industry, the production rates of the iron and steel, mechanic (vehicles), building materials and glass, wood and paper, construction and chemical and pharmaceutical industries have all increased, contributing in turn to a reduction of the unemployment ratio from 28% in 2003 to 13% in 2004. Multinational companies have been encouraged by the government to enter several different economic sectors, on both a joint venture and an independent basis. Consequently, although 90% of banking activities continue to be provided by the five state-owned banks, there has been ample room for the private banking industry to grow to service the industrial and inward investment expansion, and the bank has taken full advantage of these relatively benevolent conditions to increase its customer base to 65,000 customers by the end of 2004.

The bank's success is a result of its focus on a variety of growth sectors, participating for example in the financing of the mobile telephone, construction, food, transportation and the oil downstream industries. In 2004, the resultant growth was reflected by an 18% increase

in total assets to $507.1 million, which, although represented chiefly by a 76% increase in cash and bank balances, also reflected 27% growth in murabaha sales receivables. Total liabilities including unrestricted investments also expanded by 18%, as customers' current and other accounts grew by 13% and unrestricted investment accounts by 24%. This activity was reflected in a 42% increase in income from jointly financed contracts and investments to $23.7 million which, after accounting for the return on the unrestricted investment accounts left a solid 64% growth in income from these sources at $16.4 million. Including other revenues, the net operating income was $29.4 million, over 21% up on 2003. The 14% rise in operating expenses, to $20.7 million, left the operating profit at $8.7 million, 44% higher than 2003. After increased taxation, the bank produced a net profit for the year of $4.3 million, 26% higher than that for 2003.

During the year the bank opened a branch at Rubia, east of Algiers, expanded its Al Khtabi (Algiers) branch and created a number of representative offices at vehicle franchise sites, all of which expansion resulted in an increase in staffing levels to 415, up from 2003's 324. In 2005 it aims to further increase its share of the market through a series of measures, on the back of an increased shareholders' equity, aimed at expanding its portfolio and enhancing its existing foreign trade operations, the most important component of its balance sheet. To do this it intends to expand its current network of 11 branches by 5 and grow its customer portfolio with an emphasis on retailing banking services. 2005 will also witness further developments to its already significantly improved IT systems, and further improvement to its internal connectivity through the installation of an optical fibre Intranet system throughout its network.

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

Albaraka Islamic Bank was granted a licence by the Bahrain Monetary Agency to operate as an offshore investment bank in 1984, originally under the name of Albaraka Islamic Investment Bank B.S.C. (E.C.). In December 1998 the bank's name was officially changed to its present form. It was also granted a commercial banking licence and operates a branch in Bahrain (a second one is due to open soon). It was granted a licence to operate in Pakistan by the State Bank of Pakistan in 1991 and currently has 7 branches there, located in the major centres of Lahore (3), Karachi, Islamabad, Faisalabad and Rawalpindi, in addition to the Bahrain commercial unit mentioned above. Most of its 293 employees are located in Pakistan. Thus, AIB's operations are dominated by its Pakistan activities.

The Pakistan economy has come a long way since the economic crisis of the late 1990s. The lower debt burden resulting from the national debt reschedulings gave Pakistan a much needed breathing space and permitted it a greater degree of flexibility in its economic management. Through the employment of sound macroeconomic policies and the introduction of various structural reforms, the country has experienced a revival of growth, a stronger export performance and a positive balance of payments current account position. Pakistan's GDP grew on average by 4.4% annually between 2000 and 2004 and estimates for the fiscal year 2004/5 are for a 20-year record 8.4% growth. The improvement is such that the balance of payments may well go into surplus in the current fiscal year, from a moderate deficit for 2003/4 of $1.3 billion, in light of the expanded export base, increased workers' remittances from abroad and reduced debt service burden. The stock exchange in 2004 was one of the best performing equity markets in the world.

The improved economic conditions permitted an increase in turnover at AIB but, at the same time, it faced stiffer competition in Pakistan from the bigger banks, as their appetite for business in Pakistan generally increased, to which was added a renewed willingness to compete in the Islamic banking market, with many of these banks opening Islamic branches or separately dedicated sections of existing branches. In addition to this threat to its niche position, AIB experienced the loss of a number of its experienced staff to the new competition. Despite these negative factors, however, the bank recorded a 12% increase in total assets to $453.8 million, representing broad increases across the board in all types of financing contracts as well as in its liquidity. Cash and bank balances rose 17%, murabaha receivables and mudaraba and musharaka financings together rose 7% and Ijara Muntahia Bittamleek by over 45%. Fixed and other assets rose by 28%. This was matched by a near 14% increase in total liabilities including unrestricted investment accounts, as customers' current and other accounts grew by over 40% and unrestricted investment accounts rose by more than 10%.

The impact on the bank's revenues were equally apparent, as income from jointly financed contracts grew by over 37% to $19.5 million and, even after accounting for the return to investors on unrestricted investment accounts – which rose by 26% to $9.39 million – after including the bank's share as Mudarib thereon of $1.5 million the result from these sources was up 53% over 2003, at $11.6 million. With somewhat reduced net income from self-financed contracts, investments, banking services and other fees and commissions, AIB's operating income of $18.2 million was over 14% higher than in the previous year. In the meantime, operating expenses rose by 23% to $17.2 million, the increase being attributable mainly to amortisation and depreciation and, to a lesser extent, staff and administration expense and provisions. Part of the increase in operating expenses was due to the start-up costs of the new Lahore branch which opened in 2004 and, although this branch achieved profitability shortly after its inauguration, its main contribution to profit is not expected to appear until 2005 onwards. In addition, the

> "AIB has plans to open 2 more branches in Karachi in 2005, when at the same time it intends to open its second branch in Bahrain. The bank also expects to complete the renovation of acquired premises intended for 3 more branches in Pakistan during 2005, with their openings planned for 2006."

bank launched its new ATM service in early 2004. The operating profit of $1.0 million thus compared unfavourably with 2003's $2.0 million for good reason and, despite lower taxation charges, AIB's net income was still, at $0.3 million, less than 2003's $1.1 million.

AIB has plans to open 2 more branches in Karachi in 2005, when at the same time it intends to open its second branch in Bahrain. The bank also expects to complete the renovation of acquired premises intended for 3 more branches in Pakistan during 2005, with their openings planned for 2006. Meanwhile, a separate division was created at the Pakistan Regional Office to concentrate on developing and introducing new consumer products to the market at competitive costs, and these should include the launching of vehicle Ijara and housing musharaka financing facilities, in addition to the introduction of debit cards. The bank also intends in the near future to offer its customers online banking services and expand its ATM facilities.

Given Pakistan's renewed economic vigour and the current favourable stock market conditions, AIB has recently obtained the approval of the State Bank of Pakistan to convert the Pakistan operations (which currently operate under its licence as a foreign bank) into a separate, local, bank. It then intends to seek a local listing on the stock exchange and to offer a portion of the share capital to the public.

Al Amin Bank E.C., Bahrain

Al Amin Bank began life in 1987 as Al-Amin Co. for Securities & Investment Funds B.S.C. (E.C.), its purpose being to conduct Islamic mudaraba activities with particular emphasis on developing an Islamic system of asset securitisation. Since May 2001 it has operated as Al Amin Bank under an Islamic investment banking licence granted by the Bahrain Monetary Agency. Its 27 specialist employees operate from its single office in Manama. In the period from its inception to the end of 2004 it has been responsible for 303 issues totalling $2.6 billion.

Bahrain's economy grew significantly in 2004, with growth in the construction & building, travel & tourism and oil & mining sectors being mainly responsible for GDP expansion. New investment in the industrial sector soared to over $130 million from $13 million in 2002. This activity in turn fuelled the growth of the banking industry, as evidenced by the consolidated balance sheet total for all Bahrain banks at the end of 2004, which expanded by 10.4% over 2003 to reach $111.4 billion. Over 2004 Al Amin saw its total liabilities expand by more than 100% to $156.1 million, due primarily to a 112% surge in its unrestricted investment accounts to $150.5 million. In putting these new resources to work, its total assets grew by 55% to $270.6 million, the growth being represented mainly by investments in an associate by 33%, its mudaraba financing portfolio, which more than doubled in size to $132.2 million, but also in its Ijarah Muntahia Bittamleek portfolio, which expanded by more than 250% to $19.7 million, and its murabaha sales receivables, which ended the year 85% up on 2003 at $23.7 million. The bank also launched a record number of 39 new issues with a capital total of $216 million, compared with 21 issues totalling $77 million in 2003.

"In 2005 Al Amin Bank intends to recruit a further 12 employees, bringing its total management and staff levels to 39. It also intends to build on recent enhancements in its IT base – in 2004 it successfully networked its database with that of MISYS offices in Dubai, London and Manila, which will help to increase operational efficiency and reduce costs."

Al Amin's total operating income grew by 7% to $27.1 million, mainly on account of income from investment in an associate that yielded $10.9 million. Operating expenses fell by over 38% to $11.8 million chiefly due to lower depreciation charges. The bank's net income for the year rose to $15.3 million from 2003's $6.2 million.

In 2005 Al Amin Bank intends to recruit a further 12 employees, bringing its total management and staff levels to 39. It also intends to build on recent enhancements in its IT base – in 2004 it successfully networked its database with that of MISYS offices in Dubai, London and Manila, which will help to increase operational efficiency and reduce costs. Its programme for the coming year includes the implementation of software aimed at introducing Basel II credit risk exposure and capital adequacy management, as well as updating the existing information network security systems and infrastructure. New computer hardware will also be acquired, probably in 2006, under a standardisation initiative introduced by ABG Group headquarters.

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

Bank Et-Tamweel Al-Tunisi Al-Saudi (B.E.S.T.) was incorporated in Tunisia as a joint stock company in 1983 with an offshore bank licence. In 1985, pursuant to an amendment to the relevant legislation, the bank was permitted to conduct onshore 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, including the agricultural, industrial, tourism, and export industries. The bank currently has 4 branches serviced by 119 employees. In terms of relative size, it holds about 13% of the Tunisian Offshore Banks Sector's total assets and about 27% of its total deposits.

Thanks to the agricultural sector's strong recovery from the droughts of earlier years, and to rising industrial production and tourism receipts, in 2004 the Tunisian economy grew by 5.8%. As the rise in the rate of inflation, to 3.6%, was occasioned mainly by increases in imported raw material and oil prices, the Central Bank maintained its benign interest rate policy while at the same time managing to bring the budget deficit down to a moderate 2.5%. However, the trade deficit widened as exports rose by 13% but imports increased by over 16%. Tunisia's foreign currency reserves nevertheless increased to 108 import days from 2003's 90 days, on account of the continued flow of inward investment, reflecting Tunisia's investment grade rating.

Total assets at B.E.S.T. increased by over 7% over the year to reach $198.4 million by year-end, mostly due to a 140% increase in its mudaraba financing portfolio and a 22% rise in investments in associates, both of which more than compensated for slight reductions in the other categories of assets. At the same time, its total liabilities including unrestricted investment accounts rose by more than 12% to reach $138.4 million, the growth being mostly in customers' current and other accounts to $52.4 million, a rise of 35%. Operating income reflected this performance, increasing by 7% to $7.3 million and after deduction of operating expenses, at $4.6 million, only 3% lower than in 2003, yielded a net operating income for the year of $2.6 million. Following a small deduction for taxation, a similar net profit resulted, 16% higher than in 2003.

During the year B.E.S.T. devoted significant efforts to corporate governance, developing a new organisational structure that created several new internal units addressing risk control, marketing and organisation, as well as introducing a comprehensive up to date credit policy to meet its strategic requirements. For 2005, its plans include the opening of two new branches as well as concluding the implementation of Internet and Intranet connections linking all offices and employees.

Albaraka Bank Limited, South Africa (ABL)

Albaraka Bank Limited was established in 1989 and its activities are directed mainly at the 2% of Muslims in the population of South Africa. It has 135 employees covering its Durban head office and four branches in Durban, Johannesburg, Pretoria and Cape Town. The bank collects deposits and provides financial facilities – trade, asset based motor vehicle and property finance - mainly through murabaha and musharaka - to its customers.

> "ABL's aims for 2005 include the introduction of new computer systems and the commencement of a project to establish an ATM network and issue debit cards to all its customers. It is targeting growth of more than 20% in both deposits and customer advances, looking for a significant increase in its net revenue."

South Africa's economy enjoyed moderate growth in 2004, with real GDP estimated to have expanded by more than 3% over the year, having averaged 3.4% p.a. over 2000-2004, driven by a combination of robust consumer spending and higher governmental expenditure under its expansionary fiscal strategy. Exports, supported by strong commodity prices and firm global demand, also contributed to this favourable picture, resulting in a balance of trade surplus. The rate of growth is expected to continue, with latest estimates for 2005 and 2006 at 4%, while inflation, at 5% in 2004, falling from a 2000-2004 average of 6.9%, is expected to slow to 4.5%.

The surge in consumer spending was fed by an increase in asset-based financings, with strong growth being recorded in instalment sales, leasing and mortgage finance. As all of these types of facilities fully accord with the principles of Shari'a, ABL was able to expand its portfolios significantly. It also entered the commodity financing market for the first time, ending the year with an outstanding investment exceeding $30 million. The bank's total assets thus increased by 37%, exceeding ZAR 1 billion for the first time, to reach the dollar equivalent of $177.8 million. Growth took place mostly under the headings of murabaha and musharaka financings, which grew by 87% and 63% respectively. Its total liabilities including unrestricted investment accounts increased likewise, by over 36% to $164.7 million, mostly due to the expansion in its customer accounts. As a consequence of these activities, ABL's income from jointly financed operations rose by over 22% to $12.1 million and, after accounting for the return paid out on unrestricted investment accounts and the bank's share as Mudarib, its share of income from these sources rose by 10% to $4.9 million. Its income from own investments, banking services and fees and commissions also grew, so that its total operating income increased by nearly 18% over the year to $5.9 million compared with 2003's $5.0 million. After operating expenses, which rose by 11% to $4.8 million in the light of the increased business throughput, ABL's operating profit was a satisfactory $1.1 million and, following deduction of taxation, it returned a net income of $0.8 million, 88% higher than the previous year's $0.4 million result.

ABL also underwent a major restructuring during the year, resulting in a number of new appointments and changes in reporting structure, in addition to implementing a revised corporate governance model in conformity with the code of conduct applicable to South African based companies. It has established a high-level committee and dedicated task team to address the matter of Basel II compliance, which it is confident will be implemented before 2008.

ABL's aims for 2005 include the introduction of new computer systems and the commencement of a project to establish an ATM network and issue debit cards to all its customers. It is targeting growth of more than 20% in both deposits and customer advances, looking for a significant increase in its net revenue.

> "2004 was an unprecedented year in ABBL's history as the bank sought to lay the foundations for a new phase in its development, expanding its branch network from three to five and increasing its staffing levels to 111."

Albaraka Bank Lebanon S.A.L. (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.

Despite the acceptable performance of the Lebanese economy as a whole - its GDP grew by an estimated 5% in 2004 - the continuing security problems in Lebanon impacted negatively on the stock market and hence on the bank's investment activities.

Apart from its murabaha sales receivables, which grew only slightly, all its portfolios ended the year lower than in 2003. Its total assets grew by 6% to $106.1 million, due primarily to an increase of over 60% in cash and bank balances and a 25.5% increase in fixed and other assets, attributable mainly to branch expansion. This reduced activity was the main reason for the bank experiencing a reduced income from jointly financed contracts and investments, which yielded $1.6 million or 55% below that of 2003. Despite an 8% increase in income from banking services and fees and commissions, aggregating $2.8 million, its total operating income for the year was almost 29% lower than the previous year at $4.5 million. On the other hand, the additional costs entailed in the opening of two new branches in Beirut – representing a relatively significant expansion for the bank - as well as new investment in IT systems, led to operating expenses rising by 27% to $7.2 million. ABBL therefore suffered an operating - and a net - loss of $2.7 million in the year, compared with a net profit of $0.6 million in 2003.

2004 was an unprecedented year in ABBL's history as the bank sought to lay the foundations for a new phase in its development, expanding its branch network from three to five and increasing its staffing levels to 111. For 2005, it plans to increase its paid up capital to the minimum level of $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. In preparation for this, it has begun the process of restructuring by introducing relevant policies and procedures to cover the anticipated new activities and implementing the appropriate division of responsibilities and controls.

FINANCIAL REVIEW

Income Statement

ABG's first consolidated financial statements covered the period from 27 June 2002 to 31 December 2003. The Consolidated Statement of Income for the year ended 31 December 2004 is not therefore directly comparable with that of the previous period. However, the results of the previous period have been provided in parentheses for information purposes.

In 2004, ABG's net income for the year was $36.8 million (2002-3: $27.3 million). Total operating income was $320.6 million (2002-3: $273.5 million). Of the categories constituting total operating income, joint income from sales receivable and net income from jointly financed contracts and investments together totalled $251.3 million (2002-3: $247.6 million), however gross return to investors on unrestricted investment accounts was higher than for the previous period at $199.6 million (2002-3: $185.6 million) and, although the Group's share as Mudarib was also higher than the previous period, at $41.8 million (2002-3: $40.9 million), the Group's share of income from investment accounts was lower at $93.6 million (2002-3: $102.9 million) than for the previous period. Net income from self financed contracts and investments, at $151.8 million (2002-3: $90.4 million), other fee and commission income at $45.8 million (2002-3: $34.1 million) and Mudarib's share for managing restricted investment accounts, at $2.8 million (2002-3: $2.2 million), were all higher than for the previous period, while other operating income at $30.8 million (2002-3: $34.2 million) was lower and the Group suffered a monetary loss on translation from local currencies amounting to $4.2 million, compared with the previous period's monetary gain of $9.7 million.

Operating expenses amounted to $260.5 million (2002-3: $232.4 million) and comprised staff expenses of $52.7 million (2002-3: $45.2 million), depreciation and amortisation $145.4 million (2002-3: $91.8 million), operating expenses $41.4 million (2002-3: $40.8 million) and provisions $21.0 million (2002-3: $53.0 million) – in addition there was a one-off charge in the previous period in respect of pre-operating expenses of $1.6 million. Net income before taxation and minority interest therefore amounted to $60.1 million (2002-3: $41.1 million) and, after taxation, amounting to $6 million (2002-3: $1.8 million recovery), and accounting for minority interest in subsidiaries of $17.2 million (2002-3: $15.6 million), the net income for the year was $36.8 million (2002-3: $27.3 million) as stated above.

Sources and Uses of Funds

Cash and bank balances, trading securities and non-trading investments totalled $2.113 billion (2003: $1.613 billion) or 41.8% (2003: 39.2%) of total assets and 47.0% (2003: 44.5%) of total liabilities and unrestricted investment accounts. Non-trading investments (made up of 51% available for sale investments and 49% held to maturity investments) stood at $485 million (2003: $279 million) whereas trading securities amounted to $1 million (2003: $26 million) and cash and balances with banks totalled $1.627 billion (2003: $1.308 billion). Sales receivables were $2.103 billion (2003: $1.742 billion); Mudaraba financings totalled $156 million (2003: $85 million); Musharaka financings were $70 million (2003: $44 million); investment properties totalled $46 million (2003: $43 million); Ijarah Muntahia Bittamleek totalled $172 million (2003: $159 million); investment in associates were $116 million (2003: $96 million) and Ijara receivables were $15 million (2003: $23 million). There were no Salam financings as at 31 December 2004 (2003: $68 million). Investments in premises and other assets, aggregating $264 million (2003: $243 million), made up the remainder of the total assets.

These assets were funded by customer current and other accounts amounting to $911 million at the end of 2004 (2003: $736 million); deposits from banks of $38 million (2003: $42 million) and other liabilities of $210 million (2003: $166 million); in addition to unrestricted investment accounts amounting to $3.333 billion (2003: $2.681 billion) and shareholders' equity of $422 million (2003: $373 million).

ABG's total assets at the end of 2004 amounted to $5.057 billion (2003: $4.116 billion). Average assets were $4.587 billion (2003: $4.116 billion) while average liabilities, excluding shareholders' equity, amounted to $4.189 billion (2003: $3.743 billion).

Restricted Investments

At the end of 2004, the Group's Restricted Investments stood at $314 million (2003: $335 million).

Geographical Distribution of the Balance Sheet

In 2004, the Group's total assets were distributed as follows: Middle East 52.9%; Europe 25.6%; Africa 13.7%; Asia 3.9%; Others 3.9%. Its liabilities were distributed as follows: Middle East 56.6%; Africa 20.7%; Europe 17.2%; Asia 5.4%; Others 0.1%. The distribution of unrestricted investment accounts was as follows: Middle East 60.7%; Europe 22.0%; Africa 11.8%; Asia 3.7%; Others 1.8%. The distribution of restricted investment accounts was: Middle East 95.6%; Europe 3.7%; Others 0.7%.

COMPLIANCE, POLICIES AND PROCEDURES

Regulation

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

The BMA sets and monitors its capital requirements and the Group's individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements.

The BMA 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%, exceeding the 8% minimum ratio guideline of the Basel Committee on Banking Supervision under its 1988 Capital Accord. Recently, the Basel Committee has announced the introduction of a new Capital Accord (Basel II) to replace the 1988 Accord, which will introduce a higher and more sophisticated degree of risk differentiation in establishing the amount of capital required to be allocated by banks to different categories of their credit risk exposure. Regulatory capital will now also include a capital charge for operational 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 intends to achieve the required degree of sophistication in risk assessment to enable it to comply with the new requirements of Basel II.

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

Anti-Money Laundering

The Group is implementing the anti-money laundering regulations introduced by the Bahrain Monetary Agency 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.

Policies & Procedures

As stated above, the Group's priorities will now be focused on the introduction of standardised Groupwide policies and procedures as well as integrating and strengthening the MIS and Reporting Systems as mentioned below. We anticipate that much of this work will have been completed over the next year, to be followed by the issuance of approved Groupwide policy documents. 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.

INFORMATION TECHNOLOGY

It is the Group's intention to move as swiftly as possible towards a total solution to the need to achieve integration of the various banking subsidiaries' databases into a Group environment, enabling consolidation of data for management information, regulatory and statutory purposes. Being a diverse group of banks, both geographically and structurally, the challenges associated with the creation of a common information platform will of course be demanding. It is therefore necessary that the move be planned in a gradual, concerted and methodical manner.

The initiatives entail the creation of an Integrated Financial Management Information Structure whereunder each unit's financial data will be captured via the Internet unto a web-based environment by direct transmission from that unit to Group headquarters.

Later, a web-based Integrated Exposure Management Structure will be developed, the primary purpose of which will be the consolidation of data on credit and investment exposures from across the Group, so that aggregate exposure can be measured and monitored in relation to global limits established centrally. Liability management will be introduced, also through these means, so that Groupwide information on depositors, treasury products and liquidity will be made easier.

The final stage envisages the implementation of common credit and investment processing tools in each unit, combined with limit management procedures. This would be followed by the introduction of relevant aspects of Basel II based on the approaches elected for adoption (Standardised, Comprehensive and Advanced Approaches).

HUMAN RESOURCES & TRAINING

The Group regards its management and employees as its greatest resource and will be taking a deep interest in the human resource management of its constituent banks, both in terms of the standards employed at the time of original recruitment of staff at all levels and the subsequent steps taken to train, motivate and reward experienced employees.

Each of ABG's subsidiaries presently adopt slightly different methods in meeting their individual needs, but the intention is that in time the best features of each unit's programmes will be incorporated into a set of Group guidelines in human resource management. The units, however, share the same philosophy, as can be seen from the following brief synopsis:

In-house training is provided by all the larger units, in the form of internal courses and lectures. In some cases (for example, in Jordan, Egypt, Turkey and Sudan) the banks have their own training institute with organised programmes for educating staff at all levels in general banking, financial and administrative activities as well as specialist subjects covering Islamic banking, legal and technological subjects but all banks allocate their senior executives and specialists for in-house lectures and workshops. At more advanced levels planning, leadership, decision-making are some of the subjects covered.

Staff are also sent on external courses, both within the units' own countries as well as overseas. Many countries maintain government or bank sponsored training institutes, among them Jordan, Tunisia, Bahrain, Egypt, Pakistan and Sudan, and these are fully employed by the units there. Selected staff also attend courses at training institutes abroad as well as seminars, conferences, symposiums and workshops organised overseas.

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UNIFIED SHARI'A SUPERVISORY BOARD REPORT

For the year ended 31st December 2004

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 2004 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 Turkish Finance House
9. The Egyptian Saudi Finance Bank

In addition, we examined the Group's financial position as at 31st December 2004 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 2004 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 20th Rabia Al Akher 1426H, corresponding to 28.5.2005 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 Shaikh

AUDITORS' REPORT TO THE SHAREHOLDERS OF

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 2004, 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 USD 3.2 (2003: USD 2.5) billion and total net income of USD 9 (2003: USD 6) 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 2004, and results of its operations and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the AAOIFI and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Without qualifying our opinion, we draw attention to note 1 to the consolidated financial statements. The Bank is in the process of finalising legal transfer of the ownership of certain subsidiaries to its own name.

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 2004 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 license. We obtained all the information and explanations which we required for the purpose of our audit.

Ernst & Young

24 May 2005
Manama, Kingdom of Bahrain

CONSOLIDATED BALANCE SHEET

At 31 December 2004

	Note	*2004* USD 000	*2003* USD 000
Assets			
Cash and balances with banks	3	**1,626,512**	1,307,889
Sales receivable	4	**2,103,440**	1,741,727
Trading securities	5	**1,250**	26,269
Mudaraba financing	6	**156,398**	84,778
Musharaka financing	7	**70,385**	44,114
Investment properties	8	**46,279**	43,092
Ijarah Muntahia Bittamleek	9	**172,159**	159,438
Investment in associates	10	**116,328**	95,743
Salam financing	11	**-**	68,462
Non-trading investments	12	**485,224**	278,982
Ijarah receivable	13	**14,584**	23,407
Fixed assets	14	**111,873**	99,721
Other assets	15	**152,287**	142,856
		5,056,719	4,116,478
Liabilities, Unrestricted Investment Accounts, Minority Interest and Equity			
Liabilities			
Customer current and other accounts		**910,558**	736,457
Due to banks		**37,530**	42,289
Other liabilities	16	**209,644**	166,337
		1,157,732	945,083
Unrestricted Investment Accounts	17	**3,333,059**	2,680,874
Minority Interest		**143,895**	117,268
Equity			
Share capital	18	**325,307**	325,307
Reserves	18	**31,582**	21,613
Cumulative changes in fair values	18	**8,053**	1,843
Retained earnings		**57,091**	24,490
		422,033	373,253
		5,056,719	4,116,478

The consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 24 May 2005.

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 2004

	Note	*Year ended 31 December 2004* USD 000	*27 June 2002 to 31 December 2003* USD 000
Joint income from sales receivable		**151,652**	154,263
Net income from jointly financed contracts and investments	19	**99,693**	93,328
		251,345	247,591
Gross return on unrestricted investment accounts	20	**(199,571)**	(185,590)
Group's share as a mudarib	20	**41,784**	40,859
Return on unrestricted investment accounts		**(157,787)**	(144,731)
Group's Share of Income from Investment Accounts		**93,558**	102,860
Mudarib share for managing restricted investment accounts		**2,846**	2,186
Net income from self financed contracts and investments	19	**151,774**	90,355
Other fee and commission income	21	**45,806**	34,147
Monetary (loss) gain		**(4,204)**	9,710
Other operating income	22	**30,836**	34,226
Total Operating Income		**320,616**	273,484
Pre-operating expenses		**-**	1,644
Staff expenses		**52,723**	45,180
Depreciation and amortisation	23	**145,385**	91,833
Operating expenses	24	**41,443**	40,810
Provisions	25	**20,976**	52,959
Total Expenses		**260,527**	232,426
Net Income for the period before Taxation and Minority Interest		**60,089**	41,058
Taxation		**(6,022)**	1,847
Minority interest		**(17,222)**	(15,620)
Net Income for the Year / Period		**36,845**	27,285

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2004

	Year ended 31 December 2004 USD 000	27 June 2002 to 31 December 2003 USD 000
Operating Activities		
Net income for the year/period	**36,845**	27,285
Adjustments for:		
Depreciation and amortization	**145,385**	91,833
Provision for impairment losses	**20,976**	52,959
Share in profits of associated companies	**(20,022)**	(5,832)
Operating profit before changes in operating assets and liabilities	**183,184**	166,245
Net changes in operating assets and liabilities:		
Reserves with central banks	**(506,565)**	472,003
Sales receivable	**(355,262)**	(56,433)
Trading securities	**25,019**	59,709
Mudaraba financing	**(71,417)**	2,836
Musharaka financing	**(26,507)**	3,558
Investment properties	**(3,146)**	(31,590)
Ijarah Muntahia Bittamleek	**(145,744)**	(142,463)
Salam financing	**68,462**	(27,472)
Ijarah receivable	**8,765**	(13,097)
Other assets	**(10,585)**	6,441
Customer current and other accounts	**174,101**	73,517
Due to banks and financial institutions	**(4,759)**	(31,364)
Other liabilities	**13,157**	(76,517)
Net cash (used in) from operating activities	**(651,297)**	405,373
Investing Activities		
Net (purchase) disposal of non-trading investments	**(195,704)**	15,840
Net (purchase) of fixed assets	**(23,438)**	(18,087)
Net increase in investment in associates	**(563)**	(28,399)
Cash and cash equivalents acquired through subsidiaries	**-**	1,017,455
Net cash (used in) from investing activities	**(219,705)**	986,809
Financing Activities		
Net increase in unrestricted investment accounts	**652,185**	340,427
Issue of share capital	**-**	20,000
Net changes in minority interest	**26,627**	27,283
Net cash from financing activities	**678,812**	387,710
Foreign currency translation adjustments	**4,248**	
(Decrease) Increase in Cash and Cash Equivalents	**(187,942)**	1,779,892
Cash and cash equivalents at beginning of the year/period	**1,779,892**	-
Cash and Cash Equivalents at 31 December (note 26)	**1,591,950**	1,779,892

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2004

	Note	Share capital USD 000	Statutory reserve USD 000	Cumulative changes in fair values USD 000	Foreign currency reserve USD 000	Investment properties fair value reserve USD 000	Retained earnings USD 000	Other reserves USD 000	Total USD 000
Share capital issued for cash	18	20,000	-	-	-	-	-	-	20,000
Share capital issued in kind	18	305,307	-	-	-	-	-	-	305,307
Net income for the period		-	-	-	-	-	27,285	-	27,285
Transfer to investment properties fair value reserve		-	-	-	-	66	(66)	-	-
Difference arising on translation of the operating assets and liabilities of overseas operations		-	-	-	16,772	-	-	-	16,772
Net movement in cumulative changes in fair values		-	-	1,777	-	-	-	-	1,777
Transfer to statutory reserve		-	2,729	-	-	-	(2,729)	-	-
Other reserves		-	-	-	-	-	-	2,112	2,112
Balance at 31 December 2003		325,307	2,729	1,777	16,772	66	24,490	2,112	373,253
Prior period adjustments		-	-	-	-	-	(369)	-	(369)
Net income for the year		-	-	-	-	-	36,845	-	36,845
Difference arising on translation of the operating assets and liabilities of overseas operations		-	-	-	4,248	-	-	-	4,248
Net movement in cumulative changes in fair values		-	-	6,169	-	41	-	-	6,210
Transfer to statutory reserve		-	3,685	-	-	-	(3,685)	-	-
Other reserves		-	-	-	-	-	(190)	2,036	1,846
Balance at 31 December 2004		**325,307**	**6,414**	**7,946**	**21,020**	**107**	**57,091**	**4,148**	**422,033**

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 2004

	Balance at 1 January 2004 USD 000	Net deposit net of income USD 000	Net withdrawals USD 000	Mudarib's share USD 000	**Balance at 31 December 2004 USD 000**
Sales receivable	253,057	65,214	(118,007)	(1,385)	**198,879**
Mudaraba financing	1,500	4,057	-	(3)	**5,554**
Musharaka financing	14,162	6,814	-	(15)	**20,961**
Managed funds	9,533	(74)	(1,407)	-	**8,052**
Investment properties	24,616	23,174	(27,370)	(115)	**20,305**
Others	32,386	145,809	(116,531)	(1,328)	**60,336**
	335,254	**244,994**	**(263,315)**	**(2,846)**	**314,087**

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.

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 2004

	Note	*2004* USD 000	*2003* USD 000
Sources of Charity fund			
Undistributed charity funds acquired through subsidiaries		**175**	7,365
Contribution by the Group		**1,817**	2,792
Others		**1,914**	1,137
Total sources		**3,906**	11,294
Uses of Charity fund			
Charitable contributions		**1,229**	1,310
Others		**394**	4,348
Total uses		**1,623**	5,658
Net increase of sources over uses		**2,283**	5,636
Balance of charity fund at beginning of the year		**5,636**	-
Balance of charity fund at end of the year	16	**7,919**	5,636

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 2004

	Note	*2004* USD 000	*2003* USD 000
Sources of Qard fund			
Undistributed Good Faith Qard funds acquired through subsidiaries		**-**	5,065
Contribution by the Group		**1,238**	8,630
Others		**1,809**	157
Total Sources		**3,047**	13,852
Uses of Qard fund			
Marriage		**594**	718
Medical treatment		**440**	434
Education		**1,159**	1,079
Others		**1,255**	4,495
Total uses		**3,448**	6,726
Net (decrease) increase of sources over uses		**(401)**	7,126
Balance of Good Faith Qard fund at beginning of the year		**7,126**	-
Balance of Good Faith Qard fund at end of the year	15	**6,725**	7,126

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2004

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 Bank is engaged in banking activities in the Middle East and North African region. 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 principal activities of the Bank and its subsidiaries (the "Group") comprise of international and commercial banking, financing, treasury and investment activities. The Bank is supervised and regulated by the Bahrain Monetary Agency. As of 31 December 2004, the total number of employees employed by the Group was 3,844 (2003: 3,233).

Certain of the subsidiaries included in the consolidated financial statements are 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 A. Kamel (Chairman of the Bank and the Group), 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% (2003: 55%) and 45% (2003: 45%) respectively.

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 trading securities, available-for-sale 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 Organization 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 Standards issued or adopted by the International Financial Reporting Standard Board (the "IFRSB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IFRSB.

b. Principles of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries after elimination of all inter-company transactions and balances. Subsidiaries are defined as companies in which the Bank has the power to govern the financial and operating policies so as to obtain benefits from their activities, and thus generally include all companies in which the parent owns more than 50% of the voting power.

The financial statements of subsidiaries are included in the consolidated financial statements from the date the control effectively commences until the date it effectively ceases. The purchase method of accounting is used. Equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated statement of income, respectively. Minority interests are measured by the proportion of pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiaries adjusted for net movement in equity, since the date of acquisition. Inter-company balances and transactions, including inter-company profits and unrealised profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and for events in similar circumstances.

2. Significant Accounting Policies continued

b. Principles of consolidation continued

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

Bank	Ownership	Year of incorporation	Country of incorporation
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	43.2%	1980	Egypt
Albaraka Bank Lebanon *	79.2%	1991	Lebanon
Jordan Islamic Bank	53.7%	1978	Jordan
Al Amin Bank	100.0%	1987	Bahrain
Albaraka Turkish Finance House	67.7%	1985	Turkey
Albaraka Bank Limited *	37.7%	1989	South Africa

* These banks are currently owned by Sheikh Saleh A. Kamal (Chairman of the Group), family members including nominees and agents, as trustees on behalf of the Bank and are currently in the process of being transferred to the Bank. The actual transfer will take place once the regulatory and other formalities relating to the acquisition have been completed.

Bank Albaraka D' Algerie, Egyptian Saudi Finance Bank and Albaraka Bank Limited 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.

In addition to above subsidiaries the Bank also has effective control over following sub-subsidiaries. They are owned through the principal subsidiaries.

Bank	Ownership	Year of incorporation	Country of incorporation
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	55.4%	2002	Lebanon

** Owned indirectly through Jordan Islamic Bank.
Dar AlBaraka and Aman Takaful Insurance are indirectly owned through Banque Albaraka D'Algerie and Albaraka Bank Lebanon respectively.

The effective date of acquisition is 1 January 2003 for all banks. The shareholding in these subsidiaries has been acquired at fair value, purchase consideration being the shares of the Bank issued at par value.

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 receivable

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

Sales receivable that 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 receivable that are financed solely by the Bank are classified under "self financed".

2. Significant Accounting Policies continued

e. 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.

f. Mudaraba financing

Mudaraba financing is stated at cost less provisions for impairment.

g. Musharaka financing

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

h. 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 and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity under investment properties fair value reserves, provided that 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 losses exceed the available balance, the unrealised losses are recognised in the consolidated statement of income under unrealised re-measurement gains or losses on investments.

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, investment properties fair value reserve, in the consolidated statement of changes in equity.

i. Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek are accounted for at cost and are depreciated according to the Group's depreciation policy for fixed assets.

j. Investment in associates

The investment in associates is accounted for under the equity method of accounting and is carried in the consolidated balance sheet using the equity method. Associates are enterprises over which it exercises significant influence, which is presumed to exist if 20% of the voting power is held.

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

k. Salam financing

Salam financing is stated at amount paid less provisions for any expected decline in the value of goods or where it is probable that the other party to the Salam contract would not deliver the goods in part or full. Goods acquired through Salam financing are stated at the lower of cost and cash equivalent value and, where the cash equivalent value is lower, the difference is charged to the consolidated income statement. Parallel Salam transactions are recognised when the Group receives the capital of Salam.

l. 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. Premiums and discounts are amortised on a systematic basis to maturity.

Held-to-maturity

Investments which have fixed or determinable payments, which the Bank has both the intent and ability to hold such investments 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 provision 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.

2. Significant Accounting Policies continued

l. Non-trading investments

Available-for-sale

Investments that are not held for trading or held-to-maturity are classified as investments available-for-sale. Investments classified as available for sale are recognized upon acquisition at cost. Subsequent to acquisition, the investments available-for-sale are remeasured at fair value and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity under, cumulative changes in fair values, provided that unrealised losses are recognised in equity to the extent of the available balance; taking into consideration the split between the portion related to owners' equity and the portion related to the equity of unrestricted investment account holders. In case losses exceed the available balance, the unrealised losses are recognised in the consolidated statement of income under unrealised re-measurement gains or losses on investments.

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.

m. 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 for on the straight-line basis over the estimated useful lives of the assets.

The calculation of depreciation is on the following basis:

Building	30 years
Office furniture and equipment	4 - 10 years
Vehicles	3 years
Leased building	4 - 10 years
Others	4 - 5 years

n. 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 based on a subsidiary level.

o. 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.

p. 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 Bank at current profit rates for contracts with similar term and risk characteristics.

q. 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.

r. Zakah

The responsibility of payment of zakah is on individual shareholders of the Group, 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.

2. Significant Accounting Policies continued

s. 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.

t. 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 realization 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.

Salam financing

The profits and losses, which result from onward sale of goods acquired under Salam contracts, are recognised upon delivery of the goods to customers. The result in a parallel Salam transaction represents the difference between the amount paid by the customer and the Group's cost of acquiring such goods and is recognised upon delivery.

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

u. 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.

2. Significant Accounting Policies continued

u. Return on unrestricted investment accounts continued

Investment that are jointly owned by the Bank 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 Bank are classified under "self financed".

v. Impairment and uncollectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset 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.

w. 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.

x. 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, 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.

y. 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.

z. Employees' end of service benefits

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

aa. 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.

bb. Foreign currencies

Translation of foreign currency transactions

The Bank maintains its records in US Dollars. Foreign currency transactions are recorded at the rates of exchange prevailing at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are revalued to US Dollars at the market rates of exchange prevailing at the balance sheet date. Gains and losses arising from translation are included in other income in the consolidated income statement.

Translation of financial statements of foreign entities

The assets and liabilities of foreign entities are translated at rates of exchange ruling at the balance sheet date. Income and expense items are translated at average exchange rates for the period. Any exchange differences are taken directly to foreign currency reserve.

cc. Monetary (losses) gains

Monetary (losses) gains represent the purchasing power (losses) gains from the application of hyperinflationary accounting standard by a subsidiary for differences between monetary assets and monetary liabilities.

3. Cash and Balances with Banks

	2004 USD 000	2003 USD 000
Cash	**66,098**	54,422
Balances with central banks	**1,031,680**	793,413
Balances with other banks	**506,327**	382,955
Others	**22,407**	77,099
	1,626,512	1,307,889

4. Sales Receivable

	2004			2003		
	Self financed USD 000	Jointly financed USD 000	Total USD 000	Self financed USD 000	Jointly financed USD 000	Total USD 000
International commodities	**62,322**	**1,316,713**	**1,379,035**	98,341	1,189,538	1,287,879
Others	**72,110**	**913,844**	**985,954**	103,865	555,318	659,183
Gross sales receivables	**134,432**	**2,230,557**	**2,364,989**	202,206	1,744,856	1,947,062
Provision for impairment (note 25)	**(13,641)**	**(114,497)**	**(128,138)**	(13,363)	(114,505)	(127,868)
	120,791	**2,116,060**	**2,236,851**	188,843	1,630,351	1,819,194
Deferred profits	**(4,798)**	**(128,613)**	**(133,411)**	(16,294)	(61,173)	(77,467)
Net sales receivables	**115,993**	**1,987,447**	**2,103,440**	172,549	1,569,178	1,741,727

Sales receivables, which are non-performing as of 31 December 2004, amounted to USD 168.3 million (2003: USD 139.5 million).

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

5. Trade Securities

	2004			2003		
	Self financed USD 000	Jointly financed USD 000	Total USD 000	Self financed USD 000	Jointly financed USD 000	Total USD 000
Quoted equities	**-**	**1,250**	**1,250**	220	26,049	26,269

6. Mudaraba Financing

	2004			2003		
	Self financed USD 000	Jointly financed USD 000	Total USD 000	Self financed USD 000	Jointly financed USD 000	Total USD 000
Gross amount	**4,970**	**152,319**	**157,289**	1,978	84,829	86,807
Provision (note 25)	**-**	**(891)**	**(891)**	(630)	(1,399)	(2,029)
	4,970	**151,428**	**156,398**	1,348	83,430	84,778

Mudaraba financing, which are non-performing as of 31 December 2004, amounted to USD 1.1 million (2003: USD 2.3 million).

7. Musharaka Financing

	2004			2003		
	Self financed USD 000	Jointly financed USD 000	Total USD 000	Self financed USD 000	Jointly financed USD 000	Total USD 000
Gross amount	4,643	66,677	71,320	26,262	18,135	44,397
Provision (note 25)	(115)	(820)	(935)	(264)	(19)	(283)
	4,528	65,857	70,385	25,998	18,116	44,114

Musharaka financing, which are non performing as of 31 December 2004, amounted to USD 1.1 million (2003: USD 0.97 million).

8. Investment Properties

	2004			2003		
	Self financed USD 000	Jointly financed USD 000	Total USD 000	Self financed USD 000	Jointly financed USD 000	Total USD 000
Cost	1,219	42,760	43,979	1,547	39,170	40,717
Accumulated fair value adjustments	410	1,890	2,300	(260)	2,635	2,375
	1,629	44,650	46,279	1,287	41,805	43,092

The movement are as follows

	2004 USD 000	2003 USD 000
At 1 January	43,092	-
Change in fair values of investment properties	2,300	2,375
Disposal / transfers	867	(461)
Other adjustments	20	41,178
	46,279	43,092

Investment properties at 31 December consist of the following:

	2004			2003		
	Self financed USD 000	Jointly financed USD 000	Total USD 000	Self financed USD 000	Jointly financed USD 000	Total USD 000
Land	-	19,296	19,296	-	15,693	15,693
Buildings	1,629	25,354	26,983	1,287	26,112	27,399
	1,629	44,650	46,279	1,287	41,805	43,092

9. Ijarah Assets

	2004			2003		
	Self financed USD 000	Jointly financed USD 000	Total USD 000	Self financed USD 000	Jointly financed USD 000	Total USD 000
Cost:						
Opening balance	**7,205**	**347,964**	**355,169**	-	-	-
Foreign exchange translations	**-**	**32,752**	**32,752**	-	-	-
Acquisition through subsidiaries (refer note 2)	**-**	**-**	**-**	11,011	207,685	218,696
Additions	**207**	**110,783**	**110,990**	1,194	156,581	157,775
Disposals	**-**	**(267,060)**	**(267,060)**	(5,000)	(16,302)	(21,302)
Closing balance	**7,412**	**224,439**	**231,851**	7,205	347,964	355,169
Accumulated depreciation:						
Opening balance	**2,641**	**193,090**	**195,731**			
Acquisition through subsidiaries (note 2)	**-**	**-**	**-**	2,917	125,378	128,295
Additions	**1,366**	**131,657**	**133,023**	2,691	79,089	81,780
Disposals	**-**	**(269,062)**	**(269,062)**	(2,967)	(11,377)	(14,344)
Closing balance	**4,007**	**55,685**	**59,692**	2,641	193,090	195,731
Net book value:						
At 31 December	**3,405**	**168,754**	**172,159**	4,564	154,874	159,438

	Properties USD 000	Equipment USD 000	Others USD 000	**2004 USD 000**
Cost:				
At 1 January	79,349	269,034	6,786	355,169
Foreign exchange translations	-	32,752	-	32,752
Additions	36,640	71,037	3,313	110,990
Disposals	(38,862)	(228,137)	(61)	(267,060)
At 31 December	77,127	144,686	10,038	231,851
Depreciation:				
At 1 January	43,248	151,344	1,139	195,731
Provided during the year	21,684	110,562	777	133,023
Disposals	(33,397)	(235,655)	(10)	(269,062)
At 31 December	31,535	26,251	1,906	59,692
Net book value as at 31 December	**45,592**	**118,435**	**8,132**	**172,159**

NOTES TO
THE CONSOLIDATED
FINANCIAL STATEMENTS
At 31 December 2004

10. Investment in Associates

Investments in associates comprise the following:

	Carrying value 2004 USD 000	Ownership % 2004	Foreign Country of incorporation	2004 Self financed USD 000	Jointly financed USD 000	Total USD 000	Market value USD 000
Quoted							
Real Estate							
Real Estate Investment Company	5,618	48	Jordan	-	5,618	5,618	5,825
Investment Banking							
AlAmin Investment Company	7,844	45	Jordan	-	7,844	7,844	12,639
Insurance							
Islamic Insurance Company	1,723	35	Jordan	-	1,723	1,723	3,448
Others							
Jordan Centre for International Trade Company	2,361	40	Jordan	-	2,361	2,361	2,211
Jordanian Pharmacy Manufacturing Company Limited	8,084	21	Jordan	-	8,084	8,084	16,348
	25,630			-	25,630	25,630	40,471
Unquoted							
Real Estate							
Baraka Development Immobile	689	20	Algeria	689		689	
Egyptian Saudi Finance Real Estate	410	40	Egypt	87	323	410	
Commercial Banking							
BEST Lease	2,084	35	Tunis	2,084	-	2,084	
Investment Banking							
AlTawfeek Company for Investment Funds Limited	71,099	13	Cayman Islands	71,099	-	71,099	
Insurance							
BEST Reinsurance	13,798	22	Tunis	13,798	-	13,798	
AlBaraka AlAmane Assurance Algeria	1,508	20	Algeria	1,508		1,508	
Socite Inter Bancaire De Formation	138	10	Algeria	138	-	138	
Others							
Cemedene Trading (Proprietary) Limited	162	50	South Africa	-	162	162	
Others	810			801	9	810	
	90,698			90,204	494	90,698	
Total investment in associates	116,328			90,204	26,124	116,328	

10. Investment in Associates continued

	Carrying value 2003 USD 000	Ownership % 2003	Foreign Country of incorporation	2003 Self financed USD 000	2003 Jointly financed USD 000	2003 Total USD 000	2003 Market value USD 000
Quoted							
Real Estate							
Real Estate Investment Company	4,540	48	Jordan	-	4,540	4,540	8,094
Investment Banking							
AlAmin Investment Company	9,271	45	Jordan	-	9,271	9,271	11,200
Insurance							
Islamic Insurance Company	2,376	35	Jordan	-	2,376	2,376	4,182
Others							
Jordan Centre for International Trade Company	1,273	40	Jordan	-	1,273	1,273	3,795
	17,460			-	17,460	17,460	27,271
Unquoted							
Real Estate							
Baraka Development Immobile	689	20	Algeria	689	-	689	
Egyptian Saudi Finance Real Estate	406	40	Egypt	49	357	406	
Commercial Banking							
BEST Lease	2,096	35	Tunis	2,096	-	2,096	
Investment Banking							
AlTawfeek Company for Investment Funds Limited	53,573	13	Cayman Islands	53,573	-	53,573	
Insurance							
BEST Reinsurance	11,617	22	Tunis	11,617	-	11,617	
AlBaraka AlAmane Assurance Algeria	1,508	20	Algeria	1,508		1,508	
Socite Inter Bancaire De Formation	187	10	Algeria	187	-	187	
Others							
Cemedene Trading (Proprietary) Limited	124	50	South Africa	124	-	124	
Jordanian Pharmacy Manufacturing Company Limited	8,083	28	Jordan	-	8,083	8,083	
	78,283			69,843	8,440	78,283	
Total investment in associates	95,743			69,843	25,900	95,743	

Al Tawfeek Company for Investment Funds Limited and Socite Inter Bancaire De Formation have been accounted for under equity method as the Group exercises significant influence over them.

Cemedene Trading (Proprietary) Limited has not been consolidated as the Group does not exercise control so as to govern the financial and operating policies so as to obtain benefits from their activities.

11. Salam Financing

	Jointly financed 2004 USD 000	2003 USD 000
Gross financing	-	70,641
Provision (note 25)	-	(2,179)
	-	68,462

Salam financing, which are non-performing as of 31 December 2003, amounted to USD 0.33 million.

12. Non-Trading Investments

i) Available for sale investments

	2004			2003		
	Self financed USD 000	Jointly financed USD 000	Total USD 000	Self financed USD 000	Jointly financed USD 000	Total USD 000
Quoted investments						
Managed funds	2,074	6,062	8,136	4,934	4,916	9,850
Sukook (bonds)	-	-	-	-	3,824	3,824
Others	4,785	192,861	197,646	8,318	200,651	208,969
	6,859	198,923	205,782	13,252	209,391	222,643
Unquoted investments at cost						
Managed funds	-	1,000	1,000	-	-	-
Others	38,644	8,850	47,494	36,160	5,738	41,898
	38,644	9,850	48,494	36,160	5,738	41,898
Provision (note 25)	(5,004)	(1,313)	(6,317)	(1,564)	(4,142)	(5,706)
	40,499	207,460	247,959	47,848	210,987	258,835

ii) Held to maturity investments

	Self financed 2004	Jointly financed 2004	Total 2004	Self financed 2003	Jointly financed 2003	Total 2003
Investments at cost						
Sukook (quoted)	8,290	14,144	22,434	-	-	-
Sukook (unquoted)	1,240	750	1,990	1,240	18,907	20,147
Others	7,407	205,434	212,841	-	-	-
	16,937	220,328	237,265	1,240	18,907	20,147
Total non-trading investments	57,436	427,788	485,224	49,088	229,894	278,982

The fair value of unquoted available for sale and held to maturity investments approximates their carrying value.

The above mentioned Sukook were issued by several central banks and Islamic banks.

13. Ijarah Receivable

	2004			2003		
	Self financed USD 000	**Jointly financed USD 000**	**Total USD 000**	Self financed USD 000	Jointly financed USD 000	Total USD 000
Gross amount	**6,165**	**9,600**	**15,765**	4,886	19,644	24,530
Provision (note 25)	**(1,163)**	**(18)**	**(1,181)**	(1,123)	-	(1,123)
	5,002	**9,582**	**14,584**	3,763	19,644	23,407

Ijarah receivable, which are non-performing as of 31 December 2004, amounted to USD 0.224 million (2003: Nil).

14. Fixed Assets

	Land and buildings USD 000	Office furniture and equipment USD 000	Vehicles USD 000	Leased buildings USD 000	Others USD 000	Total USD 000
Cost:						
At 1 January 2004	87,639	60,051	5,919	10,748	1,888	166,245
Addition	6,598	5,244	1,204	853	2,394	16,293
Disposal	(1,586)	(6,168)	(279)	(7)	(344)	(8,384)
Transfers/Others	10,141	815	-	(10,013)	8,219	9,162
At 31 December 2004	102,792	59,942	6,844	1,581	12,157	183,316
Depreciation:						
At 1 January 2004	17,566	42,550	4,018	1,797	593	66,524
Provided during the year	4,670	5,080	665	347	524	11,286
Disposals	(148)	(6,195)	(456)	-	(162)	(6,961)
Transfers/Others	933	200	9	(784)	236	594
At 31 December 2004	23,021	41,635	4,236	1,360	1,191	71,443
Net book values:						
At 31 December 2004	**79,771**	**18,307**	**2,608**	**221**	**10,966**	**111,873**
At 31 December 2003	70,073	17,501	1,901	8,951	1,295	99,721

The land and buildings were revalued as of 1 January 2003 for acquisition of subsidiaries made as of that date.

15. Other Assets

	2004 USD 000	2003 USD 000
Collateral pending sale	**22,919**	24,872
Bills receivable	**17,944**	17,805
Clearing house receivable	**12,351**	8,040
Good Faith Qard Fund	**6,725**	7,126
Istisna financing	**2,156**	7,193
Goodwill *	**40,000**	40,000
Others	**53,775**	44,001
Total	**155,870**	149,037
Provision (note 25)	**(3,583)**	(6,181)
	152,287	142,856

* This represents the excess of the Bank's interest in the net fair value of Albaraka Turkish Finance House identifiable assets, liabilities and contingent liabilities over cost.

16. Other Liabilities

	2004 USD 000	2003 USD 000
Cash margins	**68,642**	52,534
Bills payable	**34,742**	40,494
Other provisions (note 25)	**19,026**	7,959
Current and deferred taxation	**6,737**	9,850
Accrued expenses	**5,898**	8,584
Charity fund	**7,919**	5,636
Others	**66,680**	41,280
	209,644	166,337

17. Unrestricted Investment Accounts

	2004 USD 000	2003 USD 000
Unrestricted investment accounts	**3,330,200**	2,667,908
Profit equalisation and Investment risk reserve (note 17.1)	**169**	11,368
Cumulative changes in fair value attributable to unrestricted investment accounts	**2,690**	1,598
	3,333,059	2,680,874

17. Unrestricted Investment Accounts continued

17.1 Movement in profit equalization and investment risk reserve

	2004 USD 000	2003 USD 000
Balance at 1 January	**11,368**	-
Acquisition through subsidiaries (note 2)	**-**	43,716
Amount apportioned from income allocable to unrestricted	**(11,199)**	(12,521)
	169	31,195
Adjustment relating to murabaha revenue in Jordan Islamic Bank (note 38)	**-**	(19,827)
Balance at 31 December	**169**	11,368

18. Equity

	2004 USD 000	2003 USD 000
Share capital		
Authorised 1,500,000,000 ordinary shares of USD 1 each	**1,500,000**	1,500,000
Issued and fully paid		
20,000,000 ordinary shares of USD 1 each issued against cash	**20,000**	20,000
305,307,211 ordinary shares of USD 1 each issued in kind	**305,307**	305,307
	325,307	325,307

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 movements in foreign exchange translation adjustments represents the net foreign exchange translation loss arising from translating the financial statements of the Bank’s foreign subsidiaries into US Dollar.

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 Reserve maintained by the subsidiaries in accordance with local regulations.

19. Net Income from Jointly and Self Financed Contacts and Investments

	Year ended 31 December 2004 USD 000	27 June 2002 to 31 December 2003 USD 000
Mudaraba financing	**7,928**	2,259
Income from associate	**20,022**	5,832
Ijarah assets and Ijarah Muntahia Bittamleek	**131,111**	136,039
Trading securities	**5,603**	7,996
Income from self financed sales	**19,327**	15,147
Others	**67,476**	16,410
Total	**251,467**	183,683
Net income from jointly financed contracts and investments	**99,693**	93,328
Net income from self financed contracts and investments	**151,774**	90,355
	251,467	183,683

20. 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.

21. Other Fee and Commission Income

	Year ended 31 December 2004 USD 000	27 June 2002 to 31 December 2003 USD 000
Letters of credit	**12,725**	10,545
Fees and commissions	**18,521**	13,662
Guarantees	**2,449**	1,879
Acceptances	**875**	654
Others	**11,236**	7,407
	45,806	34,147

22. Other Operating Income

	Year ended 31 December 2004 USD 000	27 June 2002 to 31 December 2003 USD 000
Foreign exchange gain	**10,435**	18,780
Rental income	**494**	2,063
Others	**19,907**	13,383
	30,836	34,226

23. Depreciation and Amortisation

	Year ended 31 December 2004 USD 000	*27 June 2002 to 31 December 2003* USD 000
Ijarah Muntahia Bittamleek (note 9)	**133,023**	81,780
Fixed assets (note 14)	**11,286**	9,448
Amortisation	**1,076**	605
	145,385	91,833

24. Operating Expenses

	Year ended *31 December 2004* USD 000	*27 June 2002 to 31 December 2003* USD 000
Administration	**21,093**	22,536
General	**13,819**	11,720
Business	**3,516**	3,753
Premises	**3,015**	2,801
	41,443	40,810

25. Provisions

2004	Sales receivables USD 000	Mudaraba financing USD 000	Musharaka financing USD 000	Salam financing USD 000	Non-trading investments USD 000	Ijara receivable USD 000	Other assets USD 000	Other provisions USD 000	Total USD 000
Beginning Balance	127,868	2,029	283	2,179	5,706	1,123	6,181	7,959	153,328
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
	121,417	1,826	519	2,179	1,337	1,181	6,259	39,586	174,304
Written off during the year	(5,339)	(935)	(224)	-	-	-		-	(6,498)
Other adjustments	12,060	-	645	(2,179)	4,980	-	(2,681)	(20,560)	(7,735)
Provision at end of the year	128,138	891	940	-	6,317	1,181	3,578	19,026	160,071
Notes	4	6	7	11	12	13	15	16	

25. Provisions continued

2003	Sales receivables USD 000	Mudaraba financing USD 000	Musharaka financing USD 000	Salam financing USD 000	Non-trading investments USD 000	Ijara receivable USD 000	Other assets USD 000	Other provisions USD 000	Total USD 000
Acquisition through subsidiaries (note 2)	98,793	2,109	230	1,032	6,516	1,123	2,656	-	112,459
Charged during the period	71,581		85	1,334	120	-	3,635	11,496	88,251
Written back during the period	(33,875)	(80)	-	(187)	(930)	-	(110)	(110)	(35,292)
	37,706	(80)	85	1,147	(810)	-	3,525	11,386	52,959
	136,499	2,029	315	2,179	5,706	1,123	6,181	11,386	165,418
Written off during the period	(2,325)	-	(15)	-	-	-	-		(2,340)
Other adjustments	(6,306)	-	(17)	-	-		-	(3,427)	(9,750)
Provision at end of the period	127,868	2,029	283	2,179	5,706	1,123	6,181	7,959	153,328
Notes	4	6	7	11	12	13	15	16	

26. Cash and Cash Equivalents

	2004 USD 000	2003 USD 000
Cash in hand	**66,098**	54,422
Balances with central banks excluding mandatory reserve	**932,630**	771,906
Balances with other banks	**341,511**	306,379
Commodity Murabaha	**251,711**	647,185
	1,591,950	1,779,892

27. 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:

	Year ended 31 December 2004 **USD 000**	*27 June 2002 to 31 December 2003* USD 000
Income from sales receivable	**1,296**	2,380
Net income from jointly financed contracts and investments	**11,909**	1,009
Net income from self financed financing and investments	**3**	123
Other fees and commission income	**-**	14
Other operating income	**-**	6
Return on unrestricted Investments	**215**	164
Operating expenses	**-**	250

27. Related Party Transactions continued

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

	2004 USD 000	2003 USD 000
Assets:		
Cash and balances with banks	**855**	4,802
Sales receivable	**17,246**	35,384
Mudaraba financing	**85,416**	64,826
Ijarah Muntahia Bitamleek	**9,141**	3,851
Investment in associates	**61,390**	95,743
Liabilities:		
Customer current and other accounts	**1,130**	693
Other liabilities	**1,880**	26,800
Unrestricted investment accounts	**25,973**	-

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

28. Commitments and Contingent Liabilities

	2004 USD 000	2003 USD 000
Letters of credit	**97,394**	102,145
Guarantees	**128,607**	123,629
Acceptances	**32,150**	30,901
Obligations under fixed assets (note 14)	**-**	2,000
Others	**239,357**	381,897
	497,508	640,572

29. 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.

Sales receivables

The Group finances these transactions through buying the 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.

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

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.

30. 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:

	2004				2003			
	Assets USD 000	Liabilities USD 000	Unrestricted Investment Accounts USD 000	Restricted Investment Accounts USD 000	Assets USD 000	Liabilities USD 000	Unrestricted Investment Accounts USD 000	Restricted Investment Accounts USD 000
Geographic region:								
Domestic (Bahrain)	**274,689**	**23,334**	**165,438**	**22,413**	310,590	57,316	42,063	14,205
Other Middle East	**2,400,605**	**631,828**	**1,857,795**	**277,833**	707,708	251,060	753,607	24,164
Europe	**1,293,593**	**199,563**	**732,853**	**11,501**	909,842	252,326	524,289	30,121
Asia	**198,009**	**62,090**	**124,582**	**-**	1,430,921	251,618	1,077,914	259,067
Africa	**693,418**	**239,788**	**393,021**	**-**	685,186	130,231	282,947	5,331
Others	**196,405**	**1,129**	**59,370**	**2,340**	72,231	2,532	54	2,366
	5,056,719	**1,157,732**	**3,333,059**	**314,087**	4,116,478	945,083	2,680,874	335,254

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

	2004			2003		
	Total Operating Income USD 000	Net Operating Income USD 000	Net income USD 000	Total Operating Income USD 000	Net Operating Income USD 000	Net income USD 000
Geographic region:						
Domestic (Bahrain)	**20,506**	**6,071**	**5,969**	3,054	1,049	864
Other Middle East	**75,965**	**16,656**	**11,629**	81,221	15,868	9,727
Europe	**178,403**	**16,500**	**12,165**	153,643	18,587	17,227
Asia	**8,184**	**3,084**	**2,416**	5,917	2,617	1,748
Africa	**37,367**	**18,387**	**4,475**	29,361	(20)	(2,386)
Others	**191**	**191**	**191**	288	2,957	105
	320,616	**60,889**	**36,845**	273,484	41,058	27,285

31. 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.

32. 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 over a given period. Except for certain investment deposits, the Group is not liable to pay any predetermined returns to investment account holders.

33. Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group views itself as a USD entity, with the USD as its functional currency. The Board of Directors of subsidiary companies set limits on the level of exposure on positions by currency.

The Group had the following significant net exposures denominated in foreign currencies as of 31 December 2004:

	2004 USD 000 equivalent long (short) USD 000	2003 USD 000 equivalent long (short) USD 000
Turkish Lira	**(8,491)**	(13,649)
Saudi Riyal	**8,737**	25,400
Tunisia Dinar	**1,676**	86,074
Jordanian Dinar	**(107,893)**	(40,954)
Bahraini Dinar	**17,818**	9,281
Lebanese Pound	**(7,084)**	3,233
Pound Sterling	**3,045**	2,025
Algerian Dinar	**-**	(1,399)
Euro	**16,769**	(7,158)
Egyptian Pound	**(50,285)**	(14,968)
Others	**-**	(981)

34. 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 liquid funds.

34. Liquidity Risk continued

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

	Up to 1 month USD 000	1 to 3 months USD 000	3 to 6 months USD 000	6 months to 1 year USD 000	1 to 3 years USD 000	Over 3 years USD 000	Total USD 000
Assets							
Cash and balances	1,432,896	160,506	1,500	1,214	3,688	26,708	1,626,512
Sales receivable	289,938	337,165	353,179	298,153	489,018	335,987	2,103,440
Trading securities	1,250	-	-	-	-	-	1,250
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	-	75,219	116,328
Non-trading investments	11,258	16,932	73,806	156,077	82,416	144,735	485,224
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

34. Liquidity Risk continued

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

	Up to 1 month USD 000	1 to 3 months USD 000	3 to 6 months USD 000	6 months to 1 year USD 000	1 to 3 years USD 000	Over 3 years USD 000	Total USD 000
Assets							
Cash and balances with banks	1,236,120	50,262	-	103	4,640	16,764	1,307,889
Sales receivable	316,559	176,951	234,626	195,389	197,136	621,066	1,741,727
Trading securities	273	-	-	-	25,996	-	26,269
Mudaraba financing	4,167	1,000	4,707	1,624	61,807	11,473	84,778
Musharaka financing	-	-	-	-	5,340	38,774	44,114
Investment properties	-	-	-	-	-	43,092	43,092
Ijarah Muntahia Bittamleek	-	80	4,264	2,627	138,365	14,102	159,438
Investment in associates	-	-	-	-	-	95,743	95,743
Salam financing	15,668	20,872	11,063	5,893	11,252	3,714	68,462
Non-trading investments	59,006	4,619	3,939	93,802	2,221	115,395	278,982
Ijarah receivables	1,433	188	7,121	11,951	2,032	682	23,407
Fixed assets	-	-	-	-	-	99,721	99,721
Other assets	29,800	3,097	29,617	2,332	20,101	57,909	142,856
Total assets	1,663,026	257,069	295,337	313,721	468,890	1,118,435	4,116,478
Liabilities							
Customer current and other accounts	677,643	33,502	-	25,312	-	-	736,457
Due to banks	15,659	15,701	10,929	-	-	-	42,289
Other liabilities	41,717	10,672	52,522	21,832	8,000	31,594	166,337
Total Liabilities	735,019	59,875	63,451	47,144	8,000	31,594	945,083
Unrestricted investment accounts	439,959	805,809	301,700	606,727	318,599	208,080	2,680,874
Total liabilities and unrestricted investment accounts	1,174,978	865,684	365,151	653,871	326,599	239,674	3,625,957
Net liquidity gap	488,048	(608,615)	(69,814)	(340,150)	142,291	878,761	490,521

35. 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.

36. 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.

On-balance sheet financial instruments include items such as cash and cash equivalents, securities held for trading, non trading investments, mudaraba financing, musharka financing and istisna financing.

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

37. Social Responsibility

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

38. Comparatives

The period from 27 June 2002 to 31 December 2003 was the first period of operation for the Bank, therefore the consolidated statements of income, cash flows, changes in equity, changes in restricted investment accounts and sources and uses of charity fund are not comparable.

Corresponding figures for 2003 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported net profit or shareholders' equity.

The financial statements for 2003 were qualified since the financial statements of Jordan Islamic Bank were not prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions for recognition of revenue from sales receivables, since such revenue was not deferred over the period of the contract. This treatment was allowed under the special law of 1985 for Jordan Islamic Bank. In the year 2000, the Central Bank of Jordan (CBJ) approved a transition plan to apply the accrual basis in recognizing revenue commencing from 2004 and within a period ending in 2008. As of the end of 2003, it was not practical to make a detailed assessment of the effect of such non-compliance.

During 2004, the management made a detailed assessment of the effect of such non-compliance and as a result, adjustments of USD 19.8 million were made to the opening balance of investment risk reserve (note 17.1) and USD 3.4 million to other provisions under other liabilities (note 25), representing the investors' share of the excess profits reported up to the date of acquisition (1 January 2003). Since the effect on the consolidated income statement for 2003 was considered not material, a restatement has not been done and a cumulative downward adjustment of USD 4.9 million was made in 2004.

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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:

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Vice Chairman & General Manager

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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:

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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 8 branches in Bahrain and Pakistan. The contact details of the bank are:

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Mr. Shafqaat Ahmed
Regional General Manager
& Country Head

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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
Managing Director & General Manager

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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

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Fax: +249183 788 585
Website: www.albarakasudan.com

AlBaraka Bank Ltd
AlBaraka Bank Ltd was established in June 1984 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.
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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. Fouad N. Matraji
Deputy General Manager

AlBaraka Bank Lebanon
Rashid Karameh Street
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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 5 branches. The contact details of the bank are:

Mr. Essa Al-Haidosi
Vice Chairman & General Manager

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The Egyptian Saudi Finance bank
The Egyptian Saudi Finance bank was incorporated in 1989 and its activities consist of retail and commercial banking. The bank operates 12 branches and 3 offices. The contact details of the bank are:

Mr. Ashraf Al Ghamrawi
Managing Director

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AlBaraka Turkish Finance House
AlBaraka Turkish Finance House was established in 1984. The bank's activities consist of retail and commercial banking. The bank operates 39 branches. The contact details of the bank are:

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