albaraka banking group

The Natural Leader in Islamic Banking

Annual Report 2006

VISION
STRATEGY
STRENGTH

Contents

Mission

Our mission is to be the leading Islamic banking group with a worldwide presence, offering retail, commercial, investment banking and treasury services strictly in accordance with the principles of the Shari'a.

Mission and Strategic Objectives

Strategic Objectives

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

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

	Year to 31 December 2006	Year to 31 December 2005
Earnings (US$ millions)		
Operating Income	339.6	297.8
Operating Expenses	166.9	151.3
Net Income Attributable to Equity Shareholders of the Parent	80.2	79.4
Earnings per Share (US cents)	15	16
Financial Position (US$ millions)		
Total Assets	7,625.8	6,307.1
Total Shareholders' Equity	978.6	566.3
Total Liabilities	1,717.3	1,506.8
Customer current and other accounts	1,334.0	1,185.6
Unrestricted Investment Accounts	4,697.4	4,033.1
Ratios (%)		
Profitability		
Return on Average Shareholders' Equity	10.39%	16.06%
Return on Average Paid-In Capital	15.77%	22.25%
Return on Average Assets	1.15%	1.40%
Capital		
Shareholders' Equity as % of Total Assets	12.83%	8.98%
Total Financing and Investments as a multiple of Equity (times)	5.57	7.38
Asset Quality		
Net Asset Value per Share (US$)	1.6	1.5
Other		
Number of Employees	5,435	4,846
Total number of branches	215	185
CAPITALISATION (US$ Thousands)		
Authorised	1,500,000	1,500,000
Subscribed and fully paid up	630,000	387,998

Net Income attributable to Equity Shareholders of the Parent (US$ 000)

80,252

Total Assets (US$ 000)

7,625,827

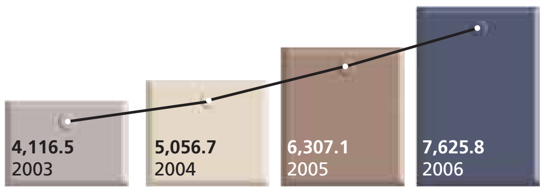
Total Shareholders Equity (US$ 000)

978,597

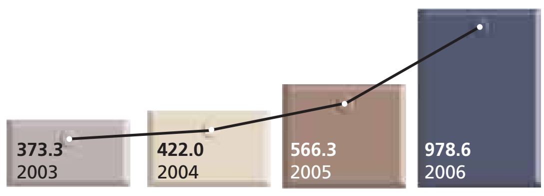
Registered Address
P.O. Box 1882, Manama, Kingdom of Bahrain

All figures in US$ Millions as applicable

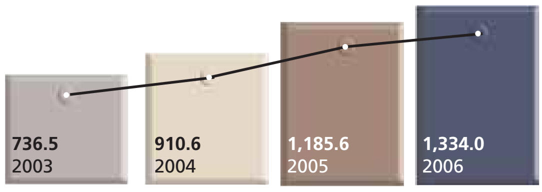
Total Assets



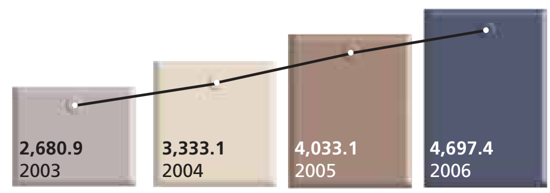
Total Shareholders' Equity



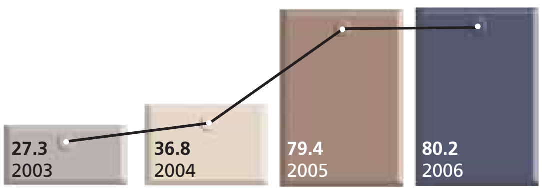
Customer Current & Other Accounts



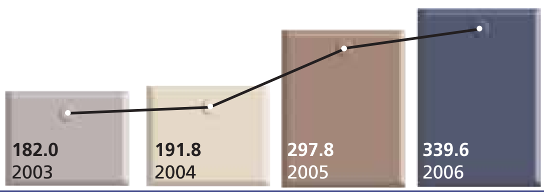
Unrestricted Investment Accounts



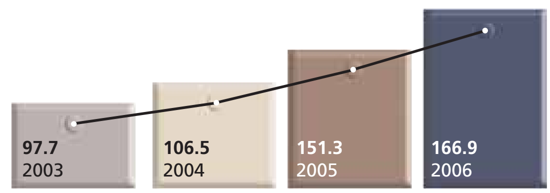
Net Income attributable to equity shareholders of the Parent



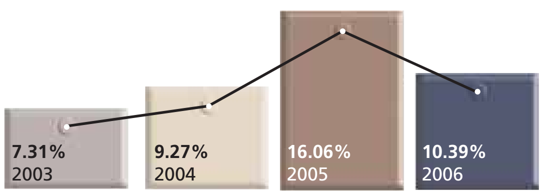
Operating Income



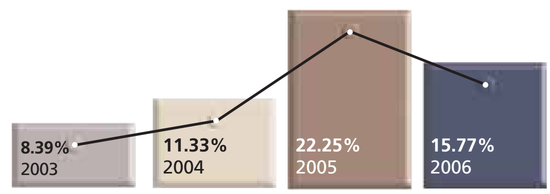
Operating Expenses



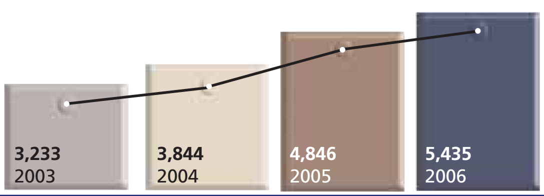
Return on Average Shareholders' Equity



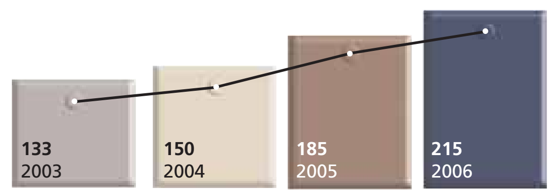
Return on Average Paid in Capital



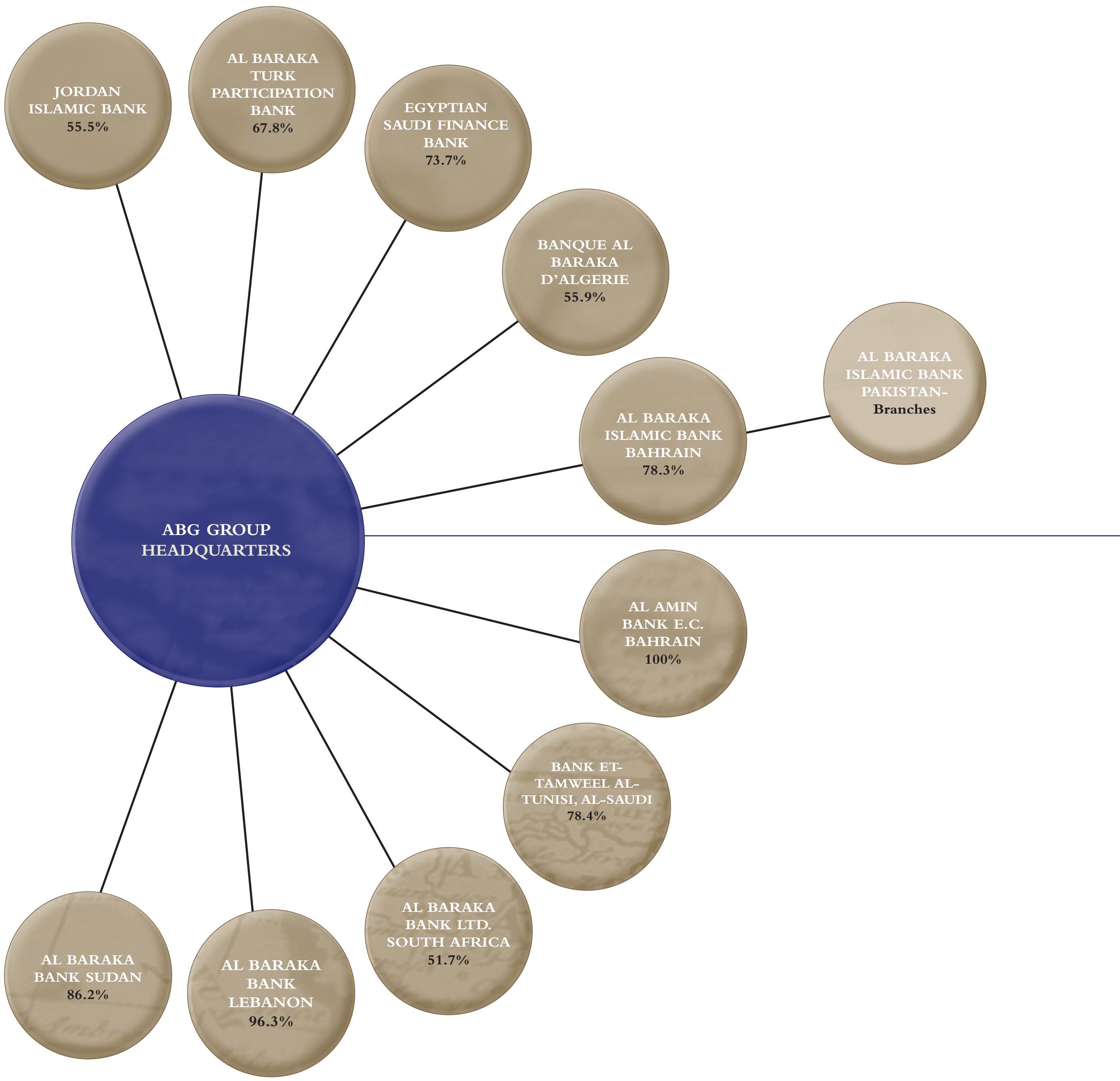
Number of Employees

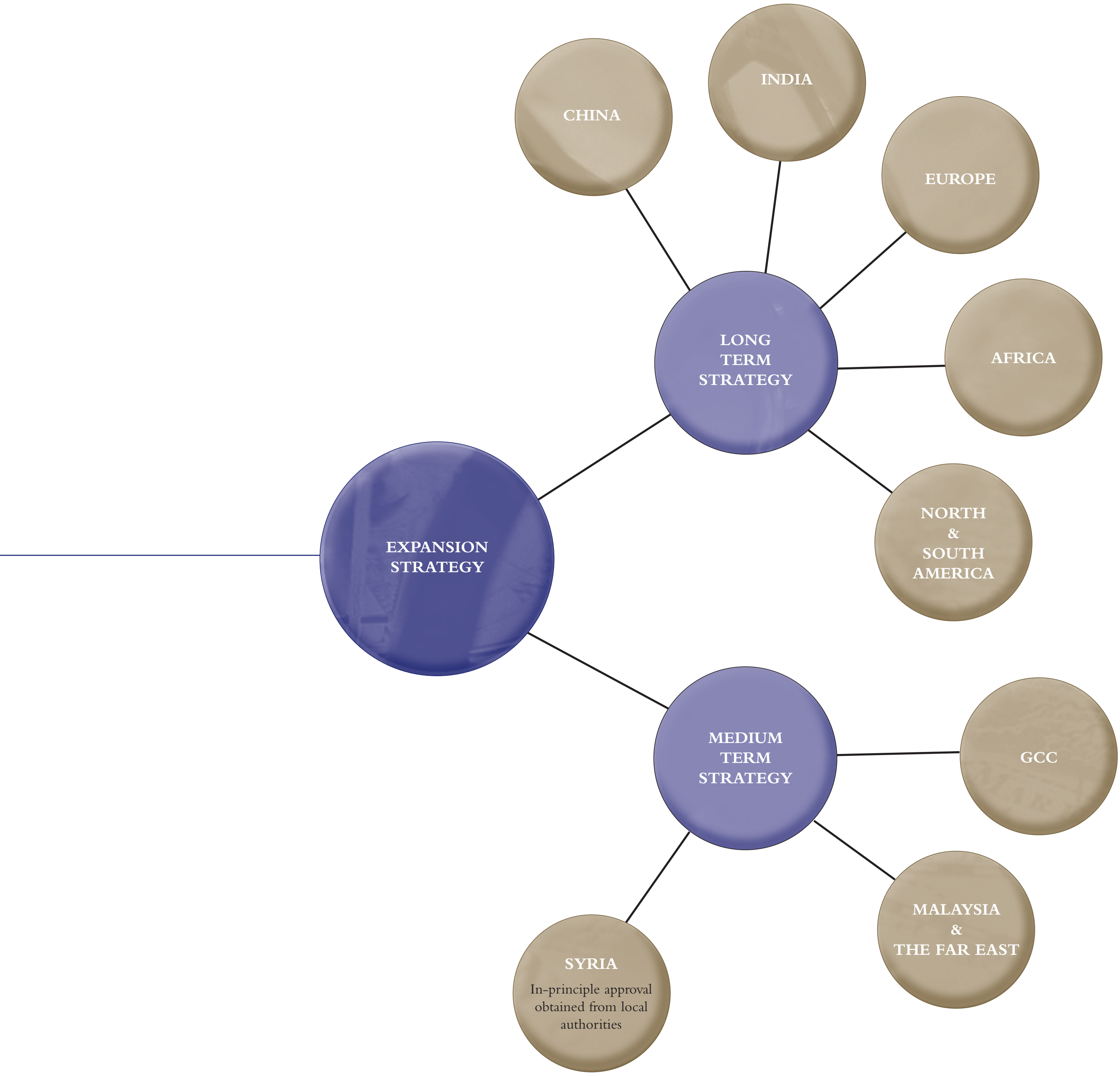


Total Number of Branches



Albaraka Banking Group (ABG)




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

Board of Directors and Shari'a Supervisory Board

Board of Directors

Shaikh Saleh Abdullah Kamel
Chairman

Mr. Abdulla A. Saudi
Vice Chairman

Mr. Abdullah Saleh Kamel
Board Member

Mr. Saleh Mohamed Al-Yousef
Board Member

Mr. Adnan Ahmed Yousif
Board Member

Dr. Anwar Ibrahim
Board Member

Mr. Abdul Elah A. Sabbahi
Board Member

Mr. Ibrahim Fayez Al Shamsi
Board Member

Mr. Ghanim Saad M. Al Saad
Board Member

Mr. Jamal S.J. Bin Galaita
Board Member

Mr. Ghassan Abdul Kareem A. Sulaiham
Board Member

Mr. Salah Othman Abuzaid
Secretary to the Board

Shari'a Supervisory Board

Shaikh Dr. Abdul Sattar Abu Ghuddah
Chairman

Shaikh Abdullah Mannea
Member

Shaikh Dr. Abdulatif Al Mahmood Al Mahmood
Member

Shaikh Dr. Abdulaziz Alfawzan
Member

Dr. Ahmed Mohyedeen Ahmed
Member

Board Committees

EXECUTIVE COMMITTEE

Mr. Abdullah Saleh Kamel
Committee Chairman

Mr. Abdul Elah A. Sabbahi
Member

Mr. Ghanim Saad M. Al Saad
Member

Mr. Adnan Ahmed Yousif
Member

BOARD AFFAIRS AND REMUNERATION COMMITTEE

Mr. Ibrahim Fayez Al Shamsi
Committee Chairman

Mr. Jamal S.J. Bin Galaita
Member

Mr. Ghanim Saad M. Al Saad
Member

Mr. Adnan Ahmed Yousif
Member

AUDIT COMMITTEE

Mr. Saleh Mohamed Al-Yousef
Committee Chairman

Dr. Anwar Ibrahim
Member

Mr. Ibrahim Fayez Al Shamsi
Member

RISK COMMITTEE

Mr. Abdul Elah A. Sabbahi
Committee Chairman

Mr. Jamal S.J. Bin Galaita
Member

Mr. Ghassan Abdul Kareem A. Sulaiham
Member

Mr. Adnan Ahmed Yousif
Member

Sheikh Saleh Abdullah Kamel
Chairman

Directors' Report

(All figures in US Dollars unless otherwise stated)

"The Group now has in place growth strategies which are based on its intimate knowledge of the markets in which it is represented and its expertise in the wide range of Islamic retail, commercial and investment banking services in which it is engaged."

Global and Regional Economies

Despite high prevailing oil and commodity prices, global GDP growth strengthened in 2006, reflecting both the rapid expansion in the economies of the undeveloped countries, which grew by an estimated 7.0%, and moderate growth in the developed world. The largest contributors were once again China and India, whose economies are estimated to have grown by 10.4% and 8.7% respectively, but all regions experienced some growth. Among the developed countries the United States economy, which began the new year strongly but moderated later on in response to higher short-term interest rates and a weakening housing market, recorded an estimated 3.2% average rate of growth. Growth also accelerated in Europe, driven by robust consumer demand and expanding exports, with an estimated 2.5% overall increase. Japan's recovery, begun in 2005, maintained its momentum as its GDP expanded by an estimated 2.9%, led by an 11% expansion in exports.

High energy prices continued to be the key drivers for the economies of the Arab oil and gas producers, while oil importers in the Arab world benefited from strong investment and remittance flows from both the high-income oil exporters and the euro zone, with increased agricultural output in the Maghreb and higher tourism earnings throughout the Middle East and North Africa region being additional contributing factors. Strong liquidity fed through to greater consumer demand and appreciating regional stock and housing markets. Growing demand-led inflation, meanwhile, was met by rising interest rates and the gradual removal of the monetary policy stimulus that has characterised the past several years.

As for the countries where Albaraka Banking Group is mainly represented, 9 out of 10 of them had a good year, with GDP growth at or exceeding 6% in the majority of cases. Turkey's economy managed slightly less with a 5.2% growth rate, while South Africa's recorded 4.9% and Algeria's 4.8%. The exception, of course, was Lebanon, where the war and continuing political uncertainty weighed heavily on economic activity in the first three quarters and, although reconstruction efforts undoubtedly contributed to growth in the latter part of the year, overall GDP is expected to have contracted by about 3.2% in 2006.

2006 Review

Beyond a doubt the year was marked by the success of Albaraka Banking Group's which was crystallized by the increase of the paid up capital through the offering of the new share issue by means of an Initial Public Offering (IPO), which resulted in an increase in the paid up capital from $510 million to $630 million and in the shareholders' equity from $0.6 billion to about $1.0 billion. The IPO was successfully concluded in July 2006 with the dual listing of ABG's shares on the Bahrain and Dubai International Financial Exchange. The issue attracted a wide range of investors from outside the Arab world as well as from GCC and other Arab countries. Accordingly, the number of ABG's shareholders has increased substantially to more than 1,700.

The expanded economic activity across most of the Group's operating areas was reflected, in every case save Lebanon, in a surge in its operating revenues from jointly financed contracts with unrestricted investment accounts, as current accounts rose in the majority of cases and investment accounts grew significantly at all units.

After distribution to its investors of their share of income, the Group's share as mudarib and on its own account rose by 29% to $170 million. Including the income from self-financed contracts and investments, mudarib share for managing restricted investment accounts, fees, commissions and other operating income, the Group reported a 14% increase in total operating income to $340 million and, after operating expenses, a net operating income 18% higher than the previous year at $173 million. After deduction of provisions and taxation, the net income was $124 million compared with 2005's $103 million, an increase of 20%.

In light of the Group's performance in 2006, the Board of Directors has recommended a dividend distribution to the shareholders of 5.2% of the paid up capital, comprising cash dividends amounting to $12 million, and bonus shares amounting to $21 million. The Board has also recommended a remuneration distribution of $430,000, a transfer of $8 million to legal reserves, with $39 million being allocated to retained earnings.

Enhancement of shareholder value is our prime business driver.

Directors' Report continued

(All figures in US Dollars unless otherwise stated)

The Way Ahead

"The Group has formulated its strategies for the next phase of its development, founded on four aims: increasing profitability, product innovation, technology enhancement and improved customer service."

The existence of Albaraka Banking Group today, and indeed its continuing success, owes much to the perception that there is a genuine need for a global Islamic banking network offering a full range of retail, commercial, investment banking and treasury services. ABG was therefore formed to bring together, under single ownership, ten separate banks and financial services companies in the Middle East, Pakistan, North Africa, Turkey, and South Africa, in order to create a financially strong platform from which to expand worldwide.

From its beginnings in 2002 with an initial core management team, ABG's first task was to achieve full consolidation under AAOIFI and IFRS Islamic and International Reporting Standards. It then proceeded to establish a corporate governance infrastructure consistent with modern international banking standards, including Board level committees, with responsibility for audit, Board member and executive remuneration and risk management, and Management committees, to address Asset/Liability management, Credit, Information Technology and Basel II compliance amongst others.

The success of ABG's share issue now makes it possible for the Group to begin implementing the next phase of its long-term strategy, which is to expand its operations in regional, Arab and international markets, both through expansion of the existing units' branch networks and by expansion into new markets. The issued share capital of several of the unit banks have therefore been increased to better fit them for the tasks ahead. Steps have also been taken to apply for a banking licence to establish a unit in Syria, while studies are in various stages of advancement with a view to establishing operations in selected countries in the Far East and the GCC. At the same time, at Group headquarters the core management team is being expanded to ensure senior management control of, and ongoing development in, areas such as commercial banking, global treasury, risk management and credit policy, legal services, IT, operations and administration.

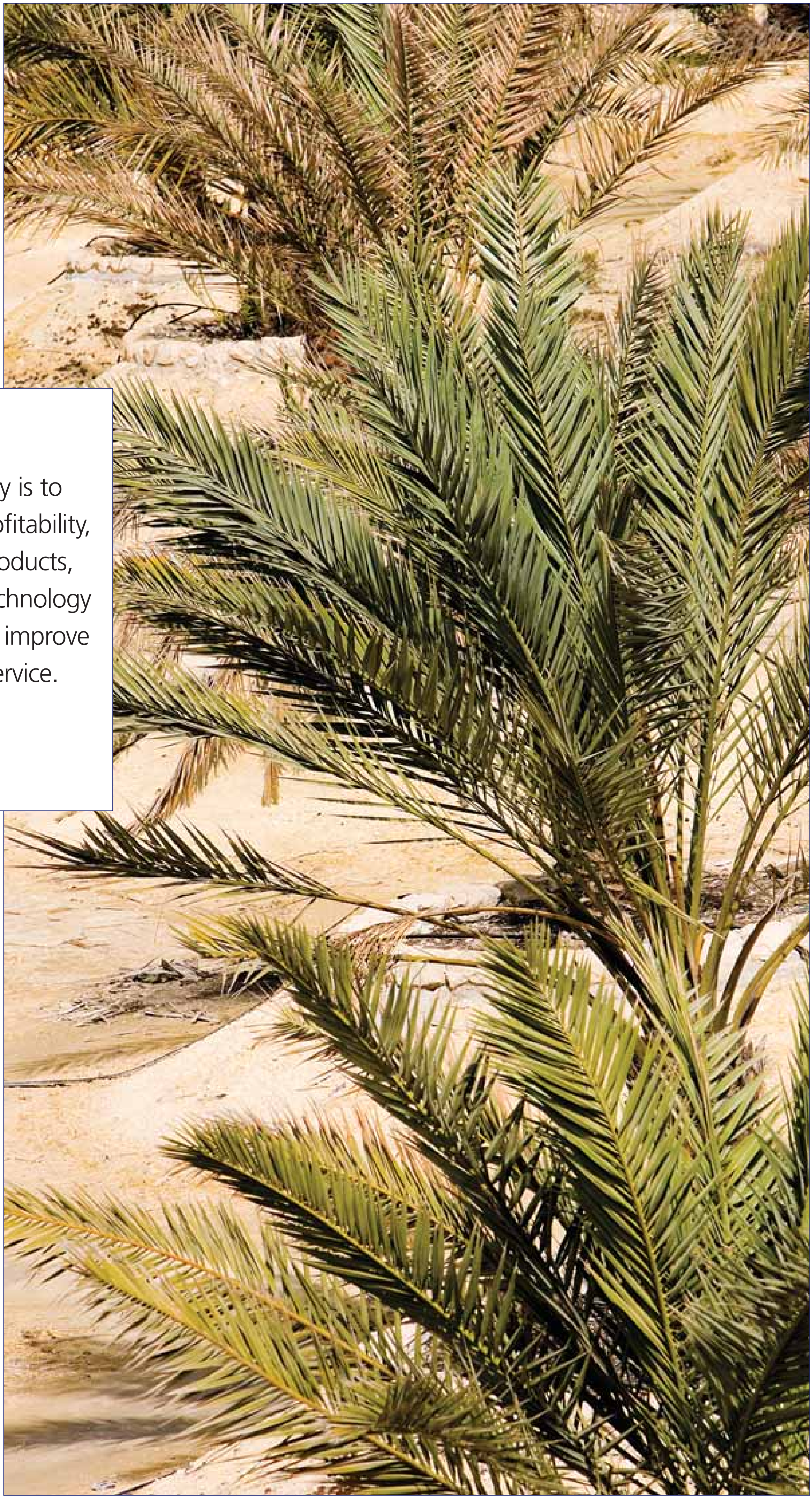
Moving now beyond its initial strategic objectives of consolidation, conversion from a closed company to a public joint stock company, the raising of fresh capital and the commencement of geographical expansion, the Group has formulated its strategies for the next phase of its development. These strategies are founded on four aims: increasing profitability, product innovation, technology enhancement and improved customer service. The Group aims to achieve these objectives through rationalising and strengthening its internal business processes and support methodologies, enhancing its image and diversifying its product and business base to increase its competitiveness and market share in its targeted operational areas.

Much has been achieved in ABG in its first year of public ownership, with the implementation of effective corporate governance and control systems, policies and processes, ground-breaking public disclosure and transparency in a highly successful IPO and installation of advanced reporting IT systems. In a highly competitive market, the Group has shown a creditable performance in 2006.

All this has been achieved through the continuing hard work, dedication and application of the management team and all the operating unit heads and staff, and I should like to take this opportunity on behalf of the Board to extend our gratitude to everyone involved.

We would also like to thank our Shari'a Supervisory Board, and the many regulatory authorities with which the Group deals, for their assistance and advice over the past year, particularly the Ministry of Commerce and Industry, the Central Bank of Bahrain, the other central banks responsible for the regulation of the units located outside Bahrain, the Bahrain Stock Exchange and the Dubai Financial Services Authority, all of whom have contributed so greatly to the success of our enterprise to date.

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



Our Strategy is to increase profitability, innovate products, enhance technology and further improve customer service.

Executive & Senior Management

Adnan Ahmed Yousif
President & Chief Executive

Othman Ahmed Suliman
Deputy Chief Executive

Sayed Majeed Hussain Alawi
Senior Vice President - Head of Internal Audit

K. Krishnamoorthy
Senior Vice President - Head of Strategic Planning

Abdulrahman Shehab
Senior Vice President - Head of Operations & Administration

Hamad Abdulla Ali Eqab
First Vice President - Head of Financial Control

Jozsef Peter Szalay
First Vice President - Head of Credit & Risk Management

Abdul Rauf Sivany
First Vice President - Head of Treasury & Investments

Dr. Ahmed Mohyedeen
Head of Research & Development

ABG Management

Mr. Adnan Ahmed Yousif
President and Chief Executive

President & Chief Executive's Report

(All figures in US Dollars unless otherwise stated)

"ABG exhibited good progress in 2006 as the Group's operating units took full advantage of increased sources of funding and investment accounts to maximise its turnover, particularly in murabaha and investment opportunities."

Introduction

2006 was once again a year of solid progress for the Group, as it expanded both its funding sources and its earning assets out of nearly all its operating units. Increases of over 12% in the Group's total customer accounts and 16% in its unrestricted investment accounts were mainly responsible for the 16% rise in total liabilities. The restricted investment accounts, too, showed a healthy rise, growing by 32% over the course of the year. Total equity, of course, also grew significantly, as a direct result of ABG's Initial Public Offering concluded in July and the addition of its net income for the year. Total assets in turn increased by 21%, largely due to growth in the operating units' aggregate murabaha portfolios and investments and their Ijarah Muntahia Bittamleek portfolios.

Although the influx of new capital emanating from ABG's highly successful IPO did not impact on the Group's financial resources until well into the second half of the year, ABG nevertheless made good use of the time available to it in the second half to enlarge the capital of those banking units most able to make use of it. During the year, ABG increased its participation in the share capital of five of the ten units as part of the Group's strategy to prepare them for expansion in their respective territories. The results of these initiatives can be seen by the 20% increase in the Group's bottom line net income.

In addition, progress was made in our application for a licence to operate in Syria - where we expect to be opening for business this year. In the meantime, as the Chairman has pointed out in the Directors' Report, we are actively engaged in considering a number of Far Eastern and Gulf locations for expansion in the medium term.

ABG expects to commence its own commercial banking operations, as forecast in my report last year, probably at the same time as Albaraka Islamic Bank and Al Amin Bank are merged into a single solely Bahrain-based entity later in 2007.

Now, as we look forward to what we confidently anticipate will be a further year of performance delivery, we will also be continuing the work begun with ABG's formation, as we gradually weld together a powerful banking group that will increasingly benefit from the synergies available from cross-border business interaction between our different units, while accessing the advantages of our combined strength and will to pursue our Mission – to be the leading Islamic banking group, worldwide.

Review of Units

I am pleased once again to provide a brief review of the work of each of our constituent banks. 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, 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 (Jordan) ("JIB")

Jordan Islamic Bank was established in 1978 as Jordan's first Islamic bank. Listed on the Amman Stock Exchange, it is the oldest unit in the Group. JIB currently maintains a network of 64 branch together with a service office at its bonded warehouse. Its 59-strong ATM network is linked to JONET, the Jordan national payment network, as well as the Visa International network. One of only two Islamic banks in Jordan, JIB is its 3rd largest bank by total assets and total deposits held, despite the fact that it cannot extend to its customers the full range of facilities permitted by the banking regulations, as many of these fail to conform to the principles of the Shari'a. JIB's extensive product range includes murabaha, diminishing musharaka, Ijara Muntahia Bittamleek, as well as investments in Islamic sukuks and property development for on-sale or lease to its customers. It maintains real-time electronic linkage between all its branches and head office, and offers a full range of retail services including personal finance products, rent finance to enable customers to acquire their own houses, credit/charge card issuance, e-banking, speed cash and MoneyGram transfer services.

In 2006 JIB transferred the growing business of its financial brokerage office, based at the Amman Stock Exchange, to a separate brokerage company established for the purpose. It also obtained the coveted ISO 9001:2000 in management systems, reflecting its strong performance in production and management-related issues and its push towards achieving its objectives

With a banking presence in ten geographically diverse regions and an asset base in excess of US$ 7 billion, Albaraka Banking Group has the financial strength to take advantage of the growing opportunities in the marketplace.

in terms of improving, updating and developing its services. With an enviable and consistent track record since its inception, the bank is proud that over the past 10 years it has paid out to its shareholders cash dividends alone equal to more than a third of its capital, in addition to dividends in the form of bonus shares equivalent to more than 100% of its capital.

"For 2007, JIB intends to maintain its current level of growth, expanding its investment and securities portfolio and to increase commissions and fee earnings."

In 2006 Jordan's GDP grew by an estimated 6.0%, which, although below the 7.2% growth seen in 2005 and 7.7% in 2004, nevertheless evidenced a respectable trend, particularly in the circumstances of the continuing instability in nearby countries. The country's balance of trade improved as exports soared by 18% while its imports increased by only 10%, feeding through into a fall in the unemployment rate and net debt and an increase in the Central Bank's foreign exchange reserves to over $6 billion, representing six months' imports. Export growth was driven chiefly by the clothing, machinery and transport, chemicals and tobacco industries while the reduced growth rate of imports reflected the lower growth of the economy as a whole, as did the fall in the number of traded shares on the Amman Stock Exchange and the share index. As part of its policy of maintaining the Jordanian Dinar/US dollar peg and to combat the rising rate of inflation, which reached 6% compared with 3.5% in 2005, the Central Bank again increased interest rates over the course of the year.

Despite the reduction in the economic growth rate, JIB was able to increase both its customer accounts and its unrestricted investment accounts, which rose by 7% and 10% respectively, utilising these resources to expand its overall asset base by 9%, in particular its murabaha sales receivables, which rose by $142 million or 23%, investment properties ($28 million or 83%) and Ijarah Muntahia Bittamleek ($17 million or 122%) portfolios.

The expanded business activity yielded a 15% increase in income to $86.3 million from jointly financed sales and investments which, after accounting for the bank's share as Mudarib, produced a 16% higher return of $37.6 million to the unrestricted investment account holders. JIB's total share of income from this source was $48.7 million, 15% higher than that for 2005. After including income from its own investments, its Mudarib share from managing restricted investment accounts and revenues from banking services, fees and commissions, its total operating income was 10% higher at $6.1 million. Despite a 16% rise in operating expenses to $28.2 million, partly on account of a rise in staff expenses and partly due to ongoing investment in information technology, the operating profit was 6% higher at $41.6 million which, after taxation, returned a net profit of $21.8 million, 18% up on the year before.

In 2007 JIB intends to maintain its current level of growth, in particular expanding its investment and securities portfolios, and to increase its commission and fee earnings and breadth of services provided. It also plans to issue its own Islamic sukuk. Meanwhile, it will make increasing investment in information technology.

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

ABTPB was incorporated in 1984 and granted its Special Finance House licence by the Central Bank in January 1985, permitting it to collect and utilise funds on an interest-free basis. Although it is the smallest of the four Turkish participation banks, it is the most efficient by conventional criteria, maintaining the highest ratio of assets and funds collected both per branch office and employee. This was so in 2006 even following a ferocious pace of expansion, as it added 20 new branches to its network to finish the year with 63 in total, each with its own ATM.

Turkey continued to maintain its three-year IMF economic stability programme in 2006, although a weakening of the Lira in the second quarter and an increase in the rate of inflation led to a sharp tightening of monetary policy and a slowdown in economic growth. The pace of growth weakened as GDP, estimated to be up 5.2% in 2006, fell below 2005's 5.8% growth rate. Industrial output growth nevertheless accelerated towards the end of the year, hitting a five-month high in November.

In 2006, partly as a result of the greatly expanded branch network, ABTPB achieved a 10% increase in its total customer accounts and a 19% increase in its unrestricted investment accounts. This growth in turn helped to fund the growth in its murabaha sales receivable portfolio, which expanded by 27% to $1.288 billion, as well as the 9% increase in its Ijarah Muntahia Bittamleek portfolio, which topped $103 million. This was consequently reflected in a 21% increase in total income from jointly financed sales and investments to $149.8 million. With an increased share allocated to the unrestricted investment account holders, who received $107.1 million or 34% more than in 2005, after taking into consideration the bank's share as Mudarib as well as for its own account, ABTPB's net share of income from these investment accounts was, at $42.7 million, only slightly (3%) less than the previous year. However, significantly higher revenues from its own sales and investments

– up 147% at $30.9 million - and from banking services, fees and commissions led to a 28% increase in operating income to $117.1 million. Lower depreciation and amortisation and other charges once again more than compensated for increased staff costs so that the net operating income at $61.3 million was 89% higher than the equivalent for 2005. Following a much reduced taxation credit compared with 2005's $7 million, and the absence of any monetary loss for hyperinflation compared with that year's $5 million adjustment, the bank reported a 58% higher net profit for 2006, of $50.7 million.

ABTPB will maintain the momentum on branch expansion during 2007 and also intends to develop and market new products, placing the emphasis for customer base expansion on small and medium-sized enterprises and consumer customers. In doing so it will intensify the marketing of its business credit card and alternative distribution channels such as Internet and call centre banking. While it moves towards Basel II capital allocation methodology and anti-money laundering compliance, it will also be preparing for its own Initial Public Offering of its shares in due course.

"ABTPB will maintain the momentum on branch expansion during 2007 and develop and market new products."

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

The Egyptian Saudi Finance Bank was incorporated in March 1980 and is listed on the Cairo Stock Exchange. It is one of 30 banks in Egypt, of which only two are Islamic banks. As at the end of 2006 ESFB had a network of 15 branches, in addition to several money changing bureaux in hotels and other strategically located sites. The bank is one of Egypt's smallest, with 1.2% of non-governmental deposits and 0.9% of total private sector credit. It currently employs 662 staff and its network includes the only women's branch in Egypt, in addition to a unit dedicated to customers with special needs.

Egypt's GDP grew by 6.8% in the fiscal year to June 2006, as industrial production rose by almost 9%, tourism revenues increased by 13% and Suez Canal revenues recorded their highest levels ever. Its traditionally large structural trade deficit stood at $11.1 billion in 2005 as exports, of which nearly half are petroleum and its derivatives, rose strongly by over 30% to $16.1 billion while imports rose by 26% to $27.2 billion. However, this trade deficit was offset in part by strong services and transfers balances including overseas workers' remittances, so that a current account surplus of $2.2 billion was recorded. Estimates are for a similar trade deficit and current account surplus for fiscal 2006. The government's programme of economic reform, begun in 2004, continued in 2006 as banks that were unable to increase their capital to the required level were forced to merge with their better capitalised competitors. However the rate of inflation, which had averaged 5% over 2001-5, picked up in 2006, peaking at an annualised 9% in September and forcing the Central Bank to push up interest rates.

Despite the negative impact of higher interest rates on ESFB as a non-interest paying Islamic bank, it was able to increase its customer current accounts, by 24% to $80 million, and its unrestricted investment accounts, by 28% to $1.040 billion, which additional funds were employed in a general expansion of its asset base which grew to $1.281 billion. Consequently, its murabaha sales receivables increased over the year by 23% to $540 million, while its mudaraba financing portfolio more than doubled to $45 million and its non-trading investments rose by 35% to $512 million. This business expansion led in turn to a 20% increase in income from jointly financed sales and investments to $80.4 million. ESFB distributed all of this income to the unrestricted investment account holders, retaining only its share as Mudarib of $13.9 million. After adding increased revenues from banking services, fees and commissions, it recorded a 12% increase in total operating income, to $22.2 million. As operating expenses rose by 20% to $11.0 million the bank therefore reported a net income of $4.7 million, a 38% improvement over 2005.

As part of its efforts to ensure a well-diversified portfolio, during 2006 the bank entered into a number of large syndicated transactions in consort with other Egyptian banks and international banks, covering a wide spread of industrial projects. It also extended its direct financings to large governmental and semi-governmental companies in different sectors and made a number of investments in new companies engaged in a variety of activities, including leasing, commercial centres and real estate development. On the liabilities front, the year saw the successful launch of the bank's new 3-year Euro deposit certificate with prizes and profit paid out quarterly, and its US$ deposit certificate with prizes and profit paid in advance. The bank also launched its first Islamic investment fund, in an amount of $50 million, the success of which was evidenced by its 50% oversubscription. In 2006 ESFB also commenced drawdown of the second tranche of funds made available by the Social Development Fund for the funding of small businesses and projects under a special scheme introduced in 2004, having fully utilised the first trance by 2005. It meanwhile progressed with the implementation of its plan to be Basel II-compliant within five years, reviewing its credit policy and credit rating system and processes, establishing management committees and appointing staff with specific responsibilities for the changes necessary.

In 2007 ESFB intends to expand its ATM system and to open three new branches, to bring its network up to 18, in addition to two new exchange bureaus located in tourism centres. It will prepare for the launch of its second investment fund which it hopes will be as successful as the first. It will also embark on a comprehensive plan to upgrade its computer network and systems, aiming to link all branches on-line with the central system and to introduce modern on-line services including Internet, telephone and SMS banking, as well as to establish a backup centre to ensure continuity of service.

President & Chief Executive's Report
continued

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

Banque Albaraka D'Algerie was formed in 1991 and is the only one of Algeria's 18 banks operating according to the principles of the Shari'a. Having opened 5 new branches in 2006 it now has a network of 16 operating throughout Algeria, maintained by 565 staff. Despite its size, and thanks to its strong foreign trade financing tradition, it holds an important position in the market, ranking second among the private banks and maintaining a 5.6% total market share.

In 2006 the Algerian government maintained its economic policies as it sought to reduce unemployment and stimulate investment-led growth through massive expenditure on labour-intensive housing, road and water projects and encouragement of foreign investment by gradual liberalisation of selected sectors of the economy. In an environment of high energy prices the economy grew strongly for the fourth year running, enjoying an estimated 4.8% GDP growth rate, mainly driven by the oil and gas sector which contributed 98% of all exports but with important activity also noted in the construction, public works, agriculture and service industries. At the same time, inflation was kept under control, declining to about 2%, while the official unemployment rate maintained its steady decline, falling to 12.3% by the year end. Foreign reserves soared by $20 billion to reach $75 billion, representing 3.5 years' imports, and foreign debt was reduced to $4.7 billion or 4% of GDP.

"Over the next two years BABD plans to expand its branch network and develop its retail banking services by broadening its product range."

Over the course of the year BABD's total assets rose by 18% to $626 million, funded mostly by an increased issued share capital and by increases in its customer accounts and unrestricted investment accounts. Other than liquid assets the additional funds were employed in extending the bank's murabaha portfolio, as sales receivables increased by 19% to $369 million, and its Ijarah Muntahia Bittamleek portfolio which grew by 20% to nearly $23 million. As a result, the total income from jointly financed sales and investments grew by 32% to $27.7 million so that, after accounting for a 13% increase in the share due to the unrestricted investment account holders, the bank's share including its share as Mudarib was up 43% at $19.1 million. Including revenues from banking services, fees and commissions and other operating income, BABD's total operating income was 63% higher at $41.0 million. After operating expenses, at $21.4 million 27% above 2005's on account of increased staff costs, depreciation and amortisation due in part to the network expansion, net income was 51% higher, at $14.1 million.

Over the next two years BABD plans to open a further 14 branches, as well as to install an ATM network and replace its IT systems. It will also be developing its retail banking services by broadening its product range.

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

Albaraka Islamic Bank began as an offshore investment bank in 1984 under the name of Albaraka Islamic Investment Bank B.S.C. (E.C.). In 1991 it spread its operations to Pakistan when it was granted a licence to operate there by the State Bank of Pakistan. It changed its name to the present form after being granted an additional commercial banking licence in December 1998 by the Bahrain Monetary Agency. AIB currently has eleven branches in Pakistan, located in the major centres of Lahore (3), Karachi (4), Islamabad, Faisalabad and Rawalpindi (2), and three in Bahrain. In view of the present importance of the Pakistan unit - whose activities constitute more than a third of the bank's total operations – and of the Pakistan economy to the bank, the following economic review focuses on Pakistan, while a review of the Bahrain economy may be found in the section dealing with Al Amin Bank below.

Driven by increased private consumption and investment, Pakistan's economy grew by an estimated 6.2% in fiscal 2005/6, lower than 2005's 7.3% but altogether a strong performance in light of prevailing high international oil prices and the impact of the catastrophic damage of the October 2005 earthquake. Its merchandise trade deficit, exacerbated by the increased cost of fuel as well as of imported capital equipment, was mainly responsible for the growing current account deficit, which is estimated to have reached 4.4% of GDP compared with 3.1% in 2005. Inflation, however, subsided to an estimated 7.9% from 9.1% the year before and the determination of the State Bank to reduce inflation through tighter monetary policies whilst maintaining economic growth appears to be having the desired effect, with forecasts for a gradual reduction over the 5-year period to 2011. As usual, agricultural output and higher textile production were the main drivers of the economy, but the manufacturing and service sectors were also important contributors.

Notwithstanding the high levels of competition prevailing in the two marketplaces of Pakistan and Bahrain, from which it derives more than half of its business, AIB's unrestricted investment accounts grew in 2006 by 16% to $436 million, compensating for an 8% fall in customer accounts and a 22% reduction in deposits from banks and financial institutions. In addition to a 10% increase in liquid assets, the additional resources were utilised to increase the murabaha, musharaka and Ijarah Muntahia Bittamleek portfolios, as well as the bank's non-trading investments, although the mudaraba portfolio was somewhat reduced. This overall expansion helped to produce a 48% increase in income from jointly financed sales and investments to $30.8 million. After distributing the unrestricted investment holders' share amounting to $24.6 million - a 65% increase over 2005 - AIB earned (including its share as Mudarib) a net $6.2 million from these accounts. Although most categories of other income also experienced growth, its income from its own investments fell from $7.7 million to $1.5 million and this was the main reason for a 22% fall in total operating income to $13.7 million. After accounting for a 23% increase in operating expenses to $13.0 million, largely due to increased staff costs and other expenses, and a small taxation charge, the bank made a net loss of $3.5 million, compared with a net profit in 2005 of $2.7 million.

AIB will be merged with Al Amin Bank during the course of 2007 with a view to consolidating and stregthening the Group's presence in Bahrain, while at the same time giving the merged entity diversity in its product offering. Significant synergies are expected to be generated in the process. In light of the small size of the Bahrain market and the high level of competition among the 28 Islamic financial institutions (6 of which are commercial banks) based there, AIB's medium term strategy aims at growing its assets by some 20% over the next three years by investing in or financing new projects in other Arab world countries offering better opportunities, in addition to building its customer base at home through developing and offering new products to its medium-sized enterprise clients. Its plans for Basel II implementation by 2007 are meanwhile also progressing well.

"Significant business and operational synergies are expected to be generated by the merger of AIB and Al Amin Bank."

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

AAB commenced business in 1987 as Al-Amin Company for Securities & Investment Funds (E.C.), but has operated since May 2001 as Al Amin Bank under an Islamic investment banking licence granted at that time by the Bahrain Monetary Agency. Focused exclusively on the development and delivery of Shari'a-compliant short-term investment vehicles, it enjoys a commendable reputation as the leading short-term liquidity manager for institutional investors. It pioneered the issue of short term Asset Backed Securities in Bahrain, offering a choice of fixed and variable income forms. To date it has managed more than $3.9 billion in funds on behalf of leading financial institutions and high net-worth customers seeking unmatched short-term investment solutions. Although small (its assets represent only 3.9% of total Islamic bank assets in Bahrain) its unique products have enabled it to carve its own niche in the market.

In 2006 Bahrain's real GDP expanded by slightly more than 6% as it moderated from 2005's 7.8% growth rate. Inflation was manageable at an estimated 2.7%. One of the fasting growing economies in the Arab world, Bahrain's economy is driven by oil - which still accounts for some 30% of GDP - retail and wholesale trade, monetary projects, mining and real estate and services. A rise in property development and construction in recent years has been a particularly noteworthy contributor, while the country's aluminium industry has been increasingly expanding into downstream activities and the tourism sector has also gained in importance.

The year 2005 was an exceptional one for AAB, as it managed 72 issues with an aggregate value of $470 million and furthermore was successful in joining in partnership with major banks in Bahrain and Syria in the structuring and financing of a number of major syndicated transactions. Such opportunities were not, however, available in such volumes in 2006, although it did expand its murabaha portfolio considerably (with end of the year sales receivables standing at $239 million or more than 500% up on the year before) as well as, to a lesser extent, its Ijara portfolio. Its non-trading investments also increased. As a result it recorded a 31% increase in total assets, to $431 million. This expansion was funded largely by a 68% increase in its unrestricted investment accounts, up from $160 million to $270 million. As a consequence of the jump in business turnover, total income from jointly financed sales and investments increased by 44% over 2005 to US$14.8 million. After accounting to the unrestricted investment account holders for their share – which (net of the bank's share as Mudarib) rose by 54% to $10.0 million – AAB's share of income from this source rose by 27% to $4.8 million. However, it suffered a loss of $0.8 million from its own investments, including income from investments in associated companies, compared with 2005's substantial income of $40.0 million, so that its operating income was much reduced at $5.0 million compared with 2005's $43.9 million. After expenses of $4.7 million its net operating income (and net profit) fell to $0.3 million from $40.4 million in 2005.

AAB and Albaraka Islamic Bank are scheduled to be merged during 2007, from which time its own goals of expanding its franchise and upgrading its technology infrastructure will be shared with those of AIB.

Albaraka Bank Sudan (Sudan) ("ABBS")

Albaraka Bank Sudan, established in 1984, currently maintains a network of 23 branches. At the end of 2005 it was ranked 11th out of the 26 Sudanese commercial banks in total assets, but 10th in terms of net profit.

Sudan has turned around a struggling economy since 1997 with sound economic policies and infrastructure investments, supported by development of its oil reserves, but much still needs to be done to lift its people out of poverty and very high unemployment. Sudan's GDP grew by an estimated 12% in 2006 to an estimated $37.6 billion. The economy is mainly reliant on agriculture, which contributes around 45% of local production, industrial production, accounting for 28%, and the service sector, 27%. The current rate of output of oil is about 500,000 barrels/day of which 80% is exported, generating 58% of the country's external revenues. Although exports continued to rise in 2006, higher imports pointed to an estimated current account deficit of about $2.2 billion. Inflation averaged above 7%.

2006 saw moderate but continuing growth at ABBS. As its customer current and other accounts rose by 20% and its unrestricted investment accounts by 14% it was able to expand its murabaha, Istisna'a and non-trading investment portfolios, more than compensating for a reduced musharaka financing portfolio. Its total assets rose by 13% to $234 million as a result. Total income from jointly financed sales and investments consequently rose by 49% to $14.7 million so that, after accounting to the unrestricted account holders for their share (which itself grew by 127% to a net $2.5 million after the bank's share as Mudarib), left the bank with its own share of $12.3 million or 39% up on 2005. Increased banking revenues and other operating income then led to a 35% higher total operating income of $21.2 million. However, although staff and other operating expenses grew by a smaller margin than income, provisions rose by 843% to $3.1 million and ABBS therefore reported a virtually unchanged net profit for the year of $4.2 million.

"B.E.S.T.'s strategy is to expand its branch network, upgrade its IT systems and expand its Internet facilities to enable its customers to access its full product range."

ABBS' aims for 2007 are to increase market share, mainly through the provision of an improving and superior standard of service and operations. The recent introduction of a comprehensive electronic banking network and modern IT systems has enabled it to centralise most processing tasks at the head office, shortening the handling processes while providing customers with the capability of accessing their accounts from any branch, the first Sudanese bank to do so. It will continue to be at the forefront of modern banking practices in the years to come.

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

B.E.S.T. was incorporated in Tunisia in 1983 as a joint stock company with an offshore banking licence. Amending legislation has however permitted offshore banks since 1985 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, as the only Islamic bank operating in the country, B.E.S.T. provides Shari'a-compliant finance in the economic areas permitted to it, which includes the agricultural, industrial, tourism, and export industries. The bank currently maintains a network of 7 branches.

Despite the continuing high energy prices in 2006, the Tunisian economy managed to record a 5.8% GDP growth rate, somewhat higher than 2005's 4.2%, partly due to increased inward investment. Services (of which tourism is the most important contributor) form the main component of GDP, with a 55% share, followed by industry with 31.8% and agriculture with 13.2%. Tunisia is committed to a free trade regime and export-led growth, focused mainly on the European Union, with which it has signed an Association Agreement to gradually eliminate trade and tariffs barriers to non-agricultural goods, services and investments, commencing in 2008. Ongoing economic reforms include the privatisation of certain sectors including telecommunications and banking. Tunisia enjoys an investment-grade credit rating from international rating agencies and encourages foreign direct investment through taxation and employment-encouraging incentives.

B.E.S.T. enjoyed a relatively good year in 2006, expanding its total assets by 25% to $254 million, largely through increases in its murabaha and mudaraba portfolios, funded by a 48% increase in its unrestricted investment accounts, which reached $123 million by year end. Murabaha sales receivables rose to $183 million from $133 million in 2005. As a result, the total income from jointly financed sales and investments grew by 42% to $11.2 million and, after distribution to unrestricted investment account holders of their net share after the bank's share as Mudarib – which increased by 34% to $3.9 million - the bank's own share rose by 47% to $7.3 million. Income from its own investments, its Mudarib share from restricted investment accounts, commissions and fees and other income also all grew, so that total operating income surged by 113% to $18.4 million. However, operating expenses also increased to $6.5 million. Nevertheless, B.E.S.T. closed the year with a net profit of $8.0 million, twice 2005's $4.0 million.

The bank's ongoing strategy is to expand its branch network, increase its deposit base and focus on selective financing projects with less risk. It has created new internal units addressing risk control, marketing and organisation, and implemented a comprehensive new credit policy. It is in the process of upgrading its IT systems to international standards and expanding its Internet facilities to enable its customers to access its full service range.

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

Albaraka Bank Limited was established in 1989 as South Africa's first Islamic bank and even today remains the only bank in the country to conduct all of its business according to the Shari'a. Its activities - chiefly equipment and residential and commercial property finance through murabaha and musharaka financing - are directed mainly at the 1.5-2% of Muslims in the population and have provided the impetus to the Muslim community to move gradually away from the riba system to Shari'a-compliant banking. Apart from its Durban head office the bank maintains five branches, in Durban, Fordsburg, Pretoria, Lanasia and Cape Town.

The South African economy grew by 4.9% in 2006, above the 4.3% average for the five year period 2002/6, aided by credit-driven consumerism and increased household debt. Global demand for its primary exports - platinum, gold, diamonds and coal - helped to boost merchandise exports, but imports also rose, widening the trade deficit and resulting in a current account deficit of about

5% of GDP despite an increasing invisibles flow from the expanding tourism industry. Meanwhile the inflation rate, at 4.6%, was less than expected despite – or perhaps because of - the Central Bank's monetary policy tightening through four consecutive interest rate rises and was well within the 3-6% target.

Over the course of 2006 ABBL-S increased its unrestricted investment accounts by 13% to $173 million, enabling it to expand its total assets by 12% to $209 million, the majority of which was via a 17% increase in its murabaha sales receivables, which reached $136 million, and an 11% increase in its musharaka financing portfolio, now amounting to $47 million. The increase in business activity was reflected in a commensurate 12% uplift in the income from jointly financed sales and investments, which reached $16.7 million. As the entire portfolio was managed on behalf of customers with no participation from ABBL-S, after accounting for the bank's share as Mudarib, amounting to $7.4 million or 23% above the previous year's figure, the total paid out to investors was $9.3 million. To the bank's share from this source was added revenues from fees, commissions and other income, taking its total operating income up to $8.8 million or 25% above that for 2005. After deduction of operating expenses which was 22% higher at $6.8 million, provisions and taxation, ABBL-S returned a net profit of $1.6 million, compared with 2005's $1.2 million.

"ABBL-S has made significant progress towards Basel II compliance and is in the process of upgrading its IT systems."

During the year ABBL-S continued to focus on meeting the South African Reserve Bank's timetable for all South African banks to be Basel II-compliant by January 2008 and as a consequence was well placed by the end of 2006 for meeting all deadlines for field testing and parallel running during 2007. It also completed the integration of a number of front-end systems into its present system architecture. Following a review of the present system's capabilities compared with the bank's future business and regulatory needs, it has endorsed the acquisition of an interim solution with Islamic capabilities pending a comprehensive assessment of system needs and availability for long-term implementation.

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

ABBL was established in 1992 as Lebanon's first Islamic bank and even today there remains only 4 Islamic banks out of the country's total of 97. The absence prior to 2004 of appropriate laws and regulations to govern the practice of Islamic banking in Lebanon meant that for many years it had to conduct Islamic banking activities whilst being regulated in a conventional manner. ABBL therefore concentrated largely on the management of unrestricted investment accounts and the provision of retail banking services to small businesses and the general public. ABBL maintains 5 branches in Lebanon and is the smallest of the Group's units. Its products include finance for housing, vehicles, household goods, construction and medical equipment and working capital.

The July 2006 war deeply and negatively impacted the overall economic situation in Lebanon, reversing much of the improvements of recent years and causing an estimated $3.6 billion in infrastructure damage. The economy suffered badly, with GDP estimated to have fallen by 3.2% to $22.3 billion. The current account deficit of $2.8 billion or 12.8% of GDP was not, however, substantially worse than usual as Lebanon has traditionally run a current account deficit.

Despite the deleterious effect of the war on the whole economy, ABBL's customer accounts rose by 37% to $26 million during 2006, while its unrestricted investment accounts also grew, by some 4% to $81 million. This growth helped to fund an increase in total assets to $128 million from 2005's $122 million, all of which was placed in liquid funds for the time being. Notwithstanding a reduced level of murabaha sales receivables at the end of the year, however, the total income from jointly financed sales and investments was virtually unchanged at $2.8 million so that, after distributing the unrestricted investment account holders' share and accounting for a small loss on its own share, and after including revenues from banking services, fees and commissions and other operating income totalling $3.6 million, total operating income rose by 34% to $3.1 million. Nevertheless, with increased operating expenses across the board, aggregating $6 million, and a significantly higher financing loss provision, ABBL's net loss for the year rose to $7.3 million from a $3.2 million loss in 2005.

For 2007, ABBL aims to expand its relationships with corporate and private companies, particularly those engaged in export and import operations, offering Shari'a-compliant trade finance and working capital facilities. It also intends to develop and market new Islamic investment funds and improve its retail banking operations to meet the demands of its customer base, while focusing on reducing its problem loans through greater debt collection efforts and collateral realisation.

The Board of Directors

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

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

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

"ABG has in place the latest corporate governance practices with independent directors, and board and management committees to manage the group effectively."

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

Members of the Board of Directors hold office for a three-year renewable term. There is no age limit for retirement of the Directors. A corporate person that has appointed one or more Appointed Directors may replace them by others at any time. An Elected Director may be re-elected upon the expiry of his term of office, and this shall be considered to be a new nomination which requires satisfaction of the conditions required to be satisfied by nominees mentioned above. The term of office of Directors may be extended by resolution of the Bahrain Minister of Industry & Commerce for a period not exceeding six months at the request of the Board.

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

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

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group, which are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations, is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

Board Committees

The Board has put in place a number of Board committees, to which it has delegated specific responsibilities. The principal Board committees are:

Board Executive Committee

The Board Executive Committee is chaired by Mr. Abdullah Saleh Kamel, a Director of ABG. The other members are Mr. Adnan Ahmed Yousif, President & Chief Executive and a Director of ABG, Mr. Abdul Elah A. Sabbahi, a Director of ABG and Mr. Ghanim Bin Saad M. Al Saad, a Director of ABG. The Board has delegated certain of its day-to-day functions to the Board Executive Committee, including certain financial, administrative and credit matters.

Board Affairs and Remuneration Committee

The Board Affairs and Remuneration Committee meets at least once a year and considers all material elements of remuneration policy and the remuneration and incentivisation of the Board, the Executive Management Team and all other ABG employees, and makes recommendations to the Board on the framework for executive remuneration and its costs. The Board Affairs and Remuneration Committee is chaired by Mr. Ibrahim Fayez Al Shamsi, a Director of

ABG and its other members are Mr. Jamal S.J. Bin Ghalaita, a Director of ABG, Mr. Ghanim Bin Saad M. Al Saad, a Director of ABG and Mr. Adnan Ahmed Yousif, President & Chief Executive and a Director of ABG.

Audit Committee

The Audit Committee is chaired by Mr. Saleh Mohamed Al-Yousef, a Director of ABG. Other members are Dr. Anwar Ibrahim, a Director of ABG and Mr. Ibrahim Fayez Al Shamsi, a Director of ABG. The Audit Committee meets formally at least four times a year and external auditors attend at least one meeting annually.

The external auditors have unrestricted access to the Audit Committee and its Chairman. The Audit Committee considers all matters relating to financial control and reporting, internal and external audits, the scope and results of the audits, regulatory compliance and risk management. The Audit Committee also considers the annual audit plans, monitors the independence of the external auditors and their remuneration and makes recommendations to the Board regarding the appointment and retirement of the external auditors.

The various internal and financial controls and processes are subject to independent review by the Group's Internal Audit Department and external auditors and regulators as appropriate. The reports of all of these review bodies are forwarded to the Audit Committee, who, acting on behalf of the Board, ensures that appropriate corrective action is taken where required. The Audit Committee is informed directly by Internal Audit's reports submitted to it, and by its discussions with external auditors, of the work undertaken by them and the conclusions they have reached, respectively.

The Committee reviews the Group's annual and interim financial statements, the adequacy of loss provisions and reports by external consultants on specific investigative or advisory engagements.

Board Risk Committee

The Board Risk Committee is chaired by Mr. Abdul Elah Sabbahi, Director of ABG. Other members are Mr. Jamal S.J. Bin Ghalaita, Director of ABG, Mr. Ghassan Abdul Kareem A. Sulaihim, Director of ABG and Mr. Adnan Ahmed Yousif, President & Chief Executive and a Director of ABG. The Board Risk Committee meets formally at least four times a year and can call for the attendance of the Head of Credit & Risk Management and other Senior Executives of the Group.

The risk appetite of the Group is determined by the Board, as recommended by the Board Risk Committee, which is responsible for setting acceptable levels of risks to which the Group may be exposed. Management has the prime responsibility for identifying and evaluating significant risks to the business of the Group and for the design and operation of appropriate internal controls. These risks are assessed on a continuous basis.

Executive and Senior Management

In effecting full control over the Group, ABG's Executive and Senior Management Team has developed a system for filtering down to Group units the centralised strategic decisions taken at the parent level, thus ensuring the implementation of Groupwide policies and common operational processes and procedures across the Group.

As at the end of 2006, the team consisted of the President & Chief Executive, the Deputy Chief Executive and the Heads of Internal Audit, Strategic Planning, Operations and Administration, Financial Control, Credit & Risk Management and Treasury & Investment. The Heads of Legal Affairs and Commercial Banking are expected to join the team in due course. In addition, the following Senior Management Committees have been set up, with specific responsibilities:

Asset Liability Committee

The Asset Liability Committee's mandate is to monitor the liquidity and capital adequacy of the Group and review the Group's long term equity investments, and the Group's penetration into the different markets. The Committee is chaired by the President & Chief Executive and its members are Deputy Chief Executivie and the Heads of Treasury & Investment, Credit & Risk Management, Strategic Planning, Operations & Administration and a senior member from the Bahrain, Financial Control unit, Al Amin Bank.

Head Office Credit Committee

The Head Office Credit Committee is the authority that considers issues of Group credit policy and Group credit exposures, problem credits and provisioning levels. The Head Office Credit Committee is chaired by the President & Chief Executive and senior credit officers appointed from among the Executive Management, one of whom is the Head of Credit & Risk Management.

Basel II Steering Committee

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

The mandate of ABG's Basel II Steering Committee is to review the Group's state of readiness for compliance with Basel II, both at the Head Office level and across the countries in which the Group is represented, and develop a concerted strategy towards Basel II Compliance to achieve Groupwide risk and capital adequacy measurement. The Committee is co-chaired by the Heads of Credit & Risk Management and Financial Control and membership includes senior nominees drawn from the Head Office and most of the Group units.

Head Office IT Steering Committee

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

The Committee is chaired by the Deputy Chief Executive with membership comprising the Heads of Financial Control, Strategic Planning, Operations & Administration together with senior support nominees from ABG and Al Baraka Islamic Bank, Bahrain.

Other committees

The Management forms ad-hoc committees as and when required to address specific initiatives that the Group engages in from time to time.

Compliance, Policies and Procedures

Regulation

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

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

> "The Group's management has in place various measures that help monitor and control activities of the Group worldwide."

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

Anti-Money Laundering

The Group is implementing the CBB's anti-money laundering regulations, including the appointment of a Group Money Laundering Reporting Officer (MLRO) - which position is held by the Head of Operations & Administration - as well as overseeing individual MLROs in each of the constituent banks. The intention is to implement a Groupwide overall policy for anti-money laundering at the Head Office level, taking into account the practice existing at the various Group units and complying with the CBB's anti-money laundering regulations.

Financial Performance Monitoring

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

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

Risk Management

The Group is committed to complying with internationally established principles and policies in relation to risk management. In particular the Group fully subscribes to the guiding principles of risk management for Islamic financial services institutions set down by the Islamic Financial Services Board and the need for a comprehensive risk management and reporting process. In this respect ABG's Head of Credit & Risk Management is responsible for formulating and monitoring the Group's policies relating to all aspects of risk, developing the framework for risk measurement and coordinating the implementation of Basel II. He is also in charge of introducing risk measurement software, monitoring the Group's compliance with risk measurement standards and providing Group management with reports on the Group's risk adjusted return on capital.

The Board of Directors defines and sets the Group's overall levels of risk appetite, risk diversification and asset allocation strategies applicable to each Islamic financing instrument, economic activity, geographical spread, currency and tenor. Each of the Group's units is managed by its respective Board of Directors. Group units follow documented credit policies and procedures which are in the process of being updated to reflect the new Groupwide policies and thus ensure that sound risk management is in place in all units of the Group, whose reporting lines are ultimately to ABG but whose decision-making is decentralised within the overall strategic direction established by ABG's Board of Directors.

The major risks to which the Group is exposed are Credit, Liquidity, Market (including Equity, Rate of Return and Foreign Exchange risk), Operational and Shari'a Compliance risks.

Credit Risk

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

Each unit has in place a framework for credit risk management that includes identification, measurement, monitoring, reporting and control of credit risks. Each unit controls credit risk through the process of initial approval and granting of credit, subsequent monitoring of counterparty creditworthiness and the active management of credit exposures. Authority to approve credits is delegated by the unit's Board of Directors to committees entrusted with the task of credit assessment and evaluation, under specific credit policies and operational procedures in place in that unit.

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

Equity Investment Risk

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

Each unit has in place appropriate strategies, risk management and reporting processes in respect of the risk characteristics of equity investments, including mudaraba, musharaka and other investments. Each unit ensures that its valuation methodologies are appropriate and consistent, and assesses the potential impact of its methods on profit calculations and allocations mutually agreed between that unit and its partners. Each unit further has defined and established appropriate exit strategies, risk management and reporting processes in respect of each of their equity investment activities.

Liquidity Risk

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

Each of ABG's units maintains liquid assets at prudential levels to ensure that cash can quickly be made available to honour its obligations. Liquidity management also recognises the impact of potential cash outflows arising from irrevocable commitments to fund new assets.

Profit Rate Risk or Rate of Return Risk

The Group is exposed to rate of return risk in that an increase in general benchmark rates may lead to investment account holders having expectations of a higher rate of return, thus putting units under market pressure to pay a rate of return that exceeds the rate that has been earned on assets financed by the investment account holders, by waiving all or part of their share of profits and/or fee as Mudarib. However, the Group is not liable to pay any predetermined returns to investment account holders.

Currency Risk

Currency or foreign exchange rate risk is the risk of an adverse impact on the Group's earnings or shareholders' equity due to currency rate movements. The Group is exposed to foreign exchange rate risk in that the value of a financial instrument, or its net investment in its foreign units, may fluctuate due to changes in foreign exchange rates. The Group's significant net foreign currency exposures are detailed in Note 28 to the Financial Statements.

Operational Risk

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

"The Group is committed to complying with internationally established principles and policies in relation to risk management ."

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

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

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

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

The Group is taking steps to commission an outside consultancy to design Groupwide policies for disaster recovery and business continuity planning.

Separate Internal Control units carry out ongoing monitoring of day-to-day procedures and ensure adherence to key control functions. With the improvement in the Group's technology base, controls are frequently integrated into processing systems.

Shari'a Compliance Risk

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

Contents

Unified Shari'a Supervisory Board Report

Albaraka Banking Group B.S.C.

Year Ended 31 December 2006

In the name of Allah, The Beneficent, The Merciful, Praise be to Allah and peace be upon our Prophet Mohamed, His Apostles:

To: Albaraka Banking Group Shareholders

Greetings,

In accordance with Article (58) of the Articles of Association of AlBaraka Banking Group, (The Group) we are required to submit the following report:

We have reviewed the policies and procedures applied by the Group and reviewed the 2006 Shari'a reports issued by the following Group Units' Shari'a Supervisory Boards or 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 Turk Participation Bank
9 The Egyptian Saudi Finance Bank
10 AlBaraka Bank Sudan

We have also reviewed the financial statements of the above entities when needed.

In addition, we examined the Group's Balance Sheet for the year ending 31/12/2006 and Statement of Income and their notes and obtained the necessary explanations and clarifications on the relevant technical issues.

The Group and Units managements are responsible for ensuring that these operate and conduct their business in accordance with Islamic Shari'a Principles. 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 Unit's Shari'a Supervisory Boards and Shari'a advisors have supervised the Units' business activities including examining on test basis documentations and procedures applied by the Group and its Units.

The Units' Shari'a Supervisory Boards and Shari'a advisors, as is clear from their reports, planned and performed reviews so as to obtain all the information and explanations they considered necessary in order to provide them with sufficient evidence to provide reasonable assurance that the Group and its Units have not violated Shari'a Rules and Principles.

In our opinion:

1 The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31st December 2006 are made in compliance with Shari'a Rules and Principles.

2 The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved in accordance with Shari'a Rules and Principles.

3 All earnings realized from sources or by means prohibited by Islamic Shari'a Rules and Principles have been disposed of to Charitable Causes.

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 assests on which Zakah should be paid.

Praise be to God

Issued on 14 Safar 1428H, corresponding to 4 March 2007 AD.

Executive Committee of the Unified Shari'a Supervisory Board

President Shari'a Supervisory Board

Dr. Abdul Sattar Abu Ghudah

Shari'a Supervisory Board's Member

Dr. Ahmed Mohyedeen

Auditors’ Report to the Shareholders of
Albaraka Banking Group B.S.C.

We have audited the accompanying consolidated balance sheet of Albaraka Banking Group B.S.C. [the “Bank”] and its subsidiaries [the “Group”] as of 31 December 2006, and the related consolidated statements of income, cash flows, changes in equity, 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 conducted our audit in accordance with both the International Standards on Auditing and Auditing Standards for Islamic Financial Institutions. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, the results of its operations, its cash flows, sources and uses of charity fund and sources and uses of good faith qard fund for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Shari’a rules and principles as determined by the Shari’a Supervisory Board of the Group.

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2006 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking licence. We obtained all the information and explanations which we required for the purpose of our audit.

Ernst + Young

11 March 2007
Manama, Kingdom of Bahrain

Consolidated Balance Sheet
31 December 2006

	Notes	2006 US$ 000	2005 US$ 000
ASSETS			
Cash and balances with banks	3	**1,837,178**	1,844,633
Sales receivables	4	**4,053,726**	2,986,194
Mudaraba financing	5	**134,671**	167,235
Musharaka financing	6	**84,444**	73,692
Investment properties	7	**68,184**	44,010
Ijarah Muntahia Bittamleek	8	**211,325**	170,467
Investment in associates	9	**17,876**	125,208
Investments	10	**841,843**	585,014
Ijarah receivables	11	**21,096**	20,279
Property and equipment	12	**130,951**	115,355
Other assets	13	**224,533**	174,987
Total assets		**7,625,827**	6,307,074
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
Liabilities			
Customer current and other accounts		**1,333,954**	1,185,592
Due to banks		**115,276**	111,432
Other liabilities	14	**268,107**	209,792
		1,717,337	1,506,816
Unrestricted Investment Accounts	15	**4,697,366**	4,033,125
Equity	16		
Share capital		**630,000**	387,998
Share premium		**238,890**	-
Reserves		**33,605**	49,810
Retained earnings		**43,102**	111,526
Proposed dividends		**33,000**	17,000
Equity attributable to the shareholders of the parent		**978,597**	566,334
Minority interest		**232,527**	200,799
Total equity		**1,211,124**	767,133
Total liabilities, unrestricted investment accounts and equity		**7,625,827**	6,307,074

Saleh Abdullah Kamel
Chairman

Adnan Ahmed Yousif
Member of the Board and
President & Chief Executive

The attached notes 1 to 32 form part of these consolidated financial statements

Consolidated Statement of Income

Year Ended 31 December 2006

	Notes	2006 US$ 000	2005 US$ 000
INCOME			
Joint income from sales receivable		329,903	254,987
Net income from jointly financed contracts and investments		113,016	89,611
	17	442,919	344,598
Gross return to unrestricted investment accounts	18	(373,850)	(305,964)
Group's share as a Mudarib	18	100,464	92,783
Return on unrestricted investment accounts		(273,386)	(213,181)
Group's share of income from jointly financing and investment accounts		169,533	131,417
Mudarib share for managing restricted investment accounts		6,628	5,970
Net income from self financed contracts and investments	17	46,283	65,864
Other fees and commission income	19	87,796	71,553
Other operating income	20	29,327	22,946
Total Operating Income		339,567	297,750
Staff expenses		91,330	74,364
Depreciation and amortisation	21	13,160	14,835
Other operating expenses	22	62,413	62,068
Total Operating Expenses		166,903	151,267
Net Income for the Year Before Monetary Loss, Provisions and Taxation		172,664	146,483
Monetary loss on a subsidiary		-	(4,987)
Provisions	23	(33,015)	(32,230)
Net Income Before Taxation		139,649	109,266
Taxation		(15,933)	(6,380)
Net Income for the Year		123,716	102,886
Attributable to:			
Equity shareholders of the parent		80,252	79,372
Minority interest		43,464	23,514
		123,716	102,886
Basic and diluted earnings per share - US cents (Note 24)		15	16

The attached notes 1 to 32 form part of these consolidated financial statements

Consolidated Statement of Cash Flows

Year Ended 31 December 2006

	Notes	2006 US$ 000	2005 US$ 000
OPERATING ACTIVITIES			
Net income for the year before taxation		139,649	109,266
Adjustments for non-cash items:			
Depreciation and amortisation	21	13,160	14,835
Gain on sale of property and equipment	20	(347)	(4,266)
Provisions	23	33,015	32,230
Income from investment in associates	17	(226)	(45,778)
(Gain)/loss on sale of investment in associates	17	(4,835)	2,289
Operating profit before changes in operating assets and liabilities		180,416	108,576
Net changes in operating assets and liabilities:			
Reserves with central banks		(93,969)	(70,636)
Sales receivables		(1,118,466)	(769,180)
Mudaraba financing		32,564	(10,589)
Musharaka financing		(10,753)	2,867
Investment properties	7	(4,375)	6,383
Ijarah Muntahia Bittamleek		(41,859)	1,692
Ijarah receivable		(4,764)	(5,599)
Other assets		(40,559)	(8,481)
Customer current and other accounts		148,362	207,811
Due to banks and financial institutions		3,844	73,402
Other liabilities		39,053	(17,467)
Taxation paid		(16,642)	(6,797)
Net cash used in operating activities		(927,148)	(488,018)
INVESTING ACTIVITIES			
Acquisition of a subsidiary, net of cash acquired	29	-	36,343
Net purchase of investments		(178,079)	(162,320)
Net (purchase) disposal of property and equipment		(27,127)	269
Dividend received from associates		6,180	21,911
Disposal of investment in associates		16,859	11,750
Net cash used in investing activities		(182,167)	(92,047)
FINANCING ACTIVITIES			
Proceeds from share capital issued		369,604	41,347
Equity transaction cost		(10,714)	-
Dividends paid		(17,000)	-
Increase in unrestricted investment accounts		682,197	652,286
Net changes in minority interest		(8,716)	32,857
Net cash from financing activities		1,015,371	726,490
Foreign currency translation adjustments		(7,480)	1,060
(Decrease) Increase in Cash and Cash Equivalents		(101,424)	147,485
Cash and cash equivalents at 1 January		1,490,568	1,343,083
Cash and Cash Equivalents at 31 December	25	1,389,144	1,490,568

The attached notes 1 to 32 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity

Year Ended 31 December 2006

	Attributable to equity holders of the Parent											
	Share capital US$ 000	Share premium US$ 000	Statutory reserve US$ 000	Cumulative changes in fair value reserve US$ 000	Foreign currency reserve US$ 000	Investment Properties fair value reserve US$ 000	Other reserves US$ 000	Retained earnings US$ 000	Proposed dividends US$ 000	Total US$ 000	Minority interest US$ 000	Total equity US$ 000
Balance at 1 January 2006	387,998	-	14,351	9,368	23,518	-	2,573	111,526	17,000	566,334	200,799	767,133
Capitalisation (note 1)	122,002	-	(14,351)	-	-	-	-	(107,651)	-	-	-	-
Share capital issued for cash	120,000	249,604	-	-	-	-	-	-	-	369,604	-	369,604
Equity transaction cost (note 16 a)	-	(10,714)	-	-	-	-	-	-	-	(10,714)	-	(10,714)
Net movement in cumulative change in fair value	-	-	-	(3,517)	-	-	-	-	-	(3,517)	1,295	(2,222)
Net movement in other reserves	-	-	-	-	-	-	(1,787)	-	-	(1,787)	(1,410)	(3,197)
Foreign currency translation	-	-	-	-	(4,575)	-	-	-	-	(4,575)	(2,905)	(7,480)
Net income for the year	-	-	-	-	-	-	-	80,252	-	80,252	43,464	123,716
Transfer to statutory reserve	-	-	8,025	-	-	-	-	(8,025)	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	(17,000)	(17,000)	-	(17,000)
Proposed dividends	-	-	-	-	-	-	-	(33,000)	33,000	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(2,678)	(2,678)
Net movement in minority interest	-	-	-	-	-	-	-	-	-	-	(6,038)	(6,038)
Balance at 31 December 2006	**630,000**	**238,890**	**8,025**	**5,851**	**18,943**	-	**786**	**43,102**	**33,000**	**978,597**	**232,527**	**1,211,124**
Balance at 1 January 2005	325,307	-	6,414	7,946	21,020	107	4,148	57,091	-	422,033	143,895	565,928
Share capital issued for cash	41,347	-	-	-	-	-	-	-	-	41,347	-	41,347
Share capital issued in kind	21,344	-	-	-	-	-	-	-	-	21,344	-	21,344
Acquisition of a subsidiary (note 29)	-	-	-	-	-	-	-	-	-	-	2,815	2,815
Net movement in cumulative change in fair value	-	-	-	1,422	-	(107)	-	-	-	1,315	(738)	577
Net movement in other reserves	-	-	-	-	-	-	(1,575)	-	-	(1,575)	(106)	(1,681)
Foreign currency translation	-	-	-	-	2,498	-	-	-	-	2,498	(1,438)	1,060
Net income for the year	-	-	-	-	-	-	-	79,372	-	79,372	23,514	102,886
Transfer to statutory reserve	-	-	7,937	-	-	-	-	(7,937)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	(17,000)	17,000	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(4,757)	(4,757)
Net movement in minority interest	-	-	-	-	-	-	-	-	-	-	37,614	37,614
Balance at 31 December 2005	387,998	-	14,351	9,368	23,518	-	2,573	111,526	17,000	566,334	200,799	767,133

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

The attached notes 1 to 32 form part of these consolidated financial statements

Consolidated Statement of Changes in Restricted Investment Accounts

Year Ended 31 December 2006

	Sales receivable US$ 000	Mudaraba financing US$ 000	Musharaka financing US$ 000	Investment Properties US$ 000	Others US$ 000	Total US$ 000
Balance at 1 January 2005	198,879	5,554	20,961	20,305	68,388	314,087
Deposits	287,304	-	2,732	3,234	250,992	544,262
Withdrawals	(259,023)	(4,145)	(20,961)	(14,932)	(193,110)	(492,171)
Income net of expenses	23,661	104	-	4,012	18,606	46,383
Mudarib's share	(1,975)	(13)	-	(326)	(3,656)	(5,970)
Balance at 31December 2005	248,846	1,500	2,732	12,293	141,220	406,591
Deposits	301,363	132,358	-	9,122	60,175	503,018
Withdrawals	(227,688)	(51,895)	(1,592)	(11,385)	(100,467)	(393,027)
Income net of expenses	18,976	1,961	15	6,212	616	27,780
Mudarib's share	(4,246)	(287)	(15)	(1,864)	(216)	(6,628)
Balance at 31December 2006	**337,251**	**83,637**	**1,140**	**14,378**	**101,328**	**537,734**

Restricted Investment Accounts

Restricted investment accounts represent funds received by the Group from third parties for investment in specified products as directed by the investment account holders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Restricted investments are not included in the consolidated balance sheet since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and holders of restricted investment accounts.

The attached notes 1 to 32 form part of these consolidated financial statements

Consolidated Statement of Sources and Uses of Charity Fund

Year Ended 31 December 2006

	Note	2006 US$ 000	2005 US$ 000
SOURCES OF CHARITY FUND:			
Contribution by the Group		479	-
Non-Islamic income *		8,776	2,603
Others		136	415
Total sources		9,391	3,018
USES OF CHARITY FUND			
Charitable contributions *		6,350	1,352
Others		625	881
Total uses		6,975	2,233
Net increase of sources over uses		2,416	785
Balance of charity fund at beginning of the year		2,553	1,768
Balance of charity fund at end of the year	14	4,969	2,553

* Non-Islamic income includes US$ 6.5 million representing interest earned by Albaraka Turk Participation Bank during the year on the mandatory reserve placed with their local Central Bank. An amount of US$ 4.7 million out of this interest has been used in various charitable contributions and the remaining balance has been carried forward to be used as charitable contributions in the coming years.

The attached notes 1 to 32 form part of these consolidated financial statements

Consolidated Statement of Sources and Uses of Good Faith Qard Fund

Year Ended 31 December 2006

	Notes	2006 US$ 000	2005 US$ 000
SOURCES OF QARD FUND			
Contribution by the Group		**10,794**	13,389
Others		**831**	587
Total Sources		**11,625**	13,976
USES OF QARD FUND			
Marriage		**1,078**	739
Medical treatment		**894**	482
Education		**1,124**	2,108
Advances to staff		**1,977**	1,390
Settlement of current accounts		**3,354**	5,637
Others		**3,198**	3,620
Total uses		**11,625**	13,976
Balance of Good Faith Qard fund at beginning of the year		**8,622**	6,725
Advances granted during the year		**11,625**	13,976
Advances settled during the year		**(10,609)**	(12,079)
Balance of Good Faith Qard fund at end of the year	13	**9,638**	8,622

The attached notes 1 to 32 form part of these consolidated financial statements

1 ACTIVITIES

Albaraka Banking Group B.S.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, Europe and North African and South African region. The address of the Bank's registered office is P.O. Box 1882, Diplomatic Area, Manama, Kingdom of Bahrain. The Bank is listed on Bahrain Stock Exchange and Dubai International Financial Exchange.

During the year 2006, the Bank has filed an application with Central Bank of Bahrain to obtain wholesale banking license. This regulatory approval is still awaited.

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 Central Bank of Bahrain. As of 31 December 2006, the total number of employees employed by the Group was 5,435 (2005: 4,846).

The extra-ordinary meeting No. (5) dated 20 March 2006 approved the capitalization of US$ 14.4 million of the statutory reserve and an amount of US$ 107.7 million of the retained earnings. As a result, the share capital increased to US$ 510 million. In the same extra-ordinary meeting, the Group was converted from a closed joint stock company to a public joint stock company. In addition, the Bank issued 120 million new shares through an initial public offering of US$ 3.08 per share including a premium of US$ 2.08 per share. This resulted in an increase in share capital to US$ 630 million.

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 have been prepared on a historical cost basis, except for investment properties, trading and available-for-sale investments that have been measured at fair value. The consolidated financial statements are presented in United States Dollars, and all values are rounded to the nearest U.S Dollar thousands.

b. Statement of Compliance

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

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Minority share in a subsidiary's net assets is reported as a separate item in the Group's entity. In the consolidated income statement, minority share is included in net profit.

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

Transactions with minority interests are handled in the same way as transactions with external parties. Sale of participations to minority interests results in a gain or loss that is recognised in the consolidated income statement. Acquisition of minority shares can result in goodwill if the cost exceeds the carrying amount of the acquired net assets.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

c. Basis of consolidation continued

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

Bank	Ownership for 2006	Ownership for 2005	Year of incorporation	Country of incorporation
Held directly by the Bank				
Banque Albaraka D'Algerie	55.9%	50.0%	1991	Algeria
Albaraka Islamic Bank	78.3%	78.3%	1984	Bahrain
Bank Et-Tamweel Al-Tunisi Al-Saudi	78.4%	78.4%	1983	Tunisia
Egyptian Saudi Finance Bank	73.7%	46.6%	1980	Egypt
Albaraka Bank Lebanon	96.3%	81.8%	1991	Lebanon
Jordan Islamic Bank	55.5%	53.7%	1978	Jordan
Al Amin Bank	100.0%	100.0%	1987	Bahrain
Albaraka Turk Participation Bank	67.8%	67.7%	1985	Turkey
Albaraka Bank Limited	51.7%	22.5%	1989	South Africa
Albaraka Bank Sudan	86.2%	87.8%	1984	Sudan

Company	Effective Ownership for 2006	Effective Ownership for 2005	Year of incorporation	Country of incorporation
Held through subsidiaries				
Al- Rizq Trading Company **	50.0%	48.3%	1994	Jordan
Al-Omariya School Company**	52.4%	50.6%	1987	Jordan
Al-Samaha Real Estate Company**	52.7%	51.0%	1998	Jordan
Future Applied Computer Technology Company**	55.4%	53.6%	1998	Jordan
Dar AlBaraka	55.9%	50.0%	2003	Algeria
AlBaraka Properties (Pty) Ltd.	51.7%	22.5%	1991	South Africa

** Owned indirectly through Jordan Islamic Bank.

Dar AlBaraka and AlBaraka Properties (Pty) Ltd. are indirectly owned through Banque Albaraka D'Algerie and AlBaraka Bank

d. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, balance with central bank and amounts due from banks on demand or with an original maturity of three months or less.

e. Sales receivables

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

f. Mudaraba financing

Mudaraba financing is stated at cost less provision 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 with the resulting unrealised gains being recognised in the consolidated statement of changes in equity under investment properties fair value reserves. Unrealised losses are recognised in equity to the extent of the available balance, taking into consideration the portion related to owners' equity and equity of unrestricted investment account holders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated statement of income under unrealised re-measurement losses on investments.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

i. Ijara Muntahia Bittamleek

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

j. Investment in Associates

The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influences and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the Group are identical and the associates accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

k. Investments

Trading securities

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

Non-trading investments

Theses are classified as follows:

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

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

Available-for-sale

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

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

On disposal, the cumulative gains previously recognised in equity is recognised in the consolidated statement of income.

Held -to-maturity

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

l. Property and equipment

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

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

l. Property and equipment continued

The calculation of depreciation is on the following basis:

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

m. Unrestricted Investment Accounts

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

n. Taxation

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

o. Fair values

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

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

For sales receivables the fair value is determined at Bank or subsidiary level at the end of the financial period at their cash equivalent value.

p. 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.

q. 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.

r. 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.

s. Revenue recognition

Sales receivables

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

Mudaraba financing

Income is recognised when it is quantifiable or on distribution by the mudarib, whereas any losses are charged to income on their declaration by the mudarib.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

s. Revenue recognition continued

Musharaka financing

Income is recognised on the due dates of the installments or when received in case of sale musharaka. Income that is overdue on non-performing accounts is excluded from income.

Fee income

Fee and commission income is recognised when earned.

Ijarah Muntahia Bittamleek

Ijarah income and income from Ijarah Muntahia Bittamleek are recognised on a time-apportioned basis over the Ijara term.

Other income

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

Group'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.

Mudarib's share of restricted investment

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

t. Return on Unrestricted Investment Accounts

Unrestricted investment accounts holders' share of income is calculated based on the applicable local laws and based on the underlining individual mudaraba contract. It represents 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.

u. Joint and Self Financed

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

v. Impairment 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 estimated cash equivalent value, is recognised in the consolidated income statement. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

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

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

w. Offsetting

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

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

x. 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.

y. Provisions

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

z. Foreign Currencies

Foreign currency transactions at the entry level

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

Foreign currency transactions

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

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

aa. Monetary Loss

This represented the purchasing power loss from the application of hyperinflationary accounting standard by a subsidiary (Albaraka Türk Participation Bank) for differences between monetary assets and monetary liabilities. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. From 2006 Turkey is no longer considered a hyperinflationary economy.

bb. Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which effects the amounts recognised in the financial statements:

Classification of investments

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

cc. Use of Estimates in Preparation of the Consolidated Financial Statements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities at the date of the consolidated financial statements. The use of estimates is used primarily to the determination of provisions for sales receivable, mudaraba financing, musharaka financing, non-trading investments, ijarah receivable and other assets.

dd. Goodwill

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

ee. Collateral Pending Sale

Collateral acquired in settlement of certain financing facilities is stated at the lower of the net realisable value of the related financing facilities and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated income statement.

ff. Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognised when:

(i) the right to receive cash flows from the asset have expired;

(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

(iii) The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

gg. Intangible Assets

Intangible assets comprise principally the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

hh. Dividends

Dividends to shareholders are recognised as liabilities in the period in which they are declared.

3 CASH AND BALANCES WITH BANKS

	2006 US$ 000	2005 US$ 000
Balances with central banks*	**1,188,785**	1,156,742
Balances with other banks	**507,423**	587,048
Cash and cash in transit	**140,970**	100,843
	1,837,178	1,844,633

* Balance with the central banks include mandatory reserve and are not available for use in the Group's day-to-day operations for US$ 448 million (2005: US$ 354 million).

4 SALES RECEIVABLES

	2006			2005		
	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
International commodities murabahas	**119,582**	**587,443**	**707,025**	-	278,650	278,650
Other murabahas	**326,360**	**3,345,202**	**3,671,562**	122,554	2,867,814	2,990,368
Gross sales receivables	**445,942**	**3,932,645**	**4,378,587**	122,554	3,146,464	3,269,018
Provisions (note 23)	**(7,050)**	**(146,730)**	**(153,780)**	(1,872)	(143,615)	(145,487)
	438,892	**3,785,915**	**4,224,807**	120,682	3,002,849	3,123,531
Deferred profits	**(2,383)**	**(168,698)**	**(171,081)**	(624)	(136,713)	(137,337)
Net sales receivables	**436,509**	**3,617,217**	**4,053,726**	120,058	2,866,136	2,986,194

Sales receivables, which are non-performing as of 31 December 2006, amounted to US$ 357.1million (2005: US$ 312.4 million).

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

5 MUDARABA FINANCING

	2006			2005		
	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Gross amount	6,420	128,812	135,232	9,693	158,185	167,878
Provisions (note 23)	-	(561)	(561)	-	(643)	(643)
	6,420	128,251	134,671	9,693	157,542	167,235

Mudaraba financing, which are non-performing as of 31 December 2006, amounted to US$ 0.6 million (2005: 0.6 million).

6 MUSHARAKA FINANCING

	2006			2005		
	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Gross amount	4,480	81,224	85,704	3,706	71,088	74,794
Provisions (note 23)	(115)	(1,145)	(1,260)	(115)	(987)	(1,102)
	4,365	80,079	84,444	3,591	70,101	73,692

Musharaka financing, which are non performing as of 31 December 2006, amounted to US$ 2.2 million (2005: US$ 0.9 million).

7 INVESTMENT PROPERTIES

	2006			2005		
	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Cost	1,382	42,752	44,134	1,383	38,376	39,759
Accumulated fair value adjustments	-	24,050	24,050	-	4,251	4,251
	1,382	66,802	68,184	1,383	42,627	44,010

The movement is as follows:

	2006 US$ 000	2005 US$ 000
At 1 January	44,010	46,279
Change in fair values attributable to unrestricted investment accounts	19,799	4,114
Acquisition net of disposal	4,375	(6,383)
	68,184	44,010

7 INVESTMENT PROPERTIES CONTINUED

	2006			2005		
	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Land	-	32,920	32,920	305	12,277	12,582
Buildings	1,382	33,882	35,264	1,078	30,350	31,428
	1,382	66,802	68,184	1,383	42,627	44,010

8 IJARAH MUNTAHIA BITTAMLEEK

	2006			2005		
	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Cost:						
1 January	17,114	255,629	272,743	7,412	224,439	231,851
Additions	14,819	148,652	163,471	10,235	99,720	109,955
Disposals	(3,761)	(108,878)	(112,639)	(533)	(68,530)	(69,063)
31 December	28,172	295,403	323,575	17,114	255,629	272,743
Accumulated depreciation:						
1 January	8,721	93,555	102,276	4,007	55,685	59,692
Additions	5,053	100,815	105,868	4,714	90,742	95,456
Disposals	(3,607)	(92,287)	(95,894)	-	(52,872)	(52,872)
31 December	10,167	102,083	112,250	8,721	93,555	102,276
Net book value:						
At 31 December	18,005	193,320	211,325	8,393	162,074	170,467

	Properties US$ 000	Equipment US$ 000	Others US$ 000	2006 US$ 000
Cost:				
At 1 January	72,343	186,157	14,243	272,743
Additions	36,615	102,009	24,847	163,471
Disposals	(31,898)	(66,571)	(14,170)	(112,639)
At 31 December	77,060	221,595	24,920	323,575
Depreciation:				
At 1 January	25,581	73,294	3,401	102,276
Provided during the year	21,575	81,451	2,842	105,868
Disposals	(27,328)	(67,149)	(1,417)	(95,894)
At 31 December	19,828	87,596	4,826	112,250
Net book value:				
At 31 December 2006	**57,232**	**133,999**	**20,094**	**211,325**
Net book value:				
At 31 December 2005	46,762	112,863	10,842	170,467

9 INVESTMENT IN ASSOCIATES

Investments in associates comprise the following:

	2006					
	Ownership % 2006	Country of incorporation	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Market Value US$ 000
Quoted						
Investment Banking						
AlAmin Investment Company	32.2	Jordan	-	6,727	6,727	5,890
Insurance						
Islamic Insurance Company	35.3	Jordan	-	5,177	5,177	6,130
Others						
Jordan Centre for International Trade Company	40.8	Jordan	-	2,447	2,447	2,348
			-	14,351	14,351	14,368
Unquoted						
Real Estate						
Baraka Development Immobile	20.0	Algeria	924	-	924	
Egyptian Saudi Finance Real Estate	40.0	Egypt	-	396	396	
Leasing						
BEST Lease	34.8	Tunis	1,380	-	1,380	
Insurance						
Aman Takaful Insurance (note 9.1)	38.7	Lebanon	825	-	825	
			3,129	396	3,525	
			3,129	14,747	17,876	

9 INVESTMENT IN ASSOCIATES CONTINUED

			2005			
	Ownership % 2005	Country of incorporation	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Market Value US$ 000
Quoted						
Real Estate						
Real Estate Investment Company (note 9.3)	25.0	Jordan	-	3,007	3,007	4,972
Investment Banking						
AlAmin Investment Company	32.2	Jordan	-	6,493	6,493	16,824
Insurance						
Islamic Insurance Company	35.3	Jordan	-	2,291	2,291	5,713
Others						
Jordan Centre for International Trade Company	40.8	Jordan	-	2,361	2,361	3,013
			-	14,152	14,152	30,522
Unquoted						
Real Estate						
Baraka Development Immobile	20.0	Algeria	924	-	924	
Egyptian Saudi Finance Real Estate	40.0	Egypt	-	435	435	
Leasing						
BEST Lease	34.8	Tunis	2,130	-	2,130	
Investment Banking						
Al Tawfeek Company for Investment Funds Limited (note 9.2)	13.6	Cayman Islands	92,520	-	92,520	
Insurance						
BEST Reinsurance (note 9.3)	21.8	Tunis	15,047	-	15,047	
			110,621	435	111,056	
			110,621	14,587	125,208	

9.1 Aman Takaful Insurance
During the year Albaraka Bank Lebanon's share in Aman Takaful Insurance has been diluted from 70% to 38.7% due to injection of additional capital by other shareholders. Accordingly the carrying amount of the investment in Aman Takaful Insurance at the date the Bank ceases to have control has been accounted for as an investment in associate in accordance with the requirements of International Accounting Standard 28.

9.2 Al Tawfeeq Company for Investment Funds Limited
During the year the Group lost significant influence over the operations of Al Tawfeek Company for Investment Funds Limited and has discontinued the use of equity method from the date that it ceased to have significant influence The carrying amount of the investment at the date it ceased to be an associate is regarded as its cost on initial measurement as a financial assets in accordance with Financial Accounting Standard 17 'Investments' and is now disclosed under nontrading investments (note 10).

An amount of US$ 72.2 million of Al Tawfeeq Company for Investment Funds Limited included under non-trading investments (note 10).

9.3 Real Estate Investment Company and B.E.S.T. Reinsurance
These were sold during the year and a gain of US$ 4.8 million recognised in consolidated statement of income (note 17).

10 INVESTMENTS

i) Trading securities

	2006			2005		
	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Quoted equities	1,666	2,133	3,799	1,606	1,065	2,671

Non-Trading Investments

ii) Available for sale investments

	2006			2005		
	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Quoted investments						
Managed funds	4,128	37,101	41,229	2,766	19,157	21,923
Equities	3,339	41,313	44,652	4,459	49,558	54,017
	7,467	78,414	85,881	7,225	68,715	75,940
Unquoted investments at cost						
Managed funds	802	18,637	19,439	-	15,447	15,447
Equities	95,040	12,080	107,120	31,049	27,102	58,151
	95,842	30,717	126,559	31,049	42,549	73,598
Provisions (note 23)	(4,305)	(284)	(4,589)	(4,846)	(1,089)	(5,935)
	99,004	108,847	207,851	33,428	110,175	143,603

iii) Held to maturity investments

	2006			2005		
	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Unquoted Investments at cost						
Sukook and similar items	7,160	623,033	630,193	11,193	427,547	438,740
	107,830	734,013	841,843	46,227	538,787	585,014

11 IJARAH RECEIVABLES

	2006			2005		
	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000	Self financed US$ 000	Jointly financed US$ 000	Total US$ 000
Gross amount	3,708	20,716	24,424	5,498	15,865	21,363
Provisions (note 23)	(2,983)	(345)	(3,328)	(1,043)	(41)	(1,084)
	725	20,371	21,096	4,455	15,824	20,279

Ijarah receivables, which are non-performing as of 31 December 2006, amounted to US$ 2.8 million (2005: nil).

12 PROPERTY AND EQUIPMENT

	Land and buildings US$ 000	Office furniture and equipment US$ 000	Vehicles US$ 000	Others US$ 000	Total US$ 000
Cost:					
At 1 January 2006	116,789	73,125	6,717	7,347	203,978
Additions	9,516	11,936	2,312	3,019	26,783
Disposals	(435)	(885)	(647)	(116)	(2,083)
Transfers/others	(4,569)	3,960	1,068	(510)	(51)
At 31 December 2006	121,301	88,136	9,450	9,740	228,627
Depreciation:					
At 1 January 2006	28,457	52,050	4,216	3,900	88,623
Provided during the year	3,041	6,714	1,257	866	11,878
Disposals	(9)	(784)	(612)	(2)	(1,407)
Transfers/others	(3,157)	1,726	526	(513)	(1,418)
At 31 December 2006	28,332	59,706	5,387	4,251	97,676
Net book values:					
At 31 December 2006	**92,969**	**28,430**	**4,063**	**5,489**	**130,951**
At 31 December 2005	88,332	21,075	2,501	3,447	115,355

13 OTHER ASSETS

	2006 US$ 000	2005 US$ 000
Goodwill 13(a)	**47,227**	40,000
Receivables	**92,541**	56,101
Collateral pending sale	**25,859**	26,098
Deferred taxation	**11,501**	10,792
Good Faith Qard Fund	**9,638**	8,622
Istisna financing	**12,013**	6,585
Intangible assets	**4,199**	4,420
Others	**30,601**	25,434
Total	**233,579**	178,052
Provisions (note 23)	**(9,046)**	(3,065)
	224,533	174,987

13(a) Goodwill

	2006 US$ 000	2005 US$ 000
Cost:		
At 1 January	**40,000**	40,000
Additions	**7,227**	-
At 31 December	**47,227**	40,000

13 OTHER ASSETS CONTINUED

13(a) Goodwill continued

Goodwill acquired through business combinations with indefinite lives have been allocated to three individual cash-generating units. The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2006 US$ 000	2005 US$ 000
Albaraka Turk Participation Bank	40,000	40,000
Egyptian Saudi Finance Bank	5,044	-
Jordan Islamic Bank	2,183	-
	47,227	40,000

14 OTHER LIABILITIES

	2006 US$ 000	2005 US$ 000
Cash margins	59,819	45,425
Payables	120,858	98,486
Other provisions (note 23)	10,600	6,473
Current taxation*	12,474	9,598
Deffered taxation*	9,880	5,910
Accrued expenses	14,258	15,044
Charity fund	4,969	2,553
Others	35,249	26,303
	268,107	209,792

*In view of the operations of the Group being subject to various tax jurisdiction and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates.

15 UNRESTRICTED INVESTMENT ACCOUNT

	2006 US$ 000	2005 US$ 000
Unrestricted investment accounts	4,629,422	3,986,725
Profit equalisation and investment risk reserve (note 15.1)	43,660	39,025
Cumulative changes in fair value attributable to unrestricted investment accounts	24,284	7,375
	4,697,366	4,033,125

15.1 Movement in profit equalization and investment risk reserve

	2006 US$ 000	2005 US$ 000
Balance at 1 January	39,025	27,591
Amount appropriated from provision (Note 23)	4,363	10,333
Amount apportioned from income allocable to unrestricted investment account holders	272	1,101
Balance at 31 December	43,660	39,025

16 EQUITY

	2006 US$ 000	2005 US$ 000
Share capital		
Authorised 1,500,000,000 ordinary shares of US$ 1 each	**1,500,000**	1,500,000

	2006 US$ 000	2005 US$ 000
Issued and fully paid up		
At beginning of the year		
387,998,025 (2005: 325,307,211) ordinary shares of US$1 each	**387,998**	325,307
Issued during the period		
120,000,000 (2005: 41,346,610) ordinary shares of US$1 each, issued in cash	**120,000**	41,347
(2005: 21,344,204) ordinary shares of US$1 each, issued in kind	-	21,344
Capitalization of retained earnings & statutory reserve		
122,001,975 (2005: nil) ordinary shares of US$1 each	**122,002**	-
At end of the period		
630,000,000 (2005: 387,998,025) ordinary shares of US$1 each	**630,000**	387,998

Additional information on shareholding pattern:

i) Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

Names	Nationality	shares	% holding
Saleh Abdulla Kamel	Saudi	189,695,984	30.11%
Dallah AlBaraka Holding Company E.C.	Bahraini	155,206,214	24.64%
Altawfeek Company For Investment Funds	Cayman Island	131,052,187	20.80%
Abdulla AbdulAziz AlRajihi	Saudi	42,894,396	6.81%

ii) The Bank has only one class of shares and the holders of these shares have equal voting rights.

iii) Distribution schedule of shares, setting out the number of holders and percentage in the following categories:

Categories:	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	31,540,559	1,586	5.00%
1% up to less than 5%	79,610,660	9	12.64%
5% up to less than 10%	42,894,396	1	6.81%
20% up to less than 50%	475,954,385	3	75.55%
	630,000,000	1,599	100.00%

16 EQUITY CONTINUED

Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue costs, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law. Share premium from issue of shares during the year amounted to US$249.6 million (2005: Nil).

Statutory reserve

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

Cumulative changes in fair values

This represents the net unrealised gains on available-for-sale investments.

Foreign currency reserve

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

Investment properties fair value reserves

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

Other reserves

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

16 (a) Equity transaction cost

Equity transaction cost, represent costs incurred by the Bank that are directly related to raising capital and have been taken to the consolidated statement of equity and have been incurred in cash.

17 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2006 US$ 000	2005 US$ 000
Income from sales contracts	**365,505**	268,942
Ijarah Muntahia Bittamleek (note 17.1)	**18,808**	13,639
Income from non-trading investments	**60,964**	54,031
Income from associates	**226**	45,778
Gain/(loss) from sale of associates	**4,835**	(2,289)
Mudaraba financing	**15,953**	11,020
Income from Musharaka	**6,739**	5,849
Income from investment properties	**2,330**	1,544
Trading securities	**(225)**	1,031
Others	**14,067**	10,917
	489,202	410,462
Net income from jointly financed contracts and investments	**442,919**	344,598
Net income from self financed contracts and investments	**46,283**	65,864
	489,202	410,462

17 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS CONTINUED

17.1 Ijara Muntahia Bittamleek

	2006 US$ 000	2005 US$ 000
Income from Ijara Muntahia Bittamleek	124,676	109,095
Less: Depreciation on Ijara Muntahia Bittamleek (note 8)	(105,868)	(95,456)
	18,808	13,639

18 RETURN ON UNRESTRICTED INVESTMENT ACCOUNTS

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

19 OTHER FEES AND COMMISSION INCOME

	2006 US$ 000	2005 US$ 000
Fees and commissions	57,229	51,261
Letters of credit	21,750	14,443
Guarantees	7,471	4,129
Acceptances	1,346	1,720
	87,796	71,553

20 OTHER OPERATING INCOME

	2006 US$ 000	2005 US$ 000
Foreign exchange gain	7,616	5,420
Gain on sale of property and equipment	347	4,266
Others	21,364	13,260
	29,327	22,946

21 DEPRECIATION AND AMORTISATION

	2006 US$ 000	2005 US$ 000
Property and equipment (note 12)	11,878	13,798
Amortisation of intangible assets	1,282	1,037
	13,160	14,835

22 OPERATING EXPENSES

	2006 US$ 000	2005 US$ 000
General and administration	**46,075**	46,046
Business	**10,959**	11,668
Premises	**5,379**	4,354
	62,413	62,068

23 PROVISIONS

2006	Sales receivables US$ 000	Mudaraba financing US$ 000	Musharaka financing US$ 000	Investments US$ 000	Ijarah receivables US$ 000	Other assets US$ 000	Other provisions US$ 000	Total US$ 000
Provisions at 1 January	**145,487**	**643**	**1,102**	**5,935**	**1,084**	**3,065**	**6,473**	**163,789**
Charged during the year	**38,509**	**-**	**163**	**216**	**1,366**	**2,973**	**9,041**	**52,268**
Written back during the year	**(18,306)**	**-**	**(162)**	**(367)**	**(418)**	**-**	**-**	**(19,253)**
	20,203	**-**	**1**	**(151)**	**948**	**2,973**	**9,041**	**33,015**
	165,690	**643**	**1,103**	**5,784**	**2,032**	**6,038**	**15,514**	**196,804**
Written off during the year	**(12,397)**	**(82)**	**(15)**	**(1,113)**	**-**	**(1,123)**	**(551)**	**(15,281)**
Amount appropriated to profit equalisation and investment risk reserve (Note 15.1)	**-**	**-**	**-**	**-**	**-**	**-**	**(4,363)**	**(4,363)**
Other adjustments	**487**	**-**	**172**	**(82)**	**1,296**	**4,131**	**-**	**6,004**
Provisions at 31 December	**153,780**	**561**	**1,260**	**4,589**	**3,328**	**9,046**	**10,600**	**183,164**
Notes	4	5	6	10	11	13	14	

2005	Sales receivables US$ 000	Mudaraba financing US$ 000	Musharaka financing US$ 000	Investments US$ 000	Ijarah receivables US$ 000	Other assets US$ 000	Other provisions US$ 000	Total US$ 000
Provisions at 1 January	128,138	891	940	6,317	1,181	3,578	14,115	155,160
Acquisition through subsidiary (note 29)	1,447	-	442	-	-	253	-	2,142
Charged during the year	42,453	-	21	268	609	2,577	6,601	52,529
Written back during the year	(13,039)	(248)	(495)	(21)	(705)	(4,627)	(1,164)	(20,299)
	29,414	(248)	(474)	247	(96)	(2,050)	5,437	32,230
	158,999	643	908	6,564	1,085	1,781	19,552	189,532
Written off during the year	(5,292)	-	-	(629)	-	-	(10,966)	(16,887)
Amount appropriated to profit equalisation and investment risk reserve (Note 15.1)	(8,220)	-	-	-	-	-	(2,113)	(10,333)
Other adjustments	-	-	194	-	(1)	1,284	-	1,477
Provisions at 31 December	145,487	643	1,102	5,935	1,084	3,065	6,473	163,789
Notes	4	5	6	10	11	13	14	

24 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net profit for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

	2006	2005
Net income attributable to the ordinary equity shareholders of the parent for the year - US$ '000	80,252	79,372
Weighted average number of shares outstanding during the year (in thousands)	550,000	481,707
Earnings per share - US cents	15	16

The weighted average number of shares of the previous year has been adjusted for the capitalisation of retained earnings and statutory reserve made in 2006.

25 CASH AND CASH EQUIVALENTS

	2006 US$ 000	2005 US$ 000
Balances with central banks excluding mandatory reserve	740,751	802,677
Balances with other banks	507,423	587,048
Cash and cash in transit	140,970	100,843
	1,389,144	1,490,568

26 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced 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:

	2006 US$ 000	2005 US$ 000
Net income from joint sales receivable and jointly financed contracts and investments	4,131	8,798
Net (loss) / income from self financed financing and investments	(805)	39,474
Return on unrestricted investment	-	335

26 RELATED PARTY TRANSACTIONS CONTINUED

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

	2006 US$ 000	2005 US$ 000
Assets:		
Sales receivables	7,575	10,273
Mudaraba financing	34,624	128,261
Musharaka financing	4,369	-
Ijarah Muntahia Bittamleek	10,471	11,629
*Investment in associates	-	96,767
*Investments	90,696	1,250
Other assets	8,160	-

*Refer note 9.2

	2006 US$ 000	2005 US$ 000
Liabilities:		
Customer current and other accounts	7,222	7,087
Unrestricted investment accounts	6,339	24,196
Restricted investment accounts	13,704	914

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

Details of Directors' interests in the Bank's shares as at the end of the year were:

	No. of shares	No. of directors
Categories:		
Less than 1%	367,339	3
20% up to less than 50%	189,695,984	1
	190,063,323	4

27 COMMITMENTS

	2006 US$ 000	2005 US$ 000
Letters of credit	350,304	255,414
Guarantees	549,451	232,116
Acceptances	43,282	38,372
Others	39,655	31,890
	982,692	557,792

28 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The management committee and executive committees, guide and assist with overall management of the Group's balance sheet risks. The Group manages exposures by setting limits approved by the Board of Directors.

a) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. 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 Group'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 retention history of its investment account holders and the availability of bank lines.

The maturity profile at 31 December 2006 was as follows:

	Up to 1 month US$ 000	1 to 3 months US$ 000	3 to 6 months US$ 000	6 months to 1 year US$ 000	1 to 3 years US$ 000	Over 3 years US$ 000	Undated US$ 000	Total US$ 000
Assets								
Cash and balances with banks	1,179,830	89,179	58,417	7,000	-	54,718	448,034	1,837,178
Sales receivables	820,436	717,402	662,226	585,283	735,128	533,251	-	4,053,726
Mudaraba financing	17,847	36,138	13,653	2,811	19,143	45,079	-	134,671
Musharaka financing	6,187	10,985	9,432	16,710	18,227	22,903	-	84,444
Investment properties	-	-	-	-	-	-	68,184	68,184
Ijarah Muntahia Bittamleek	7,892	15,637	19,133	32,025	115,177	21,461	-	211,325
Investment in associates	-	-	-	-	-	-	17,876	17,876
Investments	193,686	182,701	127,273	149,767	74,250	114,166	-	841,843
Ijarah receivables	3,264	8,720	1,054	2,327	5,454	277	-	21,096
Property and equipment	-	-	-	-	-	-	130,951	130,951
Other assets	83,718	29,408	15,473	8,421	21,111	19,175	47,227	224,533
Total Assets	2,312,860	1,090,170	906,661	804,344	988,490	811,030	712,272	7,625,827
Liabilities								
Customer current and other accounts	831,555	134,553	84,610	283,236	-	-	-	1,333,954
Due to banks	32,460	40,627	41,388	801	-	-		115,276
Other liabilities	144,449	25,428	18,903	18,996	59,189	1,142	-	268,107
Total liabilities	1,008,464	200,608	144,901	303,033	59,189	1,142	-	1,717,337
Unrestricted investment accounts	2,118,856	846,814	462,864	661,202	357,397	250,233	-	4,697,366
Total equity	-	-	-	-	-	-	1,211,124	1,211,124
Total liabilities, unrestricted investment accounts and equity	3,127,320	1,047,422	607,765	964,235	416,586	251,375	1,211,124	7,625,827
Net liquidity gap	(814,460)	42,748	298,896	(159,891)	571,904	559,655	(498,852)	-

28 RISK MANAGEMENT CONTINUED

a) **Liquidity risk** continued

The maturity profile at 31 December 2005 was as follows:

	Up to 1 month US$ 000	1 to 3 months US$ 000	3 to 6 months US$ 000	6 months to 1 year US$ 000	1 to 3 years US$ 000	Over 3 years US$ 000	Undated US$ 000	Total US$ 000
Assets								
Cash and balances with banks	1,315,381	54,317	62,173	25,094	103	33,500	354,065	1,844,633
Sales receivables	471,451	524,763	474,536	494,682	683,463	337,299	-	2,986,194
Mudaraba financing	4,781	56,039	23,409	29,362	30,658	22,986	-	167,235
Musharaka financing	6,027	7,604	9,944	9,822	22,864	17,431	-	73,692
Investment properties	-	-	-	-	-	-	44,010	44,010
Ijarah Muntahia Bittamleek	6,860	13,559	16,056	32,562	82,177	19,253	-	170,467
Investment in associates	-	-	-	-	-	-	125,208	125,208
Investments	136,588	161,353	60,217	108,567	90,050	28,239	-	585,014
Ijarah receivables	5,855	3,897	685	4,201	3,876	1,765	-	20,279
Property and equipment	-	-	-	-	-	-	115,355	115,355
Other assets	85,287	11,333	3,278	4,432	24,479	6,178	40,000	174,987
Total Assets	2,032,230	832,865	650,298	708,722	937,670	466,651	678,638	6,307,074
Liabilities								
Customer current and other accounts	924,020	100,903	152,076	8,593	-	-	-	1,185,592
Due to banks	85,705	14,765	10,959	-	-	3	-	111,432
Other liabilities	84,247	12,459	37,136	19,904	50,689	5,357	-	209,792
Total liabilities	1,093,972	128,127	200,171	28,497	50,689	5,360	-	1,506,816
Unrestricted investment accounts	2,036,265	657,780	534,576	312,103	365,669	126,732	-	4,033,125
Total equity	-	-	-	-	-	-	767,133	767,133
Total liabilities, unrestricted investment accounts and Equity	3,130,237	785,907	734,747	340,600	416,358	132,092	767,133	6,307,074
Net liquidity gap	(1,098,007)	46,958	(84,449)	368,122	521,312	334,559	(88,495)	-

b) **Credit risk**

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, by collateral in form of mortgage of the objects financed or other tangible security.

Type of credit risk

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

Sales receivables

The Group finances these transactions through buying a commodity which represents the object of the murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in installments by the murabeh 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 primarily by other banks and financial institutions for a definite period of time.

28 RISK MANAGEMENT CONTINUED

b) **Credit risk** 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.

c) **Concentration risk**

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 unrestricted investment account items by geographic region was as follows:

	2006			2005		
	Assets US$ 000	Liabilities US$ 000	Unrestricted investment accounts US$ 000	Assets US$ 000	Liabilities US$ 000	Unrestricted investment accounts US$ 000
Geographic region:						
Domestic (Bahrain)	509,899	28,345	108,003	301,566	10,361	89,694
Other Middle East	3,803,788	831,380	2,680,689	3,166,217	777,474	2,305,765
Europe	1,883,831	342,257	1,191,356	1,628,020	288,155	1,032,261
Asia	326,819	50,443	228,419	263,836	54,894	164,095
Africa	1,049,614	460,447	478,311	897,085	373,486	441,251
Others	51,876	4,465	10,588	50,350	2,446	59
	7,625,827	1,717,337	4,697,366	6,307,074	1,506,816	4,033,125

Segment information relating to distribution of operating income, net operating income and net income attributable to the shareholders of the parent by geographic region was as follows:

	2006			2005		
	Total operating income US$ 000	Net operating income US$ 000	Net income attributable to the share holders of the parent US$ 000	Total operating income US$ 000	Net operating income US$ 000	Net income attributable to the share holders of the parent US$ 000
Geographic region:						
Domestic (Bahrain)	21,882	(6,264)	(7,806)	12,386	(8,761)	(9,931)
Other Middle East	121,739	68,943	29,490	128,209	75,942	46,181
Europe	119,979	65,377	37,318	91,194	42,190	23,523
Asia	2,164	3,320	2,674	6,205	6,197	4,822
Africa	71,397	38,882	16,170	59,590	30,731	14,611
Others	2,406	2,406	2,406	166	184	166
	339,567	172,664	80,252	297,750	146,483	79,372

d) **Market risk**

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

28 RISK MANAGEMENT CONTINUED

d) **Market risk** continued

Profit rate risk

The Group has risk to changes in profit rate arising from the possibility that changes in profit rate will affect the fair value, of the financial instruments or will affect future cash flows.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

Foreign exchange risk

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

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

	2006 US$ 000 equivalent long (short)	2005 US$ 000 equivalent long (short)
Jordanian Dinar	226,443	136,815
Turkish Lira	209,471	53,287
Egyptian Pound	92,699	33,001
Sudanese Dinar	36,003	20,520
Bahraini Dinar	21,786	19,423
Algerian Dinar	69,327	18,417
Lebanese Pound	13,927	15,919
Saudi Riyal	578	4,071
Pound Sterling	930	715
Tunisia Dinar	212	138
Euro	(5,231)	(1,016)
Others	24,688	3,119

29 BUSINESS COMBINATION

Acquisition of Albaraka Bank-Sudan

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

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

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

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

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

30 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Included under non trading investments are unquoted available for sale investments amount to US$ 126.6 million (2005: US$ 73.6 million) which are carried at cost due to lack of other reliable methods for arriving at a reliable fair value for these investments.

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

31 SOCIAL RESPONSIBILITY

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

32 COMPARATIVE FIGURES

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

ABG Contact Directory

ABG Contact Directory

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Subsidiaries

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 64 branches. The contact details of the bank are:

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

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

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

AlBaraka Islamic Bank
AlBaraka Islamic Bank was incorporated in Bahrain in February 1984 and operates as an off-shore and commercial Islamic bank. It obtained a commercial banking licence in Pakistan in 1991. The activities of the bank are retail, commercial and investment banking. The bank operates 14 branches in Bahrain and Pakistan. The contact details of the bank are:

Mr. Salah Ahmed Zainalabedin
General Manager
AlBaraka Islamic Bank
AlBaraka Tower, P.O. Box 1882
Manama, Kingdom of Bahrain
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Fax: +973 17 530 695
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Mr. Shafqaat Ahmed
Regional General Manager & Country Head
Al Baraka Islamic Bank, Pakistan
PICIC House, 14, Shahrah'e Aiwan'e Tajarati
P.O. Box 1686, Lahore 54000, Pakistan
Tel: +92-42-6309961
Fax: +92-42-6309965

Banque AlBaraka D'Algerie
Banque AlBaraka D' Algerie was incorporated in May 1991 as an Islamic Bank and operates under a commercial banking licence issued by the Bank of Algeria. The main activities of the bank are retail and commercial banking. The Bank operates 16 branches. The contact details of the bank are:

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

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

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

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

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

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

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

Bank Et-Tamweel Al-Tunisi Al-Saudi
Bank Et-Tamweel Al-Tunisi Al-Saudi was established in 1983. The bank has both off-shore and local retail activities The bank operates 7 branches. The contact details of the bank are:

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

The Egyptian Saudi Finance bank
The Egyptian Saudi Finance bank was incorporated in 1980 and its activities consist of retail and commercial banking. The bank operates 7 branches and several offices. The contact details of the bank are:

Mr. Ashraf Al Ghamrawi
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Website: www.esf-bank.com

AlBaraka Turk Participation Bank
AlBaraka Turk Participation Bank was established in 1984. The bank's activities consist of retail and commercial banking. The bank operates 63 branches. The contact details of the bank are:

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