

1. Introduction

Albaraka is committed to the high standards of corporate governance, seeking to reinforce these through the establishment of strong ethical values with integrity and professionalism in all of its activities. Corporate governance at Albaraka Bank is accorded significant priority and is the responsibility of Albaraka Bank Limited's Board of Directors.

2. Board of Directors

Albaraka Bank's Board, comprises of non-Executive and Executive Directors. The composition of the Board, with a strong independent element, ensures that no one individual has unfettered powers of decision and authority.

The function of the Board is to consider in depth issues of fundamental strategic importance to the Bank.

New Directors may hold office only until the next Annual General Meeting at which they retire and become available for re-election, while all Directors are subject to retirement by rotation and re-election by shareholders at least once every three years.

Albaraka Bank's Board is responsible to the shareholders for setting the direction of the Bank through the establishment of strategic objectives and key policies. The Board is accountable to shareholders for exercising leadership, enterprise, integrity and judgement in directing the organisation so as to achieve continuing prosperity for the Bank.

The Board meets regularly, at least four times a year, and retains full and effective control of the Bank. As part of this process the Board operates a comprehensive system of financial monitoring, involving detailed quarterly reporting, to ensure that performance is continually assessed and there is regular reporting on relevant non-financial matters.

Control is also exercised through the Executive Directors who, together with management are responsible for taking and implementing operational decisions in managing the Bank's business. They are also required to provide the Board with appropriate and timely information necessary for it to fulfil its responsibilities, which is provided for through a framework of open communication and integrated financial reporting systems.

All Directors have access to management, and to such information as is needed to carry out their duties and responsibilities fully in furtherance of its duties to take independent professional advice, if necessary, at the Company's expense.

3. Board Committees

To assist the Board in the discharge of its duties and responsibilities, a number of Board Committees have been established.

There are six principal Committees, namely Executive Committee, Audit Committee, Remuneration Committee, Risk Committee and the Directors' Affairs Committee with other Management Committees that are important to the effective operation of the Bank.

These Committees have formal written terms of reference that are reviewed regularly, and updated as necessary, to take account of developments and any specific requirements of Albaraka Bank and the changes in banking regulation.

3.1 Executive Committee

Executive Committee meetings are held as far as possible at least four times a year. The Committee, comprising of Adv AB Mahomed SC (CM), YD Asmall, MG McLean, SA Randeree, OA Suleiman and EY Varachia, is primarily responsible for evaluating the appropriateness, adequacy and efficiency of credit policies and procedures as well as approving credit applications in terms of its mandate and monitoring credit risk and other risks which are material.

3.2 The Directors' Affairs Committee

This committee was formed in 2004 in line with the bank's corporate governance policy. This committee has a formal written terms of reference and effectively delegates certain of the Board's responsibilities.

This committee meets at least 4 times a year and consists of S Randeree (CM), Adv AB Mahomed SC and YM Paruk.

3.3 Audit Committee

This Committee, comprising of YD Asmall (CM), Adv AB Mahomed SC, OA Suleiman and M Youssef, takes place four times a year. In attendance at meetings of the Committees are the non-Executive Directors, Executive Management and both internal and external Auditors of Albaraka Bank.

An Audit Committee charter provides clear terms of reference for the Audit Committee, which is assisted in its tasks by regular reports from other Committees of the Bank and its Auditors.

3.4 Remuneration Committee

This Committee comprises mainly of non-Executive Directors and is chaired by a non-Executive Director. Its members are YD Asmall (CM), OA Suleiman, EY Varachia and the Chief Executive Officer. Remuneration Committee meetings are held annually. The Committee's primary objective is to ensure that the right calibre of personnel is recruited and retained. It is also responsible for evaluating the performances of Executive Directors. Executive Directors are not involved in the determination of their own remuneration.



3.5 Risk Committee

The Risk Committee comprises mainly of non-Executive Directors and is chaired by a non-Executive Director. The members during the year were: Adv AB Mahomed SC, MG McLean, YM Paruk and the Chief Executive Officer. In attendance at meetings are the Executive Directors and both the Internal Auditor and the Compliance Officer.

In fulfilling its duties, the Board has agreed on a terms of reference for the Risk Committee. The purpose of this Committee is to help the Board review issues for consideration as identified by Internal Audit and Compliance, or by any other Risk Officer of Albaraka Bank with specific reference to the risk implication of issues such as major control breakdowns and weaknesses, and losses affecting the Bank resulting from illegal or criminal conduct or irregular activities. The Risk Committee also assists the Board in developing a risk mitigation strategy to ensure that the Bank manages the risks in an optimal manner.

3.6 Assets and Liability Committee (ALCO)

The Committee, comprising of the Chief Executive Officer, Deputy Chief Executive Officer, Heads of Finance, Accounting, Information Technology and the Company Secretary, meets once a month. This Committee is responsible for monitoring liquidity risk, solvency risk and other risks which are regarded as material by the Bank.

4. Internal Audit and Control

The Board of Albaraka Bank acknowledges that it is responsible for internal financial control. For this purpose, Internal Audit performs an independent appraisal of the Bank's systems of internal control and operation. This is conducted with the full cooperation of the Board and Management.

With the increasing convergence of internal audit functions with those of other risk-related and compliance functions, internal audit operates closely in a coordinated way with the other functions in the Bank responsible for risk management.

By virtue of its mandate any material or significant control weaknesses that are identified are brought to the attention of management and the Audit Committee for consideration and the necessary remedial action.

5. Compliance Function

Albaraka Bank has an independent Compliance Department, which reports to the Chief Executive Officer and the Board. This department has been enhanced to meet the requirements of the Banks Act and has adopted a risk-based approach to compliance monitoring. The focus has been placed on identifying both regulatory and reputational risks as well as facilitating, monitoring, training and servicing the Bank as a whole.

6. Code of Conduct

The Bank's policy commits management and employees to high standards of ethical behaviour. It provides a clear guide as to the expected behaviour of management and employees in their dealings with each other and the Bank's stakeholders, and failure to maintain ethical standards may result in disciplinary action.



With over 1,9 million subsidies approved and 480 000 houses transferred to occupants under the discount benefit scheme, it is hoped that the need for housing will diminish. Informal settlements and unacceptable living conditions, with continued government commitment, will some day be a thing of the past.

Philosophy

Albaraka Bank recognises that risk management is of prime importance and continuously seeks to comply with regulatory and statutory requirements. Albaraka has various risk management programmes and management committees in place, to identify, understand and manage the risks associated with its business. The Board is ultimately responsible for Albaraka's risk management, and ensures that the processes for risk management and systems of internal control is implemented.

Objectives of Albaraka Bank's Risk Strategy

The primary objectives of Albaraka's Risk Strategy is to:

- Ensure a risk management culture in its day to day business.
- Ensure that limits are set across the Bank and seek to ensure that these are consistently implemented.
- Give the Board reasonable assurances that the risks to which it is exposed are identified, and, to the extent possible, managed pro-actively.

Risk Management Structure

The Risk Management Structure adopted by the Bank is based on the following principles:

- Involvement of senior management.
- Segregation of duties.
- Delineation of authorities.
- Delegation of responsibilities.

Risk Categories

The nature of the business of Albaraka exposes it to the following categories of risks, defined hereunder:

- **Credit risk**

The risk of assets, in the form of a money claim or equivalent against a third party, may not result in a cash receipt or equivalent in accordance with the terms of the agreement giving rise to the claim.

- **Liquidity risk**

The possibility of Albaraka being unable to meet commitments and repayments and providing funding at the proper place and time.

- **Profit rate risk**

The potential loss that Albaraka is exposed to as a result of a change in profit. Profit rate risk is associated with:

- The margin between profit earned on assets and paid on liabilities.
- Surplus cash which cannot be invested in a Shari'ah compliant manner for the benefit of depositors and shareholders.

- **Operational and technology risks**

Operational and technology risks do not have a "direct" financial impact as compared with the pure financial risks such as liquidity risk, profit rate risk and credit risk. Operational and technology risks are the risks resulting from breakdown in controls relating to back office and accounting activities, failures in system support, including errors in the development of programmes, inadequate or untimely management information and inadequate security and contingency planning.

- **Compliance risk**

The potential that:

- Albaraka does not comply with applicable laws and regulations or supervisory requirements.
- Albaraka's personnel do not comply with laid down and approved policies, procedures and key controls.
- Management, in setting policies and key controls, overlooks a potential risk area resulting in a lack of internal controls which in turn could give rise to potential losses to the Bank.

- **Shari'ah risk**

Risk of not complying with Shari'ah policies and principles.

The above risks are interrelated and will be affected by other risks such as concentration risk, political risk, legal and regulatory risk. The interrelationships of the various risks necessitates that they are not reviewed in isolation. A holistic view in managing the various categories of risk will be applied.

The value of the informal sector and its activities is impossible to calculate both in financial and social terms.

This is where the highest growth in the job market exists and with the demise of apartheid new freedoms have greatly facilitated its growth.



In the Name of Allah, the Most Beneficent, the Most Merciful.

To the Shareholders and Depositors of Albaraka Bank Limited.

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh.

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Albaraka Bank during the year under review. We have also conducted our review to form an opinion as to whether Albaraka Bank has complied with Shari'ah Rules and Principles and also with the specific Fatwa's, rulings and guidelines issued by us.

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

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

We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that Albaraka Bank has not violated Islamic Shari'ah Rules and Principles.

In our opinion:

- The contracts, transactions and dealings entered into by Albaraka Bank during the year ended 31 December 2003 which we have reviewed are in compliance with the Islamic Shari'ah Rules and Principles.

- The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'ah Rules and Principles.

- A portion of the non-permissible income realised was spent on charity. The remaining portion of the non-permissible income is undistributed up to this date. The Bank must dispose of the remaining non-permissible income as soon as possible to charitable and welfare causes in accordance with the Shari'ah guidelines provided by the Shari'ah Supervisory Board. The disposing of these funds must not exceed the period of three years ending 31 December 2006.

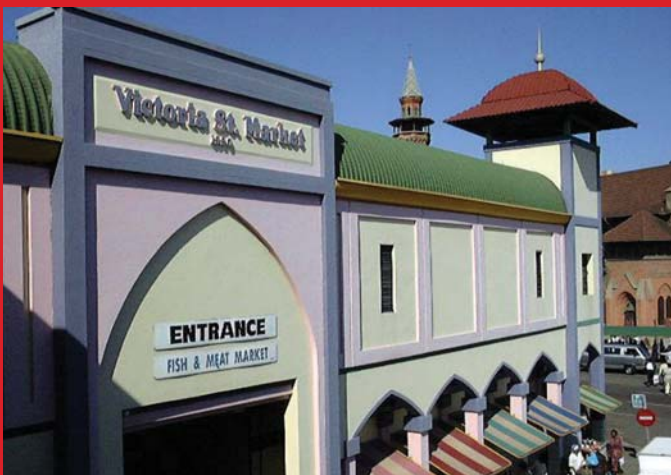
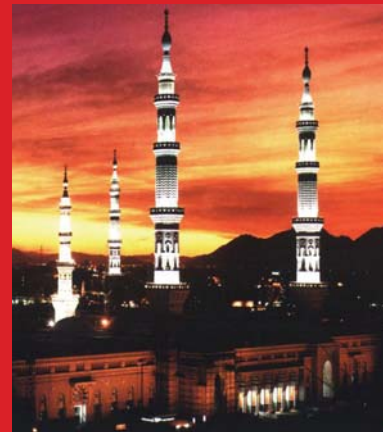
- Albaraka Bank assists the clients and shareholders with the calculation of Zakaah, but the disposing and distribution of Zakaah is the responsibility of the clients and shareholders. The amount of Zakaah that must be distributed by the shareholders for each share is R0,32 per share as at 31 December 2003.

We beg Allah the Almighty to grant us all the success and straightforwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

Dr Abdus Sattar Abu Ghudda
Chairman of the Shari'ah Supervisory Board

Durban, 25 June 2004



A drastic increase in creating more jobs is the solution to overcome poverty in South Africa, but the reality is that the largest area for employment is in the informal sector.

Street markets supply home grown goods and other items to a large portion of the population. Domestic work, temporary labour on farms and work in product packing provides much needed income to a largely unskilled population.

Subsistence farming, fishing or home industries such as arts and crafts are activities which provide much needed employment. Even the taxi industry must be largely counted in this sector.