

As-Salaamu-Alaikum

Overview

In my statement for the 2002 year, I commented that it was unlikely that the exceptional growth in earnings achieved in that year would be matched in the year now under review. In the circumstances, the results for the year, while disappointing, are in line with expectations. The results are discussed at some length in the Chief Executive's Review which follows this Statement.

In each of his statements in recent years, the Chairman has emphasised the significance of international events in shaping the South African economic climate in which Albaraka Bank has performed. International affairs continued to play a critical role in influencing the scenario in the 2003 financial year, but it is gratifying to be able to suggest that South Africa is increasingly developing its own momentum and becoming perceived as a distinct and differentiated entity within the international financial and investment community.

The South African economy continued to strengthen throughout 2003 and the trend has accelerated into the 2004 year to date. Reduced taxation and lower interest rates, together with a steadily expanding economically active community, have helped to boost consumer spending.

The strengthening of the rand has exerted mixed influences upon the economy, predictably improving the fortunes of most import-related sectors while generally adversely affecting export-related businesses. Both the property and stock markets enjoyed burgeoning price levels and businesses in much of the retail, motor and construction sectors have experienced good years. Manufacturing and resource companies have been mixed, with the strong rand penalising many of those engaged in export. Local manufacturers in such sectors as clothing and textiles have struggled against cheap imports from the Far East. The banking sector generally has enjoyed a more stable year.

One area in which the fragile international scenario has impacted directly upon Albaraka Bank has been through the heightened public awareness of Islamic affairs. This includes the Islamic banking system, which incorporates a number of practices that are increasingly being perceived by a widening circle as innovative and advantageous. This perception has been manifested by the growing volume of business that Albaraka has enjoyed over the year under review. At the same time, it has been recognised by other banks, previously uninvolved, as a growing market sector in which to participate. Even the larger conventional banks are entering the field. While such emulation is gratifying, this trend must

represent a loss of competitive advantage and intensified competition to the Bank. Albaraka's response to this challenge will include increasing innovation and further appropriate restructuring.

Chief Executive Officer

Mr Ebrahim Vawda, who has held the office of Chief Executive Officer virtually since the inception of the Bank in 1989, retired during 2004. I pay tribute to the great contribution he has made in my appreciation at the end of this report. The board is currently engaged in the appointment of a replacement.

Corporate Governance and Shari'ah Compliance

Albaraka Bank has focused considerable attention over the past few years upon structuring itself to comply with modern business and banking practices.

Corporate governance is one such area and the increasing emphasis by both public and private sector institutions, including the South African Reserve Bank, resulted in the Bank's Board of Directors reviewing the composition and performance of all its committees during the year. This led to the creation of two new committees - the Directors' Affairs Committee and the Risk Committee. The establishment of both these committees is consistent with the requirements of both Corporate Governance requirements and the Banks Act.

In the modern business environment, risk is being perceived as a much broader issue than in the past when it was largely confined to pure credit risk. The spectrum of threats to any company's fortunes and even its existence is viewed in totality and procedures to meet each eventuality are prescribed. The Board has approved a comprehensive risk strategy which will be aggressively implemented during the current year.

In the period under review, the Board conducted a detailed assessment in terms of the King 2 regulations and the resultant recommendations will significantly have been applied by the end of the 2004 financial year.

Implementation of the provisions of the new Financial Intelligence Centre Act No. 38 of 2001 have commenced although the original deadline for recording the relevant information on clients has been extended. The tightening of control over the banking sector throughout much of the world, which this Act and other potential regulatory enforcements are aimed to achieve, is pro-actively being managed by Albaraka Bank.

It is particularly gratifying to me to be able to announce that Albaraka Bank was awarded the Shari'ah certificate by the Shari'ah Supervisory Board. The Shari'ah Report is published on page 13.



“As we let our own light shine, we unconsciously give other people permission to do the same. As we are liberated from our own fear, our presence automatically liberates others.”

Nelson Mandela

Capital Adequacy and Dividends

The South African Reserve Bank has aligned itself with the recent accord by the G10 Central Bank Governors known as the International Convergence of Capital Measurement and Capital Standards; a revised framework, which has been abbreviated for convenience to the Basel II Framework.

As a result, South African banks will be required to comply with the terms of the Basel II Framework in respect of establishing minimum capital requirements. It also seeks to strengthen market discipline by enhancing transparency in banks' financial reporting. The Framework is referred to in more detail in the Chief Executive's Review.

In my Statement last year, I alluded to the need to comply with this Framework as and when it was adopted. I also referred to the rapid growth in the Bank's activities, which would influence management to introduce new capital to the Group subsequent to the 2003 financial year end.

In the light of continuing growth and the need to introduce new products and strategies to meet increasing competition, the Board has decided to seek a further substantial injection of capital during the current year. This should position the Bank ahead of its immediate needs and provide a capital resource on which to draw as needed. This funding will be completed before the end of 2004.

The Bank's need for additional capital continues to dictate that available resources be used to meet that end and that a dividend should not be contemplated this year.

Prospects

It is becoming increasingly clear that South Africa is growing into a higher role in all aspects of world affairs. The unchallenged success of the first ten years of democracy is providing the backbone to this growth in relevance. Other factors undoubtedly include the country's growing implied status as a leading member of the African continent with its vast potential, as well as its demonstrated independent counsel in international affairs.

Flowing from this as well as contributing towards it is a steadily strengthening economy, increasingly sophisticated and backed by large existing and potential natural resources. All of these factors suggest that the country is well positioned to enjoy sound growth. The inherent

strength of the country offers an increasing attraction to others with resources to invest as a bulwark against all but major disruptions.

Albaraka Bank is structuring itself to play its part in this growing economy and much of its efforts in the current financial year will be directed to that end. The benefits are unlikely to be felt in this year but should begin to flow increasingly from the 2005 year.

Appreciation

I give thanks to Almighty Allah for His blessings on all our endeavours without which nothing is possible.

The steady growth achieved by Albaraka Bank in recent years, and particularly over the year under review is a credit to the unremitting efforts of many committed people. In particular, I want to thank Mr Ebrahim Vawda who elected to take early retirement in 2004 after fulfilling the often exacting task of Chief Executive Officer, virtually from the Bank's inception in 1989. Under his care, Albaraka Bank has grown to account for almost R900 million in assets in 2004.

As always, I wish to offer my sincere appreciation to our wide range of stakeholders among who are the following:

- My co-directors, whose guidance and support is invaluable.
- Our clients and our shareholders in the Bank.
- The management and staff for their continuing dedication and loyalty.
- The auditors and other consultants whose specialised talents and experience enhance so much of what we do.
- The Dallah Albaraka Group for help and guidance which is always forthcoming.
- All those not already mentioned who have contributed to our success.

May Allah Ta'ala continue to shower us with His mercy and blessings.

A A Sabbahi
Chairman

Durban, 25 June 2004

Access to clean water and proper sanitation provides countless health benefits to both urban and rural communities and dramatically raises the standard of living.

The number of people with access to clean water is now over 85% and South Africa looks forward to the day when diseases like cholera are a thing of the past and when all South Africans are educated to understand the necessity of clean water.

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Results

The strong increase in deposits, which was one of the features of the previous financial year, continued into the year under review. At the end of the year, 31 December 2003, deposits stood at R749,3 million - a growth of 35,8% on the previous year.

This performance is, in large part, a manifestation of the significant awareness stimulated in Islamic banking in recent years. Increasingly, clients are seeking alternatives to the conventional products offered by interest-bearing banks and particularly for income that complies with Shari'ah principles. It should be noted that the attraction is by no means limited to Muslim clients and that the numerous advantages of banking in a non-conventional profit-earning rather than in an interest-earning environment are increasingly appreciated by people of other faiths.

Total income, including other income, rose by 20,6% to R78,7 million while depositors gained a 15,3% higher income of R40,8 million. Operating income at R28,9 million virtually matched the previous year's level. The provision for credit losses was increased to R9,1 million and operating expenditure increased by 18,8% to R24 million. The implementation of AC 133 during the year adversely affected the net income. This regulation sets the accounting standard relating to financial instruments and is fully detailed in note 2 on page 24.

Net pre-tax income totalled R4,8 million and tax at R1,7 million produced a net income for the year of R3,1 million, equivalent to headline earnings per share of 83 cents, against R6,2 million in the preceding year.

New Products and Services

As part of the ongoing growth of the Bank and in order to counter competition, Albaraka will seek to introduce a number of new products this year. A challenge, facing the Bank in this respect, is to identify appropriate and adequate Shari'ah compliant opportunities in which to utilise the available funds. A number of prospects are being investigated.

Futuregrowth Albaraka Equity Fund

Launched a little over a year ago, in partnership with a respected investment management provider, this Fund has been a particularly successful new product. This success was capped during the year by the awarding of three Raging Bull awards out of a total of eight made in the General Equity Sector - the most highly-rated awards in the Unit Trust Industry.

Automated Teller Machines (ATM's) and Debit Cards

The launch of this product through the medium of debit cards envisaged two years ago, has been deferred due to delays related to establishing a satisfactory working relationship with a partner of suitable technical capability. Indications are that these problems have largely been resolved and that the launch of this desirable product will take place during 2004.

Ijara (Leasing)

This product, which provides a contract whereby the Bank purchases assets and leases them to clients for a predetermined rental and period, has not been available to salaried individuals in the past. The Bank has been researching and testing the product since September 2003 with a view to a launch before the end of the year should circumstances permit.

Takafol

An Islamic alternative to insurance has been successfully implemented elsewhere in the world with considerable success. In order to satisfy an urgent need of the Muslim community, the Bank has made plans to introduce an Islamic alternative to insurance, known as mutual guarantee, in the last quarter of the current year.

Resources

In recent years the Bank has invested significantly in information technology, including further substantial expenditure during the past 18 months. The benefits derived from this investment should increase from now on.

“When the water starts boiling it is foolish to turn off the heat.”

Nelson Mandela



Expansion of Albaraka's Branch Network

The Lenasia branch, which opened during the year under review, has enjoyed a successful start and is now establishing itself well into the community it serves and contributing meaningfully towards the Bank's progress and performance.

Employee Relations

As part of a complete revision of the Bank's structures, the existing human resources structures and practises are under review, including the employee grading systems and remuneration processes and policies.

Regulatory Factors

At the request of the Reserve Bank, Albaraka has established significant Regulatory Credit Risk Reserves which are detailed on page 21.

The Basel II Framework

The Chairman discussed the effects of the Basel II Framework relating to capital adequacy in his Statement. The following is a short discourse on some of the more pertinent details and functions of the Framework extracted from the report by the G10 committee which created it.

The overarching goal for the Basel II Framework is to promote the adequate capitalisation of banks and to encourage improvements in risk management, thereby strengthening the stability of the financial system. This goal will be accomplished through the introduction of "three pillars" that reinforce each other and that create incentives for banks to enhance the quality of their control processes. The Bank is committed to the implementation of the Basel II regulation.

The Year Ahead

The Board has approved the Strategic Plan for the year ahead. Focus will be on the ongoing reviewing and restructuring of the Bank with a view to positioning it to meet the challenges created by expansion and greater competition. The anti-

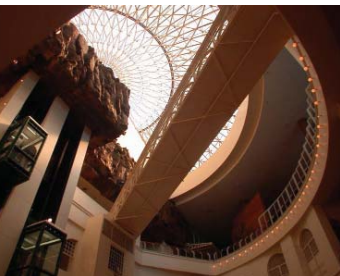
ipated benefits from this major exercise will not flow through this year but will increasingly be felt from the 2005 year onwards.

Appreciation

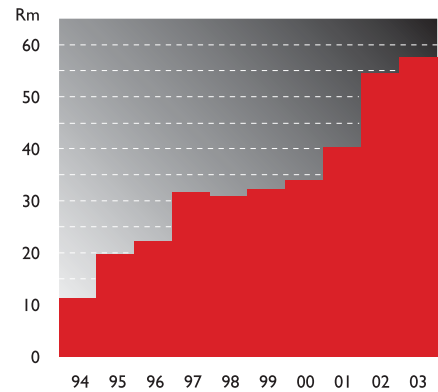
I would particularly like to add my personal appreciation and that of management and staff to Mr Ebrahim Vawda on his retirement from the post of Chief Executive Officer. Apart from the leading role he played in establishing and building the Bank to where it is today, the many years of guidance and direction, which he made available to all employees of the Bank, greatly facilitated the task of the staff and we wish him well.

M G McLean
Acting Chief Executive Officer

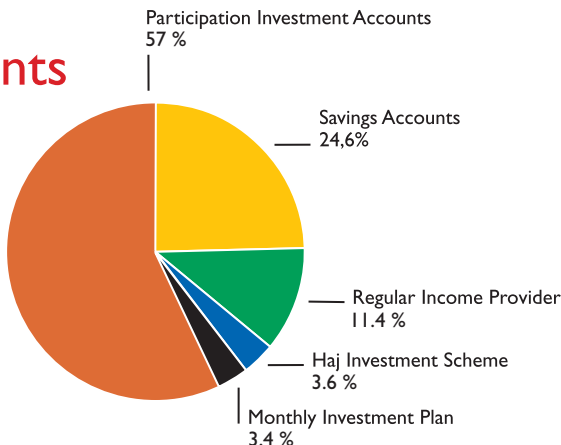
Durban, 25 June 2004



Shareholders' Funds



Investments



Advances

